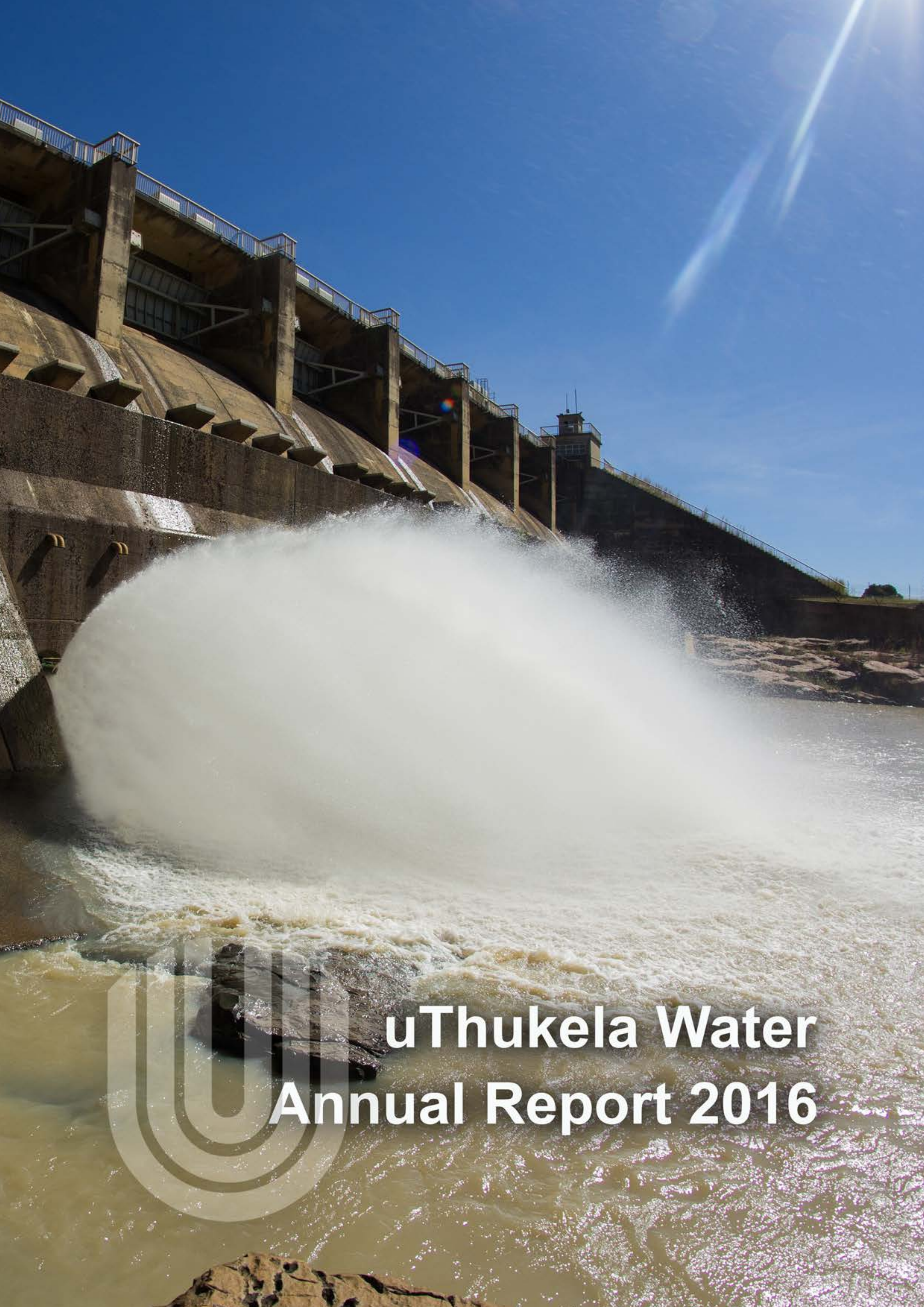
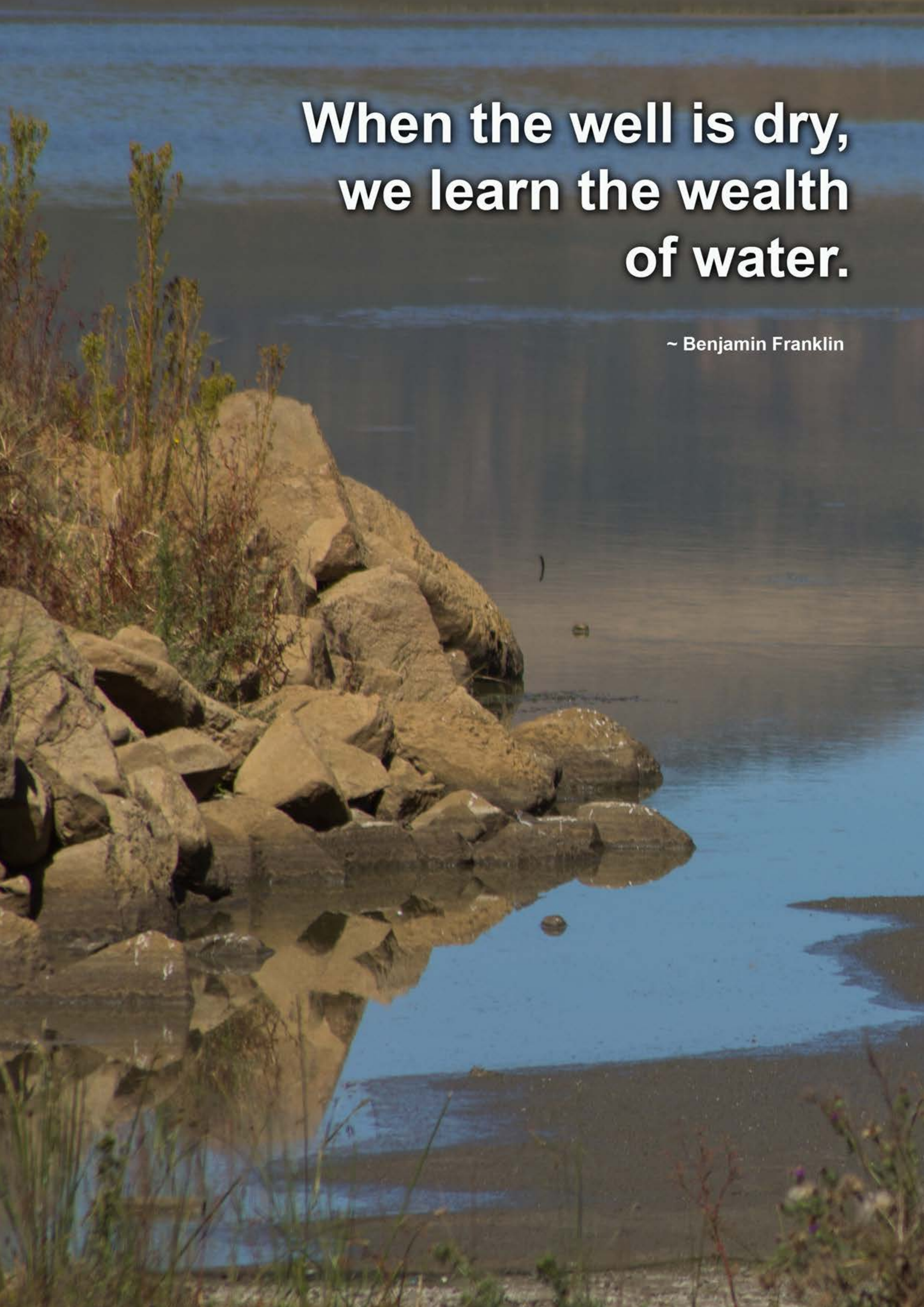


uThukela Water Annual Report 2016


When the well is dry, we learn the wealth of water.
~ Benjamin Franklin

Contents:

uthukela water

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uThukela Water (Pty) Ltd •
Reg. No. 2003/029916/07

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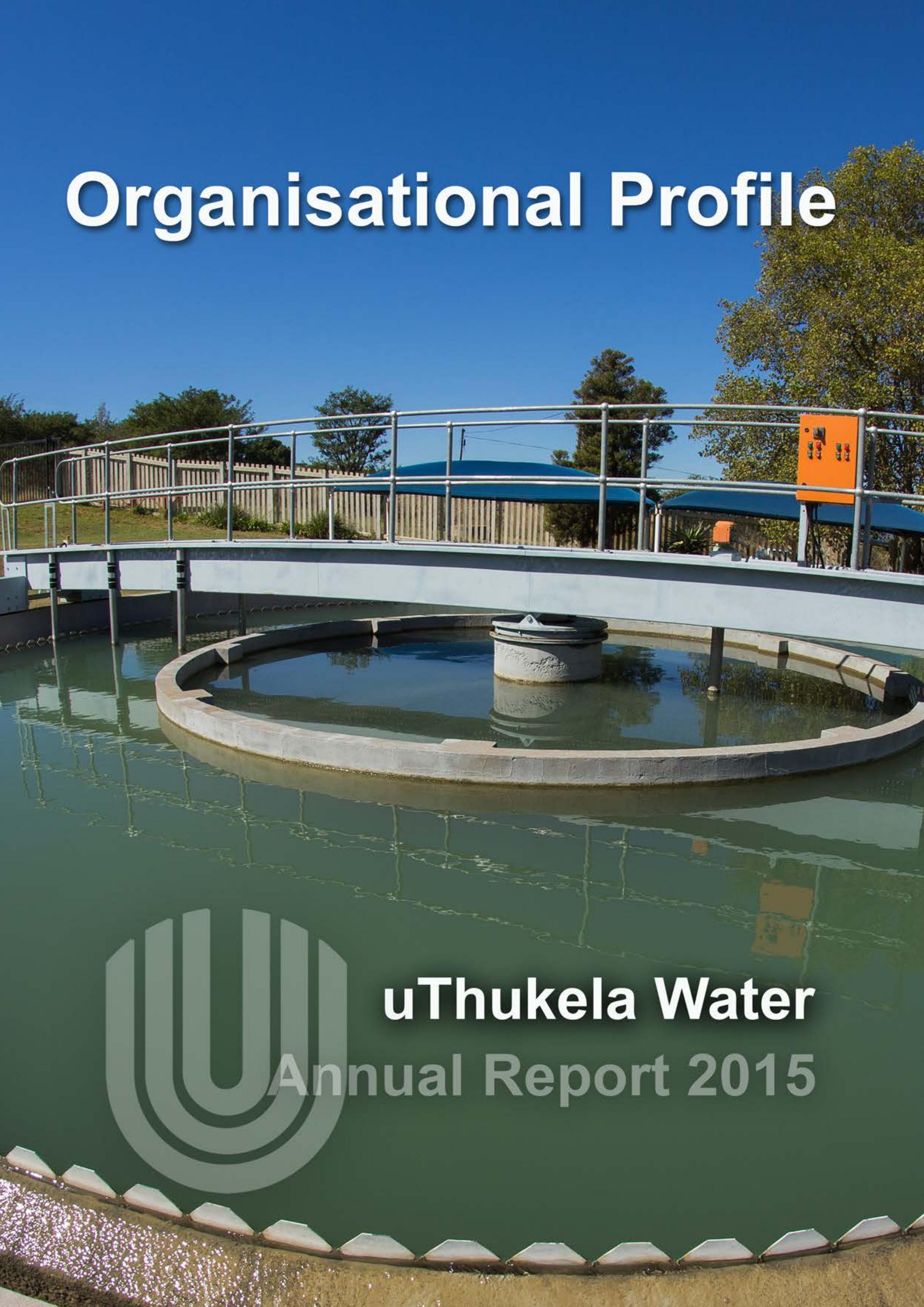
"Rain is a blessing when it falls gently on parched fields, turning the earth green, causing the birds to sing." » "

-*Donald Worster*

Organisational Profile



uThukela Water

Annual Report 2015

Introduction

uThukela Water (Pty) Ltd was initially the first Municipal entity which provided a full spectrum of bulk and reticulation water and sanitation services, and in this case, on a regional basis to its three fully owned shareholders, namely Amajuba District Municipality (DC25), Umzinyathi District Municipality (DC24), and Newcastle Municipality. Following a Section 78 assessment undetaken in 2011, the Entity has transferred the water reticulation services back to the municipalities, and now only operates as a bulk water services provider to the shareholders. uThukela Water has established itself to be an industry leader with emphasis on a high quality water product, and prides itself on this achievement. The Company provides bulk water from its Ngagane and Biggarsberg water plants and services approximately 250 000 households.
The company's head office and laboratory facilities are situated in Newcastle.

Our Business Focus

uThukela Water (Pty) Ltd's business focus is on the provision of quality bulk water services to its shareholders for ditribution by them directly to customers. The Entity also provides local labaratory services to the municipalities at affordable prices.

Company Size

Net asset value: R 1 166 688 047
Operational Budget for FY 2016: R 116 657 585
Capital budget for FY 2016: R 276 875 000 (R9 245 732).
Total staff compliment: 72

Establishment

Between 1997 and 2000, all municipalities in the previous Umzinyathi and uThukela regions as well as other organs of civil-society-based organisations, non-government organisations, organised business, agriculture, industry and labour participated in the uThukela Water Board study. This was made possible with the assistance from DWS and the Australian government (AUSAID). The result of the study was a formation of a water utility called uThukela Water Partnership (TWP) in September 2001. The Entity was changed to a bulk water services provider as a result of a Provincial Cabinet decision dated 6 June 2013, which became effective from 1 July 2013.

Company Identity

In November 2003 uThukela Water (PTY) Ltd was incorporated as a result of the conversion from uThukela Water Partnership to a company with limited liabilities. A 30-year strategic plan (SP2030) was designed to model various options to better the Company to effectively execute its mandate.

uThukela Water Institutional Structures

- The Shareholders Committee
- Board of Directors
- Leadership Committee (LEADCO)
- Management Committee (MANCO)

Uthukela Water Institutional Structure

The Leadership Committee of uThukela Water (PTY) Ltd comprises of senior managers of the Company inclusive of the Managing Director.

Shareholders Representitives Committee

The Shareholders Committee comprises of three Mayors and the Municipal Managers of the shareholding Water Services Authorities. The Shareholders Meetings represents the collective interests of the shareholding municipalities of uThukela Water (PTY) Ltd.

Management Committee (MANCO)

The Management Committee comprises of senior managers. The primary function of the MANCO of uThukela Water is to ensure horizontal coordination of activities and functions within various functional centers. MANCO ensures that the Company's plans and policies are effectively implemented.

Our services provisioning and deliverables focus as provided in the Strategic Plan 2030 (SP2030) which was approved by the shareholders, are as follows:

- Safe bulk drinking water for all our shareholder municipalities to distribute to their customers and rural participants (farmers and remote industries)
- Raw bulk water to farmers and industries outside the developed areas
- Recognises affordable yet effective environmental and catchment management
- Creating and sustaining a pristine environment
- Being an important participant in the economy
- Being a world-class recognised utility for doing more with less
- Projecting a model example for capacity-building and empowerment
- Optimal deployment of appropriate and focused technologies, including information technology and systems
- Having a dynamic, pulsating, young professional workforce
- Facilitating unique sourcing deployment
- Facilitating resourcing at agreed risk
- Being a leader in digital workflow processes

uThukela Water Institutional structures

Comprises of two Non-Executive Directors and two Executive Directors and the CFO.

uTHukela Water (PTY) LTD

Section 87 of the Municipal Systems Act. Multijurisdictional Water Services Provider (WSP)

Shareholder parent municipal % shareholding

Newcastle Municipality Water Services Authority (WSA)
34%

Amajuba District Municipality Water Services Authority (WSA)
33%

Umzinyathi District Municipality Water Services Authority
33%

PRIMARY ACTIVITIES

Section 89 of Municipal Systems Act 32/2000 and WSP agreement

OPERATIONAL AND CUSTOMER SERVICES

Supply sustainable bulk water services to uThukela Water shareholders

ENGINEERING AND SCIENTIFIC SERVICES

Provide specialist technical, scientific and engineering support to the organisation

FINANCE

Support the organisation with financial plans and sustainable financial management

CORPORATE AND HUMAN RESOURCES

Support with human resource information and communication technology and property services

MANAGING DIRECTORS OFFICE AND COMPANY SECRETARIAT

Provide integrating funtion for strategy execution and performance, monitoring, governance, legal, risk and stake holder management

Mission

The provisioning of quality bulk water services, and related laboratory and environmental services.

From raw water sources (boreholes, rivers and dams) emanating mainly from the Ntshingwayo/Chelmsford dam and the Buffalo and Ngagane rivers, and purified at the Ngagane and Biggarsberg bulk water works.

Strategic Intent

As a bulk water services provider, we will provide the services on behalf of, and in agreement with, the Water Services Authorities (municipalities) who distribute to the customer which includes community households, industries, businesses, agriculture, government institutions and other users.

We may also provide water and related services beyond the area of jurisdiction, on the condition that those services will create benefits for the uThukela Water stakeholders.

-Safe bulk drinking water for all customers and compliance with all relevant legislation
-Raw water to farmers and industries outside of the formal areas
-Implement continuous improvement processes in order to minimise tariff increases
-Important participant in the regional economy
-Recognised as a world class utility
-A model example for capacity-building and empowerment
-Cost-effective implementation of appropriate and focused technologies, including information technology and systems
-A motivated energetic, committed, creative and innovative professional team.
-Integrated effective information systems
-Adherence to the concepts of total cost of ownership, value of ownership and risk of ownership. (TCO, TVO, TRO)
-Performance management to be based on self management concepts linked to organisational performance management

uThukela Water will adhere to sound business and corporate governance principles.

Vision

"uThukela Water, your partner in growth" / "Amanzi o Thukela umngani wakho enthuthukweni"

Values

Integrity
Trust
Transparency
Accountability
Teamwork
Professionalism
Passion

Customer, Operation and Engineering Services Information

Customer Services Information

The customers of uThukela Water may be defined as the Shareholder Municipalities, who reticulate the water to that portion of the region's households, industries, businesses and the institution receiving water services (water and sanitation) from the Company via the reticualtion infrastructure of the Municipalities.

The Municipalities control and run a customer care department which filters bulk water queries and reports directly to the Entity for attention. Customer care consumer queries are dealt with directly by the Municipalities.

The Customer care department comprises of three sections which deal with various customer-care-related issues:

Billing Section

The Entity bills the Municipalities for bulk water only, and the municipalities in turn bill their water customers directly for water consumed.

24HR Call Centre

Customer complaints are logged through a properly-publicised 24hr call centre. Each complaint is investigated and feedback is given either directly to individual customers or if bulk-related, or to the Entity.

Shareholder Rights

- Accurate measurement of water produced and sold
- The right to quality, clean, good and safe drinking water
- Have the right to error-free billing
- Right to prompt and efficient service
- The right to a reliable, efficient and effective water service

Communications Section

- Support Municipalities to conduct on-going market surveys, questionnaires and interviews to determine the ever-changing needs of customers and industry growth demands.
- Ensures that communication between the Entity, shareholders, customer care and customers is always a bipolar process allowing for effective interaction, and providing and opportunity for feedback.

Shareholder Responsibilities

- Pay for bulk water services provided
- Be water-conservation-conscious and apply water demand management principles
- Monitor and control Entity's budget and operational activities
- Support and provide bulk water governmental grants and other grants to the Entity
- Adhere to acts, by-laws and water restriction notices

Operations Centre Information

Operations within uThukela Water is centered in Newcastle from which the bulk water works at Ngagane (outside Newcastle) and Biggarsberg (outside Dundee) are operated.

Water Purification

Operations and maintenance of water purification plants (WPPs), produce approximately 150 mega-litres of potable water per day, with technology ranging from borehole abstraction points, raw water river extraction and dam water extraction, to formal process-based water purification plants.

Bulk Water

Operations and maintenance of bulk water supply, including at pump stations, reservoirs, rising mains and in excess of 30 kilometres of gravity and pumped mains.

The Ngagane Water Works has a design capacity of 108 mega-litres per day, and is currently operating at 100 mega-litres per day.

Plans are in place to increase this capacity to 150 mega-litres per day in order to meet current and future demands.

This plant delivers bulk water for the areas of Newcastle, Madadeni, Osizweni, Brakfontein, Kilbarchan, Eskom Village, Ballengeich and the rural areas of the Amajuba District Municipality.

The Biggarsberg plant has a design capacity of 19, 3 mega-litres per day and is currently operating at 15, 84 mega-litres per day.

Plans are also afoot to increase this plant's capacity, but these are restricted by the availability of sufficient and sustainable raw water sources.

The Company's Master Plan does address this matter and makes recommendations to source water higher up in the Drakensberg catchment areas to augment the scarce water supplies in the Umzinyathi area.

The Biggarsberg plant supplies water to the areas of Dundee, Glencoe, Sithembile, Wasbank, Hattinghspruit and certain rural areas.

Both water plants achieved Blue Drop status determined in terms of national norms and standards and denote the high quality of water delivered to the municipalities from these plants.

Engineering Centre Information

The functions of the Engineering Services Centre are defined in the draft Water Services Provider Agreement, and include the application of professional engineering discipline of water services – "river to tap" for optimal delivery in short, medium and long term horizons utilising the concept of minimum total-cost-of-ownership and maximum use of resources.

Planning activities are carried out in partnership with the Operations Service Centre, the Water Services Authorities and national government departments.

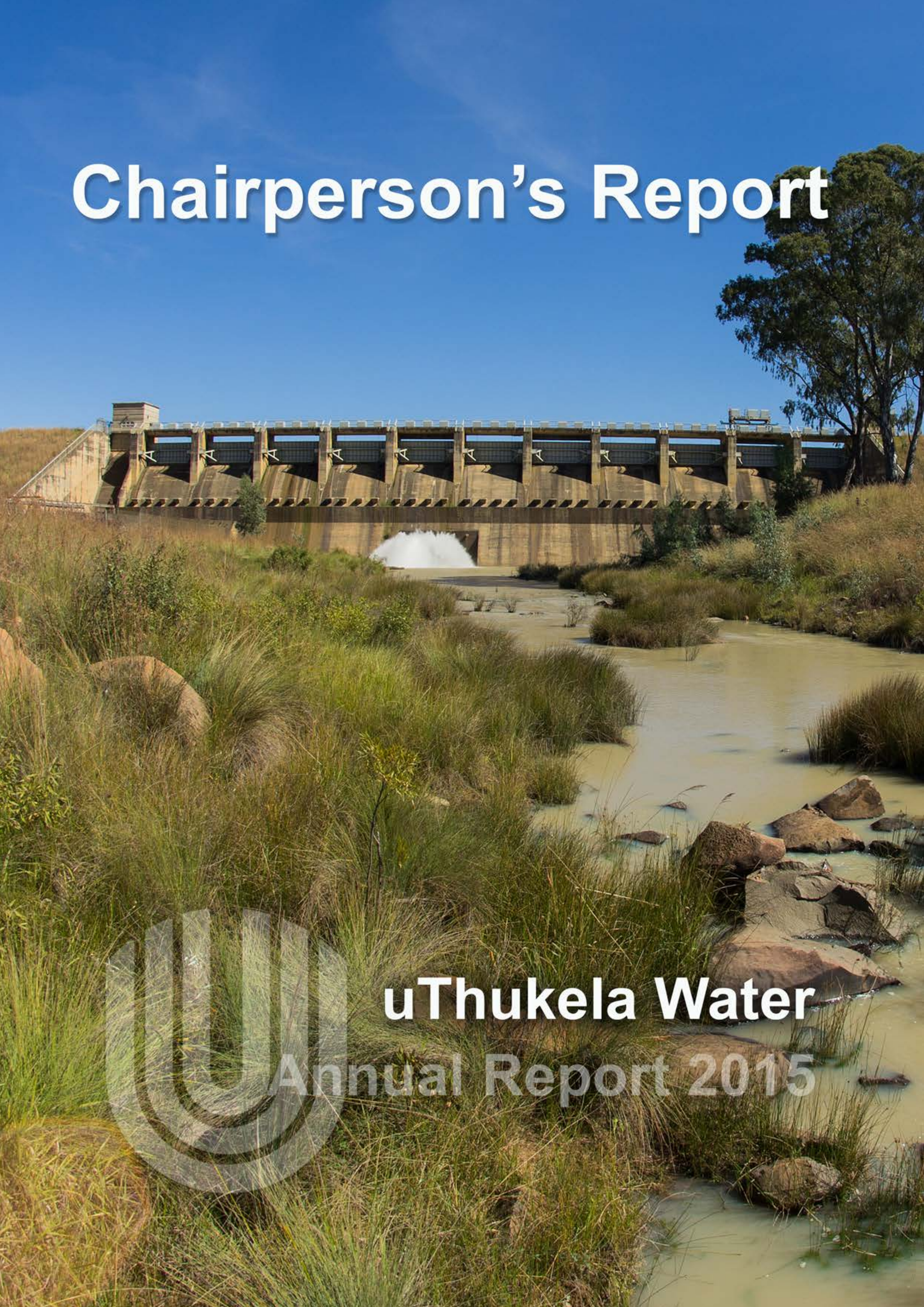
The provision of water services to shareholders and the overall management, operations and maintenance of services are carried out in terms of the policies established by the Water Services Authorities.

These include prioritisation within funding constraints, and matching levels of service with affordability levels, as well as required income streams and tariff levels.

The Engineering Centre is moving towards optimisation through the application of technology, as far as the availability of finance permits, both in carrying out its own professional responsibilities and in the design, implementation and operations of service.

The GIS unit is the most obvious current face of the application of modern technology, which provides an efficient service to many of the departments of uThukela Water.

Chairperson's Report



uThukela Water

Annual Report 2015

Overview

It is with great pleasure that I present this, the twelfth annual report prepared by the Board, which report covers the period from 1 July 2015 to the end of June 2016. It is part of the process that, I as the Chairman elect of the interim Board, have implemented in order to ensure that uThukela Water remains fully compliant with all aspects of legislation, and that it becomes a leader in the water industry. The focus and drive is geared towards strategic planning for optimum use of scarce water resources, and thereby adding value to the government's development priority of achieving sustainable livelihoods in our country.

The annual report submitted herewith, encapsulates the performance of uThukela Water, in line with its key performance objectives and targets as are set out in the WSP/WSA draft agreements, annual approved business plans, limited annual budgets, and performance management plans, prepared by the partners to these agreements, which are closely aligned to key strategic plans and programmes of the government. These strategic plans and programmes include the National Development Plan, (NDP) the fourteen strategic outcomes of the government of the RSA, local initiative outputs cascaded to the Department of Water Affairs and Sanitation, the National Water Resource Strategy, (NWRS) and focus areas for Water Authorities in the medium term strategic framework (MTSF).

Before elucidating on the events and activities during the year, may I firstly take this opportunity to update the reader regarding the latest and new institutional arrangements for future bulk water services in the region and in Kwazulu-Natal as a whole, as recently proclaimed by the Minister of Water Affairs and Sanitation on the 10 December 2015.

The National Minister has proclaimed by Government Gazette number 39491 dated 10 December 2015, that there will be a single water board for the whole of the KZN Province, and that the existing water boards are to be disestablished, and that a new single water board will become effective from the 1 July 2017. This will also in all probability be the date of incorporation of uThukela Water into this single water Board for Kwazulu-Natal. Returning to the matters at hand, the 2016 financial year was inundated with challenges relating to the surmounting effects of a worsening drought situation in the Province. Considered the worst drought in the Province in the last 100 years, it seriously threatened the already over burdened and ageing water service infrastructure, and again served to highlight the significance and importance of pro-active forward planning for regional bulk water services.

The Board, in early October of 2014, having taken note of available weather information, forecasts, patterns and current evident warning signs, took early, and immediate action, and presaged that the WSA's and regional stakeholders to take cognisance of the sombre circumstances, and advised that they immediately commence with a cautious and phased approach regarding the implementation of austerity and other water preservation methods, in order to manner manage and control the drought situation going forward.

The Board, together with the WSA's, Department of Water Affairs, local Farmers Associations and other interested stakeholders, immediately launched into action, and from initial plans implemented in late 2014, developed and collaborated a joint management strategy that effectively ensured that bulk water services were properly managed, secured, shared and appreciated by all users and stakeholders. There can be no doubt that these early, and subsequent management strategies implemented, did ensure, that the existing water resources were properly apportioned, utilised and shared to the benefit of all throughout this period.

Some of the strategies and Committee interventions include;

• Instrumental in forming Joint Emergency Drought Committees for each WSA to manage and control their jurisdictions. These Committees were actively involved in the status quo investigations, planning, management, control and submission of business plans for emergency drought funding to implement identified emergency drought initiatives.

As a consequence of the drought, and through these pro-active initiatives, the Department of Water Affairs and Sanitation injected an amount in excess of R 50 million into the region, particularly in the Umzinyathi DM area, in order to help counter act and alleviate the effects of the drought.

• Motivated for immediate community awareness programmes to be launched and for the introduction of phased water supply austerity measures to become operational. The measures introduced over a period by the WSA's varied from the banning of the use of hose pipes, banning the use of hose pipes, restrictions on car washes, water shedding and periodic water shut downs, penalty levies on usage patterns, to eventually the forced restricted reduction in bulk water supply volumes.

In the Umzinyathi area, bulk water supply was cut by 25% from as early as December 2014, and a 10% cut was introduced in the Amajuba and Newcastle areas with effect from October 2015, culminating in a statutory cut of 30% in all areas with effect from June 2016.

• A series of emergency boreholes was drilled in the vicinity of the local water supply dams in the Dundee Glencoe area, which boreholes successfully and amply supplied the farming and diary industries throughout the drought period and is still doing so today. This intervention saved this sector from certain economic disaster with catastrophic un-employment consequences for the area. It also allowed the drought committee to concentrate on the bigger issue of ensuring a sustainable water supply to the urban areas of Dundee Glencoe and Sibongile.

The Dundee Glencoe main bulk water line from the Tayside pump station was 'pigged' (bored and cleaned out) as part of the water augmentation process and this project successfully yielded an additional 3 mega litres of raw water per day, increasing the raw water supply to the Biggersberg water plant, from 11 mega litres per day, to 14 mega litres per day, and closer to the design capacity of the plant, and the real local demand of 15/16 mega litres per day.

The drought challenges in Greytown, a project undertaken by the Board in a support role to the municipality due to this area being outside the bulk jurisdiction of the Board, and due to the drought enforced closure of Lake Merthley by the Department of Water Affairs and Sanitation, was partially buoyed up by the drilling of 17 new boreholes in two phases. These boreholes came onto line in 2015 and during late 2016, and successfully yielded a temporary supply to Greytown of approximately 3 mega litres per day, replacing the Lake Merthley loss of 5, 5 mega litres per day.

• Management, and the Emergency Drought Committees, via electronic media device applications that linked up with all stakeholders, set up a system of controls to regularly monitor major dam and weir river levels, with the objective of ensuring that the available scarce water resources were properly controlled and shared at all times, and that no wastage, illegal or irregular use of water was allowed.

It is due to these efforts that all the WSA areas could be supplied via the single Ntshingwayo dam resource, and this dam resource was consequently carefully distributed and managed particularly over the dry winter months. The dam level stood at just over 65% at the advent of winter, and now currently stands at just under 50%.

It has been a delicate balancing act, and a good management practice, to keep all the WSA areas supplied with water from a single bulk water source during this extended drought period, without replenishing this source, or causing future supply problems to this resource area, and ultimately, not being able to assist the other drought stricken areas due to insufficient available water supply to do so.

We are not out of the woods yet, until such time that the normal weather patterns and the rainy season returns, and or, in the absence of the return of normal weather conditions, it is inevitable that the stepping up of the existing restrictions to tailor any worsening conditions would obviously have to be considered.

• Reiterated and used the opportunity to promote the existing bulk water master plan initiatives, with focus on merging all Board, WSA and other stakeholder bulk water master plans and initiatives into a single regional bulk water master plan, aligned with Provincial and National bulk water master plans.

A joint bulk water master plan framework has been developed by the Joint Technical Committee in late 2016, and a Steering Committee is to be established to drive this process forward thereby ensure a unified single approach to all bulk water master planning issues in the region.

This will not only prevent delays with bulk water planning and planning submissions to the relevant control authorities, but will also ensure that there is regional, Provincial and National alignment regarding bulk water developments, thereby speeding up development proposals and cutting out unnecessary delays.

• Whilst having no approved and funded capital budget to ameliorate the ageing and outdated bulk water infrastructures that were feeling the effects of the drought conditions, there was close co-operation and joint decision making at a Board, Council and technical level, that did ensure that the most urgent and more pressing infrastructure renovations and refurbishments, could be carried out, albeit with very limited and available financial resources.

Recurring and frequent main service pipe line bursts, failing electrical installations and mechanical breakdowns and crumbling infrastructures were causing havoc with the water supply systems, and consequently emergency upgrades were carried on the bulk water supply lines, the electrical installations, the mechanical units and other related infrastructure, totalling around R 12 Million. A further R 25 Million has been pledged by the Newcastle municipality for the 2017 and 2018 financial years to upgrade the chemical process unit and collapsing water filtration beds at the Ngagane plant. The Umzinyathi DM through the medium of the emergency grant funding, invested just over R 10 million in refurbishing and upgrading the Tayside pump station and intstallations.

It is indeed a testament to the efforts of all concerned, particularly during this drought period, to note that the bulk water losses on the Ngagane main water lines and plant was restricted to 8,29%, and to 6,42% at Biggersberg, with an average for both plants of 7, 36%. This is well within the accepted Industry norm of 10%. Contributing factors that make up this acceptable water loss include; uncontrolled pipe bursts, routine maintenance water releases, technical losses due to normal evaporation, back washing of water purification plant installations and controlled air valve releases.

A Bulk water tariff of R 2, 54 cents per kilolitre, with an additional R 0, 02 cents per kilolitre levy for Laboratory services, was fixed for the 2016 financial year. The Newcastle municipality approved the bulk water tariff, but restricted its bulk water budget to a ceiling limit approximately R 23 Million below what it should have provided and paid for bulk water purchases during the year.

Without sacrificing on water delivery, or water quality, some financial sacrifice had to be made in order to fund and deliver adequate and good quality bulk water services to the municipalities, and this ended up being the statutory raw water charges billed by the Department of Water Affairs and Sanitation, as was previously resolved by the shareholders, and was the practice in the past.
The Amajuba and Umzinyathi DM's approved the bulk water tariff in full, and also paid for their actual meter based consumptions for the year.

The bulk water tariff is a real indicator of bulk water costs, and when benchmarked against other bulk water tariffs charged throughout the country, it measures very favourably. Other bulk water service providers are charging from R 4, 50 to R 9, 50 cents per kilolitre for bulk water supplied. However, the low cost of the bulk water tariff, is also a clear indicator that the tariff is severely underfunded, and this is unmistakeably so, as it does not include the full costs of depreciation, asset replacement and maintenance.

Sadly, the many challenges facing Local Government today in delivering a basket of services, is causing municipalities to base their water service budgets and allocations on other factors and not assigning water services the priority that it requires i.e.; their own particular financial circumstances and challenges, their budgeting for a fair and affordable allocation to bulk water services, and their individual WSA interpretation of their water service roles and responsibilities. The regional concept, pooling of capital and financial resources, sharing of costs and teaming of scarce technical expertise, to deliver on the massive challenge of infrastructures upgrade and maintenance, is financially and technically the right way to approach to effectively eradication water service backlogs, and to meet the current and future demands thereof.

I am very proud to say, that despite extremely stressful and difficult operational circumstances, the Board and Management, did at all times, try and do its best to ensure that there was minimal water service disruptions, although on occasions, it came perilously close to this. There were no instances of planned or un-planned bulk water service interruptions during the year that exceeded the predetermined maximum disruption time out of 24 hours.

The investment required to stabilise the current infrastructure, and to implement new infrastructure development projects in line with the bulk master plan, in order to meet the current and future demands of the serviced and un-serviced areas, remains a challenge, and it is not feasible, financially prudent, or defensively wise, to postpone it to a future time, as it will affect the affordability of the tariff in future years. The risks are well known and documented in the various Water Services Strategies, Master Plans, Risks Assessments and WSA Sector Plans developed by the parties.

Bulk water supply meters are regularly checked, and or replaced, in order to ensure accurate bulk water metering and the integrity of the bulk water billing system. Accurate readings also enhance water balancing and reconciliation and is forewarning in managing and minimizing bulk water losses. Improved and modern industry approved bulk water monitoring systems are continuously being considered as a management tool to control water leaks and tampering on the main-lines.

Proudly, the Board has continued to maintain a high water quality standard of above 95% for all determinants during the year, as measured and controlled in terms of the Department of Water Affairs and Sanitation SANS 241 Standards. These excellent results are graphically illustrated and analysed in the Technical and Laboratory reports included in this annual report.

The SANS 241 'Blue Drop' status, so proudly achieved in the 2013 water audit process, was unfortunately lost on the 2014 analyses done by the Department due to unfortunate short comings on the water supply reticulation system results. The Board and the WSA's do have a plan in place to address these short comings and to recover the status as a matter of priority.

The path of the entity over the years has not always progressed smoothly, and the efficiency and effectiveness of the shared services initiative of the Shareholders including the viability of uThukela Water has on many occasions come under question, sometimes fairly, but often without the review of all information relative to how the water sector functions. I am confident, that as time has progressed, that the entity has openly displayed its absolute dedication to water service delivery, and to its shareholders, at all times, and that this has led to much improved relationships and a greater unison in the work environment. We are serving our communities collectively, and with their best interests paramount.

During my term in office over the past 10 years, I have ensured that the Shareholders have received maximum benefit from access to;

(a) Well managed and implemented administrative procedures, documentation and information dissemination, regular convening of Board and Shareholder meetings to oversee the functioning of the entity, the functioning of technical, financial and other committees to steer a co-ordinated water service delivery approach, the compliance by the entity with national and local government legislation, WSA and own policies and the WSP draft agreements in place.

(b) Well managed, efficient and effective Finance department that accounts to all shareholders on a monthly basis providing live and up to date financial, budget and forecast information. Timorous rendering of Financial information and grant funding accounts to facilitate service rendering and ensure application and implementation of budgets. Clean financial audit reports have been received from the Auditor General since the 2008 financial year.

(c) Well managed and accountable Supply Chain Management, Human Resources and IT sections and systems that augment the efficient and effective delivery of services.

(d) Well managed operations, engineering and scientific department which has the capacity to ensure that not only are water services delivered consistently under very difficult circumstances but that these are innovatively improved upon and developed at all times to minimise failure and risk to the shareholders.

The Board has made it a priority that management has stayed abreast of IT technological advancements and some of its achievements are;

• A modern and updated live financial system that provides the functionality of providing accurate and reliable financial information and a system that is capable of producing daily financial statements.

• A Payroll and Human Resource system that ensures the efficient management of staff administrative requirements and timorous payroll outputs and third party payments.

• Water management and asset information systems that ensure adequate management and control of assets and proper controlled maintenance of infrastructure, vehicles, plant, budgets and programmes.

• Inventory system that controls the purchase, storage, receipt and issue of stocks and inventories

• Modern Supply Chain Management system to control and manage the acquisition and disposal of supplies, materials, contracts, tenders and related processes

I have confidence that the entity is properly and adequately geared to deal with all the challenges of a modern day water services delivery institution, and has indeed proved this fact beyond any doubt as attested to in the annual Audit Reports issued by the office of the Auditor General.

State of the Business

The Annual Financial statements, Annual and Performance Management Report of the entity for the year ended 30 June 2016, were produced to the Office of the Auditor General within the prescribed timeframes as required by section 121 of the MFMA 56/2003.

The Board prides itself in ensuring that it complies with legislation and that it operates within a good governance structures. Generally, water bulk services are rendered unhindered, 30 creditor payment cycles are maintained and infrastructures and capital requirements are catered for by implementing ad-hoc projects from periodically available WSA funding, and by applying innovative financial alternatives financial financing methods to keep the business rolling.

Impediments that are preventing the smooth flow of business include;

• The lack of adequate capital investment in the bulk water infrastructures to ensure sustainable and affordable bulk water delivery in the short medium and long term.

• Operational budget is still not adequately and fully funded by a comprehensive and sustainable bulk water tariff.

• Non payment issues around the bulk raw water tariff levied by the Department of Water Affairs and the longer term financial risks associated therewith.

It should also be noted that the non payment of these bulk raw water charges is directly linked to the non payment of bulk water contributions prior to December 2012, and the non budgeting for these costs in certain cases subsequent to this date.

• Slow payment in certain cases of the bulk water account and withholding of grants transfers leading to delays with the implementation of projects and water service delivery objectives.

These risks have unfortunately been a stumbling block since the establishment of the entity way back in 2004, and although much progress has been made recently with turning this situation around, it has had the effect of delaying the business of incremental bulk water infrastructure development and refurbishment. The effects of these adverse delays will be felt far into the future, and without any substantial government grant support, will pressure the future bulk water tariff to fund these un-avoidable and necessary episodic replacements, upgrades and developments.

Board Performance

Board Business Cycle

A Board business plan has been developed, continually upgraded with time, and has been implemented and aligned to the legislative mandate of uThukela Water, which both guides the Board on the business it has to discharge and ensures that the Board, as the accounting authority for its operations, complies with the highest legislative framework within which the organisation operates.
Strategy

The organisations strategy and business plans are clearly outlined and detailed and are aligned to the National, Provincial and WSA policies and objectives and best business practice within the sector.
Governance

The Board is approaching its task of vigorously complying with all its requirements in terms of the Companies Act 71/2008, Water Services Act 108/1997, Municipal Finance Management Act 56/2003, Municipal Systems Act 32/2000 and Public Audit Act 25/2004 and, concurs with the principles of good governance as set out in the King 111 report.

The Board reiterates its support to the National governments objective of 'clean audits' and has put rigid plans and controls in place to achieve this milestone. The Board has since 2009 obtained a sequence of 6 (six) un-qualified Audit Reports, and is striving to better this standard by achieving a clean audit without any matters reported.

The Board, with the assistance of its Audit Committee, is able to exercise its oversight duties in line with its delegation of authorities to senior and other management role players, and hence it as a consequence hereof, can retain effective control over and ensure the continuity of and minimum disruption of operational efficiency and uninterrupted service delivery by monitoring progress and outcomes.
Strategic, financial, organisational and legal compliance matters are at the centre of focus to the Board and it sees its role here as pivotal to enhancing the efficiency and effectiveness of the organisation. Progress with the implementation of organisational strategy is regularly monitored through strategic review sessions.

Evaluation

Interim Board members performance evaluations are conducted through a combination of self-assessment and peer review. The performance of the Board and of all of its Committee's, as a collective, are alternatively assessed and reviewed with a view to optimal efficiency. A proper and effective Institutional and Departmental Performance Management System that cascades right down to management level, has been developed and implemented, and is certainly contributing to enhanced performance, including the formulation of appropriate training and developmental plans.

I, as the Chairperson of the Board, do regularly report to the MEC of COGTA on the alternative evaluations and results of uThukela Water and do in consultation with the Shareholders and all role players formulate and develop action plans to meet the challenges presented. Areas of high risk to the Board and cases of serious service delivery shortcomings are taken up directly with the affected parties thereto and interim solutions sought while broader solutions are enquired directly with the Department of Water Affairs who appraises the reports and makes recommendations accordingly.

As the time of the Interim Board reaching its conclusion, it is my intention to prepare a legacy report in the interests of continuity, and this will be made available to the new incoming Board. The purpose of the legacy report is to encapsulate the pitfalls, obstacles, successes, failures, achievements and challenges of the previous Boards, including the Interim Board, during their terms of office.

Challenges Opportunities and Focus

Rural Development

This is still an area that poses the biggest challenge to water institutions in our country and it requires innovative thinking and pooling of all available scarce resources to make in-roads into and to eradicate huge historical backlogs in basic service delivery that exists. The government has invited state owned enterprises to become part of its initiatives to achieve a better quality of life for all by providing basic services including safe drinking water to rural areas. This has subsequently been translated into a priority area for concentration over the next 5 years.

uThukela Water and its Shareholder municipalities, now split between bulk and reticulation services, should now be in a better position to properly support this initiative and should jointly be utilizing their water service master and strategic plans to identify, fast track and commission new projects that will specifically serve the special needs of the rural communities.

In meeting with the challenges of these national initiatives, uThukela Water and its Shareholder municipalities, will have to explore how they can further develop their roles in, contributing to rural development in line with this policy to upscale social and economic infrastructure in these areas.
To ignore the reality that there are still communities out there that do not have any access to basic services, is unthinkable, and this situation cannot under any circumstances be left in abeyance. The challenges must be met upfront and with conviction.

Institutional

History, economic facts and best practices will reveal that the current model of providing services on a regional basis is the best means of efficient and effective use of scarce resources, and the most successful way of implementing a fair and justifiably equitable tariff policy. I have no doubt that the proposed new or reconstituted broadened water service institution that will follow, will strengthen and reinforce the National government's intention of creating a strong and economically viable water services institution. Ultimately the best benefit to the community should be the paramount objective.

In the interim, the current Board will continue to acclimatise and familiarise itself with its duty of providing services from carefully planned strategic perspectives. The Board will also further deliberate on the governments focus on rural development.

Acknowledgements

It is with a deep sense of appreciation that I, and the Board, would like to acknowledge the following:

• The Minister of Water and Environmental Affairs and her very capable, co-operative and supportive Department,

• The Premier of the Province of Kwazulu Natal, the MEC and her Department of Co-operative Governance and Traditional Affairs, for all their support in ensuring that the best interests of water service delivery are served at all times,

• The Mayors and Officials of the parent municipalities of Newcastle, Amajuba (District) and Umzinyathi (District) for their support and co-operation, not always easy whilst facing their own municipal service delivery challenges.

Stakeholder relationships have improved significantly, and there is an absolute willingness and dedication to water service delivery objectives.

• Previous Board members and officials of uThukela Water for their significant contributions during the formative and difficult years of the entity,

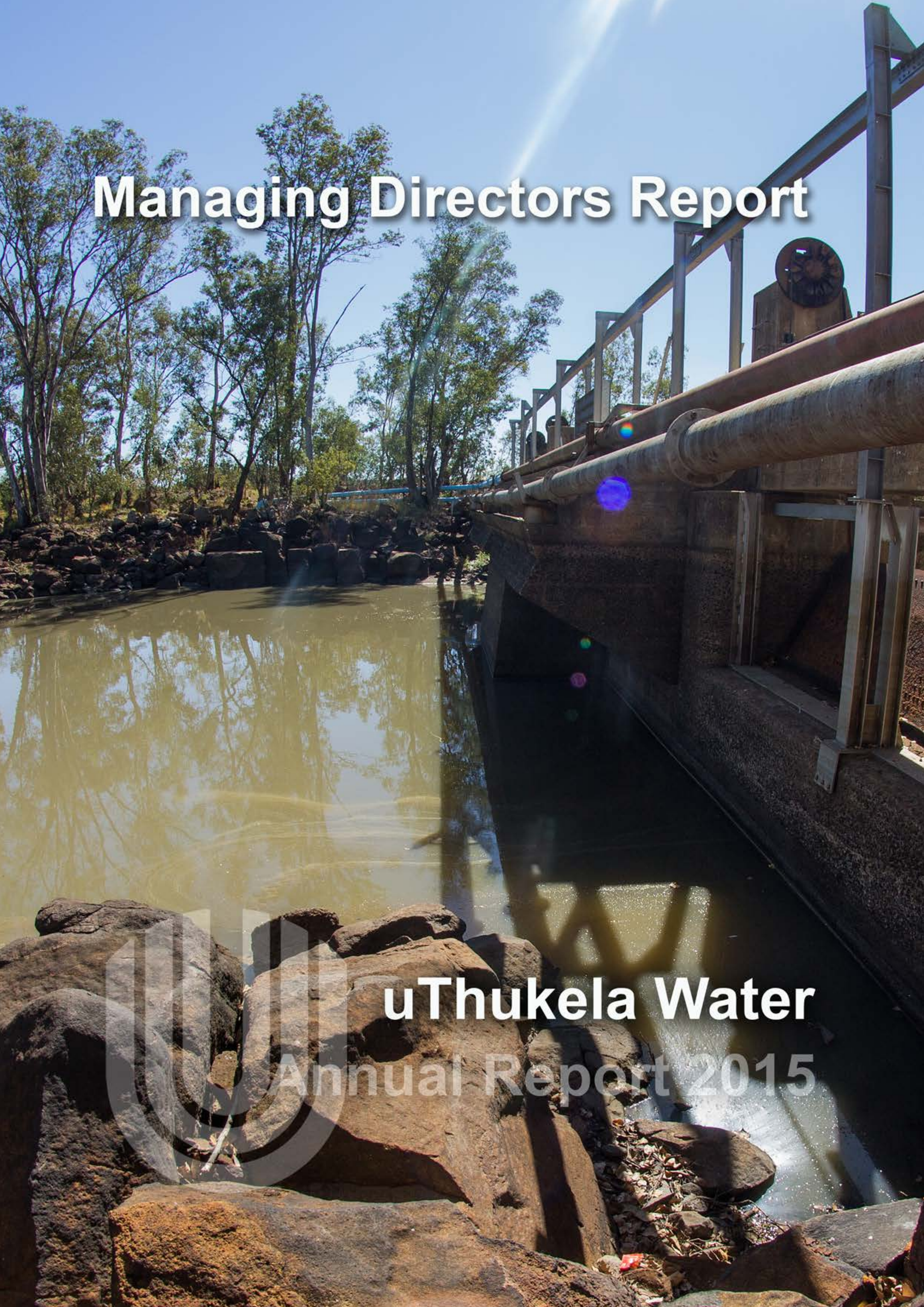
• Colleagues on the current Board, who in their own time, have tirelessly and in the best interests of the water service communities that we serve, made tremendous inputs and sacrifices, to ensure that the best under difficult circumstances could be done at all times, and this without any remuneration or compensation for their duties performed.

• It is commendable that none of the Board members are either remunerated or claim for any costs incurred, these costs are met out of pocket, or by the Institutions that they serve.

• To the Acting Managing Director, Executives and employees of uThukela Water who have also worked tirelessly through difficult circumstances, sometimes almost impossible and to the point of collapse, to bring their entity up to speed and in line with other well run organisations. I've often remarked, how you have maintained water services under these difficult circumstances, no one will ever understand, well done and thank you.

MR PSNAIDOO (INTERIM CHAIRPERSON OF THE BOARD)

Managing Directors Report



uThukela Water

Annual Report 2015

The Year in Review

The activities under the year in review reflect the set of plans, strategic objectives, pre-determined objectives and targets that formed the shareholders compact agreement with uThukela Water in the 2016 financial year. The finer details of these plans and strategies are set out in the operational and capital budget submissions, institutional performance objectives and targets, the bulk water master plan, and the Business Plan.

The objectives of these sets of plans and strategies could by no means be adequately addressed and responded to by the WSA's, due mainly to the shareholders having their own municipal financial challenges and the lack of available capital resources to invest into the water service infrastructure, and also partly because of the impending transfer of the bulk water functions to a new water institution in the near future.

Notwithstanding these challenges, the understanding in terms of the water service compact agreements is unambiguously stated that bulk water service delivery and water quality is of paramount importance to all concerned, and that this takes precedence over all matters at all times. In the annually updated pre-determined objectives and financial performance document, the key strategic objectives were set out as;

- Manage stakeholder relationships.
- Communicate performance to all stakeholders.
- Institutional arrangements.
- Ensure good corporate governance.
- Sustainable financial management.
- Sustainable bulk water volumes and water quality assurance.
- Asset management.

In micro terms some of the objectives and targets were set as follows;

- To conduct regular shareholder and stakeholder interactions and meetings,
- Submission of regular monthly, quarterly and annual financial and overview reports to shareholders,
- Compliance with legislation and good corporate governance,
- Carry out regular risk management assessments,
- Carry out personnel management, skills development and succession planning,
- Produce cost effective budgets, affordable bulk tariff proposals, debtor and creditor management, good liquidity and cash flow management, effective utilization of financial resources and good audit outcomes,
- Alignment of bulk water master plan with WSA, Provincial and National water plans,
- Uninterrupted bulk water supply with controlled outage times and high quality compliance levels set at no less than 95%
- Restriction of bulk water losses to less than 15%
- Regular assessments of asset condition and the maintenance thereof according to a planned maintenance programme.

It is with great pleasure that I advise that the entity achieved between 90 and 100% for all targets set as at for the year ending 30 June 2016. Details hereof are set out in the attached Performance Report and scorecards.

During the 2016 budget process, the entity and the shareholders moved closer to aligning their annual operational budgets and of reaching the goal of a bulk water tariff driven business as is practiced throughout the water industry. Although a basic bulk water tariff of R 2, 54 cents per kilometre was approved, the Newcastle municipality budget was still restricted to a maximum ceiling based on affordability factors as opposed to volumes supplied.

The Amajuba and Umzinyathi District municipalities have fully accepted the tariff driven proposals and have paid for their water supplied accordingly.

Unfortunately this has meant that the operational budget had to compromised, and the Department of Water Affairs and Sanitation raw water costs, once again, as in the past, had to be withheld in order to balance the budget. No capital budget was approved by the WSA's for the 2016 financial year. Not approving and implementing an annual capital budget and programme is considered economically retrospective and progressively decelerating, and could in the future, impact on water delivery, water quality and an affordable tariff. The municipalities did however, as a direct result of the current prevailing drought conditions and its effects on the bulk water infrastructures and installations, apportion ad hoc capital funding to the value of approximately R 10 million in the current financial year with a further R 25 million pledged for the next two financial years to attend to the more urgent capital refurbishments.

The Entity and the WSA's have engaged the Department in order to find a way forward regarding the non payment of the raw water charges with a view to writing off some of the older outstanding charges, correcting some errors in the calculations and tariffs applied, and factoring a payment plan to bring this matter to a conclusion. A report is currently being considered by the relevant municipality to encourage the municipality to adjust its 2017 budget by allocating an existing budgetary provision already made for the payment of these charges, by adding it to the current bulk water budget payable to the entity, so that the entity can commence with the payment of these raw water charges in the 2017 financial year. This will hopefully arrest the situation and prevent it from escalating to un-attainable levels.

The current prevailing drought has impacted quite severely on the region's water resources, and in the Umzinyathi DM area, all the support dams dried up, or could not be utilised during the year to augment the Tayside Buffalo river extraction. This meant that there was an approximate raw water shortfall of 3 mega litres per day to serve the Dundee Glencoe area. It was fortunate that a 'pigging exercise' conducted on the Biggersberg main bulk water line resulted in an increased raw water supply of 3 mega litres per day to this plant, and this cancelled out the loss of the dams. Consequent to the drought interventions imposed by the WSA's, the water supply in the towns of Dundee Glencoe had already as early as 2014 been reduced to 25%, and ultimately to 30% in terms of government gazette enforced constraints. The Newcastle and Amajuba DM's during the year self imposed a cut back of 10% concluding with the 30% enforced restriction with effect from the end of June 2016. These austerity measures have enabled the region to jointly manage and share the sole remaining and less affected raw water supply from the Ntshingwayo dam to supply their customers with a stable and definate water supply.

The design capacity of the Ngagane water plant is 115 Mega litres per day, and due to the current drought restrictions imposed, this plant is currently operating at approximately 75 mega litres per day. This plant supplies the areas of Newcastle, Osizweni, Madadeni, Braakfontein and Kilbarcahn, the Eskom village and Ballengeich, and the Amajuba District areas of Emadlangeni, Buffalo flats Alcockspruit and Steildrift. There is in terms of the bulk water master plan, plans afoot to increase the design capacity of this plant to 153 Mega litres per day, and or, to build a new 100 mega litre water plant at the Ntshingwayo dam. The bulk water master plan also proposes to construct a new dam higher up in the northern catchment area to augment the existing supply to Newcastle and Amajuba.

The Biggersberg plant has a design capacity of 19, 3 Mega litres per day, and is currently operating at 15, 84 Mega litres per day. This plant supplies the areas of Dundee, Glencoe, and Sibongile. In terms of the bulk water master plan, there are plans to supply this area from the proposed new water plant at the Ntshingwayo dam.

Consensus has been reached regarding the consolidation of all bulk water master plans in the region and to align these to the National and Provincial master plans. A Steering Committee will soon be formed to drive this process forward and ensure a unified and single approach to master planning in the region, thereby speeding up all processes and requisite developmental approvals.

The bulk water supply production distribution to the relative supply areas for the 2016 year was as follows;

Plant/supply	Flows/M/litre	%
Ngagane to Newcastle	31 967 071	76,5
Biggarsberg to Dundee Glencoe	4 612 440	11
Biggarsberg to Hattingspruit AMJ	105 281	0.7
Ngagane to Allcockspruit/Steyldrift AMJ	3,120 125	7.5
Ngagane to Emadlangeni	577,760	1.0
Ngagane raw water direct to Durnacol AMD	1,374 277	3.3
Total annual flows/production	41,756 954	100

Water losses on the bulk water mains, and on the plants, were managed within the pre-determined target of 15%, and within the accepted industry norm of 10%. The Ngagane water losses were determined at 8, 29%, Biggersberg at 6, 42% with an average of 7, 365 for all the installations. This is particularly commendable during the current drought crisis, and without doubt contributed to water conservation and best utilization of a scarce resource.

Financial performance

This year once again witnessed an improved and disciplined financial performance from uThukela Water. A book, break-even operational status was obtained, and this despite very tight financial and budgetary limitations that were imposed.

The drought and resulting reduced bulk water volumes produced during the year, played havoc with the projected revenues of the Board, reducing the revenues by 10% overall. Besides having to seriously adjust and curtail expenditures accordingly, innovative and constructive methods of right sizing the budget had to be found, and expenditure savings were in fact applied wherever possible. Simultaneously, budget vote virements had to be applied in order to release savings for the purposes of replacing seriously redundant, furniture, equipment and vehicles to the value of R 4, 5 million. These actions were absolutely necessary in order to ensure that business processes were not interrupted, but, in fact enhanced.

It is very positive to report that payments for Bulk water services has improved considerably over the past year, and that the status with the WSA's bulk water accounts is that they are now either, current, or 30 days.

However, the pre December 2012 old WSA (Umzinyathi and Amajuba DM) 'parked' water debt of R 78 million, still remains unresolved, and as previously reported, is inextricably tied up with the non- payment of the Department of Water Affairs and Sanitation raw water charges. There are negotiations taking place with all parties concerned to find a solution to this matter.

The Board has continued to strive towards its audit preparedness, in line with the governments drive to achieve "clean audits", by improving and developing its administrative, financial, operational, IT and other controls necessary to achieve this purpose in the shortest possible time. It has ensured that;

• It has continued to update and enhance its Microsoft Great Plains financial system to enable continuous, effective and timeous financial reporting to management and the Board in order to permit informed decisions.

• Upgraded its payroll and Human Resource accounting and information systems to timeously and effectively manage and deal with staff, payroll and third party payment issues.

• Implemented an IT Strategy and master plan for the organisation ensuring alignment with modern day and best business practices.

• The Inventory and SCM modules have been upgraded and replaced with modern software that enables proper stock control and acquisition and disposal processes as regulated by the MFMA 56/2003.

• The operations Department has implemented a modern Water management information system that allows the department to properly track and manage the Board's water maintenance and capital replacement programmes.

• The Internal Audit functions have been out-sourced to a goal orientated local Audit Company, and a revised Risk assessment and internal audit charter has recently been developed taking into cognisance the Company's current operational and capital risks.

• Regular composition and sittings of the Audit Committee meetings to deal with matters as required by the MFMA 56/2003,

• Performance Management has been implemented at Institutional, senior management and management level and has been cascaded down to the lowest level in the organisation in terms of the Local Government Systems Act 32/2000.

• All bulk water and sanitation costs and particularly those relating to ESKOM and DWA have been revisited and audited with a view to establishing their correctness and efficiencies. Major cost savings in this regard have been passed on to the shareholders.

A more in depth and detailed analyses of the financial results and ratios of the Board for the 2016 financial year are indicated in the Financial Review section of this report.

The entities total revenue accrued for the year amounted to R 93 456 379 (2015: R 85 074 466), and included in this figure is an amount of R 87 459 570 (2015: R 81 448 307) which relates to Bulk water sales raised for the year, an amount of R 416 644 (2015: R 0) in respect of external investment interest income received and accrued, an amount of R 5 108 408 (2015: R 2 171 329) in respect of capital grant income, and finally an amount of R 471 757 (2015: R 1 088 732) in respect of miscellaneous revenues accrued.

It is pleasing to report that the total staff costs, as measured against total budgeted expenditure, equates to 28%, and this is well within the accepted norm of 35% for the industry. Depreciation provided on capital assets amounts to R 104 757 392 (2015: R 104 398 873), and this charge is not recovered in the bulk water tariff from the municipalities, but is recovered against the capital grant contributions paid by the municipalities and reflected as their shareholding in the entity. Only depreciation provided on assets funded by external loan is charged to the Statement of Financial Performance. By accounting for the depreciation charges accordingly, it is ensured that the consumer is not "double taxed" by having to pay for a service twice.

The effects of the worldwide economic meltdown are no doubt being felt in the local economy and the impact hereof is reflected in the increased costs of production and service delivery, particularly those charges relating to Eskom, DWA raw water costs and the high prices of fuel, oil and chemicals. Some of the increased costs are well in excess ofinflationary expectations, and the alarming fact is that, these increases are not being passed on but are being absorbed by the water budgets. This is anunhealthy situation and will impact on service delivery in the short and medium term. Whilst it is understood that the shareholders have their own financial challenges and constraints to deal with, it should not be done at the expense of water services. The entity itself is severely curtailed in this regard, as it is solely reliant on its water recovery Bulk tariff, and has no other sources of revenue.

The Board's cash flows were steady during the year and very carefully managed to ensure that there were no service disruptions. Creditor payments were maintained within 30 day cycles and the only deviations from this policy related to late capital grants transfers regarding drought emergency funding projects. Although the investment and cash holding as at 30 June 2016 decreased slightly, R 8 944 902 (2015: R 10 304 692) during the year, it did rectify itself in early July 2016.

It is very clear that the Board is absolutely dependent on regular and timorous payment of its bulk water accounts, and that water services are at high risk should these not be forthcoming.

The Board has always consciously dedicated itself to water service provision and its main focus areas, challenges and benefits passed to all stakeholders can briefly be summarized as follows;

Main areas of focus;

1. Dealing with raw water resource constraints, including impact of climate change through proper planning for sustainable infrastructure. Bulk Infrastructure Master planning.

2. Introducing innovative solutions to respond to the high unit operating and maintenance costs of Bulk infrastructure caused by volatile price increases in economic driver costs such as chemicals, electricity and fuels and oils.

3. Ensuring improved training interventions to ensure adequate skills for our operations in the light of the country wide skills shortage (e.g. process controllers and artisans).

4. Improving monitoring of operations to ensure early detection of problems such as interruptions of Bulk raw and purified lines and supplies.

5. Improving cost recovery through correction of metering data and early detection systems (incl. illegal connections)

6. Continuous improvement drive to emulate best practice.

7. Improvements in corporate governance

8. Providing solutions to water supply challenges in "implementation ready"format awaiting funding.

Challenges;

1. Low unit expenditure compared to industry norm, capital levy implementation.

2. No capital budget implementation and Infrastructural regional planning, and pooling of scarce financial resources,

3. Increased raw water debt as a result of budget exclusion,

4. Repairs and maintenance less than 7 % of infrastructure value despite ageing infrastructure.

5. No funding for the replacement and upgrade of the infrastructure.

6. High water losses in some WSA areas, mostly beyond the meter.

7. Some costs (e.g. water treatment chemicals, electricity and fuel) are increasing at a rate much higher than guidelines given on acceptable budget increases.

8. Institutional restructure delayed filling of senior positions.

9. Slow payment or delays with of Bulk water invoices.

10. Signing of revised Bulk water agreements and finalization of bulk water entity for the region.

11. Prevailing drought conditions and effects to ageing and ailing infrastructure.

Benefits to Shareholders, stake holders and customers

1. Pooling and sharing of scarce human resources.

2. Lower unit costs of well- run organ of state.

3. Water resource constraints require regional rather than local stand-alone solutions (planning, implementation and operations).

4. Good track record regarding refurbishment of bulk water infrastructure has set industry standard.

5. Control and sharing of a single bulk water tariff as opposed to a volatile locally driven economic based tariff that also depends on the cost of water locality and resourcing.

Customer Satisfaction

The entity is a customer driven and focused organisation, and this mandate is clearly provided and chartered for, in the draft Bulk WSP agreement presented. The guiding principles encapsulated therein promote adhere to the "Batho Pele" principles of good governance and customer service. The principles embrace; the delivery and supply of value for money services, good quality and a reliable services, right up to the end user.

The high SANS241 high water quality standards achieved by uThukela Water on behalf of its WSA Shareholders, attests to the superior and high quality bulk water services delivered from both the bulk water plants at Ngagane and Biggersberg.

These superb achievements, were attained,and are being maintained,on shoe string budgets, and at very limited cost to the shareholders. Sheer dedication and hard work are the milestones by which these successes can be measured.

Regular communication and engagement with our municipalities ensures that we continue to remain responsive to our customer needs, and consequently we maintain compliance with our WSP principles.

Product Quality

uThukela Water continued to respond well to water service WSA demands despite the difficult financial constraints within which it has had to operate. Bulk water quality standards measured in terms of the SANS241 standards remained well above 95% for all determinants throughout the year.

The prevailing drought conditions played havoc with the raw water quality and additional chemicals, not normally utilised, had to be acquired in order to quell the impacts of stagnant and polluted water.

A reliable and constant Bulk water supply was made available to the WSA's, 32 million mega litres to the Newcastle municipality, 4,6 million mega litres to the Umzinyathi DM and 5, 2 million mega litres to the Amajuba DM, who in turn supplied approximately 41 million mega litres to its paying customers.

It should be noted that the 2016 water volumes dropped considerably by about 20% overall due to the drought conditions.

The regular water monitoring and statistical analyses results is detailed in the scientific report and graphs contained in the operational and scientific report.

The Board also provides the Newcastle municipality with regular monitoring and measurement of its reticulated water standards. The Umzinyathi and Amajuba District municipalities utilise a private service provider for this purpose.

uThukela Water prides itself and strives for service excellence regarding the quality of its potable water supplied, and its laboratories are well equipped to ensure that there is no compromise in its service quality.
The environment is also an important consideration in all matters of water planning and implementation.

Stakeholders Understanding and Support

The entity is constantly striving to ensure strategic effectiveness by complying with all the requirements of its WSP objectives and principles,the relevant National, Provincial, local legislation and policies,and it is, with limited financial resources available to it, making every effort to ensure that the benefits of its effective and efficient operations, are received by the member municipalities and ultimately, the municipal customers.

It is the intention of the entity to further its community and stakeholder participation, by widely publicising the results indicated in these reports through the public media, and by assisting its Shareholders, wherever possible, in undertaking road shows into the various community areas.

Infrastructure Stability

One of the major benefitsof cost sharing is the regional approach to planning for water distribution, and the entity strives to ensure that its capital and maintenance programmes are aligned to those of its WSA's, the government and provincial strategic plans. Its water demand projections, are regularly updated, based on WSDP's prepared by the parent municipalities, and trends in the supply and demand patterns.

One major challenge that directly affects the stability and sustainability of the region's water services infrastructure, is the lack of channelled and available funding to fully implement the Strategic Water Services Master Plan. The plan, intends providing a long term solution to water provision in the area, and also the provision of a safe, sustainable and affordable water service infrastructure,over the whole area comprising of some 26000 km2. The plan transcends over WSA boundaries, and eliminates the continued utilisation of expensive ancillary, ad hoc, and standalone water plants.

The existing ageing infrastructure has been successfully maintained to an extent, but the only viable option, is to give focus to the ideals of the master plan, and to implement this plan, with the single objective of sustainable water services for the whole region well into the future.

The status quo is simply not cost effective and sustainable, and if one looks at the capital investment injected into water infrastructure with the entity during the current year, R 10 million is simply inadequate.

A unified approach and pooling of resources is required, in order for any inroads to be made into resolving the water demands of the future in the area.

Water Resource Adequacy

The region is blessed with good water resources, although the current drought has served to highlight the invulnerabilities in this regard, and in the Newcastle area raw water requirements are extracted from theNtshingwayo/Chelmsford dam, Ngagane River and the Buffalo River. These water resources have adequately served the developed areas of Newcastle, Osizweni, Madadeni, Durnacol and Dannhauser for many years. They however are not enough to sustain the increase in demand beyond the short to medium term.

The Umzinyathi area is not blessed with good sustainable natural water resources, and relies on the Blood and Buffalo rivers for its main raw water requirements, and these water sources, although perennial, are not sufficient to ensure a constant supply of raw water to meet the demands of the area.The water services master plan addresses this problem, and proposes solutions that will meet with the current and future water demands.

The ultimate goal of uThukela Water, and or, it's, successors, will obviously be to link up the many rural developments which are spread far and wide throughout the jurisdiction of Uthukela, and to link them to a major regional bulk supply infrastructure, which infrastructure, will in turn be linked to a sustainable raw water supply source.

The unacceptably high,“beyond the meter” water losses, currently being experiencedin some of the areas of supply, and particularly in the Newcastle east, West, Madadeni and Osizweni areas, needs to be checked as a matter of urgency, as it is causing severe water losses and community frustration through water rationing and restrictions in these areas. It is estimated that at least 30 Mega litres per day is being lost in these areas.

Water conservation and water demand management are other areas that are being prioritised by the Board and its parent municipalities together with all upstream and downstream partners and these need to be aligned with National and Provincial initiatives that will diversify the water mix, which should include water reuse and reclamation.

Community Sustainability

We have, within our limited and scarce financial resources available, continued to diversify any available capital funding programmes, and to promote these towards ensuring that the bulk water expansions backlogs are addressed,especially in the areas mentioned above, where unreliable and unsustainable water resources are utilised as an interim measure.

With the transfer of reticulation and the smaller local bulk water plants back to the municipalities with effect from the 1 July 2013, many of these responsibilities will be returned to the WSA‘s directly. However, the longer term vision should be to focus attention on the Master Plan, and to eradicate these smaller and un-economically viable and unsustainable water plants, and to link them to the major water producing plants and resources resources.

Our approach, as a water service provider, and our investment in water and sanitation projects, utilising the local community, is to optimise employment opportunities and to provide development opportunities to emerging and BEE compliant contractors. We also continually provide institutional support to emerging contractors by assisting them to improve their CIDB levels of competency and thereby improving their chances at competing for the bigger contracts.

The Board has a long standing commitment to conservation of natural resources and has in place key environmental sustainability indicators applicable to its water business, and is aligned to best business practices. We regularly assess our indicators for eco-efficiency, including water, energy and material consumption. The increases noted in these indicators over the past few years are mainly attributable to, demand, extra chemical dosing to disinfect new schemes commissioned, poor raw water quality, and the above average inflation cost increases imposed by ESKOM, DWAF and chemical suppliers due to high and fluctuating fuel and oil prices. We are cognisant of environmental regulations and monitor all impending projects and our test results regularly to ensure compliance and high quality standards at all times.

Operational Optimisation and Resiliency

We place great emphases on effective and efficient governance and management structures to implement our strategy, and we have made great strides to ensure that in cases where there have been deficiencies in the past, that these have been adequately addressed. Our key support systems have been and are continually assessed with a view to ensuring operational competence at all times. Key focus areas are operational systems, Infrastructure and asset management where we have a fully compliant GRAP asset register in place, Infrastructure planning and GIS systems, billing and metering systems, financial and treasury systems, HR and Payroll systems, a central SCM system that supports all purchasing and acquisitions and other governance and control systems that will enhance risk management, corporate performance and strategy systems.

Employee and Leadership Development

There is a sound human resource strategy in place that supports management to operate effectively in consultation with staff and Union statutory bodies. A moratorium on the appointment of new staff, and to the revision and restructuring of the fixed staff establishment, pending the composition of the new Bulk water entity, has certainly impeded advances in the HR strategy, but as the entity develops, innovative measures have been implemented to ensure that there is no disruption of activities.

Communication and the sharing of information with the WSA parent municipalities, and management's ability to steer these initiatives, has also received much attention as part of improving the information systems.

Recruitment of suitably qualified and well skilled professionals in the water sector has always been a challenge in the un-urbanised areas, and the Board has a programme in place, that provides opportunities' for study and a bursary scheme to attract and improve the adequacy of staff and to build a pool of graduates and trainees that will meet its immediate and future demands.

Financial Viability

Seven successive un-qualified audit reports have been received from the Auditor General, and have finally dispelled any doubts and uncertainties that may have previously existed, about the Boards ability to effectively and efficiently manage its own affairs in a proper and accountable manner.

The Board's financial results reflect its resolve and determination to deliver a high class and affordable product, albeit with limited availablefinancial resources. Its bulk cost indicator is well within the industry norm, and is a catalyst for increased investment.

The Balance sheet, post reticulation transfer, certainly highlights the reduced activities and value of the entity, but also indicates positively on the viability and exposure of the entity as a risk, and as a going concern. There can be no doubt that once the WSA outstanding debt matter is resolved, simultaneously with the WSA Creditor, the Balance sheet will appear very attractive to the incoming Bulk water services provider.

The Board's financial indicators are detailed in more depth in the financial performance report attached hereto, and clearly reflect good positive ratios. Improvements to budgeting techniques and cost allocations are continually being re-assessed and implemented and proper scientifically calculated models are being put into place for measuring and analysing performances related to all activities in water service delivery.

The formulation and development of short, medium and long term financial plans that are aligned to the budgets and IDP's of the Shareholders,and consequently the real needs of the communities, is receiving high priority on the planning front, and is necessary to ensure that all communities are serviced with their basic constitutional needs.

The current practice of annually allocating popular fixed inflationary increments to budgets and tariffs is counterproductive and falls far short of good service delivery objectives. The implementation of a Bulk water tariff cost recovery strategy is the way forward and the way in which to manage future water costs.

The Board's cash flow, has through strict control of budgets, cash and expenditures, been adequately maintained, and no disruptions to any services or creditor payment cycles has been experienced during the year.

The financial success of uThukela Water is encouraging for the parent municipalities, and its communities, and it should instil confidence that a sustainable and effective service delivery mechanism is in place.

Conclusion

We will continue to strive for continued service excellence and quality, and work towards all targets and objectives set out in our joint strategic and business plans, and ensure that the WSA's and the new, or re-constituted bulk water services institution, inherits a well- run and organised business that contributes to continued sustained water service delivery.

The Board with its turnaround strategies has ensured that this Entity has gone from strength to strength and is making a meaningful contribution to the development of sustainable communities in the region, and now finds itself in the position to contribute to the future of sustained water services.

I am indeed grateful for the contributions and partnerships which made it all possible to achieve these commendable results and would like to thank the following:

• All Board members, past and present and particularly the current Chairperson, Mr D Naidoo, who have all worked tirelessly without any reward to bring this entity back into focus and on track to serve the objectives of its parent bodies,

• The employees of the Board, who have worked tirelessly, sometimes under very difficult and negative circumstances to keep the ship afloat and in the right direction,

• Suppliers and service providers who have had to endure some difficult times with us,

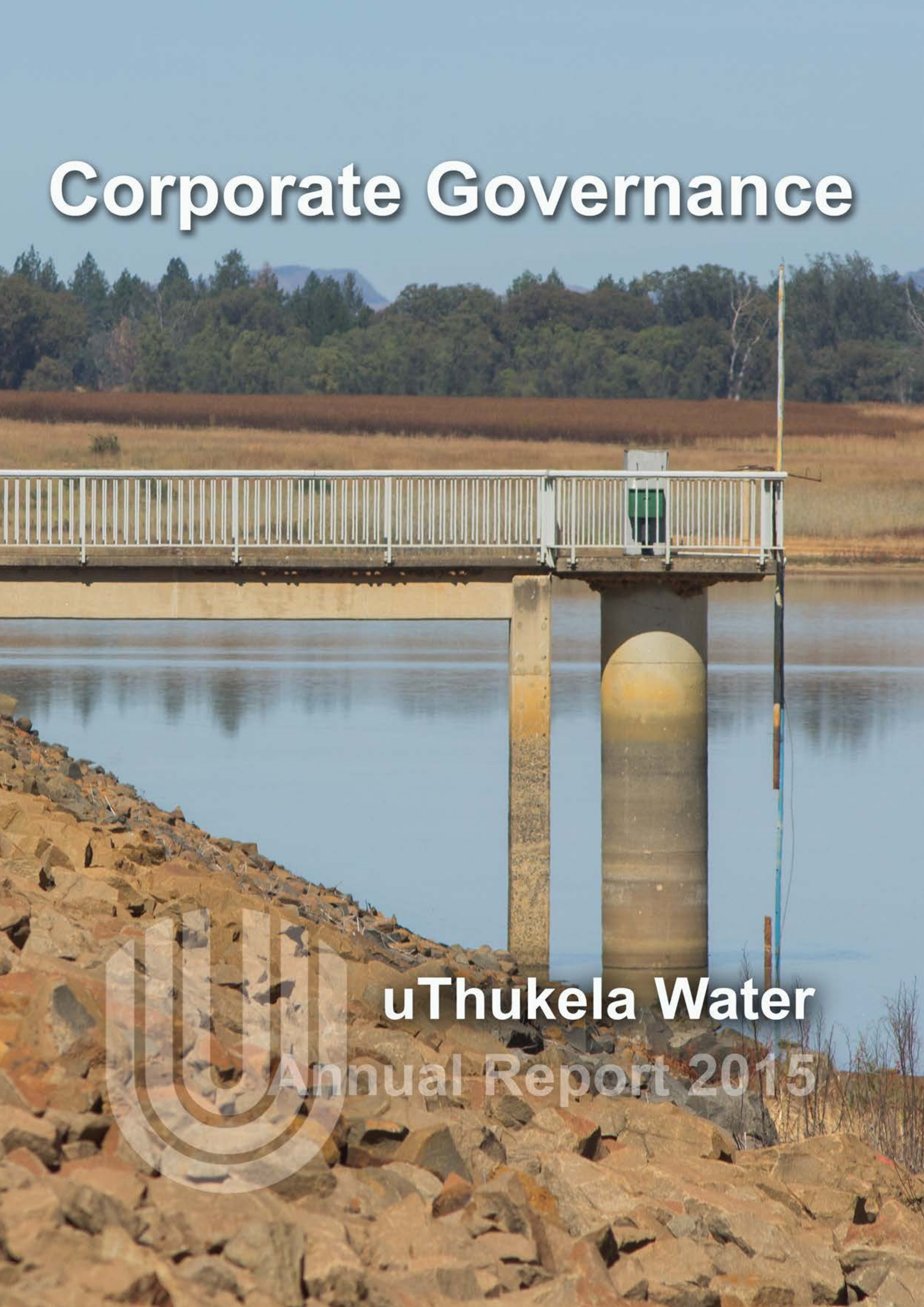
• The WSA municipalities, their Councils and officials who also endured frustrating times of dealing with community complaints and concerns without themselves being in control of the situations, and also, for their active support in ensuring an uninterrupted transition, we thank them for their support and for the way in which they have continued to deliver the same excellent services to their communities themselves,

• The Premier's office for their continued support and for holding the interests of all parties and communities at heart at all times, and

• Finally, the Department of Water Affairs.

MR LL CUNHA
(Acting Managing Director/CFO

Corporate Governance



uThukela Water

Annual Report 2015

Corporate Governance

Overview

The Organization, despite experiencing many teething problems associated with a new business, continues to commit to the principles of good corporate governance as per the Municipal Systems Act 32/2000, the Municipal Finance Management Act 65/2003, the Water Services Act 108/1997, the Companies Act 61/1973 and the King 111 Report, and strives for a sound balance between performance, value creation and resource utilization. This balance is enabled through the organization's strategic objectives and balanced achievements as indicated in the scorecards.

Performances of the Organization's objectives were measured by comparing it to the key targets and indicators as set out in the Entity's annual Business and Budget Plans. Accountability in terms of the Municipal Systems Act is maintained by reporting on the activities and scorecards, thereby measuring the performance.

Board Appointment and Composition

uThukela Water (Pty) Ltd is a multijurisdictional water utility that was established in terms of section 87 of the Municipal Systems Act 32/2000 and was wholly owned by the following parent municipalities (WSAs) with the indicated shareholding allocation:

Newcastle municipality: 34%
Umzinyathi District municipality: 33%
Amajuba District municipality: 33%

The shareholding of the municipalities in the Company was legally registered on 11 September 2007.

The composition of the Board of uThukela Water (Pty) Ltd since inception in 2004 is detailed hereunder, and shows the changes up to and including 30 June 2013.

The current Interim Board was appointed by the MEC for Local Government, Housing and Traditional Affairs, on 6 June 2012. The members currently serving on the board are as follows:

Mr P.S. Naidoo	Board Member (Independant Chairman of the Board)
Mrs H.B. Krishnan	Board Member (GM - Municipal Finance - COGTA)
Mr M. Msiwa	Board Member (Independant)
Mr A. Evetts	Board Member (Manager - Infrastructure of COGTA)
Mrs A. Masefield	Board Advisor (Special Member - Acting Provincial Head of DWG)

Municipal Managers - Newcastle - Amajuba - Umzinyathi.

CV of Mr P.S. (Dan) Naidoo (Chairman of the Board)

Mr Naidoo, holds a Bachelor of Science Degree (Hons) in Water Utilization Engineering.

He is currently a Senior Executive of Umgeni Water with in excess of 28 years of water operations management experience. Mr Naidoo was seconded by Umgeni Water to assist the Provicial Government at the intervention at uThukela Water in 2008.

Mr L. L. Cunha (Acting Chief Financial Officer)

Mr Cunha is a B Degree Associate member of the institute of Chief Financial Officers, and has in excess of 40 years of Local Government experience.

He is also Local Government Recovery Specialist and has worked hand-in-hand with the Department of Co-operative Governance and Traditional Affairs and the Development Bank of Southern Africa in several turn-around projects, where he has successfully assisted several struggling municipalities to move from precarious financial situations to clean audit reports.

Mrs H. Hickley (Senior Manager - Operations and Laboratory Services)

Mrs Hickley Holds a Bachelors of Science Degree (Hons) in Natural Science, and an Advanced Project Management Diploma. She has 19 years experience in water operations management, with specific emphasis on cost effective water plant operations, processes and water quality management and assurance.

She is currently appointed as Senior Manager Operations, and Laboratory Services for uThukela Water.

Board Meetings

An annual general meeting and quarterly general meetings of the Board and shareholders are held with attendance by the non-executive Board members, shareholder representatives and senior Executive Directors. The Entity's Strategy, Business Plan, monthly activity reports, Audit Reports, Annual Financial Statements, budgets and other reports are discussed and approved at the quarterly general meetings. Special Board and Ad-Hoc Committee meetings are called at the request of the Chairperson as required.

MEETING DATES FOR THE 2015 / 2016 FINANCIAL YEAR

	DATE HELD	MEETING REFERENCE №	DESCRIPTION / COMMENTS
BOARD	28 September 2015	B/03-2015	
	14 December 2015	B/04-2015	
	04 March 2016	B/01-2016	
	26 May 2016	B/02-2016	
SHAREHOLDERS	23 September 2015	SSH/01-2015	Special Meeting
	28 September 2015	SH/03-2015	No Quorum
	14 December 2015	SH/04-2015	No Quorum
	04 March 2016	SH/01-2016	No Quorum
	26 May 2016	SH/02-2016	No Quorum
AUDIT COMMITTEE	28 August 2015	SAC/01-2015	Special Meeting
	03 December 2015	AC/04-2015	
	10 March 2016	AC/01-2016	
	11 May 2016	AC/02-2016	
LEADERSHIP COMMITTEE	07 August 2015	L005M	Joint LEADCO / MANCO Meeting
	11 September 2015	L006S	Special Meeting
	11 November 2015	XVB-0002-LM	Joint LEADCO / MANCO Meeting
	22 February 2016	XVB-0003-LM	Joint LEADCO / MANCO Meeting
	19 April 2016	XVB-0008-LM	Joint LEADCO / MANCO Meeting
	13 May 2016	XVB-0011-L-S	Special Meeting
	09 & 14 June 2016	XVB-0012-L	

Audit Functions

The Board's external audit is conducted under the auspices of the Office of the Auditor General utilizing local accounting expertise. The Board also reviews the accuracy, reliability and credibility of statutory financial reporting.

The external auditors independently audit and report on the financial statements to ensure that the statements comply with GRAP and IFRS.

Internal audit is an independent outsourced assurance function, the purpose, authority and responsibility of which is formally defined in a charter approved by the Board in line with stipulations of the Institute of Internal Auditors, the MFMA and good governance.
The internal auditors provide assurance to management, the Audit Committee, the Board and external auditors on the appropriateness and effectiveness of internal controls.

Procurement Adjudication Committees

This Committee is constituted in terms of the Board's Supply Chain Management Policy and comprising of five independent Senior Managers, assisting the Board in considering the recommendations of its separate Evaluation Committee, and in making procurement decisions to approve contracts and tenders within its delegated authority. The committee also makes recommendations concerning the amendment of the procurement policies and ensures that the Entity's SCM procedures are equitable, transparent, competitive and cost effective. Contracts which exceed the Committee's delegation of authority are referred to the Managing Director for a final decision.

Leadership Committee (LEADCO)

LEADCO structure includes the Managing Director, Director Operations, the Chief Financial Officer, the Manager Human Resources, the Manager Customer Services and the Manager ERP Services.
The committee was established to assist the Managing Director in guiding the overall direction of the business and to exercise executive control. Meetings are held weekly and its task is to assist with the effective management of the day to day operations of the business.

Board Remuneration

The current incumbent Interim Board Members are not remunerated by the Company.

The previous Board members were remunerated out of Company funds, and a dispute concerning the remuneration approved by them and paid to them, accordingly, is currently being investigated by the MEC's office.

Delegation of Authority

A comprehensive delegation of authority framework governs the authority levels for the Board and management. These are exercised through the Board and LEADCO as well as Senior Management Individual Capacities. This framework assists the Board to discharge its duties with proper accountability and responsibility. The Board reviews the framework regularly.

Fraud Prevention

The Board acknowledges its responsibility to ensure that the organisation conducts its business in a fair, transparent and ethical manner. A proper risk assessment was conducted and a Fraud Prevention Plan was formulated during the year, and will shortly serve before the Board for approval and implementation.
The plan has been produced to prevent and respond to incidents of fraud, corruption or any other irregularities. The Province of Kwazulu-Natal has established a fraud hotline which is adequately advertised and is available to all and sundry.

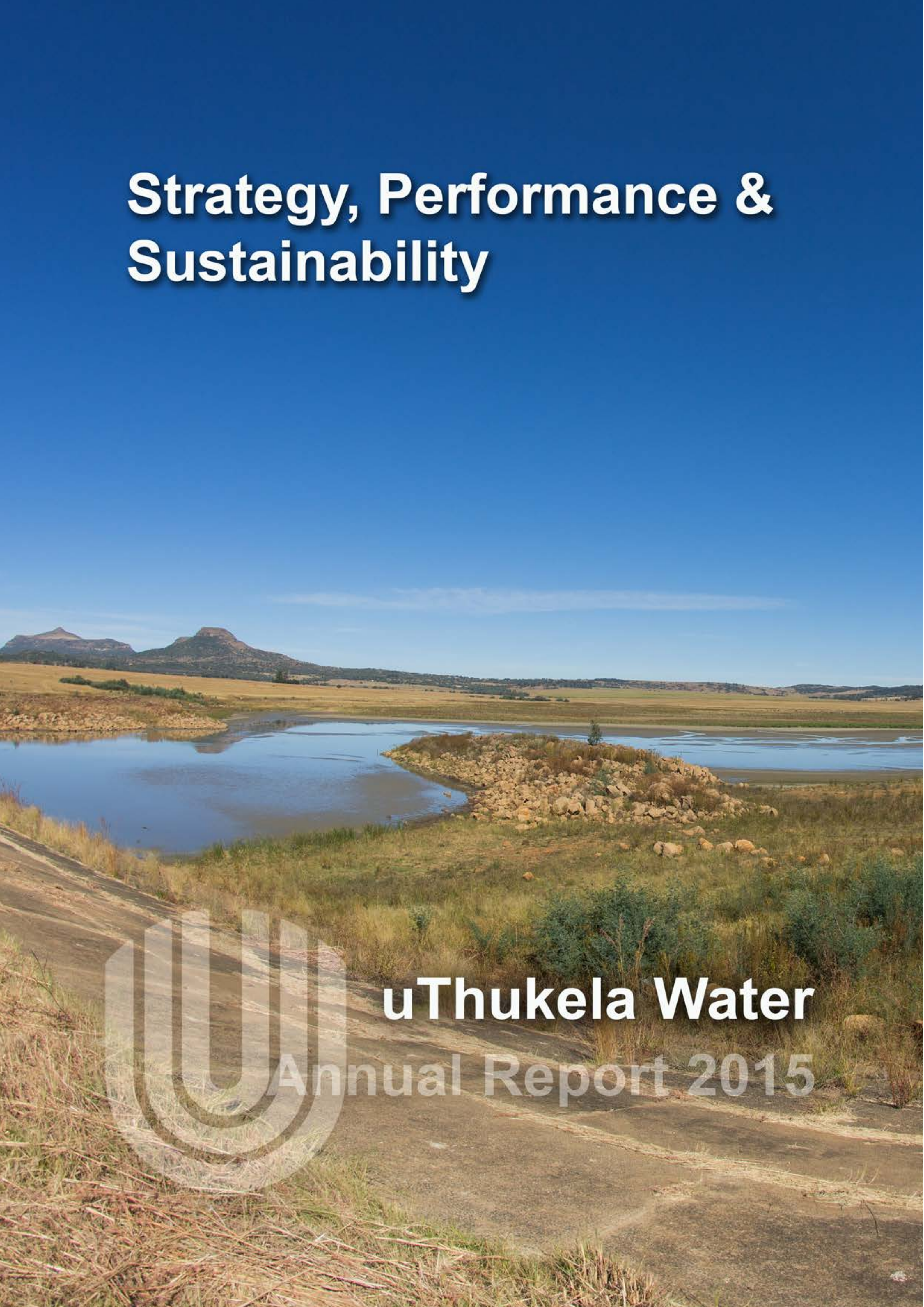
Strategy, Performance and Annual Report

Our annual report is viewed by the organization as an important element of our strategic execution system, and as a valuable instrument to view and showcase our performance over a specific period of time.
It is a statutory requirement in terms of Section 126 of the MFMA 56/2003, which requires mandatory disclosure of annual performance against our Business Plan.

Simultaneously, the opportunity is used within the statutory reporting framework to align to best practice corporate performance / sustainable reporting.
This report therefore is the means by which we communicate to all our shareholders and their customers, regulatory bodies, investors, employees and civil society our annual performance and progress towards moving our policies, plans and processes, and our water and sanitation service products in a direction that supports sustainable development.

Scorecards for Financial and ERP Systems, Customer Services and Public Relations, Operational and Developmental and Human Resources are presented at the beginning of each chapter.

Strategy, Performance & Sustainability



WATER QUALITY MANAGEMENT

The most important business is the provision of bulk water that complies with SANS (South African National Standard) 241:2015. The standard specifies the quality of acceptable drinking water and provides the required assurance that the water produced by uThukela Water is fit for drinking purposes and does not pose any health risk over a lifetime of consumption.

To ensure compliance to drinking water standards, water quality is monitored from the beginning of the catchment, continuing at the purification plants, and ends at the distribution systems. uThukela Water has implemented various plans to ensure continued compliance to SANS 241:2015 standard, this includes routine monitoring through implementation of a frequent water quality monitoring programme, water quality risk assessments and reviewing performance against the SANS 241:2015 limits.

At plant level the monitoring programme entails testing of basic variables by the operational staff and the data generated is utilised for process control purposes. To assure the reliability of this data operational staff is trained to carry-out on-site sampling and receives refresher training in the calibration, operation and maintenance of testing equipments. Furthermore the equipments are serviced and calibrated on a frequent scheduled basis.

Physical, chemical and microbial monitoring is conducted weekly and bi-weekly as part of our comprehensive monitoring programme. Frequent sampling from all designated sample points is carried out, followed with testing of the water samples by uThukela Water Laboratory Services. Data obtained is used to monitor and manage water quality, ensuring the consistent supply of safe drinking water.

uThukela Water Laboratory is a Department of Water and Sanitation (DWS) approved laboratory and is participating in the NLA and SABS WaterCheck proficiency testing schemes, to demonstrate confidence and credibility of water quality data. The laboratory has installed updated technologies (Discrete Analyser) to enhance analytical capability primarily to improve service delivery and turnaround time.

In addition to potable water, waste water data from all the Newcastle Waste Water Treatment Plants is produced by uThukela Water Laboratory for the Newcastle WSA. Inflow, process and final effluent samples are received and tested on a weekly basis to comply with Green Drop requirements and for assessment against Department of Water and Sanitation (DWS) General Authorisation Effluent limits. Other services provided by uThukela Water Laboratory includes industrial effluent monitoring of industries in the Newcastle area. These industries are being monitored on a monthly basis and appropriately billed based on the Municipal By-Laws.

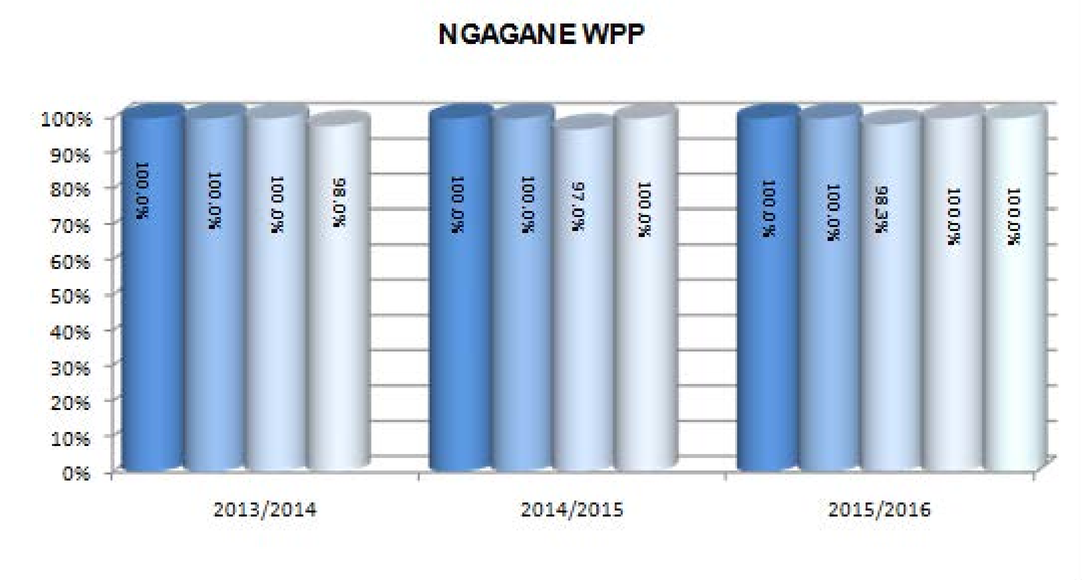
The laboratory supports skills development programmes such as experiential student training with the intention to empower and provide skills to learners in the field of science.

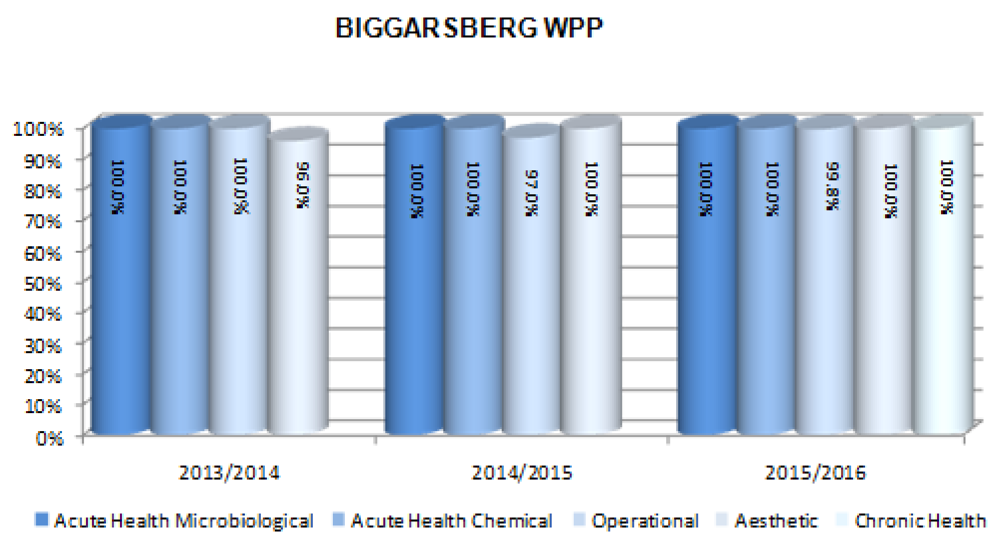
POTABLE WATER QUALITY PERFORMANCE

The SANS 241 compliance is displayed in the graphs below. The quality of water produced was evaluated against five risk categories of the revised SANS standard (SANS 241:2015).

These categories are:
1. Acute Health Microbiological
2. Acute Health Chemical
3. Chronic Health
4. Operational
5. Aesthetic.

Graph 1 & 2. Bulk Potable Water Quality Compliance (%) per Water Purification Plant





For the reporting period, uThukela Water provided excellent drinking water quality to consumers. The detailed potable water quality compliance per water purification plant is shown in Table 1.

Table 1: Potable Water Quality Compliance (%) with SANS 241: 2015

Water Treatment Plant	Acute Health Microbiological	Acute Health Chemical	Operational	Aesthetic	Chronic Health
Ngagane	100%	100%	98.3%	100%	100%
Biggarsberg	100%	100%	99.8%	100%	100%

Notably excellent performance was recorded for all categories in both bulk water plants.

No health failures were detected on the bulk water plants and in the reticulated systems.
Operational failures were detected due to exceedance of the maximum allowable operational turbidity of 1 NTU.

Ngagane Water Plant clear water well.

Ngagane Water Plant clarifiers

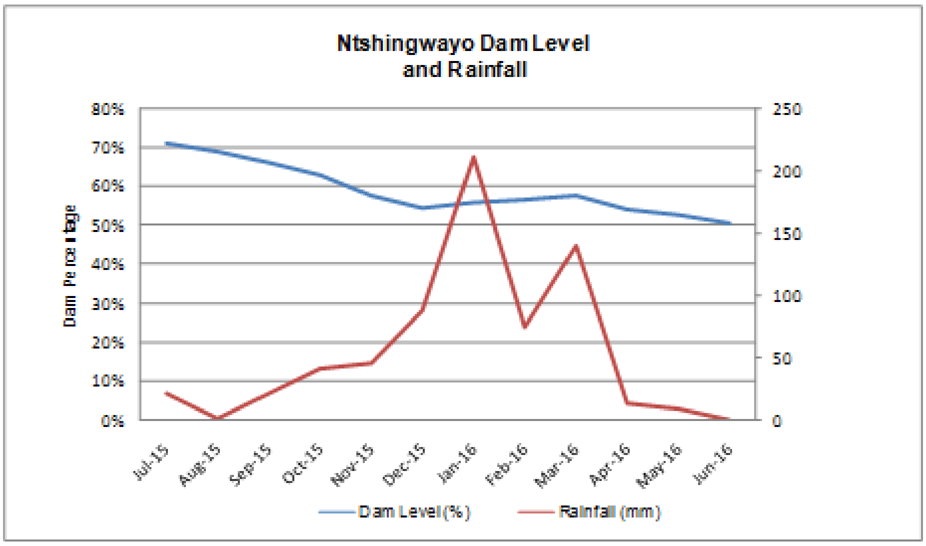
Due to the abnormal high day temperatures experienced during the festive season and the first quarter of 2016, the Buffalo River was stagnant at stages. High concentrations of algae were present in the raw water of the Buffalo River and Ntshingwayo Dam.

Abnormal algal blooms occurred over the festive season and continued during the first quarter of 2016. These large concentrations of algae had a negative impact on water quality and caused certain objectionable tastes to the delivered water and odorous problems.

This poor raw water quality and limited raw water availability lead to operational turbidity levels of above 1 NTU's in the final water produced at the bulk water plants.

Rain was received in January 2016 in the catchment which assisted with the flow in the Buffalo River and it kept the Ntshingwayo Dam level more stable (56%). It also assisted to improve the source water quality.

Graph 3. Ntshingwayo Dam Level

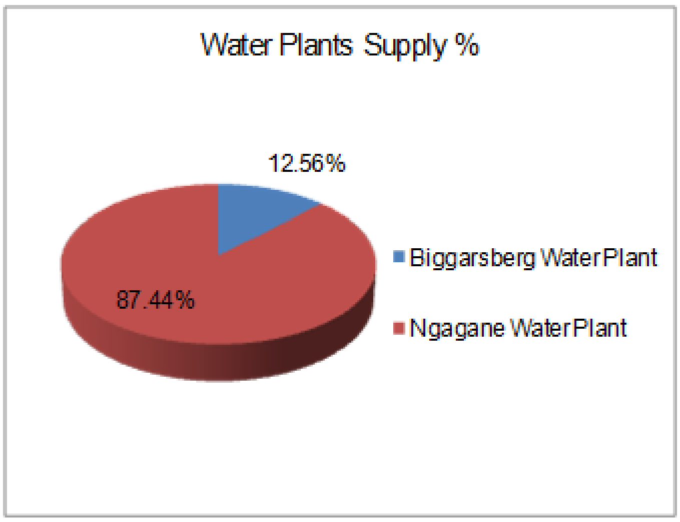


BULK WATER SUPPLY AGREEMENTS

Bulk Water Supply Agreements are concluded to cover obligations of both uThukela Water as the Water Service Provider and its customers, the three Water Service Authorities in relation to water volumes, water quality, service interruption intervals, metering, tariff consultation assurance of supply and capital infrastructure plans.

A total of 41786 megalitres of potable water were supplied to the three Water Services Authorities during the 2015/2016 financial year by the two Bulk Water Purification Plants. The major contributor to the water supply volume is the Ngagane Water Purification Plant that contributes to 87.44% of the total volume supplied. Biggarsberg Water Purification Plant contributed 12.56% of the total bulk water supply volumes.

Graph 4. Water Purification Plants Supply Percentages



The Ngagane Water Plant operated at an average daily supply volume around 105 Ml/day the last quarter of 2015, after a ten (10) percent restriction was imposed on the bulk supply volumes due to the prevailing drought conditions.

Biggarsberg Water Plant supplied an average of 12.5 Ml/day of potable water the last quarter of 2015. The local Dundee Dams were very low and the only dam resource still utilised, Preston Pan Dam level deteriorated to 19% at that stage.

The Buffalo river overflow at Tayside and the Ngagane weir level was monitored daily and reported to DWS. The Ntshingwayo Dam water release volumes into the Ngagane River that flows into the Buffalo River are controlled by DWS, to allow a constant flow over the Tayside weir (Buffalo River), to allow the Tayside resource abstraction volumes to be met for Biggarsberg Plant and downstream for Vant's Drift Water Plant.

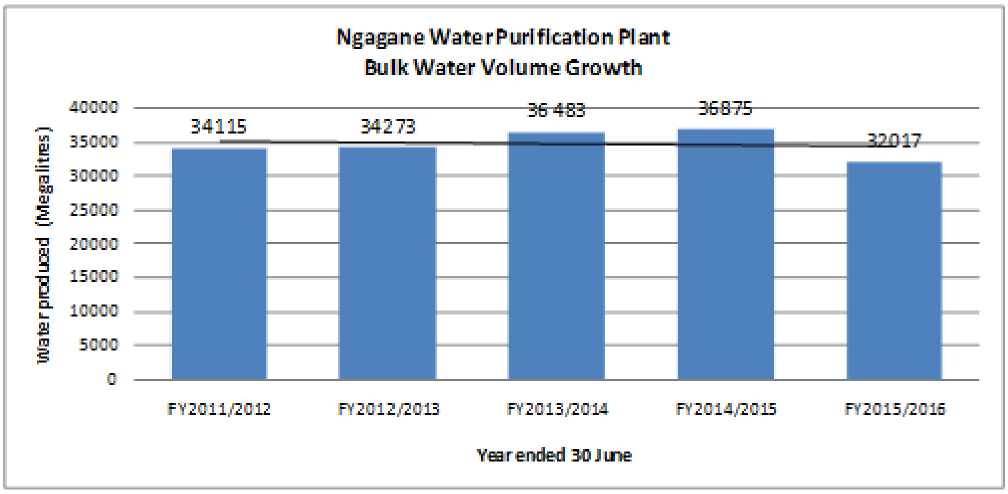
WATER RESTRICTIONS 24 MARCH 2016

Water restrictions were gazetted on 24 March 2016 for the Buffalo River system downstream of Zaaihoek Dam, the Ntshingwayo Dam and the Ngagane river system.

a. 30% restrictions on Domestic supply and
b. 100% restriction on Irrigated water use

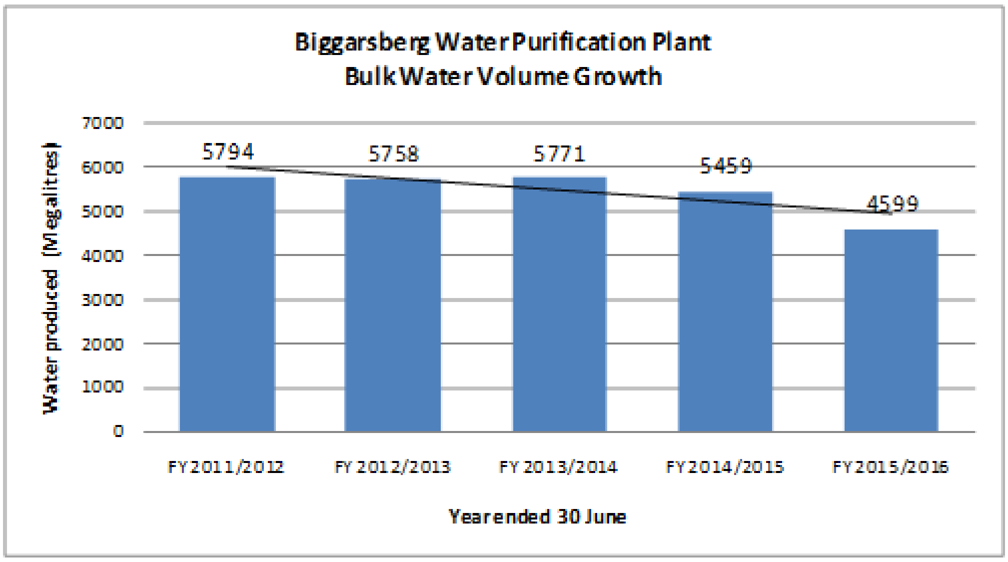
The water restricted volumes during the month of May was still far from the gazetted 30% restricted volumes for domestic use, only a 20% restriction was reached thus far. The Joint WSA/WSP Technical Committee has since the beginning of October 2015, introduced a 10% reduction in all water supply volumes. To achieve the full effect of the 30% reduction gazetted, the volumes had to be reduced further. The Department of Water Affairs and Sanitation acknowledged the efforts done, and in recognition thereof, agreed to allow for the full implementation of the 30% reduction to be introduced with effect from the 1st of June 2016.

Graph 5. Ngagane Water Purification Plant Supply Volumes



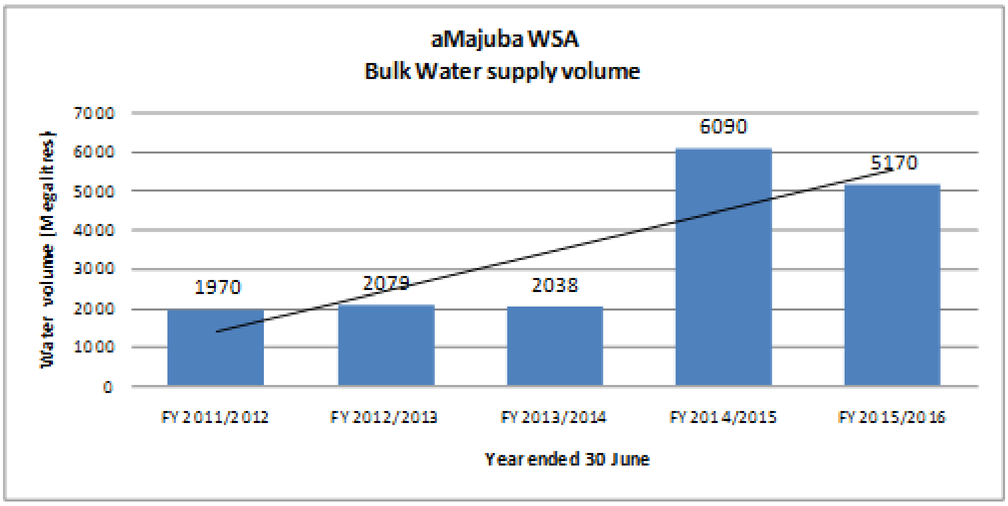
Ngagane Water Purification Plant has a design capacity of 130 Ml/day.
An average of 87.7 Ml/day of potable water was supplied this financial year.

Graph 6. Biggarsberg Water Purification Plant Supply Volumes



Biggarsberg Water Purification Plant has a design capacity of 19.3 Ml/day and produced an average of 12.6 Ml/day this financial year

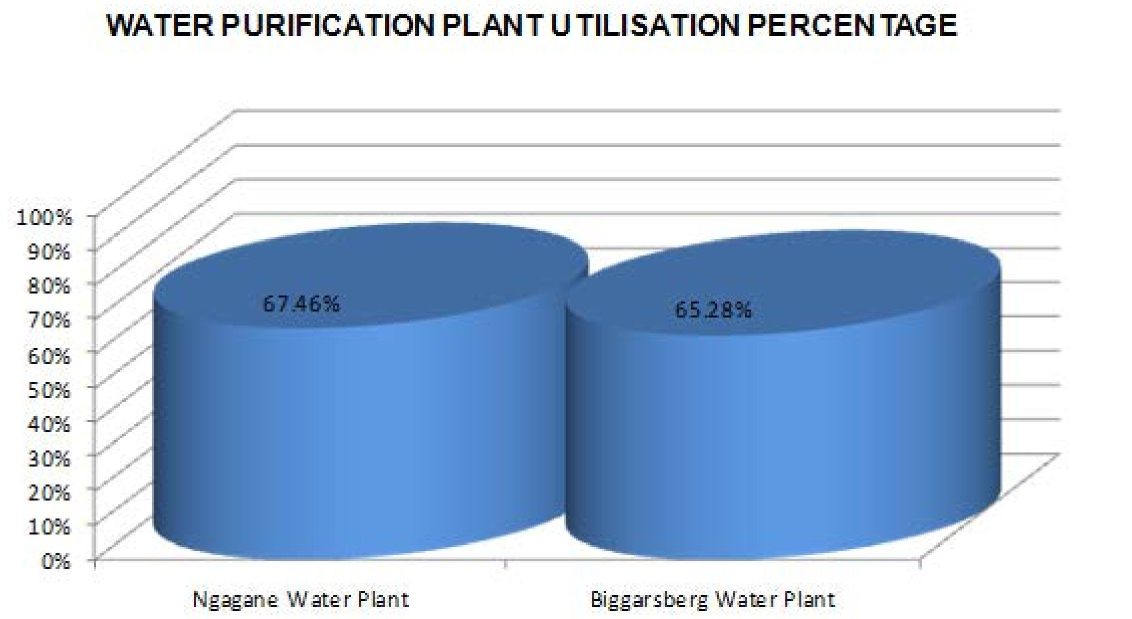
Graph 7. Amajuba Water Service Authority Supply Volumes



Amajuba Water Services Authority received an average of 14 Ml/day from the Ntshingwayo supply system.

Water demand projections are updated based on historical water sales trends and new developments and growth areas as per the Water Services Authorities plans. uThukela Water assess the water plants capacities, and highlight the plant capacity constrains and the infrastructure supply constraints that needs to be responded to for future growth.

Graph 8. Water Purification Plants percentage utilisation of their design capacity



WATER LOSS MANAGEMENT AND METERING

Flow meter readings are being recorded at abstraction points, purification plants inflow and outflow volumes, within the bulk distribution system and up to the point of sale. These readings provide valuable information for monitoring of abstraction volumes, supply volumes and for water balancing purposes and the determining of the water loss between the various points.

The water loss at Ngagane Water Purification Plant from raw water resource inlet to the plant to sales point is 3 218 137 Kℓ/annum, equating to a loss of 8.29%. Calculated at the bulk tariff rate of R 2.54 /Kℓ it amounts to an annual water loss of R 8 174 067 per annum.

The biggest water loss percentage is being experienced on the two raw water gravity feed pipe lines from Ntshingwayo Dam to the Ngagane Water Plant inlet works, a loss of 15.02% is recorded for the year.
The water loss at Biggarsberg Water Purification Plant from the raw water resource plant inlet to the sales point is 150 943 Kℓ/annum, equating to a loss of 6.42%. At the bulk tariff it amounts to an annual water loss of R 383 396 per annum.

Ntshingwayo Dam to Ngagane Water Plant – Raw Water Pipeline Route

WATER RESOURCES ADEQUACY

As bulk water supplier, water is the most significant material for the bulk business. The entity is highly dependent on the availability of sustainable water resources. The balance between water resource availability and water demand is of primary importance and therefore plans and strategies needs to be in place to improve supply security and assurance.

uThukela Water sources water from two raw water supply systems for its two Bulk Water Plants. The Newcastle (Ngagane Water Purification Plant) receives resource water from the Ntshingwayo Dam via two gravity pipe lines. The Ngagane River is the 2nd resource, via the Ngagane River pump station and the 3rd resource is the Buffalo River, Schurwepoort weir, higher up to Volksrust area. The Buffalo River supply is seasonal dependant. An average daily supply volume of 78 Ml/day are received from Ntshingwayo Dam. The Buffalo River's average supply volume is 18 Ml/day and the Ngagane River pump station supplies on average 20 Ml/ day with one pump operational and 35 Ml/day with two pumps operational.

Figure 1: Ntshingwayo Dam Level

Biggarsberg Water Plant's main resource is the Buffalo River (Tayside weir and pump station), and the six local dams supplement the Buffalo River supply volumes. These dams are the Upper and Lower Mpathi Dam, Tom Worthington and Verdruk Dams, Donald McHardy Dam and Preston Pan.

Due to the low Endumeni dam levels, no raw water could be abstracted from these dams during the fourth quarter. The plant was solely dependent on the Buffalo River as resource, Tayside pump station had to supply raw water to the plant on a continuous basis. The emergency refurbishment of the Tayside pump station and to maximise the resource supply volume through the existing raw water pumping pipeline, was a high priority. An average of 13 Meg/day was supplied from Tayside pump station to the plant during the past year.

Drought relieve funding was made available for Tayside's electrical and mechanical refurbishment project as well as for the rising main pigging operation.

NTSHINGWAYO DAM

Ntshingwayo Dam level was 66% in August 2015, the dam level dropped to 50% at the end of June 2016. Daily monitoring and reporting of the Ngagane and Tayside weir levels are communicated to DWS. Water release volumes from Ntshingwayo Dam is controlled and adjusted by DWS to ensure the Buffalo River flow is maintained. This is to ensure sufficient resource volumes can be abstracted at Tayside and Vant's Drift Water Plant for human consumption.

NTSHINGWAYO DAM

NGAGANE RIVER

BUFFALO RIVER - SKURWEPOORT

VERDRUK DAM

LOWER MPATHI DAM

DONALD MCHARDY DAM

PRESTON PAN

TOM WORTHINGTON DAM

The existing Buffalo River Raw Water Abstraction Scheme was designed and constructed between 1982 and 1985. This existing abstraction works and associated clarification, low lift and high lift pumping stations and raw water rising mains have been in continuous operation since commissioning in 1985 and form a key component of the potable water supply to the bulk of the Endumeni Municipal area. Depending on the time of year and climatic conditions this system accounts for between 85% and 100% of the raw water supplied to the Biggarsberg Water Purification Plant.

TAYSIDE PUMP STATION- BUFFALO WEIR

RAW WATER QUALITY

For the past few years the status of the resource water quality has been unsatisfactory. Water quality problems that are associated with the resources include high turbidity, faecal contamination due to the presence of waste water treatment works non compliant effluent entering the resources. And chemical contamination of mine water from the old mines and particularly elevated concentrations of iron. The water quality variables that cause the highest risks for human consumption are illustrated in the graphs below. Aquatic weed and algal blooms linked to eutrophication are also risks associated with some of the resources.

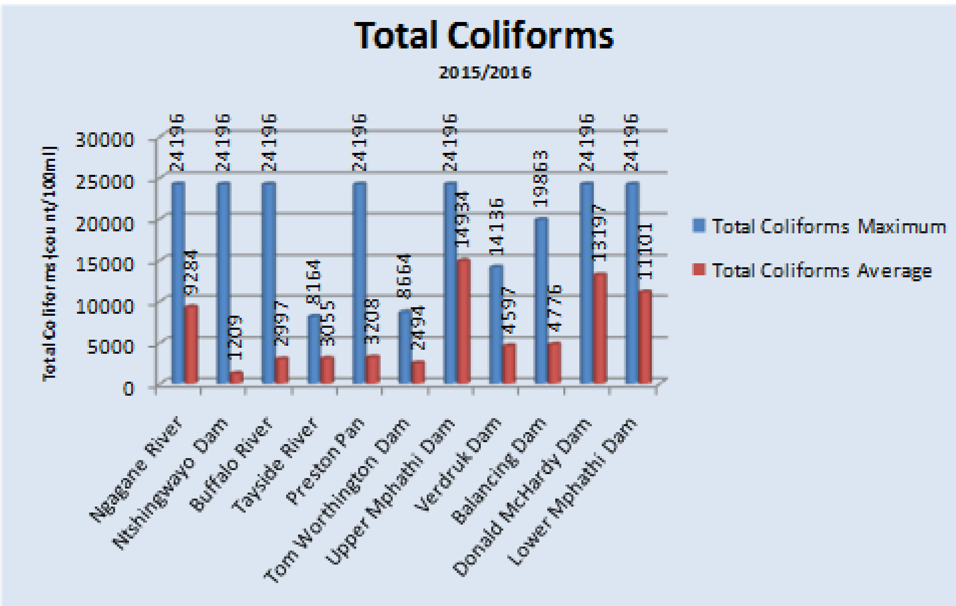
The photos below show the quality of the Buffalo River raw water at the Tayside weir pump station and the water level at the weir abstraction point on the 3rd of January 2016.

TAYSIDE RAW WATER ALGAE

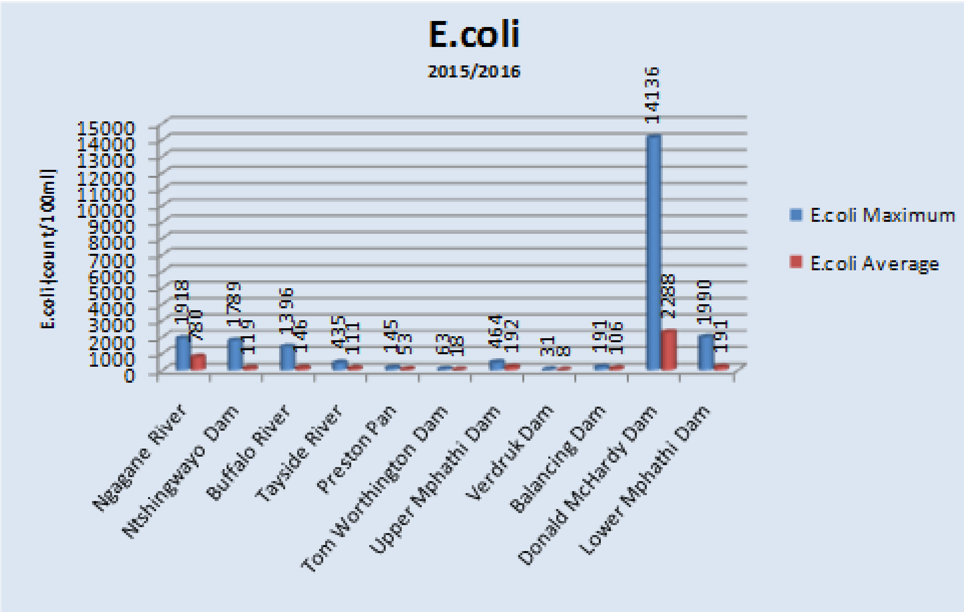
NO WATER AT THE WEIR

The cause of the problem is geosmin, an organic compound with a distinct earthy flavour and aroma which is responsible for the earthy taste and a strong scent. Although the potable water has this indifferent taste and smell, the water was safe and fit for human consumption.

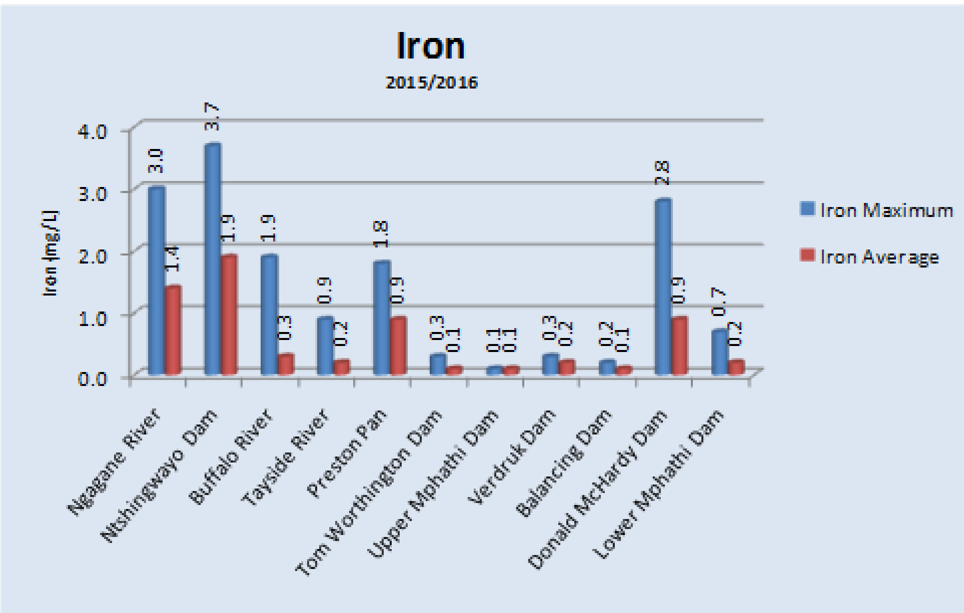
Total Coliforms in Resource water



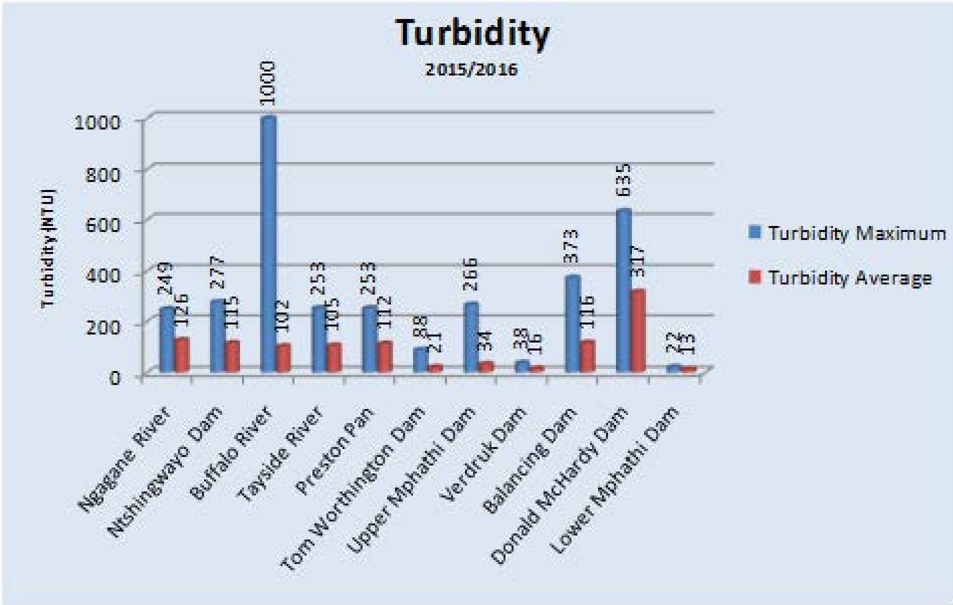
E.coli Counts in Resource water



Iron Levels in Resource water



Turbidity Levels in Resource water



ASSET MANAGEMENT

Sustainable bulk water services provision by Uthukela Water is largely asset dependent. Properly designed, managed and maintained infrastructure will support good social and economic stability. The repairing or replacing of assets is costly therefore effective maintenance of assets involves making provision for on-going cost on a planned basis and trends to limit asset failure. The implementation of effective maintenance management strategies ensures that infrastructure and asset stability is maintained.

Asset Maintenance Planning is aimed at ensuring that assets remain productive at the lowest possible long-term cost and involves:

- A detailed functional analysis of maintenance needs that meet the required service delivery outcomes
- The development of maintenance strategies
- The institution of procedures to ensure adequate control of the implementation of a maintenance plan

During the past year new asset installations, refurbishments and upgrades have resulted in and contributed to an increase in performance, reduced costs and life span extension of asset components.

Ngagane Water Purification Plant

Modifications on the filter beds. The installation of electrically operated actuators to the filter valves to optimise operational functionality of the filters.

Replacement of the hand rails at the filters to ensure that safety regulations are adhered to.

Installation of a new Split Casing Pump at the Ngagane Plant main pump station.

New installation of the D-Pumps and reconditioned B-pump.

Cleaning of Plant 2 sedimentation tank.

Biggarsberg Water Purification Plant

Mobile camera survey of the Tayside pipeline to establish the integrity and condition of the raw water pipeline

Reconditioned Tayside High Lift Electrical Motor on the Test Bay.
Key assets were reconditioned to ensure that their design performance and functionality is restored.

The upgrading and refurbishment of the Glencoe pump station, it will ensure that a consistent supply of potable water is pumped to the Glencoe reservoirs.

Replacement of a pipeline section on the Tayside pipeline.

Clarifier bridge repair

Upgrade and refurbishment of the chlorine dosing room and system.

De-sludge of the sludge dam below the sludge drying beds.

Civil repairs and painting of the filter clear water plant section.

BULK INFRASTRUCTURE PROJECTS

BUFFALO RIVER WATER ABSTRACTION SCHEME: TAYSIDE ELECTRICAL AND MECHANICAL REFURBISHMENT

The contract comprises the supply of labour, materials, plant, equipment, transport and management for the completion of the Works at a cost of R 3,123,398.46.

The scope and extent of the Works comprised the following:-

- The installation of the existing ABS submersible pump including mechanical and electrical works.
- Condition assessment of existing low lift rising main.
- Removal of electrical and mechanical interlocks in existing low-lift pumping station MCC.
- New 11kV ring main unit.
- Replacement of 300mm diameter non-return and isolation valves in high-lift pumping station.
- Installation of new 450mm diameter in-line isolation valve outside high-lift rising main.
- Installation of high-level shut down for low-lift pumps.
- Installation of new 2MVA Transformer from 11kV to 6.6kV

A CCTV inspection of the low lift rising main was conducted by Camjet during one of the main shutdown periods. This inspection found no major defects in this portion of the pipeline.

Tayside high lift pump station

CLEANING OF TAYSIDE HIGH LIFT RISING MAIN

The scope of the works included the fabrication of purpose made pipe work to facilitate the cleaning of the raw water rising main from Tayside abstraction works, to the Biggarsberg Water Plant. The rising main had been designed to accommodate a pig launcher, however, some modifications and additions were required to allow the use of oversize pigs.

The works consisted of the following:

Replacing the existing 450mm wedge gate valve in the pig launcher chamber with a refurbished 450mm wedge gate valve (valve was free issue).

- Fabricating and installing a new PN40 pig launcher and associated pipework.
- Trenching and other minor excavations.
- Construction of concrete thrust blocks.
- Alterations to existing concrete chambers, including breaking out and repairs.
- Replace the existing bend into the Water Plant with a newly fabricated tee, including excavation and cutting into the existing rising main.
- Collect from Tayside and deliver to Biggarsberg Water Plant, including loading and off-loading, 100m of 450mm DI pipes.
- Excavate, lay and backfill 100m of DI pipeline to the balancing dam.
- Fabricate and install new bypass pipework, including alterations to existing.

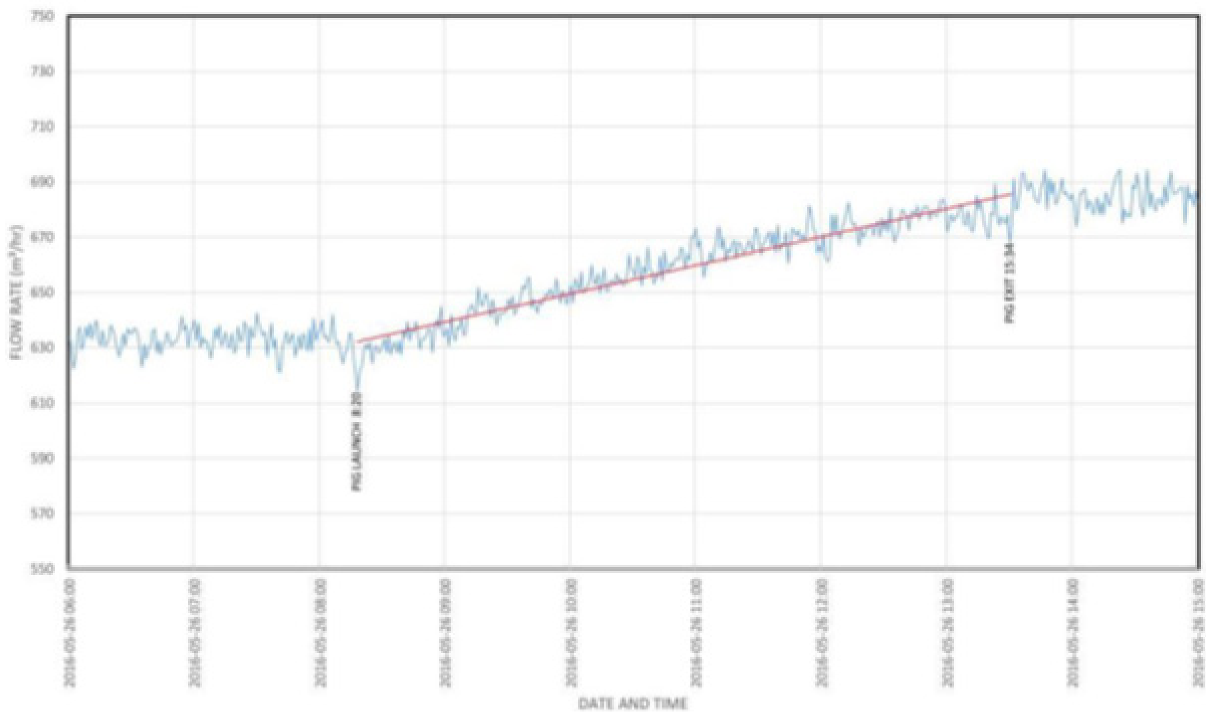
The rising main at the Biggarsberg Water Plant required alteration to facilitate the diversion of the pigs into the balancing dam to avoid them getting stuck in the valve chambers at the Water Plant. New bypass pipework was required at the Water Plant booster pump station to allow reverse pumping down the rising main to facilitate the release of a pig if it became stuck en-route.

The exit of the 435mm Ø Medium Duty Foam Swab. To be noted is the presence of 3 large rocks all in excess of 250mm in diameter and an approximately 500mm long by ±100mm diameter log.

The existence of such large and cumbersome objects in the pipeline was totally unexpected and had their presence in the pipeline been suspected prior to the pigging operation, it would in all likelihood not have been undertaken. This, however, proves the effectiveness of pigging and the incredible ability of these foam swabs to clear foreign debris from pipelines.

Pigs and recovered Debris after the cleaning operation

The above picture shows the seven pigs used in the cleaning operations along with as many of the foreign objects expelled from the pipeline which could be retrieved from the raw water balancing dam at the purification plant as possible. The sheer number of rocks as well as the length of tree branch (which measured 2.3m in length) expelled from the pipeline was astonishing and came as a complete surprise to both the Client and the Professional Team.



Flow rate versus Pig Run number 3

The flow rate in the pipeline has increased from 560 m^3/hr to 712 m^3/hr. This is an increase of more than 25%. An increased supply volume of 3 Ml/ per day is pumped to Biggarsberg Plant, as a result of this cleaning process.

The exit of the last pig resulted in removing debri on the inside of the pipeline

Based purely on the increased volume of water being discharged into the raw water balancing dam at the Biggarsberg Water Plant, this project can be considered a success. However, taking into account the associated electrical cost savings and electrical demand reduction this project is a resounding success.

GREYTOWN DROUGHT INTERVENTION MEASURIES

The main source of raw water for Greytown is Lake Merthley. Due to the Persistent drought, the water level in the dam dropped to such an extent that it was no longer possible to sustainably abstract water from it. Alternative sources had to be explored. The normal water demand in Greytown is 5.5Ml/d. Boreholes existed that augmented supply from Lake Merthley but produced a maximum of only 550Kl/d. To cater for the deficit resulting from the shut off of Lake Merthley, additional boreholes had to be drilled.

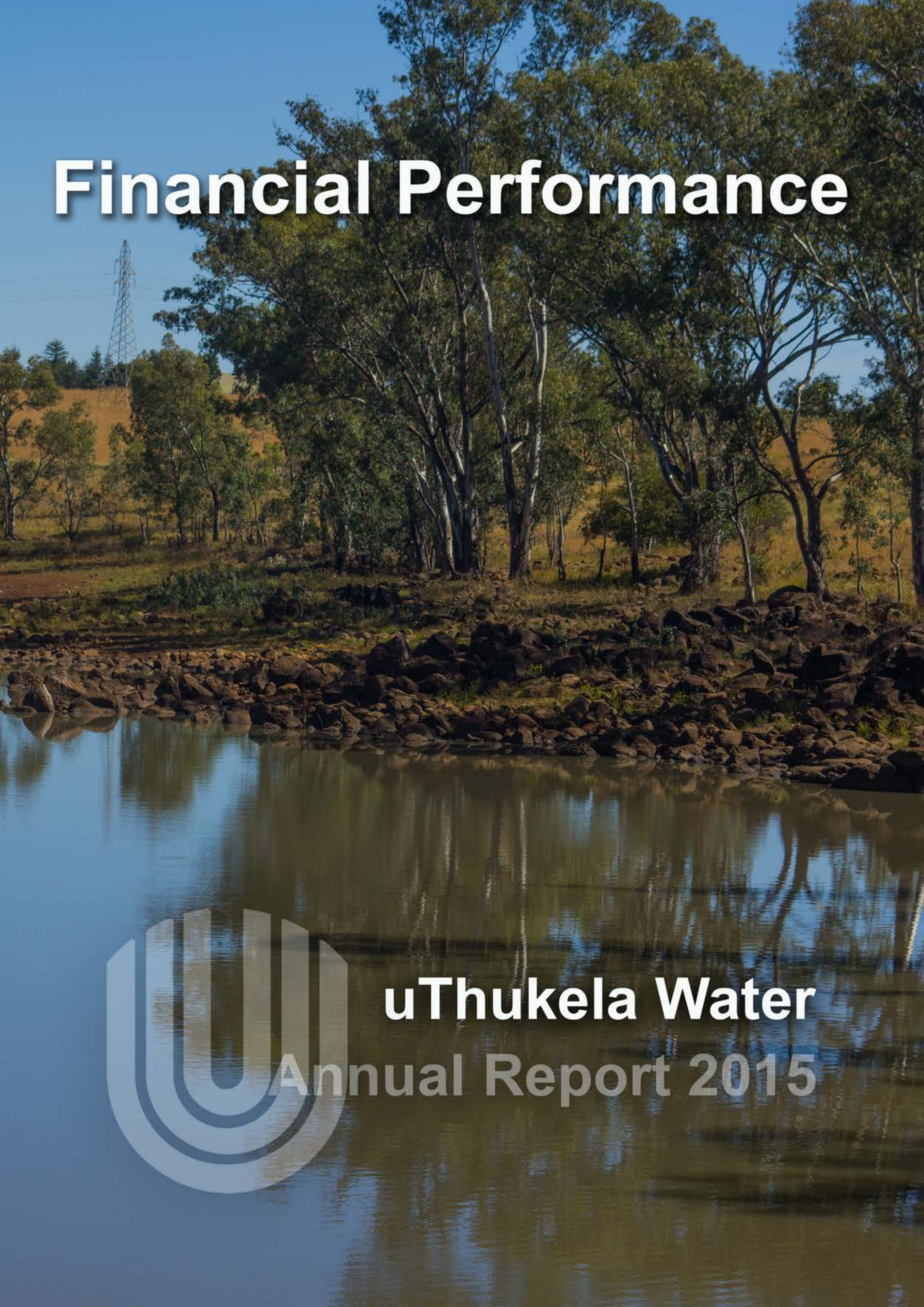
uMzinyathi District Municipality requested uThukela Water to assist with the implementation of the drought intervention plan in Greytown. The scope of work included the following:

- Drilling and equipping of 18 boreholes
- Upgrading of transfer pump station.
- Construction of a new 100Kl steel reservoir.
- Laying of approximately 4 km of pipeline

The project was allocated R 9mill from drought relief funds allocated by treasury

Steel 100 Kl steel tank and pipeline laying

Financial Performance



uThukela Water
Annual Report 2015

Five Year Financial Review

	2016	2015	2014	2013	2012
	R	R	R	R	R
Capital Expenditure	**9,245,732**	**6,903,974**	**6 725 140**	**42,515,780**	**78,686,486**
Total capital transfers recognised	4,137,324	1,677,922	1,432,164	22,267,994	31,288,609
Borrowing					24,394,350
Accumulated Funds	5,108,408	5,226,052	5,292,976	20,247,786	23,003,527
Total sources of capital funds	**9,245,732**	**6,903,974**	**6,725,140**	**42,515,780**	**78,686,486**
Financial Position					
Total current assets	51,188,565	120,265,814	194,571,821	252,134,427	239,885,728
Total non current assets	1,166,688,047	1,262,199,707	405,193,721	2,378,206,981	2,258,245,203
Total current liabilities	188,345,015	158,803,330	135,360,384	164,943,733	161,689,518
Total non current liabilities	10,939,758	8,771,295	8,205,908	62,644,639	80,457,578
Accumulated funds and share capital	1,018,591,838	1,214,890,896	456,199,250	2,402,752,936	2,255,983,835
Cash Flows					
Net cash from (used) operations	7,885,942	7,154,477	13,255,591	31,473,113	58,150,130
Net cash from (used) investing	9,245,732	-6,903,974	(6,725,140)	(32,836,676)	-36,671,680
Net cash from (used) financing				(4,796,866)	-13,904,825
Cash and cash equivalents at year end	-1,359,790	250,503	6,530,451	(6,160,429)	7,573,625

Five Year Financial Indicators/Ratios

	2016	2015	2014	2013	2012
Financial Indicators/Ratios					
Water and sanitation services bulk water sales	87,459,570	81,448,307	123,755	22,110,494	57,548,859
Partners short fall contributions	0	-	74,248,354	236,294,757	232,426,730
Total Revenue from capital grants	5,108,408	3,626,159	1,432,164	26,648,703	61,024,446
Average bulk water cost per Kl produced	2.54	2.49	2.46	2.46	2.35
Operating indicators/Ratios					
Total expenditure over revenue excl depreciation offset	1	1	1	1	1
Net financing costs over revenue					
Personnel Costs					
Personnel (Rc/Kl)					
Personnel ratio to total expenditure	28%	27%	27%	27%	22%
Number of permanent employees at year end	72	71	75	596	594
Ratios					
Current ratio (current assets/current liabilities)	1.42	1.32	1.43	1.53	1,50
Debt equity ratio (int bearing debt/cap & reserves)	0	-	1	1	1
Debtors collection period in days (Net debtors/rev * 365)	30	478.70	523.16	488.15	166, 08
Debt to asset ratio (Int bearing debt/total assets)	0	-	0	0.02	0.02

Value Added Statement

	2016	2015	2014	2013	2012
	R	R	R	R	R
Gross revenue	93,456,379	85,074,466	78,376,654	247,922,067	282,478,366
Paid to suppliers for materials and services	41,001,263	55,908,397	61,399,911	125,224,210	117,777,932
Value added	52,455,116	29,166,069	16,976,743	122,697,857	164,700,434
Income from investments	416,644	368,166	440,897	608,637	2,235,907
Total wealth created	**52,871,760**	**29,534,235**	**17,417,640**	**123,306,494**	**166,936,341**
Salaries and benefits	32,870,445	26,251,535	26,130,599	87,382,856	98,205,451
Providers of debt capital	0	-	5,292,976	42,515,855	47,397,877
Depreciation	1,069,037	2,964,837	942,548	9,456,728	10,988,765
Profit for the year	3,333,919	3,575,036	6,955,277	2,396,495	10,344,248
Total wealth distributed	**37,273,401**	**32,791,408**	**39,321,400**	**141,751,934**	**166,936,341**

Financial Overviews in Graphic Form

INTRODUCTION

The review is an analysis of key areas of financial performance, operational results and financial position of the Company and must be read in conjunction with the annual financial statements presented with this report.

HIGHLIGHTS OF FINANCIAL PERFORMANCE

The alignment of the entities operational budget to that of the shareholder municipalities and moving towards a volume based bulk tariff driven business moved closer to reality during the year.

Although the principle of a single Bulk water tariff was approved and applied during the year for Bulk water service cost recovery purposes, the Newcastle municipality did not comply with this volume based tariff, as its budget was not aligned to this cost recovery model, and was accordingly cut to accommodate the affordability factor as opposed to the actual costs of providing these water services. The result of this budget cuts is that no provision was made to pay for the purchase of raw water from the Department of Water Affairs. The Board has correctly accrued these costs in its books of account and is together with the WSA's responsible for the payment of the raw water these charges.

The Amajuba and Umzinyathi District municipalities are paying for their water purchased based on the bulk water tariff.

The cost of raw water purchases levied by the Department is in terms of their National Water Pricing Policy, and is an integral cost component of bulk water production.

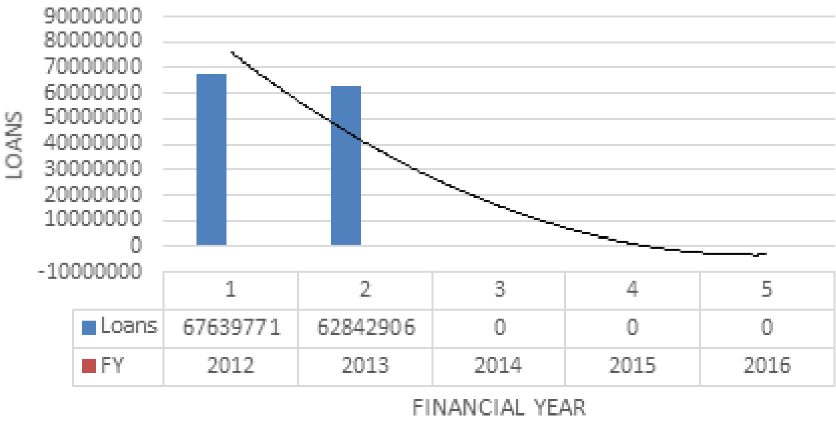
The bulk water tariff of R 2, 54 cents per kilolitre, measures very favourably against the National norm of about R 5, 50 cents per kilolitre. The Shareholders have unfortunately not accepted the inclusion of a capital element within the bulk tariff structure. The Board has consequently got no capital accumulations to perform necessary and planned refurbishment and upgrades to its old and ailing water infrastructure. This anomaly has been identified and documented in the Boards Risk Management Plan. The municipalities also do not pay depreciation charges to the entity to perform capital replacements.

A capital budget of R 388 million was submitted to the WSA's for approval, no capital budget was however approved by the shareholders.

It must be noted that currently, the water service infrastructures are not being maintained and upgraded in terms of best practices due to the lack of available resources to do so, and the dependence on WSA's passing on funding to the entity for this purpose.

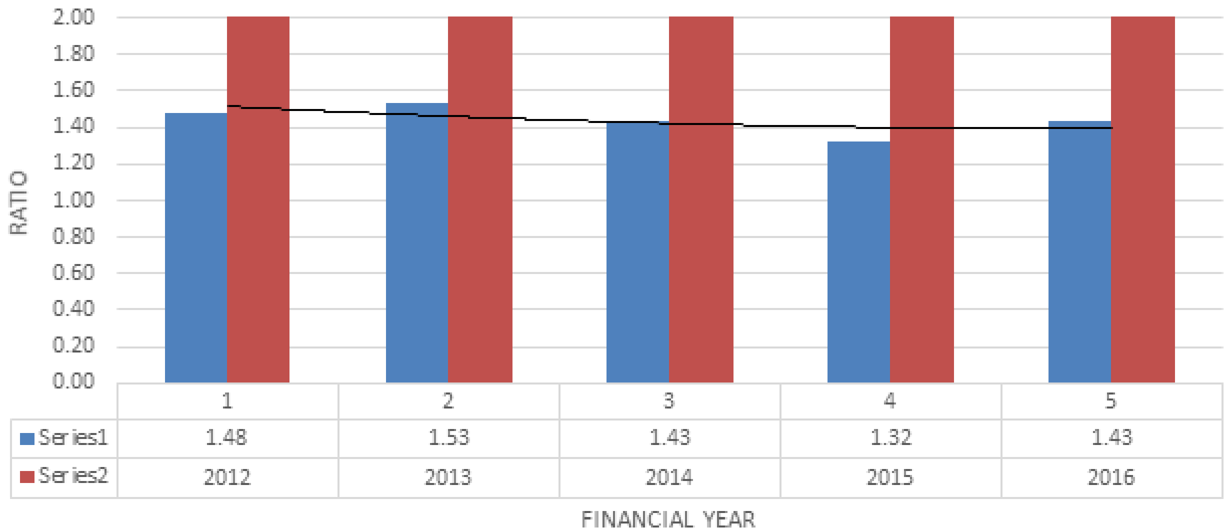
The following financial ratios and indicators are provided in order to give readers a constructive overview of Bulk water service as performed with available funding during the year under review.

REDUCTION OF THE NET DEBT



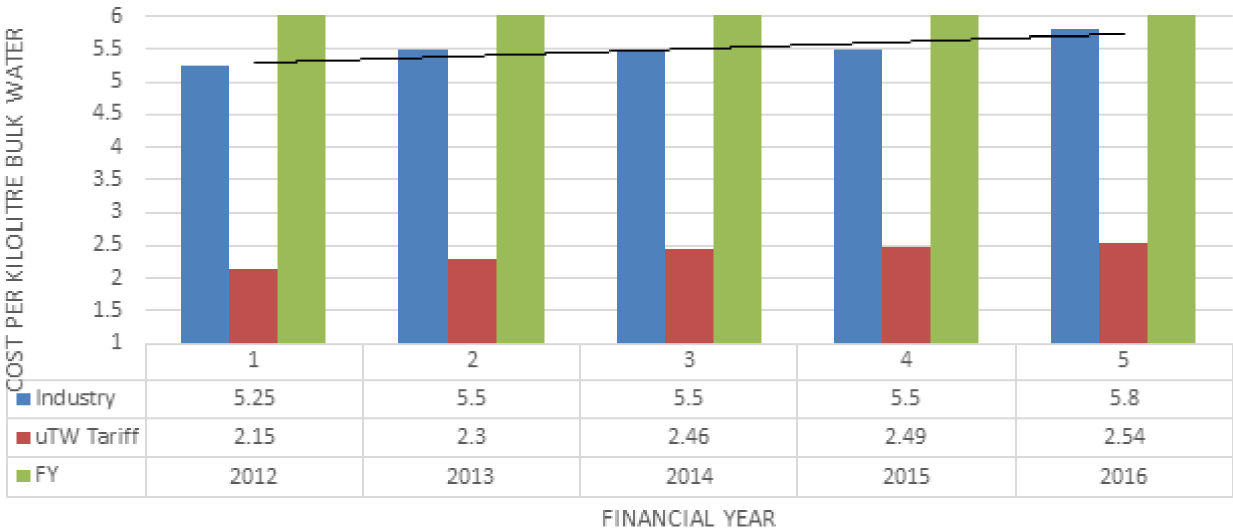
The Entity has since July 2013 had no external debt liability.

CURRENT ASSET RATIO



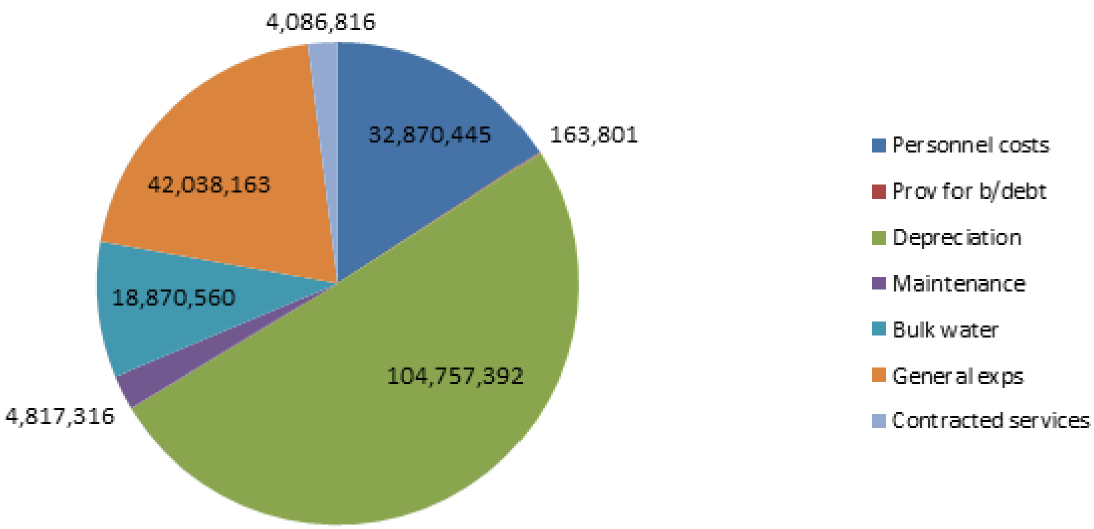
The Entity maintains a good positive current asset ratio and pays its creditors within a 30 day cycle. The R 150 million rand Water Affairs raw water charge liability is linked to the pre-2012 shareholder debtor outstanding of R 87 million and current unpaid raw water charges accrued.

CONTRIBUTION TO AN AFFORDABLE TARIFF



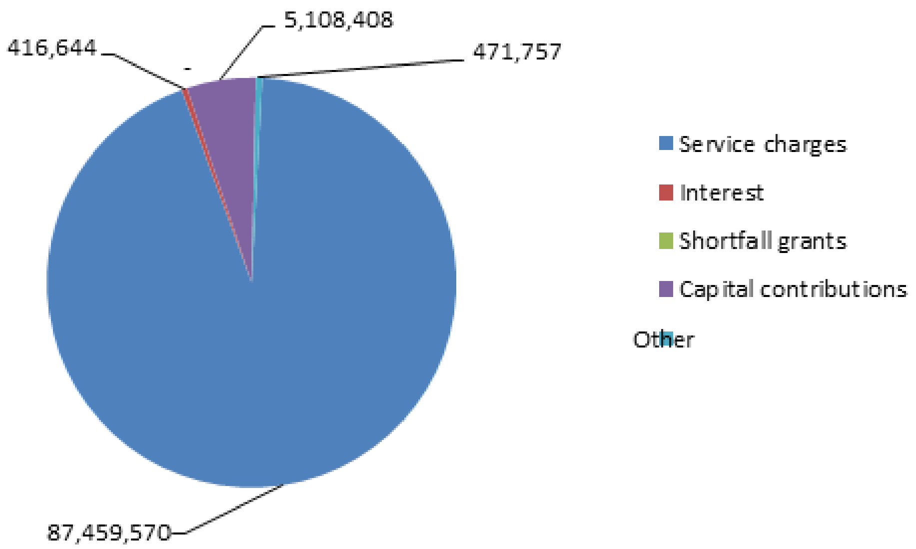
The Entity bulk water tariff measures very favourably against the industry norm, it must however be noted that the shareholders have not approved a capital element within the tariff structure, nor do y pay the full annual depreciation charges on assets.

EXPENDITURE PIE CHART



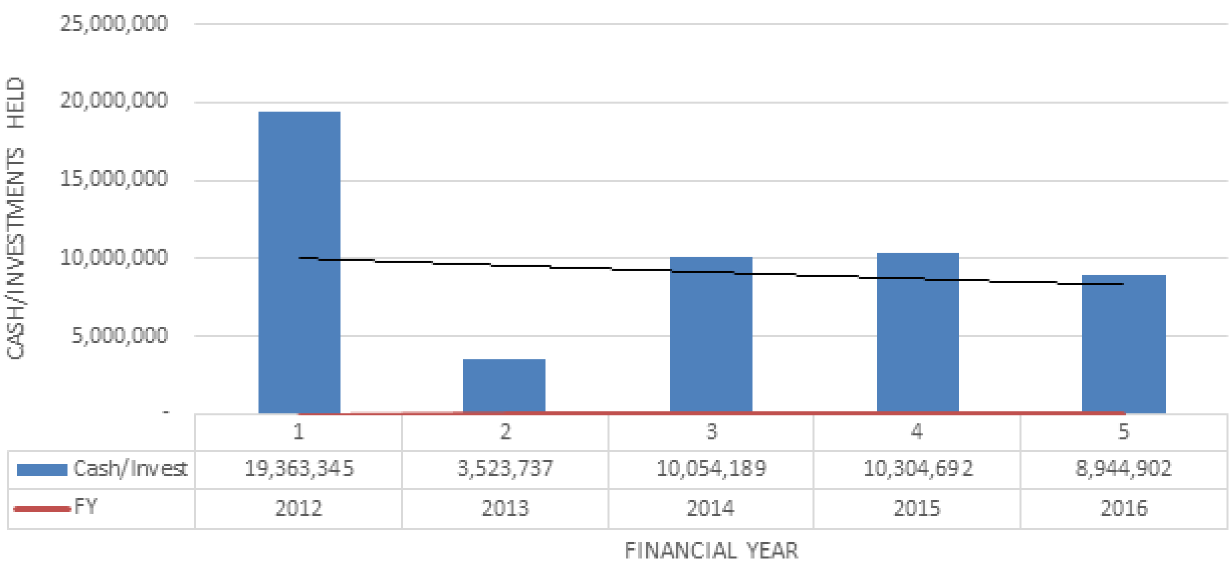
The expenditure ratios reflect the application of expenditures in the production of bulk water.

INCOME PIE CHART



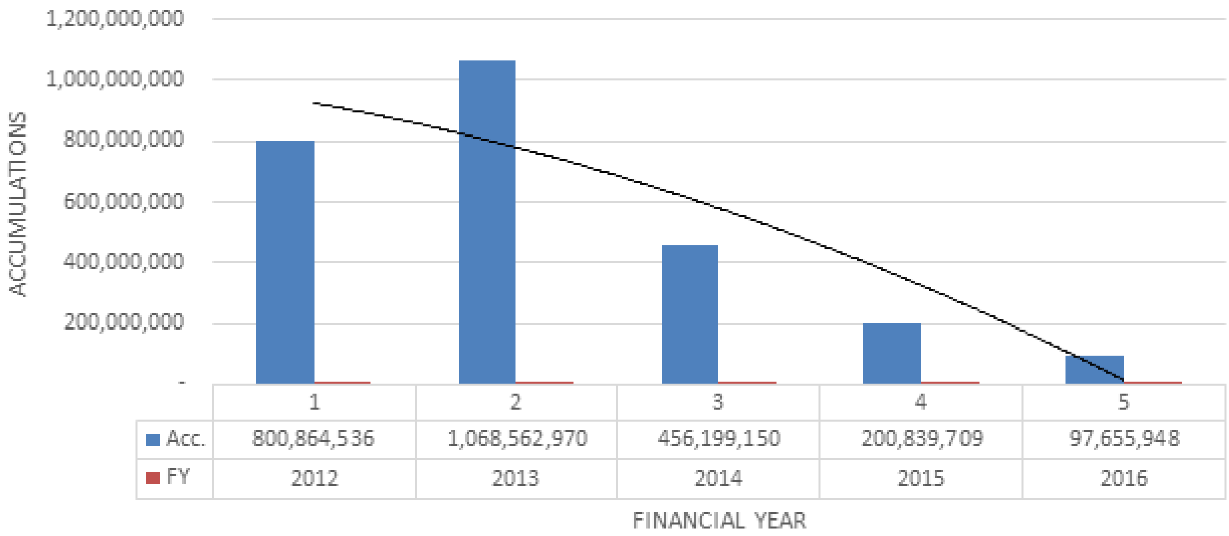
The income analyses depict the funding sources in the production of bulk water.

CASH AND CASH EQUIVALENTS



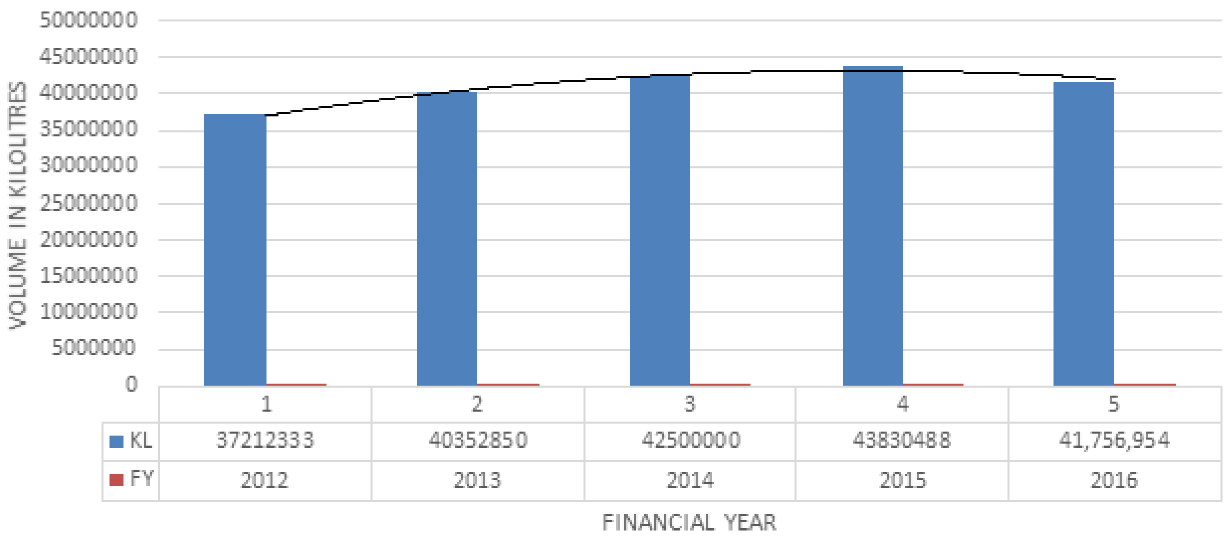
The Entity's cash reserves are very limited and reflect the dependence on regular payments of bulk water accounts by its shareholder customers.

ACCUMULATED FUNDS



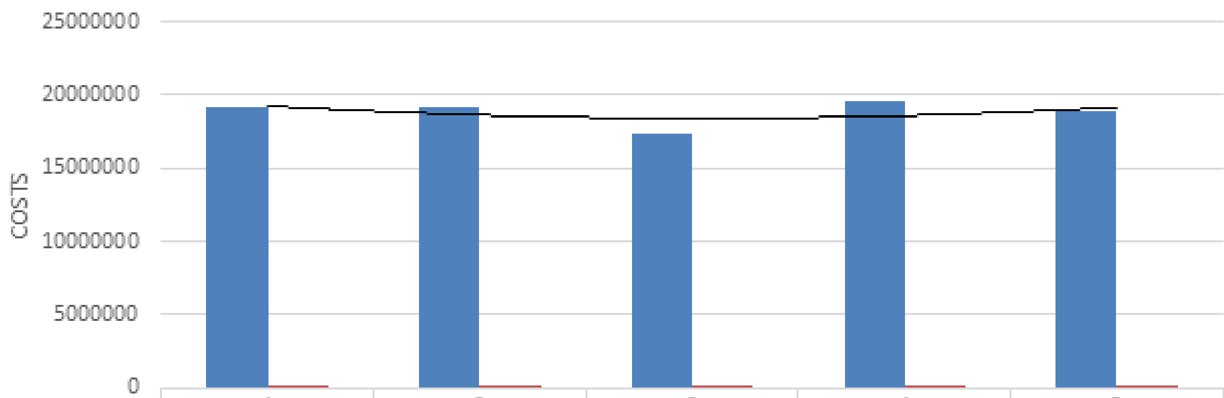
The accumulations are limited and decreased substantially due to the increase in provision to write off old pre-2012 shareholder contributions against the proceeds of possible water Affairs write offs.

BULK WATER VOLUME GROWTH



Bulk water volumes have decreased in the 2016 financial year due to the drought restrictions and austerity measures introduced.

BULK RAW WATER COSTS

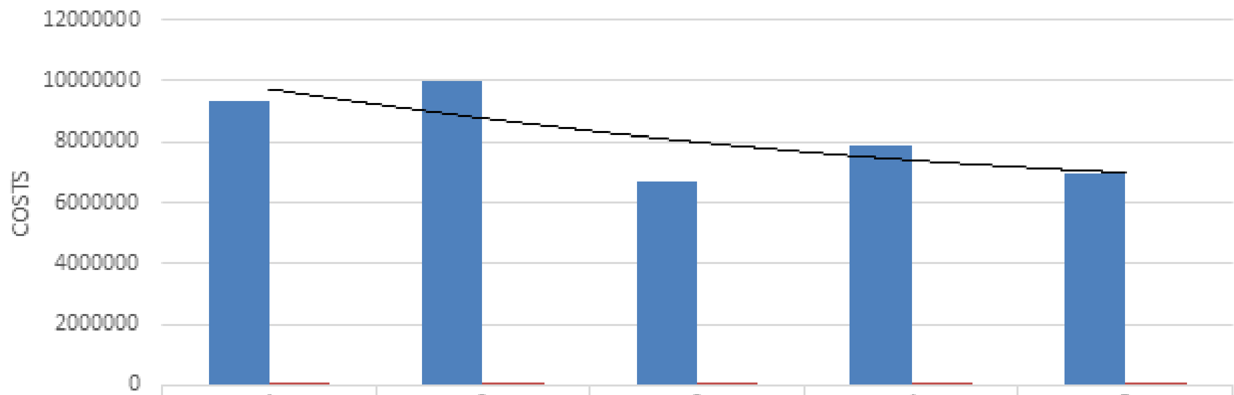


	1	2	3	4	5
Costs	19183964	19158905	17327027	19560791	18,870,560
FY	2012	2013	2014	2015	2016

FINANCIAL YEAR

The cost of raw water purchases has decreased due to the drought conditions and austerity measures introduced.

CHEMICAL COSTS

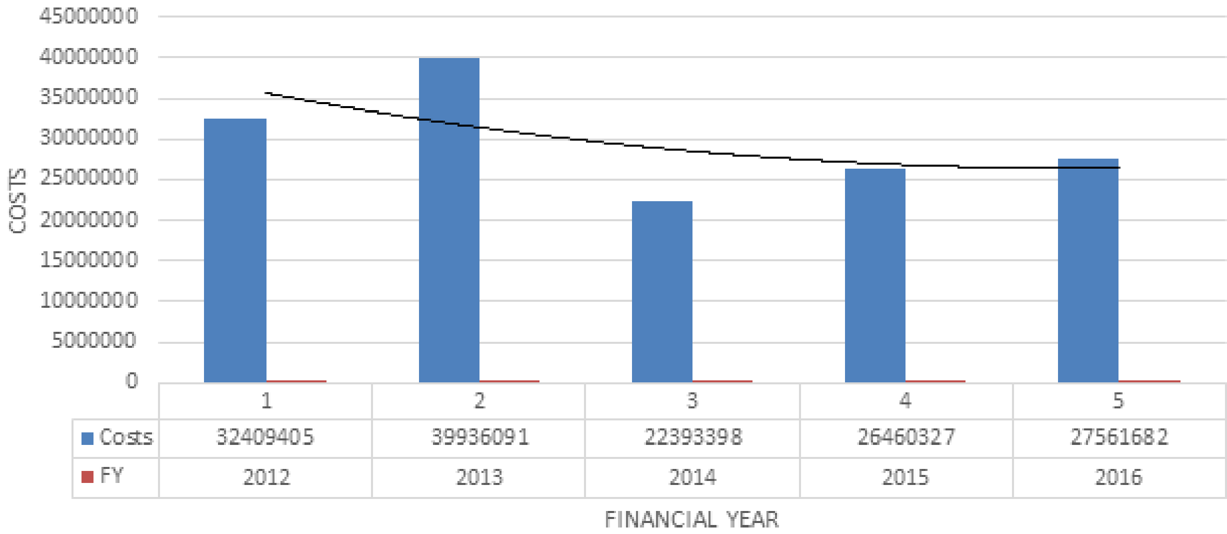


	1	2	3	4	5
Costs	9325696	10011985	6675871	7904436	6953288
FY	2012	2013	2014	2015	2016

FINANCIAL YEAR

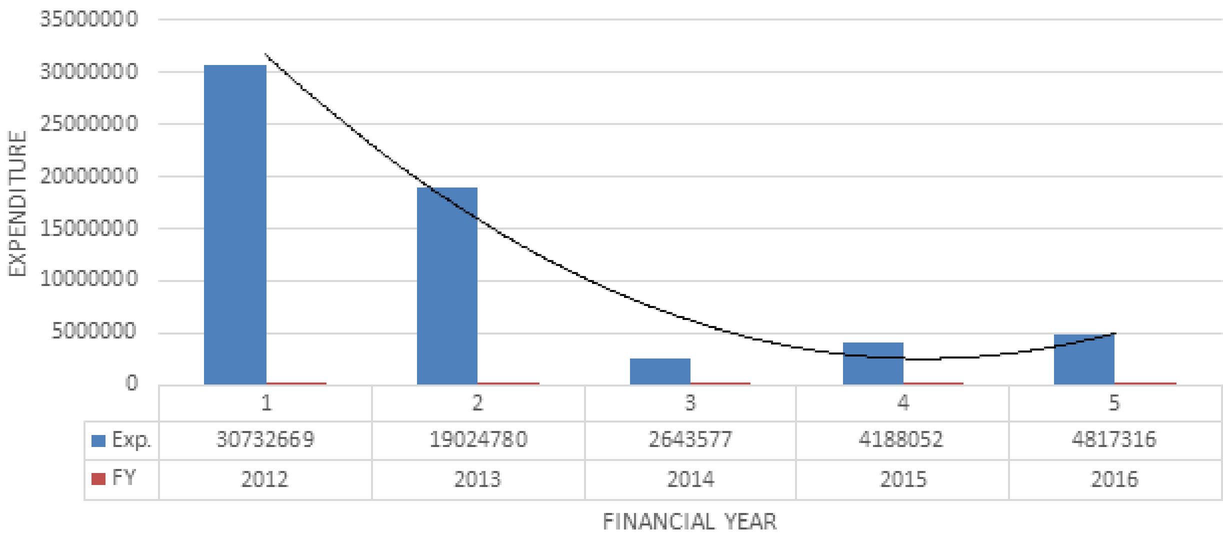
The costs of chemicals have decreased due to the drought conditions and the consequent reduction of water volumes treated.

ELECTRICITY COSTS



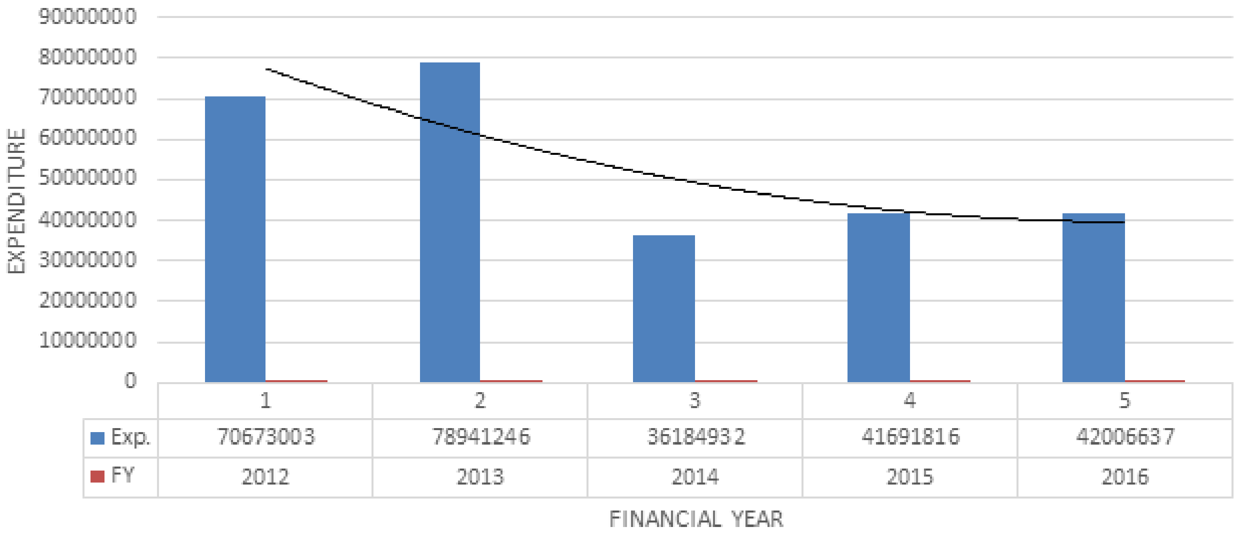
Costs of electricity have increased but also have been affected by the reduced volumes of treated water produced.

REPAIRS AND MAINTENANCE



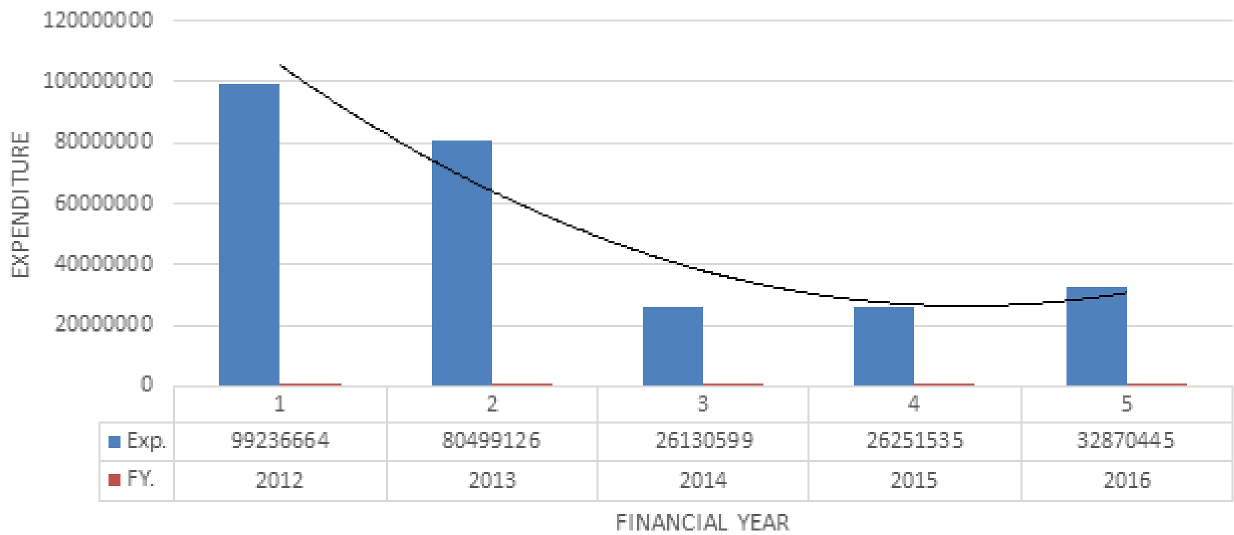
Repairs and maintenance costs are still well below the accepted norm of 5% of asset value, these costs are however under the circumstances being adjusted to meet at least a target 0f 8% of current expenditure.

GENERAL EXPENSES



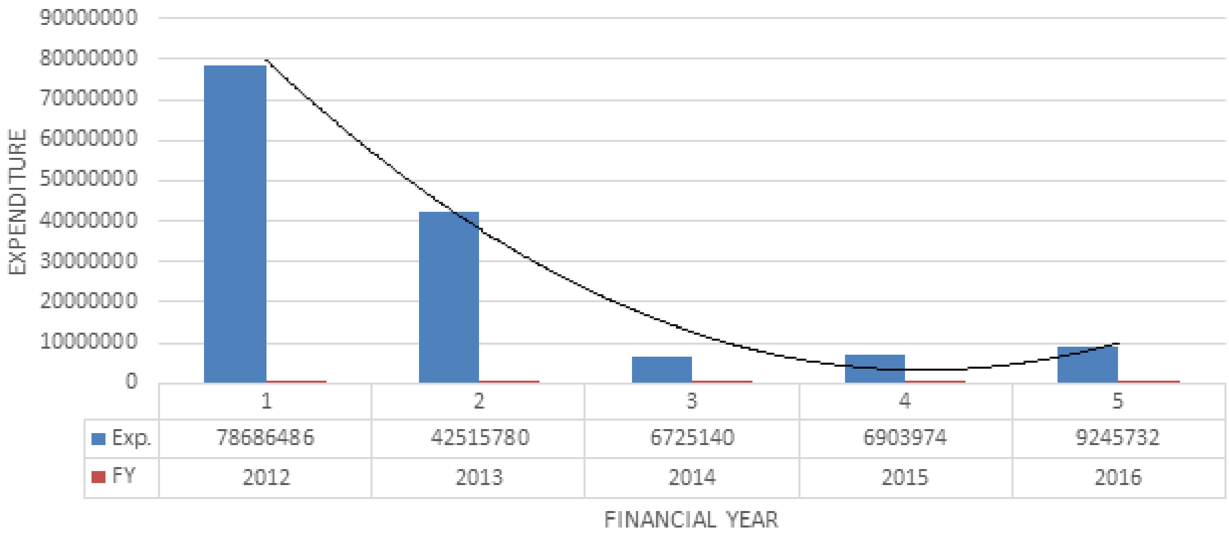
General expenditures of the Board which include electricity, chemical, and other general costs to support the production of bulk water services.

EMPLOYEE RELATED COSTS



Employee related costs which are maintained at an acceptable level of 28% of total expenditure, well within the Industry norm of 35%.

CAPITAL PROJECTS



Capital investment (with the entity) in water service infrastructure has decreased dramatically over the 5 year period depicted in this report. Part of the reason for the disinvestment is due to the transfer back to the WSA's of the reticulation infrastructure as at 1 July 2013,the lack of own tariff raised capital funding by the entity and the lack of capital grant funding from the WSA's.

The tariff funding capital element needs to be considered as a serious option to raise capital funding failing which the dependence on Government grant funding via MIG, MWIG, DWA will stifle infrastructure development and continue to be a high risk to the Board and Shareholders.

The Board has proposed several tariff models for consideration which indicate that a simple capital levy of 25 cents per kilolitre of water produced and sold will raise approximately R 25 Million per annum for capital upgrades and refurbishment.

DEBT

The Boards current long and short term debt obligations is made up as follows:

	2014/2016	2013	2012	2011	2010	2009	2008	2007
					R	R	R	R
Long term debt	-	54 080 833	54 295 933	64 520 424	51 769 453	53 934 275	60 971 584	67 477 570
Short term debt	-	6 602 814	10 250 405	13 930 739	32 092 996	7 037 309	6 505 986	5 999 183
WSA Internal debt	-	2 159 258	3 093 433	3 093 433	5 510 014	5 438 765	59 083 523	59 083 523
Total Debt	-	**62 842 905**	**67 639 771**	**81 544 596**	**89 372 463**	**66 410 349**	**126 561 093**	**132 560 276**
Decrease/Increase in funding	- 62 842 905	- 4 796 866	- 13 904 825	-7 827 867	22 962 114	-60 150 744	-5 999 183	132 560 276

With the transfer of Reticulation Water Services back to the municipalities with effect from 1 July 2013, all water related asset loans were transferred back to the municipalities. The Development Bank of SA renegotiated the loans and terms with the individual municipalities.

Certain of the older loans held by the municipalities, or still in the name of the municipalities, and related directly to Water Reticulation Services, were simply transferred back to the municipalities for future accounting purposes.

The Board successfully negotiated the write off of the R 22 Million Department of Water Services loan that related to the purchase of the Ngagane water plant and related capital infrastructure.

FUNDING REQUIREMENTS

During the initial establishment of the Company in 2004, a 30 year strategic Plan (SP2030) was developed for the delivery of water bulk infrastructure services. This plan has been updated and substituted with a water services master plan during the 2012 year.

The purpose of these documents is to have a reference for the sustainable provisioning of safe, acceptable and affordable water and sanitation services. The estimated total cost of bulk infrastructure required to implement the SP 2030/master plan amounts to R 5, 5 Billion

The Water Services Master Plan is currently being considered for implementation as a matter of urgency as the water resources in the area have reached critical capacities and the current drought has served to further highlight the importance of planning for the future now.

The WSA parent municipalities were initially providing in the region of R100 million pa in capital MIG grant and other grant funds, and besides this funding, the entity is very limited in its limited institutional capacity to augment these funding sources, as it is restricted to the reliance on grant funding from the WSA's for its capital requirements.

BORROWING LIMITS

The Board did have approved external loan facilities in principle with the Development Bank of SA amounting to R 2, 2 Billion, but these were not taken up by the parties concerned due to the impending transfer of reticulation services and the establishment of the new proposed Bulk water entity for the region.

This capacity, and the markets, will be tested once the new entity has been established, which facility would greatly enhance the capability of all concerned to speed up the eradication of Bulk water service backlogs.

RETIREMENT BENEFIT OBLIGATIONS

The scheme is currently unfunded and the Board has recognised its full past service liability in the balance sheet at the actuarial valuation of R 14, 5 Million.

The provision for these costs is a GRAP accounting standard requirement and is a statutory obligation/ disclosure.

FINANCIAL RISK

As is in most companies, the entity is faced with financial risks that need to be effectively managed in order to ensure that any negative impact on the Boards financial performance and position is minimised.

The major risks and mitigating strategies are continually analysed and improved upon with a view to ensuring that the Board stays updated in these endeavours.

The non payment of approved budgeted bulk water tariff accounts by some of the Shareholders has been brought to the notice of the Premier of Province of KwaZulu-Natal and it is the biggest single financial risk faced by the entity since its establishment.

In addition hereto, the restricted ceiling payments tailored to WSA affordability factors is also seriously impeding development and creating debt for the Board and Shareholders.

ACCOUNTING POLICIES

The adoption of the new and revised accounting standards and interpretations issued by the International Accounting Standards Board and the International Reporting Interpretations Committee effective for the current year, as noted in the accounting policies, have not led to any changes in the Boards accounting policies.

The Boards accounts are fully GRAP compliant for the 2016 financial year.

FUTURE PROSPECTS

The Board will operate as an interim Bulk Water Services Provider to its Shareholders with effect from 1 July 2013, and until such time that the Minister of Water Affairs has made a determination concerning the future institutional arrangements and composition of a new Water structure that will deliver regional bulk water services in the area.

The purpose of this decision is to Regionalize Bulk water service delivery and thereby achieve, long term regional planning and match this to all available funding sources, assurance of supply, a sustainable bulk tariff for the region, maintain the current status of bulk water service provision, potential efficiency of shared services, sharing of scarce capacity in the region, reduction of overheads and the potential for direct access to regional bulk infrastructure grant funding.

STATEMENT OF DIRECTORS RESONSIBILITY

The Directors acknowledge their responsibility for the preparation of the annual financial statements for the year ended 30 June 2016, which in their opinion, fairly presents the results and cash flows for the financial year and the state of affairs of UThukela Water (Pty) Ltd at the end of the financial year. The annual financial statements set out in this report have been prepared in accordance with International
Reporting Standards, and in the manner required by the GRAP standards and the MFMA 56/2003.

The Directors are also responsible for the systems of internal control. These systems are reviewed on an ongoing basis and the Auditor Generals preliminary "dashboard" report for the forthcoming year reflects very positively and is indicative of the enormous improvements made in this regard. "Green" happy faces appear in the report for these reforms. Internal control systems are designed to provide reasonable but not absolute, assurance as to the reliability of the annual financial statements, and to adequately safeguard, verify and maintain accountability of assets and recorded liabilities, and to prevent and detect material misstatement and loss. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties.

The Board is serious about and supports the Government initiative of "operation clean audit" and has mapped its structures accordingly.
The Directors are firm in their belief that based on the information and explanations given by management, the internal auditors and the external auditors, that the system of internal control provides reasonable assurance that the financial records may be relied upon for the preparation of the consolidated annual financial statements.

The external auditors are responsible for reporting on the fair presentation of these annual financial statements. The Auditor General with the assistance of local expertise has audited the annual financial statements after having been provided unrestricted access to all accounting and financial records and related data. The Directors believe that all representations made to the external auditors during their audit were valid, appropriate and complete.

The Directors have reviewed the Boards forecast financial performance for the year to 30 June 2016, as well as the longer term budget, and in the light of this review and the current financial position, they are satisfied that the Board has access to adequate resources, to under the current circumstances, continue as a going concern for the foreseeable future. This does not detract from the fact that the current tariff, debt poor payment, capital funding requirements and budget issues need to be resolved.

This positive sentiment is expressed on the condition that the participating municipalities attend to the pressing issues of proper economic tariff determination, timorous payment of accounts, full payment of raw water production costs and adequate capital infrastructure planning and funding.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The annual financial statements of uThukela Water (Pty) Ltd for the year ended 30 June 2016, have been approved by the Board of Directors and signed on its behalf and presented accordingly to the office of the Auditor General for the statutory audit thereof.

LL Cunha
Acting Managing Director/CFO

Auditor Generals Report

and Annual Financial Statements for the year ending 30 June 2016

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

uThukela Water

Annual Report 2016

REPORT OF THE AUDIT COMMITTEE

Report of the Audit Committee in terms of section 121(4)(g) of the Municipal Management Finance Act 56/2003, as amended.

The Audit Committee confirms that it has adopted appropriate formal terms of reference as its Audit Committee Charter, and that it has regulated its affairs in compliance with this charter, and that ithas discharged all of its responsibilities as diligently as possible within the ambit of its duties and as contained within the charter.

In the conduct of its duties, the Audit Committee has, inter alia, reviewed or is in the process of reviewing the following:

- The effectiveness of the internal control systems with the support and guidance of the internal audit function.
- The risk areas of the entity's operations covered in the scope of its Risk Management Assessment, plan and internal and external audits;
- The adequacy, reliability and accuracy of financial information provided by management and other users of such information;
- Accounting and auditing concerns identified as a result of special, internal and external audits and issues raised by the Board in its quarterly meetings;
- The entity's compliance with statutory, legal and regulatory provisions;
- The effectiveness/ineffectiveness of internal audit;
- The activities of internal audit, including its annual work programme, co-ordination with the external auditors, and its reports and findings and the responses of management to any recommendations thereto or the lack of such reports and managements actions taken in respect thereof.
- The independence and objectivity of the internal and external auditors.

The Audit Committee is of the opinion, based on the information and explanations provided by management, internal audit and discussions with the independent external auditors and the results of these audits, that the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the financial statements, and that the accountability for assets and liabilities is maintained.

Nothing significant has come to the attention of the Audit Committee except for the continual struggle that the entity experiences with obtaining its operational and capital transfers from its shareholders timeously, and this has a significant impact on the entity's cash flows, payment of contractual liabilities and investment earnings.

There is also the issue of the non-payment of the Department of Water Affairs raw water levies in terms of the National Water Pricing Structures by both the entity and the shareholders as a result of the municipalities not providing for these payments in their annual budget allocations to the entity.

The concern that not all water capital projects are centralized and capitalized in the books of the entity was also raised and brought to the attention of audit. Besides this there is nothing to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review. The Audit Committee is satisfied that the financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgments and estimates.

Having considered the matters as set out in the Companies Act pertaining to the independence and objectivity of the external auditors, the Audit Committee is satisfied that these conditions have been met.

The Audit Committee has evaluated the financial statements of uThukela Water (Pty) Ltd for the year ended 30 June 2016 and, based on the information provided to the Audit Committee, considers that they comply, in all material respects, with the requirements of the Companies Act, the Municipal Finance Management Act, GRAP Accounting Standards and the International Financial Reporting Standards.

The Audit Committee concurs that the adoption of the going concern premise in the preparation of financial statements is appropriate. The Audit Committee has therefore recommended, at their meeting held on the 28 August 2016, the adoption of the 2016 annual financial statements by the Board of Directors.

MR L.C.T. Nkosi
Audit Committee Chair

UTHUKELA WATER (PTY) LTD
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

Annual Financial Statements
uThukela Water (Pty) Ltd
For the year ended: 30 June 2016

Province: Kwazulu Natal
AFS rounding: SA Rand only, no cents.

Contact Information
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Acting Chief Financial Officer: Luiz Lionel Cunha
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Chairman of the Board: Poovalingum Subramoney Naidoo
Telephone Number: 031 719 7454
Email Address: dan.naidoo@umgeniwater.co.za
Auditor General Contact: Lungisile Khumalo (CA) SA
Telephone: 033 264 7400
Email Address: lungisilekh@agsa.co.za

General Information

Legal form of business

uThukela Water (Pty) Ltd is a Water Service Provider appointed by the Shareholding municipalities of Newcastle, Umzinyathi and Amajuba Districts, in terms of section 78 of the Municipal Systems Act 32/2000, to provide Bulk water services to these municipalities. The Provincial Cabinet, in a decision dated 6 June 2012, resolved that the entity continue as a Bulk water services provider to the municipalities concerned, until such time that the National Minister for water affairs has determined a way forward with regard to the future provision of bulk water services in the area, and or regions.

The entity operates solely as a Bulk water services provider to its controlling Shareholders, and performs no other functions outside the scope of the draft agreement between the parties.

The entity is governed by the provisions of the Companies Act 71/2008, Municipal Finance Management Act 56/2003, Municipal Systems Act 32/2000, Water services Act 108/1997 and the Public Audit Service Act 25/2004.

Members of the Board:

Mr. PS Naidoo (Chairman of the Board)

Mrs. HB Krishnan (COGTA representative), replaced by Mr. B. Ndlovu, the CFO of COGTA with effect from 15 December 2015.

Mr. A Evetts (COGTA representative)

Mr. M Msiwa (Independent non-executive Director)

Mrs. A Masefield (Department of Water and Sanitation representative)

Three Municipal Managers of the Shareholders.

Auditors: Auditor General

Bankers: Standard Bank of South Africa

Registered Office: 79 Harding Street, Newcastle

Physical Address: 79 Harding Street, Newcastle

Postal Address: P O Box 729, Newcastle 2940

Telephone Number: 034 3285000

Fax Number: 034 3263388

Email Address: luiz.cunha@uthukelawater.co.za

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on uThukela Water (Pty) Ltd

Report on the financial statements

Introduction

1. I audited the financial statements of the uThukela Water (Pty) Ltd set out on pages ... to... which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the uThukela Water (Pty) Ltd as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Financial sustainability

8. The accounting officer's report on page 6 to the financial statements indicates that the municipality incurred a net loss of R125,73 million during the year ended 30 June 2016 and, as of that date, the municipal entity's current liabilities exceeded its current assets by R148,74 million. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the municipal entity's ability to operate as a going concern.

Material impairment

9. As disclosed in note 4 to the financial statements, the municipality provided for impairment of receivables from exchange transactions amounting to R92, 1 O million (2014-15: R83, 01 million) due to a long outstanding debt of the shareholder municipalities.

Additional matter

10. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

11. In terms of section 125(2) (e) of the MFMA the municipal entity is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined obiectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for Sustainable Bulk Water Volumes and Quality Assurance objective presented in the annual performance report of the municipal entity for the year ended 30 June 2016.

14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

15. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

16. l assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

17. The material findings in respect of the selected objectives are as follows:

Sustainable Bulk Water Volumes and Quality Assurance Usefulness of reported performance information Consistency of targets

18. Section 121(4)(d) of the MFMA requires the integrated development plan/ service delivery agreement to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. The service delivery and budget implementation plan (SDBIP) submitted for audit did not include 100% of all reported targets specified in the performance report for the year under review. This was due to inadequate review/monitoring of the completeness of planning documents by management.

Measurability of targets

19. Performance targets should be specific in clearly identifying the nature and required level of performance as required by the FMPPI. A total 40% of the targets were not specific. This was due to a lack of proper systems and processes for the planning of performance information and the absence of standard data definitions for each target.

Additional matter

20. I draw attention to the following matter:

Achievement of planned targets

21. The annual performance report on pages x to x and x to x which includes information on the achievement of the planned targets for the year should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected objectives reported in paragraphs 18 to 19 of this report. This information should be considered in the context of the material findings on the usefulness of the reported performance information for the selected objectives reported in paragraphs x to xx of this report.

Compliance with legislation

22. I performed procedures to obtain evidence that the entity complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Procurement and contract management

23. Contracts were extended without tabling the reasons for the proposed amendment in the council of parent municipalities, as required by section 116(3} of the MFMA.

Strategic and annual performance management

24. The annual performance objectives and indicators were not established by agreement with the parent municipality, as required by section 93C (a) (iv) of the Municipal Systems Act (Act No. 32 of 2000).

Expenditure management

25. Money owed by the municipal entity was not always paid within 30 days as required by section 99(2) (b) of the MFMA.

Internal control

26. I considered internal control relevant to my audit of the financial statements, performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in, the findings on the performance report and the findings on compliance with legislation.

Leadership

27. Oversight over performance reporting as well as compliance with legislation, was inadequate, as the positions of the accounting officer and chief financial officer were vacant for the current financial year. Leadership was slow in responding to the filling of these key positions.

Performance management

28. The accounting officer did not put in place adequate controls during the process of drafting the entity's SDBIP which will serve to ensure that all targets and indicators included in it are specific and well defined. This was due to lack of inadequate review of the performance report.

Governance

29. The risk assessment processes and reviews were not adequate to ensure that key performance reporting and compliance risks were mitigated and responded to timeously by management.

Auditor General

Pietermaritzburg
30 November 2016

AUDITOR-GENERAL
SOUTH AFRICA
Auditing to build public confidence

Plan to address matters raised in 2016 Audit Report

Item No	Report item raised	Action to be taken	Responsibility	Completion date	Sign off
1 to 5	Preamble	Noted	Preamble	N/A	
6	Report status	Noted - report unqualified.	Noted	N/A	
7 to 8	Financial sustain-ability	Noted. This paragraph was changed by Audit without reference to and without discussing it with the Chairman of the Board. It is explained in the Chairmans Report and the	Noted	N/A	
		notes to the financial statements that there is in fact a trading surplus for the year and the net asset ratio is in fact positive at 1.2 to 1. The non-cash GRAP items			
		realting to depreciation and bad debt provision are not funded by the municipal-ities and are written back in the accumulated suprplus account. The WSA's are also not			
		funding the Department of Water Affairs raw water charges.			
9	Material debt impaired	Noted	Noted	N/A	
10 to 12	Unaudited disclo-sures	Noted	Noted	N/A	
13 to 17	Predetermined objectives	Noted	Noted	N/A	
18 to 19	Measurability of targets	Noted, targets were amended in the 2017 SDBIP and Institutional PM Scorecard as aconsequence of same item raised in previous 2015 audit report. The required	Acting MD	Completed 2016	
		amendments could not be done retospectively but in the next ensuing SDBIP window submission period during May of the current financial year.			
20 to 21	Additional matter	Noted, targets were amended in the 2017 SDBIP and Institutional PM Scorecard as aconsequence of same item raised in previous 2015 audit report. The required	Acting MD	Completed 2016	
		amendments could not be done retospectively but in the next ensuing SDBIP window submission period during May of the current financial year.		Ongoing assess-ment	
22	Compliance	Noted.	Acting MD	N/A	
23	Procurement/ contracts	Noted, Submitted to Board and Shareholders, Board approved extention of con-tract due to impending transfer of functions to a new bulk water institution.	Acting MD	Completed	
24	Strategic and APM	Noted, the Board complied with scetion 93 (a) (iv) of the MSA and submitted the relevant reports for agreement, only the Newcastle municipality complied, other WSA's	Acting MD	30-Jun-17	
		incorporated APT's without refernce to the entity. The Entity fully complied with the legislation and cannot force the municipalities to comply.			
25	30 day payment cycle	Noted, all cases of non compliance due to Shareholder municipalities delaying payment of capital grant funding to the entity. The Entity fully complies with the legislation	Acting CFO	Completed	
		and the exceptions are related to late payments by the municipalities.			
26	Internal control	Noted, comments as per 18 to 19, targets were amended with 2017 SDBIP's. Could not be effected retrospectively as in comment 18 to 19.	Acting MD	Completed 2016	
				Ongoing assess-ment	
27	Leadership	Noted, comments as per 18 to 19, targets were amended with 2017 SDBIP's. The freezing of vacancies was a decision of the Board and Shareholders and in the	Acting MD	Submit to Board	
		interests of the impending new institutional arrangements. Could not be effected retrospectively as in comment 18 to 19.			
28	Performance Management	Noted, comments as per 18 to 19, targets were amended with 2017 SDBIP's. Could not be effected retrospectively as in comment 18 to 19.	Acting MD	Completed 2016	
29	Governance	Noted, comments as per 18 to 19, targets were amended with 2017 SDBIP's. Could not be effected retrospectively as in comment 18 to 19.	Acting MD	Completed 2016	

DIRECTORS REPORT

In terms of the Companies Act, 71/2008, as amended, and, read with the Municipal Systems Act 32/2000, as amended, the Board of uThukela Water (Pty) Ltd is the accounting authority and the Directors have pleasure in presenting their report for the year ended 30 June 2016.

Nature of business

uThukela Water (Pty) Ltd, is a multijurisdictional water entity, originally established in 2003 to provide the whole spectrum of water and sanitation services, and then subsequently with effect from the 2013 financial year was re-constituted to supply only potable bulk water to its parent municipalities. The activities of uThukela Water are in line with the provisions of the Water Act, Act 108/1997.

The primary activities in terms of section 29 of the Act are:

(a) To treat raw water and to distribute the treated water via its infrastructure to its Shareholder municipalities.
(b) To provide Bulk water quality assurance to its Shareholders via its Laboratory analyses and measurement in terms of National Water Standards.

In terms of section 30 of the Act, uThukela Water (Pty) Ltd also engages in other services that complement bulk water services such as laboratory services, water quality monitoring and environmental management within the water reticulation systems of the Shareholders, and also acts as an implementing agent for any sphere of government for projects related to water service delivery.

The services are provided on behalf of the following parent municipalities who are also the Water Service Authorities for their respective jurisdictions:

Amajuba District Municipality
Newcastle Municipality
Umzinyathi District Municipality

Compliance with legislation

The annual financial statements are prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such accounts issued by the Accounting Practices Board, with the effective standards of Generally Recognized Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP statements as indicated in the accounting policies of the Board. The requirements of the following relevant statutes were also taken into account when preparing the annual financial statements:

(a) Water Services Act 108/1997,
(b) Municipal Finance Management Act 56/2003,
(c) Municipal Systems Act 32/2000,
(d) Companies Act 71/2008 and
(e) Public Audit Service Act 25/2004.

These acts require preparation of the financial information to be in compliance with the Companies Act 71/2008, as amended.

Corporate governance and risk management

The Board supports the principles of the code of Corporate Practices and Conduct as set out in the King III report. The organizations policies, procedures and processes are continuously reviewed to align with King III and the Board provides the required oversight and is pleased with the commitment that prevails at all spheres of the organization in as far as compliance with King III is concerned.

The Board is responsible for monitoring the risk management process.

Share capital and Director's interests

The share capital of the Company has been issued in one hundred (100) ordinary shares, and is valued at R100.
The authorized number of ordinary shares is 10 000, with a par value of R 1 per share.

The parent municipalities (Water Service Authorities) are the sole shareholders of the Company, and their individual shareholding is as follows;

Amajuba District Municipality; 33%
Newcastle Municipality; 34%
Umzinyathi District Municipality; 33%

The details of the shares, and share certificates, are recorded in the Register of Shareholders of the Company, in terms of the provisions of the Companies Act 71/2008, as amended.

The MEC responsible for Co-operative Governance and Traditional Affairs, The Honourable N Dube, on the 18 June 2012, released a decision of the Provincial Executive Committee taken at a Cabinet meeting held on the 25 April 2012, wherein it was resolved that;

(a) The section 139 (1) (b) of the Constitution of the RSA, Act 108/1996, intervention institute by the Provincial Executive was terminated with immediate effect, and that the Water Service Authorities would immediately resume and be accountable for water service functions previously assumed by the Provincial Executive of the Province of KZN together with the rights and obligations pertaining to uThukela Water (Pty) Ltd.

(b) The Directive also governed that in relation to the delivery of water services operated by uThukela Water (Pty) Ltd, that in terms of section 139 (1) (a) of the Constitution, the following orders, amongst others things to be done, would be implemented;

- All retail/reticulation water service functions would be de-centralised and returned to the respective municipalities.
- Bulk water services would be regionalised.
- uThukela Water (Pty) Ltd would continue to provide water services as the Bulk water service provider until such time that the National Minister for Water Affairs makes a decision concerning the future composition of the new or reconstituted Regional Bulk water service authority.
- That uThukela Water (Pty) Ltd would be de-registered in terms of the Companies Act once the Minister of Water Affairs had made a decision regarding the new or reconstituted water service authority.
- That uThukela Water (Pty) Ltd, in the interim, be served by a Transitional Board constituted of the following members;

Mr D. Naidoo, Executive, Umgeni Water Board, and, who shall remain as the independent Chairperson of the Board.

Mrs H.B. Krishnan, General Manager: Ministry of Finance of the Department of Co-operative governance and Traditional Affairs (COGTA), replacing the late Mr J Johnson as a Board member.

Mr M. Msiwa, an independent Board member,

Mr A. Evetts, Manager: Municipal Infrastructure of COGTA, as a Board member.

Ms A. Masefield, Acting Provincial Head of the Department of Water Affairs, as an observer.

The Municipal Managers of the three Shareholder municipalities of Newcastle, and the Amajuba and Umzinyathi District municipalities, serving as Board members.

Mrs H.B Krishnan, was subsequently, and with effect from the 14 December 2015, replaced with Mr B. Ndlovu, the Chief Financial Officer of COGTA, on the Board.

During the financial year, no contracts were entered into in which Directors or Officers of the Company had an interest and which significantly affected the business of the Company.

No special resolutions, the nature of which might be significant to the Shareholder in their appreciation of the state of affairs of the Company, were made by the Company during the period covered by this report.

The future dispensation of the Company

The Minister of Water Affairs has proclaimed by Government Gazette number 39491 dated the 10 December 2015, and acting in terms of the Water Services Act 108/1997, the extension of service area of operation of Umgeni Water and Mhlathuze Water to include the entire area of Kwazulu- Natal Province. The effective date of incorporation of uThukela Water into the new single Water Board to be formed in terms hereof has been deemed to be the 1 July 2017.

Financial performance

The Company balance sheet reflects a net asset worth of R 1 018 591 838 (2015: R 1 132 739 952) which will be noted has been significantly reduced as a result of the transfer of the water service reticulation functions back to the WSA's, and is made up as follows;

Share Capital	R	100
Accumulated surplus	R	97 655 947
Asset revaluation Reserve	R	920 935 791

The total net shareholder contributions paid to uThukela Water to date is reflected at R 1 525 372 336 (2015: R 1 528 517 011), and is made up of shortfall and capital contributions, and the details hereof are contained in note 15 to the annual financial statements.

There was a net decrease in cash and cash equivalents to R 8 944 902 from (2015: R 10 304 692). Cash receipts shareholder contributions, and accumulated funds assisted the Company to invest R 9 245 732 (2015: R 6 903 974) into property, plant, infrastructure and equipment during the year. The total net capital investment in bulk water service infrastructure, and in respect of property plant and equipment is R 1 166 688 047 (2015: R 1 262 199 707)

Statement of Financial Performance, June 2016.

Notwithstanding the fact that the Statement of Financial Performance for the year under review reflects a trading deficit of R 125 730 488, the Company actual traded and achieved a small surplus of R 3 466 194 for the year. The reason for the difference is due to the entity raising the statutory GRAP transactions for (non cash items); depreciation of R 103 688 355, Bulk raw water charges of R 18 870 560, Bad debt provision charges of R 11 746 175, and the accounting for capital transactions of R 5 108 408 through the Statement of Financial Performance. The Water Service Authorities only provide and pay for cash items in their operational budgets and do not contribute towards any of the non-cash items accounted for.

There were no external borrowings in the year under review.

Capital expenditure and commitments

Capital expenditure for the year including amounts disbursed directly by the shareholders and utilized from accumulated funds and brought into account in the water services balance sheet amounting to R 9 245 732 (2015: R 6 903 974) for property plant and equipment.

The Companies contractual capital commitments are disclosed in note 35 of the financial statements.

Materiality framework

Management for the purposes of materiality works within the framework of acceptable levels of materiality and significance set and established by the Office of the Auditor General.

Fruitless and wasteful expenditure

There were no significant items of fruitless and wasteful expenditure during the year. Note 32.

Irregular expenditure

No irregular expenditure was reported during the year under review resulting from non-compliance with the supply chain management policy.

Fraud and financial misconduct

There were no instances of fraud and financial misconduct in the current financial year. Internal controls are reviewed and improved on continuously.

Performance against financial targets

The performance of uThukela Water against key financial indicators as agreed in the Shareholders compact is illustrated in the performance management scorecards which are contained in the annual report.

The Company scorecard reflects that the Company has performed within targets and objectives as set out in the Business plans and budgets, albeit it under difficult and restrained circumstances.

Events after the reporting period

No material events have taken place after the reporting period and as at the date of this report.

Going concern

The going concern basis has been adopted in preparing the financial statements. The Directors considered the following factors in reaching this opinion:

- Despite the Shareholder old debt situation not having been resolved to date, this has not had any effect on the going concern basis of the entity, as it has been counter balanced by the consequent non-payment of the DWA raw water charges. This matter is being dealt with and negotiated individually by each WSA directly with the Department. With the WSA's paying their current bulk water accounts, the entity is able to function and deliver Bulk deliver water services, albeit within a severely curtailed operational budget. The lack of capital Investment, however, poses a serious threat to sustainable and uninterrupted water services.

- There exists a fairly adequate surplus carried forward to cushion the effects of any uncontrollable and or unforeseen expenditure, and, there are sufficient reserves to offset the effects of annual depreciation;

- The Entity is debt free;

- Stable key executive management is in place;

- The budget, although restricted by affordability factors, reflects a continuation of strong financial performance, and,

- The application of a bulk water tariff to recover the expenditures of the Board promotes efficient and sustainable use of water, equitable and affordable access to water supply services and to the solvency and sound financial management of the Company.

D NAIDOO
CHAIRMAN – UTHUKELA WATER (PTY) LTD

UTHUKELA WATER (PTY) LTD					
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2016					
	Note		2016		2015
ASSETS					
Current assets			39606190.55		38114870.36
Cash and cash equivalents	1		8,944,902		10,304,692
Trade and other receivables	2		16,203,807		7,870,905
Other receivables	3		2,641,681		3,638,723
WSA debtors	4		6,382,754		13,159,915
VAT receivable	12		5,320,524		3,023,517
Inventory	6		112,522		117,118
Non-current assets			1,166,688,047		1,262,199,707
Property, plant and equipment	7		1,164,887,045		1,259,802,565
Intangible	8		1,801,003		2,397,143
Total Assets			1,206,294,238		1,300,314,578
LIABILITIES					
Current liabilities			188,345,015		158,803,330
Trade and other payables	9		184,767,470		155,929,925
Current portion of staff benefit obligations	11		3,577,546		2,873,406
VAT payable	12		0		0
Non-current liabilities			10,939,758		8,771,295
Borrowings	13		0		0
Service related staff benefit obligations	11		10,939,758		8,771,295
Total liabilities			199,284,773		167,574,625
Net assets			1,007,009,464		1,132,739,952
Share capital	14		100		100
Accumulated funds	15		1,007,009,364		1,132,739,852
Net assets			1,007,009,464		1,132,739,952

UTHUKELA WATER (PTY) LTD				
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2016				
		Budget	Actual	Actual
	Note	2016	2016	2015
Revenue				
Service charges	16	116,657,585	87,459,570	81,448,307
Interest earned - external investments	17	0	416,644	366,098
Shareholder project contributions	19.1	0	5,108,408	2,171,329
Other receipts		0	471,757	1,088,732
Total Revenue		116,657,585	93,456,379	85,074,466
Expenditure				
Employee related costs	20	31,269,396	32,870,445	26,251,535
Remuneration of Board members		98,000	0	0
Contribution to provision for bad debts	2,3,4	0	11,746,175	83,005,565
Depreciation and amortisation	21	1,069,037	104,757,392	104,398,873
Repairs and maintenance		9,124,837	4,817,316	4,188,052
Bulk water purchases	23	19,853,025	18,870,560	29,560,791
Contracted services	24	2,753,656	4,086,816	5,548,568
Inventory adjustment		0	4,596	242,632
Vat adjustment		0	26,930	0
General expenses	25	52,489,634	42,006,637	41,449,184
Other Gains/(Losses)				
Total expenditure		116,657,585	219,186,867	294,645,201
Gain / (loss) on sale of assets	26	0	0	0
(Impairment loss) / reversal of impairment loss				
Profit / (loss) on fair value adjustment	27	0	0	284,606,488
Surplus(Deficit) before taxation		0	-125,730,488	75,035,753

UTHUKELA WATER (PTY) L TD

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2016

Description, Nature and Purpose of Reserve	Note	Share Capital	Partner contributions -Projects			Partner contributions - Shortfall			Asset Revaluation Reserve	Accumulated Surplus/ (Deficit)	Total Net Assets
			Umzinvathl	Amaiuba	Newcastle	Umzinvathl	Amaiuba	Newcastle		Excl Partners Contri-butions	
		R	R	R	R	R	R	R	R	R	R
Balance at 30 June 2014		100	97,409,371	21,713,098	96,103,097	428,648,202	115,583,767	774,886,607	822,880,177	(1,299,520,219)	1,057,704,199
Operating (Surplus)deficit - Including Share-holders contributions										75,035,753	75,035,753
Increase Shareholder Contributions	41		1,771,329	0	400,000	0	0	0		(2,171,329)	0
(Profit) /loss on fair value adjustment	15								284,606,488	(284,606,488)	
Off Setting Depreciation			(3,207,867)	(1,241,120)	(3,549,472)				(93,435,577)	101,434,036	0
Balance at 30 June 2015		100	95,972,833	20,471,978	92,953,625	428,648,202	115,583,767	774,886,607	1,014,051,088	(1,409,828,247)	1,132,739,953
Operating (Surplus)deficit - Including Share-holders contributions										(125,730,488)	(125,730,488)
Increase Shareholder Contributions	41		4,072,731	0	1,035,677	0	0	0		(5,108,408)	0
Off Setting Depreciation			(3,458,678)	(1,241,120)	(3,553,286)				(93,115,297)	101,368,381	0
Balance at 30 June 2016		100	96,586,886	19,230,858	90,436,017	428,648,202	115,583,767	774,886,607	920,935,791	(1,439,298,762)	1,007,009,464

UTHUKELA WATER (PTY) LTD				
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2016				
	Note	2016		2015
		R		R
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts		81,290,027		89,264,892
Sales of Goods and Services		79,072,978		80,946,828
Shareholder Contributions		574,273		5,688,957
Interest received		406,511		368,166
Other Receipts		1,236,265		2,260,940
Payments		(73,404,085)		(82,110,415)
Employee Costs		(32,284,071)		(26,097,325)
Suppliers		(41,001,263)		(55,908,397)
Other Payments		(118,751)		(104,693)
NET CASH FROM OPERATING ACTIVITIES	28	7,885,942		7,154,477
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	7	(9,245,732)		(6,903,974)
Decrease/(Increase) in current investments	5	-		-
NET CASH FROM INVESTING ACTIVITIES		(9,245,732)		(6,903,974)
CASH FLOW FROM FINANCING ACTIVITIES				
Loans Repaid		0		0
Loans Raised		0		0
NET CASH FROM FINANCING ACTIVITIES		0		0
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		(1,359,790)		250,503
Cash and cash equivalents at the beginning of the year		10,304,692		10,054,189
Cash and cash equivalents at the end of the year	1	8,944,902		10,304,692
		1,359,790		-250,503

ACCOUNTING POLICIES

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognized Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board and The Companies Act, 2008 (Act 71 of 2008) and the MFMA.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention unless specified otherwise. They are presented in South African Rends. Unless otherwise stated, all figures have been rounded to the nearest rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below. These accounting policies are consistent with the previous period.

1.1 Significant judgments and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgments are inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgments include:

Trade receivables

The entity assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the entity makes judgments as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts of cash-generating, non-cash generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell.

1.1 Significant judgments and sources of estimation uncertainty (continued)

These calculations require the use of estimates and assumptions. It is reasonably possible that the useful life and market value assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.
The entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including technological obsolescence, together with economic factors such as interest and inflation rates.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosures of these estimates of provisions are included in note 15 - Provisions.

Post-retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The entity determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the entity considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 11 - Employee benefit obligations.

Effective interest rate

The entity used the prime interest rate to discount future cash flows adjusted for risks specific to the related item.

Allowance for doubtful debts

On receivables an impairment loss is recognized in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying

1.1 Significant judgments and sources of estimation uncertainty (continued)

amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognized as an asset when:

- It is probable that future economic benefits or service potential associated with the item will flow to the company;

- The cost of the item can be measured reliably.

Property, plant and equipment are initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition. Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognized in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognized.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value. Depreciation begins when the assets are available for use and ceases at the earlier of the date that the assets are classified as held for sale and the date on which the assets are derecognized.

After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Useful life
Buildings	50 years
Water infrastructure	5 to 50 years
IT equipment	3 to 10 years
Leasehold property	
Leasehold improvements	5 years over the period of lease
Plant and machinery	
Grass-cutting Equipment	7 to 10 years
Minor plant	5 to 50 years
Mobile plant	7 to 10 years
Office equipment	
Furniture& fittings	7 to 10 years
Other office equipment	3 to 10 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

The depreciation charge for each period is recognized in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognized when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognized. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the entity holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognized as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.3 Intangible assets

An asset is identified as an intangible asset when it:
- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the company or from other rights and obligations.

An intangible asset is recognized when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognized at cost.

When an intangible asset is acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

An intangible asset shall be derecognized on disposal or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognized in surplus or deficit when the asset is derecognized.

Intangible assets are carried at cost less any accumulated amortization and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortization is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortization is provided on a straight line basis over their useful lives.

The amortization period and the amortization method for intangible assets are reviewed at each reporting date. Amortization begins when the assets are available for use and ceases at the earlier of the date that the assets are classified as held for sale and the date on which the assets are derecognized.

The amortization charge for each period shall be recognized in surplus or deficit unless it is permitted or required to be included in the carrying amount of another asset.

Amortization is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	3 to 5 years

1.4 Financial instruments

Classification

The entity classifies financial assets and financial liabilities into the following categories:
- Loans and receivables
- Financial liabilities measured at amortized cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Financial assets classified as at fair value through surplus or deficit which are no longer held for the purposes of selling or repurchasing in the near term may be reclassified out of that category:

- If the asset met the definition of loans and receivables and the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

No other reclassifications may be made into or out of the fair value through surplus or deficit category.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables if the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

Initial recognition and measurement

Financial instruments are recognized initially when the entity becomes a party to the contractual provisions of the instruments.

The entity classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognized in surplus or deficit. Regular way purchases of financial assets are accounted for at trade date.

Subsequent measurement

Loans and receivables are subsequently measured at amortized cost, using the effective interest method, less accumulated impairment losses.
Financial liabilities at amortized cost are subsequently measured at amortized cost, using the effective interest method.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity- specific inputs.

Impairment of financial assets

At each end of the reporting period the entity assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the entity, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognized in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognized.

Reversals of impairment losses are recognized in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because the fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognized in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Loans to (from) economic entities

These include loans to and from controlling entities, fellow controlled entities, joint ventures and associates and are recognized initially at fair value plus direct transaction costs.
Loans to economic entities are classified as loans and receivables.
Loans from economic entities are classified as financial liabilities measured at amortized cost.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognized in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognized is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognized in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially measured at fair value and are subsequently measured at amortized cost, using the effective interest rate method.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognized over the term of the borrowings in accordance with the entity's accounting policy for borrowing costs.

Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognized as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognized in surplus or deficit;

- A gain or loss on an available-for-sale financial asset is recognized directly in net assets, through the statement of changes in net assets, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in net assets is recognized in surplus or deficit; and

- For financial assets and financial liabilities carried at amortized cost, a gain or loss is recognized in surplus or deficit when the financial asset or financial liability is derecognized or impaired, and through the amortization process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the entity retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the entity has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or

has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial assets are derecognized using trade settlement date accounting.

Where the entity has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the entity's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the entity could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the entity's continuing involvement is the amount of the transferred asset that the entity may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in surplus or deficit.

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessee

Finance leases are recognized as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of return on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. The difference between the amounts recognized as an expense and the contractual payments are recognized as an operating lease asset or liability.

1.6 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realizable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realizable value is the estimated selling price in the ordinary course of operations less the estimated

costs of completion and the estimated costs necessary to make the sale, exchange or distribution.
Current replacement cost is the cost the entity will incur to acquire the asset on the reporting date.
The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.
The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

When inventories are sold, the carrying amounts of those inventories are recognized as an expense in the period in which the related revenue is recognized. If there is no related revenue, the expenses are recognized when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, are recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

1.7 Impairment of cash-generating assets

Cash-generating assets are those assets held by the company with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortization).

Carrying amount is the amount at which an asset is recognized in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation/amortization is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.
The recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the entity estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognized during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the entity applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the entity:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;

- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and

- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognized immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the entity recognizes a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortization) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the entity determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognized for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit.

These reductions in carrying amounts are treated as impairment losses on individual assets.
In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

The entity assesses at each reporting date whether there is any indication that an impairment loss recognized in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognized in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognized immediately in surplus or deficit.
Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognized, the depreciation (amortization) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.8 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortization).

Carrying amount is the amount at which an asset is recognized in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation/amortization is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The entity assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the entity estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognized during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of an asset is the present value of the asset's remaining service potential.
The present value of the remaining service potential of an asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimized" basis. The rationale is that the entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimized basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.
An impairment loss is recognized immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.
When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the entity recognizes a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortization) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The entity assesses at each reporting date whether there is any indication that an impairment loss recognized in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable service amount of that asset.

An impairment loss recognized in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognized. The carrying amount of the asset is increased to its recoverable service amount.
The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior periods.
A reversal of an impairment loss for a non-cash-generating asset is recognized immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognized, the depreciation (amortization) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.9 Shareholder's loan on incorporation

A residual interest is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Shareholder's loan on incorporation is treated as residual interest.

1.10 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits(those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognized in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognized as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of bonus payments is recognized as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the company's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method. Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. Consideration is given to any event that could impact the funds up to the end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognized immediately to the extent that the benefits are already vested, and are otherwise amortized on a straight line basis over the average period until the amended benefits become vested.
To the extent that, at the beginning of the financial period, any cumulative unrecognized actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognized in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognized.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized when the company is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognized as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognized for a reimbursement.

The amount recognized in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service costs, and reduced by the fair value of plan assets.

Any asset is limited to unrecognized actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Other post retirement obligations

The entity provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The entity also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.11 Provisions and contingencies

Provisions are recognized when:

- the entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized when, and only when, it is virtually certain that reimbursement will be received if the company settles the obligation. The reimbursement is treated as a separate asset. The amount recognized for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognized as an interest expense.

A provision is used only for expenditures for which the provision was originally recognized. Provisions are not recognized for future operating deficits.

If the entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognized and measured as a provision.

A constructive obligation to restructure arises only when the entity:

- has a detailed formal plan for the restructuring, identifying at least:
  the activity/operating unit or part of an activity/operating unit concerned;
  the principal locations affected;
  the location, function, and approximate number of employees who will be compensated for services being terminated;
  the expenditures that will be undertaken; and when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the entity

No obligation arises as a consequence of the sale or transfer of an operation until the entity is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognized in business combinations that are recognized separately are subsequently measured at the higher of:

- the amount that would be recognized as a provision; and
- the amount initially recognized less cumulative amortization.

A contingent liability is a present obligation that arises from past events but is not recognized because it is not probable that an outflow of economic benefits or service potential will be required to settle the obligation or the amount of the obligation cannot be measured with certainty.

Contingent assets and contingent liabilities are not recognized, but disclosed.

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Revenue is recognized when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured reliably.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognized by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognized on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

Service revenue is recognized by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognized when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the company, and
- the amount of the revenue can be measured reliably.

Interest is recognized, in surplus or deficit, using the effective interest rate method.

Royalties are recognized as they are earned in accordance with the substance of the relevant agreements. Dividends or their equivalents are recognized, in surplus or deficit, when the entity's right to receive payment has been established.

Service fees included in the price of the product are recognized as revenue over the period during which the service is performed.

1.13 Revenue from non-exchange transactions

Water Service Authority shortfall contributions are recognized when all conditions associated with the contribution has been met in terms of the WSP agreement and is transferred directly to the Statement of Financial Performance.

Capital grant reimbursements are claimed from the Shareholders who hold all Government grant receipts, and these receipts, are only recognized for payment purposes when actually received by the entity, and are accounted for in the Statement of Financial Performance.

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an entity, which represents an increase in net assets, other than increases relating to contributions from owners. Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

The Entity is exempt from the payment of Income Tax

Recognition

An inflow of resources from a non-exchange transaction recognized as an asset is recognized as revenue, except to the extent that a liability is also recognized in respect of the same inflow.

As the entity satisfies a present obligation recognized as a liability in respect of an inflow of resources from a non- exchange transaction recognized as an asset, it reduces the carrying amount of the liability recognized and recognizes an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognized by the entity.

When, as a result of a non-exchange transaction, the entity recognizes an asset, it also recognizes revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognize a liability. Where a liability is required to be recognized it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognized as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognized as revenue.

1.14 Cost of sales

When inventories are sold, exchanged or distributed the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. If there is related revenue, the expense is recognized when the goods are distributed, or related service is rendered. The amount of any write-down of inventories to net realizable value or current replacement cost and all deficits of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value or current replacement cost, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

The related cost of providing services recognized as revenue in the current period is included in cost of sales.

1.15 Investment income

Investment income is recognized on a time-proportion basis using the effective interest method.

1.16 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalization is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalized do not exceed the total borrowing costs incurred.

The capitalization of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realizable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.7 and 1.8. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalization is suspended during extended periods in which active development is interrupted. Capitalization ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the entity completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalizing borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.
All other borrowing costs are recognized as an expense in the period in which they are incurred.

1.17 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.18 Unauthorized expenditure

Unauthorized expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorized expenditure is recognized as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognized as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorized expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.21 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.22 Gratuities

The entity provides gratuities for qualifying staff members in terms of the relevant conditions of employment. The expenditure is recognized in the statement of financial performance when the gratuity is paid.

1.23 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognized as revenue to the extent that the entity has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognized.

Partners contributions (Grants)

Water Service Authority contributions (Grants) utilized to fund assets is accounted for in the Statement of Financial Performance and transferred to the Accumulated Funds.

Water Service Authority contributions (Grants/shortfall contributions) utilized to fund operational expenditures and are accounted for in the Statement of Financial Performance.

1.24 Budget information

The entity is typically subject to budgetary limits in the form of appropriations or budget authorizations (or equivalent), which is given effect through authorizing legislation, appropriation or similar.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements as an annexure.

1.25 Related parties

A related party is a person or entity that is related to the entity.

(a) A person or a close member of that person's family is related to the entity if that person:

(i) has control or joint control over the entity;

(ii) has significant influence over the entity; or

(iii) is a member of the key management personnel of the entity or of a parent of the entity.

(b) An entity is related to the entity if any of the following conditions applies:

(i) the entity and the company are members of the same group.

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) both entities are joint ventures of a third party.

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third party.

(v) the entity is a post-employment defined benefit plan for the benefit of employees of either the reporting entity or an entity related to the entity. If the entity is itself such a plan, the sponsoring employers are also related to the entity.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of the parent of the entity).

Transactions with related parties are entered into and disclosed at arm's length

Related party relationships where control exists are disclosed irrespective of whether there have been transactions between the related parties.

In respect of transactions between related parties other than transactions that would occur within normal supplier or client/recipient relationship on terms and conditions no more or less favorable than those which it is reasonable to expect the entity would have adopted if dealing with that individual or entity at an arm's length in the same circumstances, the entity discloses (a) the nature of the related party relationship, (b) the type of transaction that have occurred and (c) the elements of the transactions necessary to clarify the significance of these transactions to its operations and sufficient to enable the financial statements to provide relevant and reliable information for decision making and accountability purposes.

1.26 Foreign exchange gains and losses

Initial measurement

All transactions that are undertaken in a foreign currency are translated into South African rinds. A foreign currency transaction is recorded on initial recognition in rinds by applying to the foreign currency amount the spot exchange rate between the rinds and the foreign currency at the date of the transaction. The date of transaction is the date on which the transaction first qualifies for recognition.

Subsequent measurement

Subsequent Treatment of Monetary Items:

Monetary items held in a foreign currency shall be translated into the functional currency in the Statement of Financial Position at the closing rate. In instances where a monetary asset or liability has a rate of exchange that is fixed under the terms of the relevant contract, it cannot be used to translate the monetary assets and liabilities as this is a form of hedge accounting.

Subsequent Treatment of Non-Monetary Items:

Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rate at the date when the fair value was determined.

Recognition of Foreign Exchange Differences

Foreign exchange gains and losses arising from the settlement of such transactions or from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Statement of Financial Performance.

When a gain or loss on a non-monetary item is recognized directly in equity, any exchange rate component of that gain or loss shall be recognized directly in equity. Conversely, when a gain or loss on a non-monetary item is recognized in the Statement of Financial Performance, any exchange rate component of that gain or loss shall also be recognized in the Statement of Financial Performance.

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2. FINANCIAL RISK MANAGEMENT

2.1Credit risk

Potential credit risk mainly consists of short-term investments, cash and cash equivalents and accounts receivable. The risk from short-term investments and other cash items is restricted by transacting only with financial institutions with high credit ratings assigned by international credit-rating agencies. Credit risk with respect to trade receivables is limited to the Shareholders and their municipality's ability to meet their capital grant and trade Bulk water purchase annual Budget commitments to the entity.

2.2 Liquidity risk

uThukela Water (Pty) Ltd manages liquidity risk through proper management of working capital, capital expenditure and actual versus forecasted cash flows.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other fac-tors, including expectations of future events that are believed to be reasonable under the circumstanc-es.

The company makes estimates and assumptions concerning the future. The resulting accounting esti-mates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

3.1 Impairment of consumer and other debtors

Impairment of receivables is established if there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. Accordingly, management's assessment of the recoverability is reflected through the creation of a provision for doubtful debts as reflected in the notes to the financial statements.

4 SEGMENTAL INFORMATION

Segmental information in respect of property, plant and equipment is disclosed in Appendices B and C to the annual financial statements attached.

UTHUKELA WATER (PTY) LTD
Report of the Auditor General

Preamble - Change of Functions

Subsequent to the finalization of the Section 78 (MSA 32/2000) investigation, and the MEC (of COGTA) Ministerial Directive dated 6 June 2013, the Board has been operating as the interim bulk water services provider to the municipality of Newcastle and the Umzinyathi and Amajuba districts, pending a final decision by the Minister of Water Affairs regarding the future dispensation of water services in the region. The Minister has subsequent to this, by Government gazette number 39491 dated 10 December 2015, declared that in terms the Water Services Act 108/1997, that the extension of the service area of operation of Umgeni Water and Mhlathuze Water has been extended to include the entire area of KwaZulu-Natal Province.

Going concern - The Board continues to provide bulk water services to the municipalities, and sufficiently so in accordance with WSP/WSA signed water services agreements, which agreements determine the business operations, functions, obligations and objectives to be carried out by the Board on behalf of the shareholder municipalities. Annual business plans, operational and capital budgets, Performance Management objectives and Targets are also agreed upfront and measured by the municipalities accordingly.

The latest developments regarding the proposed bulk water services merger, is that the National Minister of Water Affairs and Sanitation, has instructed the Water Boards concerned to undertake due diligence exercises including all areas of KZN Province. The appointment and formation of a new amalgamated single Water Board is currently under consideration.

In the interim, and until such time that the new single amalgamated Water Board becomes operational, the interim uThukela Water Board continues to function as a going concern in terms of written contracts in place.

Statement of Financial Performance, June 2016.

Notwithstanding the fact that the Statement of Financial Performance for the year under review reflects a trading deficit of R 125 730 488, the Company actual traded and achieved a small surplus of R 3 466 194 for the year. The reason for the difference is due to the entity raising the statutory GRAP transactions for (non cash items); depreciation of R 103 688 355, Bulk raw water charges of R 18 870 560, Bad debt provision charges of R 11 746 175, and the accounting for capital transactions of R 5 108 408 through the Statement of Financial Performance. The Water Service Authorities only provide and pay for cash items in their operational budgets and do not contribute towards any of the non-cash items accounted for.

Cash and cash equivalents				
	2016		2015	
Cash on hand	14,180		18,052	
Cash at bank	7,891,999		8,283,707	
Cash on call and short notice deposits	1,038,723		2,002,933	
	8,944,902		10,304,692	
uThukela Water (pty) Ltd has the following bank accounts:				
Account Number - Bank Account Description	Cash Book Balance	Bank Statement Balance	Cash Book Balance	Bank Statement Balance
	30 06 2016	30 06 2016	30 06 2015	30 06 2015
Cash at bank				
4059636838 - Absa	59,521	59,521	327,323	327,323
4060280600 - Absa - Customer Care	18,045	18,045	12,645	12,645
061938939 - Standard Bank - Primary Current Account	7,814,432	7,814,432	7,943,739	7,943,739
	7,891,999	7,891,999	8,283,707	8,283,707
Cash on call and short notice deposits				
*268586055-003 - Standard Notice Deposit				
26 858 6055-002 - Standard Notice call Account	1,034,247	1,034,247	1,002,933	1,002,933
92 5753 8348 - Absa - Deposit	4,477	4,477	1,000,000	1,000,000
	1,038,723	1,038,723	2,002,933	2,002,933
Petty cash	14,180		18,052	
Total Cash and cash equivalents	8,944,902	8,930,722	10,304,692	10,286,640

For the purposes of the cash flow statement, the cash and cash equivalents comprise the total cash and cash equivalents as disclosed above.

TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS			
	Gross Balances	Provision for Doubtful Debts	Net Balance
TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS			
	Gross Balances	Provision for Doubtful Debts	Net Balance
Trade receivables	R	R	R
as at 30 June 2016			
Service debtors			
Water & Sewerage	203,874	(147,626)	56,248
Total	203,874	(147,626)	56,248
as at 30 June 2015			
Service debtors			
Water & Sewerage	416,060	(125,191)	290,869
Total	416,060	(125,191)	290,869
Water and Sewerage: Ageing			
Current (0 – 30 days)	34,355		181,758
31 - 60 Days	44,222		15,468
61 - 90 Days	4,119		12,961
+ 91 Days	121,178		205,873
Total	203,874		416,060

Summary of Debtors by Customer Classification	Consumers	Industrial / Commercial	National and Provincial Government
	R	R	R
as at 30 June 2016			
Current (0 – 30 days)	34,355		
31 - 60 Days	44,222		
61 - 90 Days	4,119		
91 and over	121,178		
Sub-total	203,874	-	-
Less: Provision for doubtful debts	(147,626)		
Total debtors by customer classification	56,248	-	-

Output Vat of R25 037.16 is included in the debtor balances - see also note 12 below.

as at 30 June 2015			
Current (0 – 30 days)	181,758		
31 - 60 Days	15,468		
61 - 90 Days	12,961		
91 and over	205,873		
Sub-total	416,060	-	-
Less: Provision for doubtful debts	(125,191)		
Total debtors by customer classification	290,869	-	-

Reconciliation of the doubtful debt provision			
Balance at beginning of the year	125,191		0
Contributions to provision	75,142		125,191
Doubtful debts written off against provision	(52,707)		-
Balance at end of year	147,626		125,191
Trade receivables - Bulk Supplies	16,147,560		7,580,036
Umzinyathi District Municipality	1,091,427		1,176,086
Amajuba District Municipality	15,056,133		6,403,950
Total Trade Receivables	16,203,807		7,870,905

OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS					
Other debtors	2,636,239		4,158,058		
Creditors with debit balances	0		1,681		
Deposits with suppliers	2,065,161		1,946,411		
Total other debtors	4,701,401		6,106,150		
Output Vat of R320 043.72 is included in the debtor balances - see also note 12 below.					
Less: Provision for bad debts					
Balance at beginning of the year	2,467,427		14,233,159		
Contributions to provision	359,736		2,085,398		
Doubtful debts written off against provision	(767,443)		(13,851,131)		
Reversal of provision					
Balance at end of year	2,059,719		2,467,427		
	2,641,681		3,638,723		

WSA DEBTORS			
Assets Funding	15,302,465		10,768,330
Umzinyathi District Municipality	6,393,128		1,848,618
Amajuba District Municipality	6,682,272		6,682,272
Newcastle Municipality	2,227,065		2,237,439
Shortfall Funding	83,186,561		83,186,561
Umzinyathi District Municipality	64,191,401		64,191,401
Amajuba District Municipality	18,995,160		18,995,160
Total WSA Debtors	98,489,026		93,954,891
Output Vat of R13 788 463.64 is included in the above debtor balances - see also note 12 below.			
There is a Provincial Executive Committee directive that the WSA's in arrears with their shortfall payments must make these good. See also note under section 9 below.			
Less: Provision for bad debts			
Balance at beginning of the year	80,794,976		
Contributions to provision	11,311,297		80,794,976
Doubtful debts written off against provision			
Reversal of provision			
Balance at end of year	92,106,272		80,794,976
	6,382,754		13,159,915

INVESTMENTS			
Total Investments	0		0
Notice and call deposits are reflected in note 1 above			

INVENTORIES			
Water	112,522		117,118

PROPERTY, PLANT & EQUIPMENT

Assets at 30 June 2016							
	Balance at	Additions	Work in	Water Service assets transferred to WSA's	Disposals	Value	Balance at
	30-Jun-16		Progress			Adjustments	30-Jun-15
Water Infrastructure	1,317,803,483	4,642,101	0	0	0	0	1,313,161,382
Vehicles	3,680,868	1,033,983	0	0	0	0	2,646,885
Plant & Equipment	48,544,759	3,179,981	0	0	0	0	45,364,779
Furniture, Equipment and Fittings	2,834,502	389,667	0	0	0	0	2,444,835
Intangible	2,980,700	0	0	0	0	0	2,980,700
Totals	1,375,844,312	9,245,732	0	0	0	0	1,366,598,581
Accumulated Depreciation							
	Balance at	Additions	Work in	Water Service assets transferred to WSA's	Disposals	Value	Balance at
	30-Jun-16		Progress			Adjustments	30-Jun-15
Water Infrastructure	193,389,531	96,809,654		0	0	0	96,579,877
Vehicles	1,192,898	556,449		0	0	0	636,449
Plant & Equipment	12,419,715	6,268,884		0	0	0	6,150,831
Furniture, Equipment and Fittings	974,424	526,265		0	0	0	448,159
Intangible	1,179,698	596,140		0	0	0	583,558
Totals	209,156,265	104,757,392	0	0	0	0	104,398,873
Carrying Values at Year End							
	Balance at	Movement	Work in	Water Service assets transferred to WSA's	Disposals	Value	Balance at
	30-Jun-16		Progress			Adjustments	30-Jun-15
Water Infrastructure	1,124,413,952	(92,167,553)	0	0	0	0	1,216,581,505
Vehicles	2,487,970	477,534	0	0	0	0	2,010,436
Plant & Equipment	36,125,044	(3,088,903)	0	0	0	0	39,213,948
Furniture, Equipment and Fittings	1,860,078	(136,598)	0	0	0	0	1,996,676
Intangible	1,801,003	(596,140)	0	0	0	0	2,397,143
Totals	1,166,688,047	(95,511,660)	0	0	0	0	1,262,199,707

A revised assets register has been completed, as at June 2015, and the asset values and depreciation provisions revalued to reflect the current position. The effective date of the revaluation was 1 July 2014. Revaluations were performed by independent valuers : Water infrastructure and pipelines by ILIFA Africa Engineers, Dams and installations INGEROP Engineers, Computer Equipment by GIJIMA Computer Consultants and furniture and fittings by BIDVEST Waltons

Assets at Cost/Revaluation 30 June 2014

Assets at 30 June 2015							
	Balance at	Additions	Work in	Water Service assets transferred to WSA's	Disposals	Value	Balance at
	30-Jun-15		Progress			Adjustments	30-Jun-14
Water Infrastructure	1,313,161,382	1,520,544	0	0	0	50,289,782	1,261,351,056
Vehicles	2,646,885	1,382,086	0	0	0	-7,103,741	8,368,540
Plant & Equipment	45,364,779	3,625,939	0	0	0	27,156,216	14,582,624
Furniture, Equipment and Fittings	2,444,835	285,105	0	0	0	-5,089,419	7,249,149
Intangible	2,980,700	90,300	0	0	0	-2,073,986	4,964,386
Totals	1,366,598,581	6,903,974	0	0	0	63,178,852	1,296,515,754
Accumulated Depreciation							
	Balance at	Additions	Work in	Water Service assets transferred to WSA's	Disposals	Value	Balance at
	30-Jun-15		Progress			Adjustments	30-Jun-14
Water Infrastructure	96,579,877	96,579,877		0	0	-199,003,049	199,003,049
Vehicles	636,449	636,449		0	0	-7,871,619	7,871,619
Plant & Equipment	6,150,831	6,150,831		0	0	-6,872,178	6,872,178
Furniture, Equipment and Fittings	448,159	448,159		0	0	-5,392,090	5,392,090
Intangible	583,558	583,558		0	0	-2,288,702	2,288,702
Totals	104,398,873	104,398,873	0	0	0	-221,427,636	221,427,636

Carrying Values at Year End							
	Balance at	Additions	Work in	Water Service assets transferred to WSA's	Disposals	Value	Balance at
	30-Jun-15		Progress			Adjustments	30-Jun-14
Water Infrastructure	1,216,581,505	(95,059,332)	0	0	0	249,292,830	1,062,348,007
Vehicles	2,010,436	745,637	0	0	0	767,878	496,921
Plant & Equipment	39,213,948	(2,524,892)	0	0	0	34,028,394	7,710,446
Furniture, Equipment and Fittings	1,996,676	(163,054)	0	0	0	302,671	1,857,059
Intangible	2,397,143	(493,258)	0	0	0	214,715	2,675,685
Totals	1,262,199,707	(97,494,899)	0	0	0	284,606,488	1,075,088,118

	Re-value cost	Movement	Work in	Water Service assets transferred to WSA's	Disposals	Value	Balance at
	Balance at	Movement	Work in	Water Service assets transferred to WSA's	Disposals	Value	Balance at
	30-Jun-16		Progress			Adjustments	30-Jun-15
INTANGIBLE ASSETS AT 30 JUNE 2016							
Assets at 30 June 2016							
Software	2,980,700	0	0	0	0	0	2,980,700
Totals	2,980,700	0	0	0	0	0	2,980,700
Accumulated Depreciation							
Software	1,179,698	596,140	0	0	0	0	583,558
Totals	1,179,698	596,140	0	0	0	0	583,558
Carrying Values at Year End							
Software	1,801,003	(596,140)	0	0	0	0	2,397,143
Totals	1,801,003	(596,140)	0	0	0	0	2,397,143

	Re-value cost	Movement	Work in	Water Service assets transferred to WSA's	Disposals	Value	Balance at
	Balance at	Movement	Work in	Water Service assets transferred to WSA's	Disposals	Value	Balance at
	30-Jun-15		Progress			Adjustments	30-Jun-14
Intangible assets at 30 June 2015							
Assets at 30 June 2015							
Software	2,980,700	90,300	0	0	0	-2,073,986	4,964,386
Totals	2,980,700	90,300	0	0	0	-2,073,986	4,964,386
Accumulated Depreciation							
Software	583,558	583,558	0	0	0	-2,288,702	2,288,702
Totals	583,558	583,558	0	0	0	-2,288,702	2,288,702
Carrying Values at Year End							
Software	2,397,143	(493,258)	0	0	0	214,715	2,675,685
Totals	2,397,143	(493,258)	0	0	0	214,715	2,675,685

Intangible assets comprise of computer software programmes

TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

Trade creditors	164,825,878		140,034,159		
Other creditors	16,884,436		12,860,062		
Unallocated Receipts	3,057,156		3,035,704		
Total Creditors	184,767,470		155,929,925		
Total Creditors 2016 - Ageing	Current Period	31 - 60 Days	61 - 90 Days	91 - 120 Days	121 and Over
	17,749,898	23,241	1,851,561	943,919	164,198,850

Include in the above trade creditors figure is an amount of R151 797 743.59 raised in respect of bulk raw water charges owed to the Department of Water Affairs and Sanitation. This amount is subject to the payment by the Water Service Authorities of their bulk water accounts and raw water budgeted costs. Negotiations are currently taking place between Uthukela Water, the WSA's the Department to resolve this matter.

Output Vat of R19 672 919.73 is included in the Trade Creditor balances - see also note 12 below.

The fair value of trade and other payables approximates their carrying amounts.

CONSUMER DEPOSITS			
Consumer Deposits: Water	0		0
SERVICE RELATED STAFF OBLIGATIONS			
Non Current			
Long Service Awards	1,474,233		988,851
Post-employment medical benefits	9,465,525		7,782,444
	10,939,758		8,771,295
Current			
Leave pay accrual	3,187,685		2,601,311
Long Service Awards	154,181		113,383
Post-employment medical benefits	235,680		158,712
	3,577,546		2,873,406
Total Provisions	14,517,304		11,644,701
The movement in Leave provisions is reconciled as follows: -			
Balance B/fwd	2,601,311		2,447,101
Increase in provision	1,192,789		771,539
Expenditure incurred	(606,415)		(617,329)
as at 30 June	3,187,685		2,601,311

Leave pay accrual

Leave pay accrual is based on the number of hours accruing to the employee at balance sheet date multiplied by the employee's hourly rate of pay. The accrual includes the liability in respect of accumulated leave due to employees previously in the employ of the WSA's prior to transfer to the company which has not yet been paid over to the company.

Long Service Awards

UThukela offers employees LSA for every five years of service completed, starting from five years of service calculated as follows:

	Long Service Awards for levels of past service			
	Completed Service (in years)		Long Service Bonuses(% of Annual Salary)	Description
	5		4.0%	10/ 251 x annual salary
	10		8.0%	20/ 251 x annual salary
	15		10.0%	25/ 251 x annual salary
	Every five years thereafter		12.0%	30/ 251 x annual salary

In the month that each "Completed Service" milestone is reached, the employee is granted a LSA.
Working days awarded are valued at 1/251st of annual salary per day
Employees who commenced working for uThukela Water after 1 April 2010 do not qualify for the LSA.
An actuarial valuation of the future liability for this benefit has been undertaken by an independent firm of Actuaries with the following results

	Year ending	Year ending	Year ending	Year ending
	30/06/2015	30/06/2016	30/06/2017	30/06/2018
Opening Accrued Liability	1,457,808	1,102,234	1,628,414	1,790,376
Current-service Cost	124,628	103,207	185,490	201,096
Interest Cost	92,961	82,246	130,653	138,874
Benefit payments	(435,159)	(113,383)	(154,181)	(285,324)
Total Annual Expense	(217,570)	72,070	161,962	54,646
Past Service Cost		152,046		
Actuarial Loss / (Gain)	(138,004)	302064		
Closing Accrued Liability	1,102,234	1,628,414	1,790,376	1,845,022

* The significant actuarial gain in 2013 occurred because 357 employees were transferred to Amajuba Municipality, Newcastle Municipality and uMzinyathi Municipality on 1 July 2013.

Key Financial Assumptions					
	Males	Females	Males	Females	
Discount rate	8.41%		7.86%		
General salary Inflation	7.08%		7.08%		
Net effective discount rate	1.25%		0.72%		
Average retirement age	63	58	63	58	
Mortality during employment	SA85-90		SA85-90		
In service members withdrawing before retirement	Males	Females			
Age 20	16%	24%			
Age 20-24	16%	24%			
Age 25-29	12%	18%			
Age 30-34	10%	15%			
Age 35-39	8%	10%			
Age 40-44	6%	6%			
Age 45-49	4%	4%			
Age 50-54	2%	2%			
Age >55	0%	0%			
Sensitivity analysis					
Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2017					
Assumption	Change	Current-service Cost	Interest Cost	Total	% change
Central Assumptions		185,500	130,700	316,200	
General salary Inflation	1%	197,900	138,300	336,200	6%
	-1%	174,200	123,700	297,900	-6%
Discount rate	1%	175,300	138,000	313,300	-1%
	-1%	196,900	122,300	319,200	1%
Average retirement age	-2 yr	173,400	118,400	291,800	-8%
	+2 yr	212,400	155,300	367,700	16%
Withdrawal rates	-50%	240,300	154,300	394,600	25%

Post-employment medical benefits

Medical Scheme Arrangements
The Employer offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.

Membership Eligibility
Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

Contribution Rate Structure
Members contribute according to tables of contribution rates which differentiate between them on the type and number of dependants. Some options also differentiate on the basis of income.

Subsidy Policy
In-service members will receive a post-employment subsidy of 60% of the contribution payable. All continuation members receive a 60% subsidy. Widow(er)s and orphans of eligible in-service members are entitled to receive this same subsidy on and after the death in-service of an employee.

Upon a member's death-in-service or death-in-retirement, the surviving dependants will continue to receive the same 60% subsidy.

An actuarial valuation of the future liability for this benefit has been undertaken by an independent firm of Actuaries with the following results				
	Year ending	Year ending	Year ending	Year ending
	30/06/2015	30/06/2016	30/06/2017	30/06/2018
Opening Accrued Liability	7,295,771	7,941,156	9,701,205	10,786,258
Current-service Cost	329,711	417,059	448,301	489,102
Interest Cost	657,319	695,179	872,432	970,323
Benefit payments	(112,512)	(158,712)	(235,680)	(255,031)
Total Annual Expense	874,518	953,526	1,085,053	1,204,394
Actuarial Loss / (Gain)	(229,133)	806,523		
Closing Accrued Liability	7,941,156	9,701,205	10,786,258	11,990,652

Key Financial Assumptions					
	Males	Females	Males	Females	
Discount rate	9.10%		8.84%		
Health care cost inflation rate	8.21%		8.05%		
Net effective discount rate	0.82%		0.73%		
Average retirement age	63	58	63	58	
Proportion continuing membership at retirement	100.00%		100.00%		
Proportion of retiring members who are married	90.00%		90.00%		
Proportion of eligible current non-member employees joining the scheme by retirement	10.00%		10.00%		
Mortality during retirement	SA85-90		SA85-90		
Mortality post retirement	PA(90)-1		PA(90)-1		
In service members withdrawing before retirement	Males	Females			
Age 20	16%	24%			
Age 20-24	16%	24%			
Age 25-29	12%	18%			
Age 30-34	10%	15%			
Age 35-39	8%	10%			
Age 40-44	6%	6%			
Age 45-49	4%	4%			
Age 50-54	2%	2%			
Age >55	0%	0%			
Sensitivity analysis					
Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2017					
Assumption	Change	Current-service	Cost Interest Cost	Total	% change
Central Assumptions		448,300	872,400	1,320,700	
Health care inflation	1%	561,000	1,026,200	1,587,200	20%
	-1%	361,700	748,500	1,110,200	-16%
Discount rate	1%	366,300	832,800	1,199,100	-9%
	-1%	556,100	913,600	1,469,700	11%
Post-retirement mortality	-1 yr	463,600	903,600	1,367,200	4%
Average retirement age	-1 yr	494,000	913,200	1,407,200	7%
Continuation of membership at retirement	-10%	389,700	804,300	1,194,000	-10%

VAT					
Debtors Vat Raised - Not Yet Due	(14,172,207)		(12,964,988)		
Creditors Invoices Vat Raised - Not Yet Claimed	19,672,920		16,910,700		
VAT receivable/(payable)	(180,189)		(922,196)		
Total VAT receivable/(payable)	5,320,524		3,023,517		
VAT is currently paid and claimed on the receipts and payments basis. Only once payment is received from debtors or made to creditors is VAT paid/claimed to/ from SARS - See also notes 2, 3, 4 & 9 above.					

BORROWINGS					
Total long-term loan liability	0		0		
As at 30 June 2016 there were no loans outstanding.					
SHARE CAPITAL					
Issued ordinary shares	100		100		
The authorised number of ordinary shares is 10 000 with a par value of R 1 per share. The company has issued 100 ordinary shares.					

ACCUMULATED FUNDS			
Accumulated Funds Surplus(Deficit)			
Balance Beginning Year - Surplus(Deficit)	118,688,765		234,823,922
(Surplus)Deficit for year	(125,730,488)		75,035,753
Transfer (Profit) /loss on fair value adjustment to revaluation reserve	-		(284,606,488)
Off Setting Depreciation - Revaluation Reserve	93,115,297		93,435,577
Balance Year End	86,073,574		118,688,765
Asset Revaluation Reserve	1,014,051,088		822,880,177
Less: Off Setting Depreciation	(93,115,297)		(93,435,577)
(Profit) /loss on fair value adjustment	-		284,606,488
Balance Year End	920,935,791		1,014,051,088
Total Accumulated Funds	1,007,009,364		1,132,739,852
Shareholder Contributions			
Shareholder Contributions - Beginning Year	1,528,517,011		1,534,344,142
Increase in Shareholder contributions	5,108,408		2,171,329
Less: Off Setting Depreciation	(8,253,084)		(7,998,459)
Balance Year End	1,525,372,336		1,528,517,011
Accumulated Funds Surplus(Deficit)	86,073,574		118,688,765
Shareholder Contributions - Projects	206,253,760		209,398,436
Umzinyathi District Municipality	96,586,886		95,972,833
Amajuba District Municipality	19,230,858		20,471,978
Newcastle Municipality	90,436,017		92,953,625
Accumulated Funds Surplus(Deficit) -Excluding Shareholder Contributions - Projects	(120,180,186)		(90,709,671)
Shareholder Contributions - Shortfall Funding	1,319,118,576		1,319,118,576
Umzinyathi District Municipality	428,648,202		428,648,202
Amajuba District Municipality	115,583,767		115,583,767
Newcastle Municipality	774,886,607		774,886,607
Accumulated Funds Surplus(Deficit) -Excluding Shareholder Contributions - Shortfall Funding	(1,439,298,762)		(1,409,828,247)
Shareholder Contributions - Total	1,525,372,336		1,528,517,011
Umzinyathi District Municipality	525,235,088		524,621,035
Amajuba District Municipality	134,814,625		136,055,745
Newcastle Municipality	865,322,623		867,840,232

SERVICE CHARGES			
Sale of water	87,459,570		81,448,307
Total Service Charges	87,459,570		81,448,307
INTEREST EARNED - EXTERNAL INVESTMENTS			
Banks	311,951		268,697
Deposits Made with Suppliers	104,693		97,402
Total Interest	416,644		366,098
INTEREST EARNED - OUTSTANDING RECEIVABLES			
Consumer Debtors	0		0
Total Interest	0		0
GRANTS AND SUBSIDIES			
Project funding			
Umzinyathi District Municipality	4,072,731		1,771,329
Newcastle Municipality	1,035,677		400,000
	5,108,408		2,171,329

EMPLOYEE RELATED COSTS			
Salaries and Wages	19,513,311		16,390,022
UIF, Medical, Pension and Provident Fund	4,336,124		3,270,871
Leave pay	1,192,789		771,539
Bonuses	1,094,043		970,821
Housing benefits and allowances	1,924,021		1,976,859
Overtime payments	2,287,701		2,220,632
Other	236,228		360,981
Long Service and Medical Aid Commitments	2,286,229		289,811
	32,870,445		26,251,535
Included in the employee related costs are the following:			
Managing Director			
Annual Remuneration	0		300,335
Travel, motor car, accommodation, subsistence and other allowances			63,904
Contributions to UIF, Medical and Pension Funds			41,615
Accumulated Leave			0
Total	0		405,855
Chief Financial Officer			
Annual Remuneration	0		0
Travel, motor car, accommodation, subsistence and other allowances			
Contributions to UIF, Medical and Pension Funds			
Accumulated Leave			
Total	0		0
Heads of Departments			
Operations/Engineering			
Annual Remuneration	1,026,689		799,490
Travel, motor car, accommodation, subsistence and other allowances	112,978		106,543
Contributions to UIF, Medical and Pension Funds	163,020		130,863
Accumulated Leave	382,334		284,821
Total	1,685,021		1,321,717
Engineering			
Annual Remuneration			
Human Resources Manager			
Annual Remuneration	728,986		484,035
Travel, motor car, accommodation, subsistence and other allowances	232,190		212,223
Contributions to UIF, Medical and Pension Funds	153,590		82,240
Accumulated Leave	140,635		63,599
Total	1,255,402		842,097
Remuneration of directors			
Chairman	0		0
Deputy Chairman	0		0
Other board members	0		0
Total Director's Remuneration	0		0

DEPRECIATION AND AMORTISATION EXPENSE			
Property, plant and equipment	104,161,252		103,815,316
Intangible assets	596,140		583,558
Total Depreciation and Amortisation	104,757,392		104,398,873
FINANCE COSTS			
Interest on annuity loans	0		0
	0		0
BULK PURCHASES			
Water	15,202,299		25,488,232
Water services levy	3,668,262		4,072,559
	18,870,560		29,560,791
The significant decrease in bulk water purchases is attributed to the drought in 2016.			
CONTRACTED SERVICES			
Professional fees and consultant costs	3,879,249		5,443,953
Legal expenses	207,567		104,615
	4,086,816		5,548,568

GENERAL EXPENSES

Included in general expenses are the following:-			
Advertising	106,273		68,397
Bank charges	67,428		60,868
Board meeting and Chairman's discretionary	201,458		163,197
Books and publications	7,025		5,415
Chemicals	6,953,288		7,904,436
Cleaning materials	29,957		27,201
Communications costs	466,585		594,719
Conferences and seminars	169,689		109,551
Consumables and stores	49,429		96,028
Electricity	27,561,682		26,460,327
Fuel and Oil	507,116		944,910
Insurance	442,981		563,981
Interest, fines and penalties	8,782		23,077
Licensing of Motor Vehicles & Trailers	154,880		100,475
Membership fees	35,306		49,689
Municipal services	144,072		0
Postage and courier services	24,769		20,281
Printing and stationery	133,045		93,446
Protective clothing	3,749		175,167
Public participation and awareness	25,335		2,767
Rental	1,172,218		1,714,221
Safety and security	265,329		389,650
Scada and telemetric costs	95,592		49,362
Software Licenses	260,296		56,394
Staff and other meeting costs	12,358		28,867
Staff Emergency Rations	2,479		0
Staff recruitment and relocation costs	37,394		31,875
Subsistence and travel	499,631		316,143
Tools and equipment	24,397		28,050
Training	835,683		376,777
Water analysis	1,708,410		993,915
	42,006,637		41,449,184

GAIN / (LOSS) ON SALE OF ASSETS

Property, plant and equipment	0		0
Intangible assets			
Total Gain / (Loss) on Sale of Assets	0		0

PROFIT / (LOSS) ON FAIR VALUE ADJUSTMENT

Property, Plant and Equipment	0		284,391,773
Intangible Assets	0		214,715
Total Profit / (Loss) on Fair Value Adjustment	0		284,606,488
For more details see appendix B			

CASH GENERATED BY OPERATIONS			
Surplus/(Deficit) for the year	(125,730,488)		75,035,753
Adjustment for: -			
Depreciation	104,757,392		104,398,873
Contribution to bad debt provision	11,746,175		83,005,565
Contribution to staff benefits provision	2,872,603		444,021
Decrease/ (Increase) in assets revalue	-		(284,606,488)
Operating surplus before working capital Amendments	(6,354,319)		(21,722,276)
(Increase)/Decrease in Inventories	4,596		242,632
Decrease/(Increase) in consumer and other debtors	(11,484,724)		(9,872,313)
(Decrease)/Increase in creditors	28,837,545		28,819,938
(Decrease)/Increase in provisions	(820,151)		13,851,131
(Decrease)/Increase in Consumer Deposits	-		-
(Decrease)/Increase in VAT	(2,297,007)		(4,164,635)
Cash generated by operations	7,885,942		7,154,477

CASH AND CASH EQUIVALENTS			
Cash and cash equivalents included in the cash flow statement comprise the following:			
Bank balances and cash	7,906,179		8,301,759
Bank overdrafts			
Cash on call and short notice deposits	1,038,723		2,002,933
Net cash and cash equivalents (net of bank overdrafts)	8,944,902		10,304,692

CHANGE IN ACCOUNTING POLICY

No change in accounting policies during the year

CORRECTION OF ERROR

No corrections of error

UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

During the period under review, no incidents of losses or irregular expenditure were reported to the Board. However, penalty interest amounting to R 8 781.65 was paid as a consequence of the late settlement of accounts which was reported and condoned by the Board. No disciplinary action was deemed necessary therefore no action has been taken in respect of these transactions.

Unauthorised expenditure			
Reconciliation of unauthorised expenditure			
Opening balance	-		-
Unauthorised expenditure current year	-		-
Unauthorised expenditure awaiting authorisation	-		-
Fruitless and wasteful expenditure			
Reconciliation of fruitless and wasteful expenditure			
Opening balance -	-		-
Fruitless and wasteful expenditure current year	10,782		23,077
Condoned or written off by Council	(8,782)		(23,077)
Fruitless and wasteful expenditure awaiting condonement	2,000		-
Irregular expenditure			
Reconciliation of irregular expenditure			
Opening balance	-		-
Irregular expenditure current year			4,459,105
Irregular expenditure awaiting condonement	-		4,459,105

Irregular expenditure 2015 - The irregular expenditure of R 4 459 105 relates to business contracts entered into where service providers were found to have family connections with persons employed by the state directly or indirectly. There is currently no proper system to monitor and control this anomaly and the Board relies on the service provider to properly disclose this interest.

ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL SECTION 27 FINANCE MANAGEMENT ACT			
Opening balance			
Council subscriptions	-		-
Amount paid - current	-		-
Amount paid - previous years			
Balance unpaid (included in payables)	-		-
Audit fees			
Audit fees paid during the year	924,609		1,121,200
	924,609		1,121,200
VAT			
VAT input - receivables and VAT output - payables are shown in note 12. During the year all VAT returns were submitted by the due date.			

PAYE			
Opening Balance	0		0
Current year payroll deductions	4,533,960		3,840,431
Amount paid - current year	(4,533,960)		(3,840,431)
Balance unpaid at year end included in creditors	-		-
UIF			
Opening Balance	0		0
Current year payroll deductions	241,277		229,348
Amount paid - current year	(241,277)		(229,348)
Balance unpaid at year end included in creditors	-		-
Medical aid			
Opening Balance	0		0
Current year payroll deductions	1,816,896		1,597,164
Amount paid - current year	(1,816,896)		(1,597,164)
Balance unpaid at year end included in creditors	-		-
Pension and provident fund contributions			
Opening Balance	0		0
Current year payroll deductions	3,839,880		3,324,492
Amount paid - current year	(3,839,880)		(3,324,492)
Balance unpaid at year end included in creditors	-		-

COUNCILLOR'S ARREAR CONSUMER ACCOUNTS

The following Councillors had arrear accounts outstanding for more than 90 days as at: -	Total	Outstanding less than 90 days	Outstanding more than 90 days
	R	R	R
as at 30 June 2016			
Total Councillor Arrear Consumer Accounts	Nil	-	-
as at 30 June 2015			
Total Councillor Arrear Consumer Accounts	Nil	-	-
CAPITAL COMMITMENTS			
Commitments in respect of capital expenditure			
- Approved and contracted for			
Infrastructure	-		1,204,252
Total	-		1,204,252
This expenditure will be financed from:			
- External Loans			
- District Council Grants	-		1,204,252
Total	-		1,204,252

OPERATING LEASES

At the reporting date the entity has outstanding commitments under operating leases which fall due as follows:			
Operating leases - lessee			
Within one year	221,179		879,425
In the second to fifth year inclusive	-		-
After five years	-		-
Total	221,179		879,425
Operating Leases consists of the following:			
Operating lease payments represent rentals payable by the municipality for its head office property at Lot 600 Newcastle. The current lease expires on 31 August 2016			

RETIREMENT PLANS

Defined contribution plans

During the year contributions were made to the following are defined contribution plans: Natal Joint Municipal Pension Fund - Provident Funds SALA pension fund. These contributions have been expensed.

Defined benefit plan

The following are defined benefit plans: Natal Joint Municipal Pension Funds - Superannuation and Retirement funds and Government Employees Pension Fund. These are not treated as defined benefit plans as defined by IAS19, but are accounted for as defined contribution plans. This is in line with the exemption in IAS 19 par. 30 which states that where information required for proper defined benefit plan accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans.

In respect of Natal Joint Municipal Pension Funds - Superannuation and Retirement funds regular actuarial assessments are carried out in terms of the fund rules and any actuarial deficit is recovered by a surcharge on all employer members

Employees retirement funding

An amount of R3 049 214 (2015 : R2 296 322) was contributed by Council in respect of Employees retirement funding. These contributions have been expensed and are included in employee related costs for the year.

CONTINGENT LIABILITY							
Claim for damages	Nil		Nil				

2016

There were no significant matters to report on

2015

There were no significant matters to report on

CONTINGENT ASSET- Incidents of Fraud

2016

Recovery of unauthorised remuneration from non-executive directors - there is an outstanding matter amounting to R1 316 013.57. The matter is being heard by the High Court in October 2014. This matter arose in the 2005-2006 financial year.

The matter has been referred to COGTA for write-off as the costs of recovery are considered to be excessive.

IN-KIND DONATIONS AND ASSISTANCE

The Municipality received no in-kind donations and assistance

RELATED PARTIES			
The nature of the relationship between the company and its shareholders, namely: the Water Service Authorities (uMzinyathi District Municipality, Amajuba District Municipality and Newcastle Municipality) is such that any transactions between the parties are related party transactions. Specific categories of such transactions includes:			
WSA Contributions			
Project Contributions	5,108,408		2,171,329
Umzinyathi District Municipality	4,072,731		1,771,329
Amajuba District Municipality	0		0
Newcastle Municipality	1,035,677		400,000
Total WSA Contributions	5,108,408		2,171,329

TAXATION

The Company is exempt from the payment of income tax and duties in terms of section 10 (1) (t) (ix) of the Income Tax Act 58/1962

EVENTS AFTER THE REPORTING DATE

Change of Functions

The future of the bulk water services in the region is still being finalised by National Minister of Water Affairs

SUPPLY CHAIN MANAGEMENT (SCM) POLICY DECLARATION

D.C. Poole a Manager in the Operations department completed a declaration of interest in terms of Section 45 of the SCM policy that his daughter is a member of Tri-Force Maintenance with which the Board has contracted with.

Supply chain deviation from policy - Supply chain acquisitions amounting to R4 308 519.62, approved by senior management acting in terms delegated powers, were incurred in terms of Section 36.2 of the Boards SCM policy during the 2016 financial year. The reasons for the deviations include the following: Acquisition from sole suppliers, non-responsive suppliers, supplies where mechanical units required a strip and quote, acquisitions direct from manufacturers or agents and, where in terms of Board policy, equipment was standardised in terms of policy.

RISK MANAGEMENT

Maximum credit risk exposure

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Management evaluates credit risk relating to consumer debtors and provides for impairment see note above.

Liquidity risk

The company's risk to liquidity is related to the timeous payment of bulk water accounts by its shareholding municipalities

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Interest rate risk

As the company has no significant interest-bearing assets, the company's income and operating cash flows are substantially independent of changes in market interest rates.

RESTATEMENT OF COMPARATIVE INFORMATION

None

COMPARISON WITH THE BUDGET

The comparison of the Municipality's actual financial performance with that budgeted is set out in Annexures E

BULK WATER LOSSES

The Boards bulk water losses are minimised due to the fact that the municipalities are responsible for the reticulation and supply of water to customers.

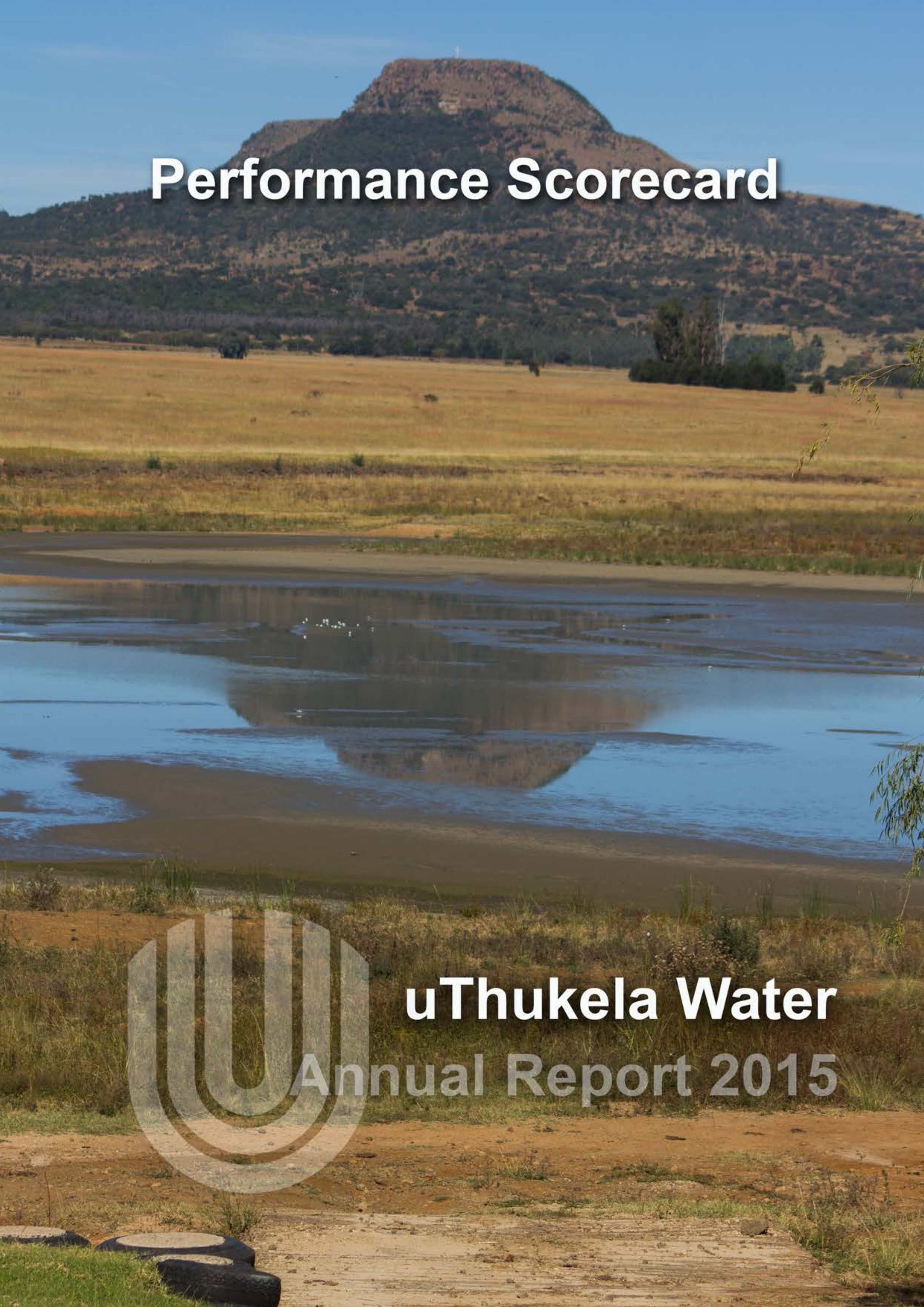
The Boards bulk water is extracted from source and pumped directly to the water purification works where it is processed through the system and although there are some technical losses during this process due to the chemical treatment and waste extraction from the water, losses are still considered technical and insignificant.

Water losses on the main bulk lines during the 2016 financial year were as follows:

Ngagane 8.29%
Biggarsberg 6.42%
Average Loss 7.36%

These loses can be attributed to technical factors such as natural evaporation, cleaning and filtering processes, minor meter deviations and unavoidable minor leaks on the bulk water system.

Performance Scorecard



uThukela Water

Annual Report 2015

Performance Setting

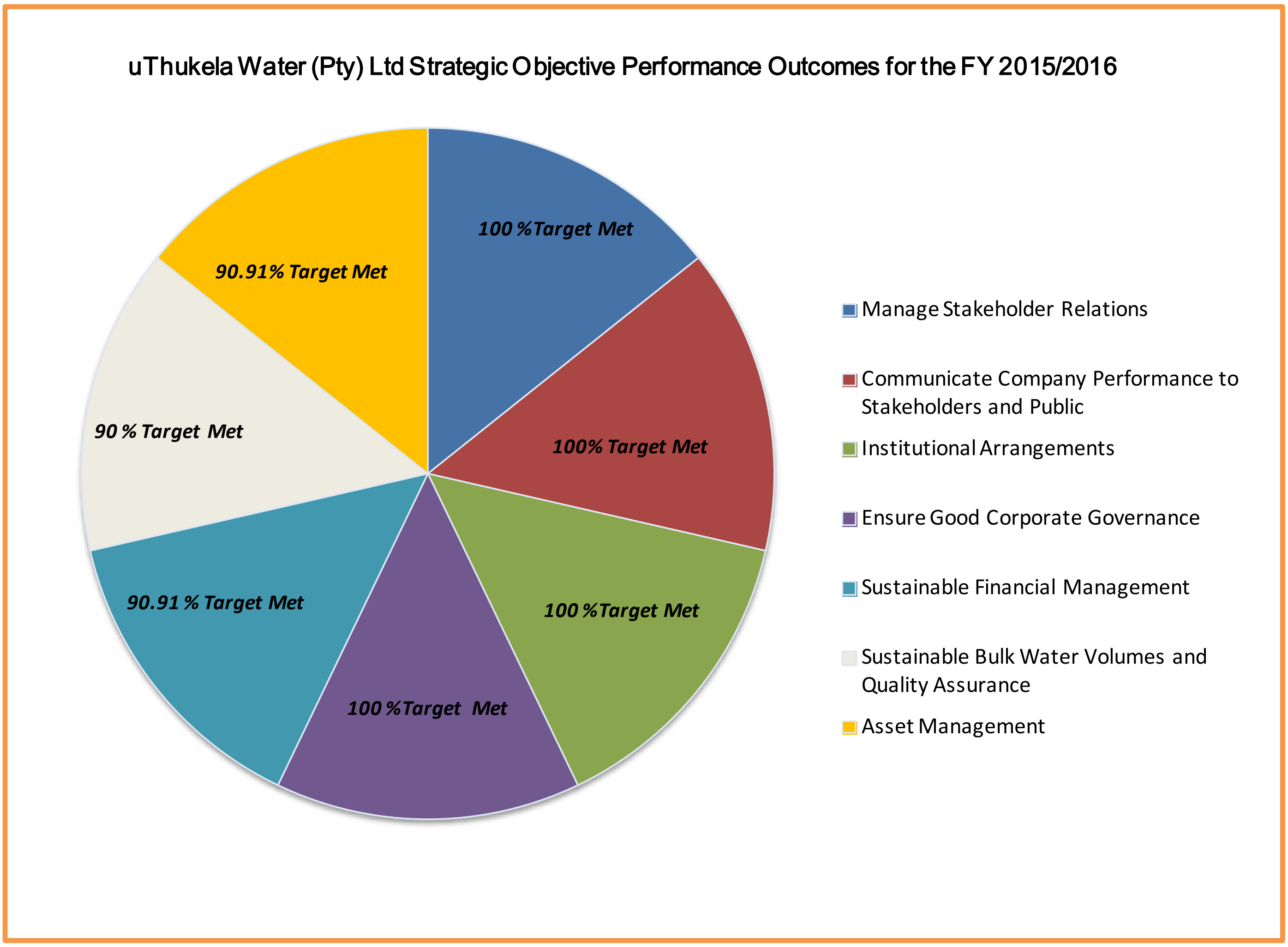
The mission of uThukela Water (Pty) Ltd is:

The provisioning of quality bulk water services, and related laboratory and environmental services. From raw water sources (boreholes, rivers and dams) emanating mainly from the Ntshingwayo/Chelmsford dam and the Buffalo and Ngagane rivers, and purified at the Ngagane and Biggarsberg bulk water works.

uThukela Water(Pty) Ltd uphold its mission statement by ensuring excellent and consistent performance across all areas of expertise within the institution.
Excellent performance despite very challenging circumstances is one of the values uThukela Water prides itself in.
The institution achieves this high level of performance by developing a pre approved performance score card wherein the main strategic objectives of the company and the key performance indicators to achieve the agreed objectives are identified. In most areas targets are set, and communicated to responsible staff members thereby ensuring responsibility and accountability.
The score card for the financial year ending on the 30 June 2016 comprised of 7 key strategic objectives and was further broken down into 31 Key performance areas. Overall these 31 indicators enable the company to achieve its key strategic objectives throughout the year and to ensure excellent performance by the institution.

Performance Outcomes

During the FY 2015/2016, uThukela Water (Pty) Ltd met all its targets in the strategic areas of managing stakeholder relations, communicating company performance to stakeholders and public, institutional arrangements and ensuring Good Corporate Governance. In the areas of sustainable financial management, sustainable bulk water volumes and quality assurance and asset management the company partially met all targets that were set at the beginning of the year. This can be seen in the below pie chart representation.



uTHUKELA WATER (PTY) LTD
INSTITUTIONAL PERFORMANCE SCORECARD FY2015/2016

Strategic Objective #01	Key Performance Area		Key Performance Indicator	Annual Target	Actual	Target Met/ Partially Met/ Not Met	Variance / Comments
Manage Stakeholder Relations	Align Bulk Water Master Plan, Business Plans & Budgets with Municipal IDP's, Budgets & Plans, and National / Provincial Development Objectives	1	One Meeting per annum with each Shareholder and Provincial Representative Committee	•One meeting per Annum per Shareholder and Provincial Representative Committee	•One meeting per Annum per Shareholder and Provincial Representative Committee	•Target Met	
	Schedule and attend regular monthly oversight meetings with Parent Municipalities	2	To have monthly meetings with all WSA's	•12 scheduled meetings with WSA's	•12 meetings scheduled	•Target Met	Good relationships established with WSA's
	Scheduled meetings with Local Labour Forum, and Regular Staff Information Meetings	3	To have a minimum of four meetings per annum	•4 Local Labour Forum meetings •Staff information sessions	4 Local Labour Forum meetings held • 1 session per site was held in order to disseminate information to all staff members	•Target Met •Target Met	

uTHUKELA WATER (PTY) LTD
INSTITUTIONAL PERFORMANCE SCORECARD FY2015/2016

Strategic Objective #02	Key Performance Area		Key Performance Indicator	Annual Target	Actual	Target Met/ Partially Met/ Not Met	Variance / Comments
Communicate Company Performance to Stakeholders and Public	Submission of Monthly Section 71 Oversight Reports and Quarterly Performance Reports to Shareholders	1	Compile and submit Monthly Oversight Reports and Quarterly Performance Reports to Shareholders	•12 monthly oversight Reports •4 quarterly performance reports	•12 Monthly oversight reports submitted •4 Quarterly performance reports submitted	•Target Met •Target Met	
	Compile Annual Report with Input from Stakeholders	2	Compile and submit Final Annual Report to Stakeholders and Public	•1 Annual Report	•1 Annual Report Published	•Target Met	Annual report compiled and distributed during the FY 2014/2015 AGM

uTHUKELA WATER (PTY) LTD INSTITUTIONAL PERFORMANCE SCORECARD FY2015/2016							
Strategic Objective #03	Key Performance Area		Key Performance Indicator	Annual Target	Actual	Target Met/ Partially Met/ Not Met	Variance / Comments
Institutional Arrangements	Board, Shareholder and Audit Committee Meetings	1	Quarterly meetings to be scheduled	•4 scheduled Board Meetings •4 scheduled Shareholder meetings •4 scheduled Audit Committee meetings	•4 Board Meetings Scheduled • 4 Shareholder Meetings scheduled •4 Audit Committee meetings scheduled	•Target Met •Target Met •Target Met	

uTHUKELA WATER (PTY) LTD
INSTITUTIONAL PERFORMANCE SCORECARD FY2015/2016

Strategic Objective #04	Key Performance Area		Key Performance Indicator	Annual Target	Actual	Target Met/ Partially Met/ Not Met	Variance / Comments
Ensure Good Corporate Governance	Compliance with Statutory Company and Local Government Legislation	1	To ensure compliance with Company, National, Provincial and Local Government legislative guidelines and "score-sheets" on a quarterly basis	•Ensure compliance on a quarterly basis	•MFMA Score sheets completed for each quarter (4)	•Target Met	No non compliance noted
	To Comply with WSP / WSA Agreements	2	To monitor compliance with WSP / WSA Agreement Scorecards on a bi-annual basis	•To monitor compliance with WSP / WSA Agreement Scorecards on a bi-annual basis	•WSP agreement compliance document monitored on a monthly basis.	•Target Met	
	Manage and Reduce Risks	3	Carry out an annual departmental risk assessment and perform quarterly monitoring exercises thereof	•1 annual risk assessment •4 Quarterly Risk Reports	• 1 annual risk assessment completed •4 Quarterly Risk Reports submitted	•Target Met •Target Met	
	Employment Equity Planning	4	To have a minimum of 4 EEF meetings per annum; and to ensure that the EE annual report is submitted to the DOL no later than the 15th January each year	•4 Meetings •EE annual report submission to DOL before the 15th January every year.	4 Meetings held •EE annual report submitted to the DOL before the 15th January 2016.	•Target Met •Target Met	
	BBBEE Project award targeting	5	BBBEE Project Award targeting to meet legislative requirements with at least 2 new entrants annually	•2 tender awards to new BBBEE vendors	•2 New BBBEE Vendors awarded tenders in FY 2015/2016	•Target Met	
	Training and Development Plans	6	At Least 10 Learning initiatives are undertaken per year / Skills Development in Core and Distinctive Competencies approved and implemented across all departments per Annum	•Approve 10 learning initiatives per year/ skill development programmes across all departments	•More than 10 staff members were enrolled to further their studies/ underwent training as part of learning initiatives and skill development in the FY 2015/2016	•Target Met	
	Succession Planning	7	Succession Planning to be initiated by the 4th quarter	•Succession planning implementation •Monitoring of succession planning on bi annual basis	•Succession plans have been received from all key departments who have the available staff complement.	•Target Met •Target Met	All key departments with available staff complement have submitted succession plans
	Information Systems	8	Functional modern-day and live IT systems that generate management and stakeholder information reviewed on a quarterly basis	•4 quarterly IT reports	•12 Monthly IT reports submitted	•Target Met	12 Monthly IT reports
	Safety, Health, Environmental, and Quality Management (SHEQ)	9	To ensure development, implementation and continual improvement of SHEQ-related matters on a quarterly basis	•4 quarterly SHEQ reports	•4 Quarterly SHEQ reports submitted	•Target Met	

uTHUKELA WATER (PTY) LTD
INSTITUTIONAL PERFORMANCE SCORECARD FY2015/2016

Strategic Objective #05	Key Performance Area		Key Performance Indicator	Annual Target	Actual	Target Met/ Partially Met/ Not Met	Variance / Comments
Sustainable Financial Management	Sustainable Bulk Tariff	1	To annually align bulk water tariff within the industry norm of R 5.50	•Align bulk water with industry norm of R5.50	The Bulk Tariff for the FY 2015/2016 FY is R2.54.	•Target Met	R2.54 cents per kilolitre. Below industry norm as no capital provision allowed in bulk tariff by WSA's
	Good Performance Ratios	2	Percentage Return on Assets to be less than 10%	•ROA < 10%	• 0%	•Target Met	
		3	Debtor Days managed to be less than 35 Days	•Debtor Payment Period < 35 days	•Targets not met where WSA payments withheld and paid late.	•Target partially met.	Targets not met where WSA payments withheld and paid late.
		4	Debt to Equity Ratio to be managed below 40%	•Debt to Equity < 40%	•0 %	•Target Met	0%, Currently have no external debt.
		5	Liquidity measured by positive cash flow and maintaining a creditor payment cycle of 30 days	•Creditor Payment cycle of 30 days	•30 days.	•Target Met	Exceptions to 30 day cycle only in instances where WSA capital grant transfer paid late.
		6	Controlling quarterly / annual operational and capital expenditure budget targets	•Quarterly monitoring of operational and capital expenditure VS budget targets	Monthly monitoring of expenditure VS Budget targets.	•Target Met	9% Savings on some votes attributable to reduced bulk water supply due to drought conditions.
		7	Staff establishment fixed cost ratio to be maintained at below 30% of total operational cost	•Staff establishment cost to be < 30% of total OPS cost	•26%	•Target Met	26%
		8	Maintenance Budget Ratio Costs to be improved annually by ½%, in order to move towards the industry norm of 5% of total infrastructure costs	•Maintenance budget ratio costs to be improved by ½%	•5%	•Target Met	Restricted to affordability and WSA budget constraints.
		9	External funds mobilized for long-term financial sustainability of infrastructure	•External funds mobilised for infrastructure sustainability	•Restricted by WSA grant allocations and external funding approval.	•Target Met	Restricted by WSA grant allocations and external funding approval.
		10	To achieve an annual unqualified audit report / qualified report with a minimum of 2 breaches of materiality or significance	•To achieve an annual unqualified audit report / qualified report with a minimum of 2 breaches of materiality or significance	•Unqualified audit opinion with 0 material findings	•Target Met	Unqualified audit opinion obtained for 2015 financial year.
	Efficient SCM Processes	11	To review requisition and ordering timeframes within SCM procurement framework on a quarterly basis	•4 Quarterly SCM Reports	12 Monthly SCM Reports submitted	•Target Met	12 Monthly SCM Reports

uTHUKELA WATER (PTY) LTD
INSTITUTIONAL PERFORMANCE SCORECARD FY2015/2016

Strategic Objective #06	Key Performance Area		Key Performance Indicator	Annual Target	Actual	Target Met/ Partially Met/ Not Met	Variance / Comments
Sustainable Bulk Water Volumes and Quality Assurance	Bulk Water Services Master Plan	1	To align and workshop with WSA's the implementation of the bulk water services master plan and entity business and budget plans	•To align and workshop with WSA's the implementation of the bulk water services master plan and entity business and budget plans	•The master plan is a standing item on all Operations Finance and Admin Meetings with WSA'S. •Master Plan presentations conducted.	•Target Met	Meetings held with WSA's to co ordinate the implementation of a regional master plan. A steering committee has been established to drive this project.
	To supply agreed bulk water demands to WSA's	2	To supply uninterrupted bulk water volumes in terms of WSP Agreements and budgeted volumes.	•To supply uninterrupted bulk water volumes in terms of WSP Agreements and budgeted volumes.	•Newcastle 32017815 Kl •uMzinyathi 4599183 Kl •Amajuba 570496 Kl	•Target Met	Targets met as per agreements, volumes adjusted as per Department of Water Affair drought restrictions during the year.
	To supply quality bulk water in terms of SANS 241:2011	3	95% across Physical, Microbiological and Operational Determinants	•Water Quality of 95% across all determinants	•Newcastle: Chemical 100% Microbiological 100% Physical 98.3% •uMzinyathi: •Chemical 100% •Microbiological 100% •Physical 99.8%	•Partially Met	Newcastle showed non compliance in the 3rd and 4th quarter due to operational non-compliance (turbidity >1)
	Reliability of Bulk Water Supply	4	To minimise unavoidable or planned maintenance bulk water supply disruptions to less than 24 hours	•To minimise unavoidable or planned maintenance bulk water supply disruptions to less than 24 hours	•2 Planned Water Supply disruptions during the FY 2015/2016 both disruptions lasted less than 12 hours.	•Target Met	
	Water Conservation Management	5	To restrict bulk water losses on the raw and potable pipelines to less than 15% (with the ultimate objective being less than 5%)	•Bulk water losses < 15%	Total Bulk Water Loss for FY 2015/2016 was 7.36%	•Target Met	

uTHUKELA WATER (PTY) LTD INSTITUTIONAL PERFORMANCE SCORECARD FY2015/2016							
Strategic Objective #07	Key Performance Area		Key Performance Indicator	Annual Target	Actual	Target Met/ Partially Met/ Not Met	Variance / Comments
Asset Management	Regular asset conditional assessments	1	To annually assess the overall condition of all assets, and to submit at least 5 innovative or new business plans for replacement / refurbishments per annum	•Annual asset assessment •5 Business plans submitted for the replacement/ refurbishment of assets	•Annual asset assessment completed •2 Business Plans submitted for the refurbishment of uThukela Water(Pty) Ltd assets	•Target Met •Partially Met	2 Business Plans were submitted relating to the refurbishment of the assets of uThukela Water (Pty) Ltd. Business plans to assist DOWS with emergency drought intervention measures were submitted but did not form part of uThukela Water assets.
	Maintenance Planning	2	To quarterly assess the implementation of the maintenance plan	•4 quarterly maintenance reports	•12 Monthly maintenance reports submitted as part of the operations monthly reports	•Target Met	12 monthly Maintenance overview reports as part of the Operations report
	Infrastructure Capital and Operational Spending and Targeted Completion Dates	3	To monitor infrastructure capital and operational expenditure within targeted cash flows and within the targeted completion dates	•To monitor infrastructure capital and operational expenditure within targeted cash flows and within the targeted completion dates	No capital expenditure allocated to the entity for the FY 2015/2016. Operational Expenditure monitored daily. Monthly cash flows submitted as part of monthly financial reporting.	•Partially Met	

uthukela
water

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