



**Amatola**  
Water • Amanzi

*bringing water to life*

# **Annual Report**

2011 ▶ 2012



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## AMATOLA WATER ANNUAL REPORT 2011/2012

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## Vision

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To be the leading Bulk Water Services Provider in the entire Eastern Cape Province.

## Mission

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Amatola Water will provide safe, environmentally friendly, quality, cost effective and sustainable water services to meet the specific needs of the Eastern Cape water sector by:

- Developing and expanding infrastructure;
- Developing sound customer relationships;
- Managing assets and resources optimally;
- Training and retaining dedicated staff;
- Applying appropriate technology; and
- Ensuring sound governance

## Values

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We are inspired by an unwavering commitment to serve our stakeholders through the consistent demonstration of:

- Integrity
- Accountability
- Excellence

## Service Offerings

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Resourced with a comprehensive spectrum of specialist, technical and professional personnel, Amatola Water pursues a vision of becoming the service provider of choice for local government in the Eastern Cape by offering a full range of water services. This capability allows the entity to be active in a number of servicing fields including:

### INFRASTRUCTURE

- Water sector planning
- Project planning
- Implementing agent and programme management
- Construction management
- Upgrading/refurbishment
- Contracts administration

### WATER SERVICES

- Bulk water purification and distribution
- Reticulation management services
- Bulk sanitation
- Water demand management
- IT project management
- Billing systems
- Resource management
- Analytical services
- Pollution control
- Environmental management

### INSTITUTIONAL & SOCIAL DEVELOPMENT

- Community water and sanitation project facilitation
- Capacity building and training facilitation

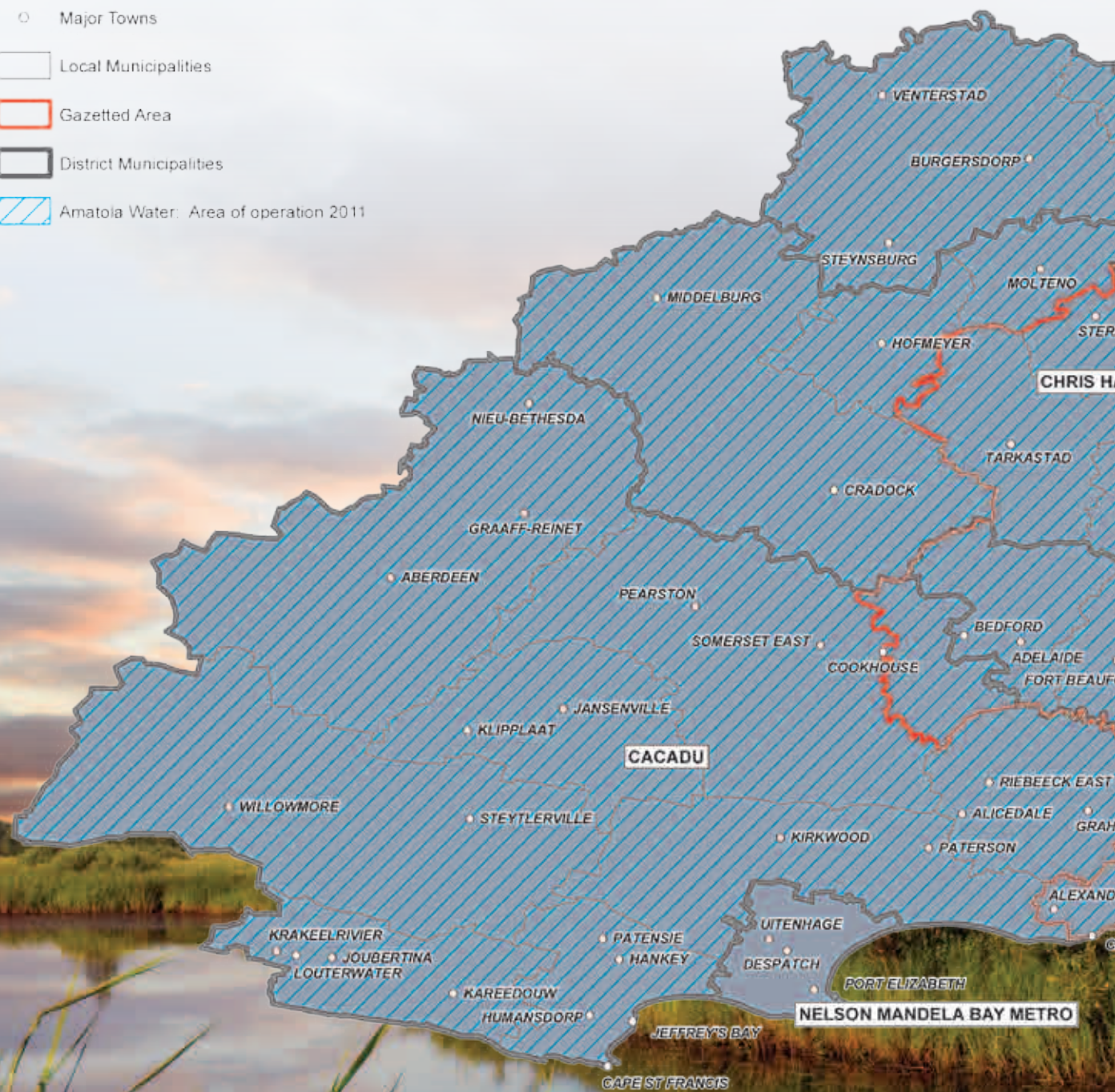
### TECHNICAL & OPERATIONAL SERVICES

- Infrastructure optimisation
- General maintenance and support services
- Emergency operational system restorations
- Technical/operational management training

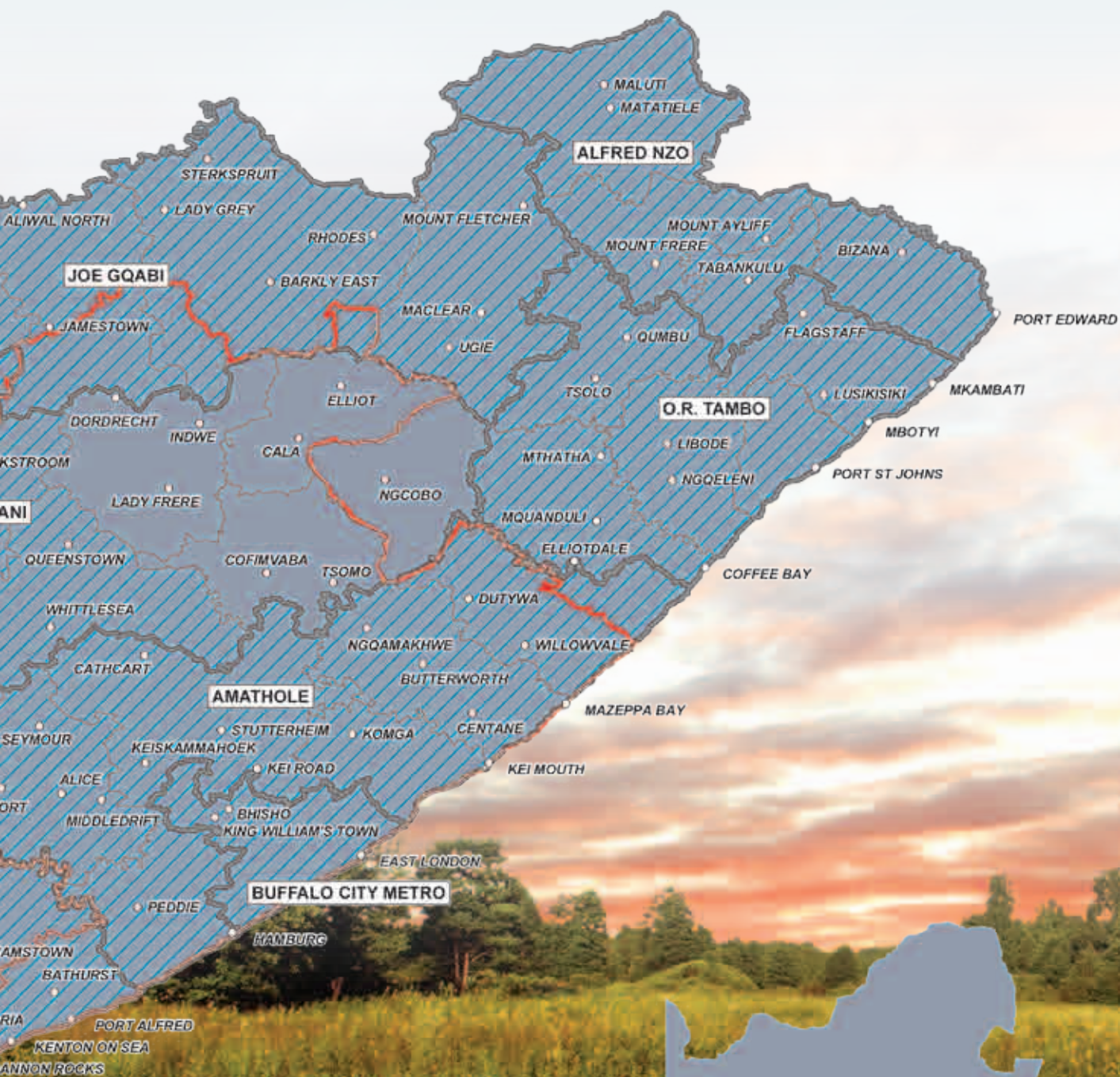
# Amatola Water Area of Operations 2011/2012

## Legend

- Major Towns
- Local Municipalities
- Gazetted Area
- District Municipalities
- ▨ Amatola Water: Area of operation 2011











# ***Business Review***

***Chairman's Report***

***Chief Executive's Report***

***Performance Measurement***

# Chairman's REPORT

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*It is my great pleasure and a privilege to present Amatola Water's Annual Report for the year ended June 2012. What follows is an overview of the water board's activities during the 2011/ 2012 reporting period.*

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## FINANCIAL PERFORMANCE

This has been a year of discovery for Amatola Water. The initial months of the financial year were spent on a fact finding mission to try and understand the areas in our operations that have negatively affected the organisation's financial position. Accordingly, difficult decisions have had to be taken in order to protect the long-term sustainability of the utility.

## ORGANISATIONAL LEADERSHIP

Sadly during the review period we lost two members of our executive team, with the resignation of the utility's Chief Financial Officer, Mr Craig Step, and later the Chief Executive Officer, Ms Nomonde Gwabeni. We thank them for their dedicated service and wish them well in their future endeavours.

In the same breath, we welcomed Mr Lionel Billings aboard as a new board member. He joined us in December 2011 and serves as a member of the Finance Committee. His valuable contribution to the Board will surely go a long way in ensuring Amatola Water's success.

## ACHIEVEMENTS

Despite the challenges faced by the utility, we remained committed to providing the best services possible to our clients. Our emphatic commitment to service excellence has been demonstrated by the awarding of three Blue Drops in this period for the Nahoon, Laing and Sterkspruit schemes. This excellence is also evident in the improved Blue and Green Drop scores of the municipal infrastructure operated by Amatola Water.

Amatola Water remains a proudly healthy and safe working environment for all its employees and stakeholders as attested to by our retaining of the OHSAS 18001:2007 accreditation for safety, health and environment.



We have also consistently achieved a rating above 99 percent for water quality compliance as per the SANS 241 standards. This is above the national benchmark of 96 percent.

## GOVERNANCE & REGULATION

As a state-owned enterprise, Amatola Water subscribes to the principles of good corporate governance, as prescribed in the Water Services Act (Act No. 108 of 1997), the Public Finance Management Act (Act No. 1 of 199) and the National Treasury Regulations.

The utility continued to conduct its business with an unwavering commitment to integrity, excellence and accountability. To this end, we have endeavoured, throughout the reporting period, to apply the principles of appropriate corporate governance policies and practices insofar as is practicable.

Having been guided by the legislative and best practice framework, we therefore aspire to successfully integrate the applicable best practices as derived from the King III integrated reporting framework into our policy statement and organisational strategy in the ensuing reporting period. By continually evaluating areas such as these, where governance can best be strengthened, we unremittably ensure that we remain a good corporate citizen.

### ADVANCING GOVERNMENT IMPERATIVES

As an agent of socio-economic change in the Province, Amatola Water remains rooted in its quest to provide efficient and uninterrupted water services, in a bid to unlock the economic potential of the province and to improve the socio-economic fortunes of its people. It is our belief that our collective role as the water sector is to make a significant contribution to the public health of our respective communities and support their economic development and sustainability.

The pressing water challenges are also a direct result of the poor performance of infrastructure which in some instances has also reached its capacity limit. Amatola Water has prioritized its involvement, in partnership with respective municipalities and the Department of Water Affairs to rollout water infrastructure across the Eastern Cape, through both Municipal and Regional Bulk Infrastructure Grants. With these projects, the Province will be able to address spatial patterns which entrench the marginalisation of the poor by actively bringing water services to the poor and assisting water services authorities with the eradication of water services backlogs.

We believe that the water services that we provide throughout the Province will positively contribute towards people's health, social standards and livelihood. We will endeavour to continue

this service by reaching as many communities as possible, as far as possible, and provide a better and efficient service to all those who seek our services.

## CONCLUDING REMARKS

Notwithstanding the challenges that the utility has endured during this period, we firmly believe that we will pull through. Some progress has been made in this regard, and the work of turning the situation around has been kept constantly in mind.

We have instated rigorous plans in place, whose benefits will mostly be realised in the next financial year and going forward.

These include, among others, the implementation of a turnaround strategy aimed at ring-fencing the primary and secondary business activities, to reduce operating costs, to collect outstanding debtors and tighten internal controls so as to improve the liquidity and ultimately the solvency of the business. I am confident that this will gradually be accomplished. If we can meticulously deal with these areas, as we have been doing, then we would be on the right path.

## APPRECIATION

We have put great effort in developing sound relationships during the review period with both our clients and various stakeholders. To our clients and the diverse group of stakeholders who have supported and engaged with Amatola Water during the financial year, we appreciate your support.

I greatly acknowledge the direction and guidance provided by the Honourable Minister of Water and Environmental Affairs, Ms Edna Molewa, during the year.

Our heartfelt gratitude goes to all the members of staff for their dedicated service throughout the reporting period.

I also take this opportunity to thank our former CEO Ms Nomonde Gwabeni as well as Acting Chief Executive, Mr Xola Bomela and the entire management team for the cooperation and dedicated service rendered for the functioning of this organisation during this period.

Finally, I thank my colleagues on the Board for their unrelenting cooperation and guidance.

*Nothemba*

CHAIRMAN OF THE BOARD



# Chief Executive's REPORT

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## OVERVIEW OF THE YEAR

*The year 2011/2012 was a challenging period for Amatola Water due to significant constraints related to escalating operating costs and challenges in debtors recovery that threatened the organisation's financial standing and liquidity. Despite these challenges, Amatola Water managed to accomplish many of its priorities during this past year, including decreasing the deficit of the previous financial year.*

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The review period also brought a renewed emphasis on improving consistency, cost effectiveness and efficiency at Amatola Water.

In terms of labour costs, we have drastically reduced these, ensuring that our staff work productively and are mindful of being efficient. Billing and debt collection processes were streamlined to eliminate bottlenecks, and efforts are now underway to optimise the water board's Section 29 and Section 30 activities so as to bring about increased internal efficiencies going forward. It has been our target to ensure that we keep debtors' days as low as possible, with 90 days being the maximum, especially ensuring that our clients pay their accounts within 30 days.

We have also continued to invest our energies in realising increased revenue growth in our business. In this regard we have implemented added efficiency improvement mechanisms in our water supply system by connecting service areas that were originally supplied from small and non-viable schemes to larger schemes such as Laing and Sandile so as to ensure that these are economically viable and therefore can achieve positive returns for the organisation.



Amatola Water benefitted from an unprecedented increase in demand from our major clients, especially from Buffalo City Metropolitan Municipality, which in turn, has grown our supply to the municipality. Our ability to be able to sustain this growth and keep up with the demand shows that our systems are sustainable and resilient due to the successful implementation of our maintenance and asset management programmes.

The utility's compliance to the national water quality standards remained above the national drinking water average as determined by DWA and effectively entrenched our brand promise of providing quality water services. The various communities we serve can rest assured that they are receiving safe drinking water, which is of the highest quality standards.

In the same breath, the awarding of three Blue Drop awards for Nahoon, Laing and Sterkspruit supply systems during the review period, as well as an excellence award for the King William's Town supply system has brought the organisation a step closer to achieving its apex goal – that of improving the public health and livelihood of the communities in which it operates by allowing more communities to have access to clean, safe and reliable water supply, while also serving as assurance to our clients and the public at large that our water quality management processes are of a high standard.

An overall score of 7.9 achieved in our client survey indicates an increased client confidence in Amatola Water as a service provider and is an excellent source for future improvements in our operations and services so as to ensure that we remain responsive to our clients' needs.

Our retention of the OHSAS 18001 certification effectively demonstrates our commitment to high standards of health and safety in our workplace, and ensures that Amatola Water staff remain motivated and productive with minimal disruptions.

The growing need for a skilled workforce has motivated Amatola Water, through its capacity building programmes to skill up to 66 learners in various fields within the water sector. In this regard, we believe that we have contributed to the national government's mandate of job creation and skills development.

## STRATEGIC DIRECTION

I can attest to the organisation's sound operational standing and the validity of our business strategy. I am particularly pleased with the continued progress we are making on our strategic agenda - that of providing safe, environmentally friendly, quality, cost effective and sustainable water services to meet the specific needs of the people of the Eastern Cape.

Significantly, we take cognisance that in order for Amatola Water to be self-sustainable, we need to grow the primary business, while also seeking alternative ways to provide section 30 activities so as to complement our primary business activities. This has been supported by the need to expand our primary business infrastructure and change the business model of the secondary business.

## FUTURE OUTLOOK

Finally, as we continue into 2012, Amatola Water will continue implementing the many elements of its turnaround strategy. We believe that with this refined strategy we will emerge as a stronger and more resilient entity that is able to withstand possible future challenges.

We are now more focused on entrenching our full water services offering and leveraging our competitive advantage and specialised expertise to better service our clients.

Going forward, we will engage with our municipal clients to get into right of use and concession arrangements. We see this as a sustainable approach for the organisation, while at the same time it will also assist us to achieve our mandate of providing bulk water to the communities we serve.

We have realised that there is a suppressed demand in a number of communities to which we supply, therefore in the next financial year we will dedicate our efforts to ensuring that those plants realise that suppressed demand.

We are now moving to a position where we would be able to supply 750 litres of water per household in our rural area of operation. This therefore means that we need to take on a more proactive and developmental approach to water services delivery in the future.

Amatola Water is operationally sound, and we will continue in our endeavour to provide high quality water services and high assurance of supply, as informed by the relevant government imperatives.

The next phase in our strategic journey will build on today's momentum in our core business. We will do this by continuing on the targeted approach and substantial progress we have already made in turning the organisation around into a sustainable business.

This will be done in conjunction with the following initiatives:

- Improvement and stabilisation of our Balance sheet – to access capital so as to be able to increase our infrastructure investment.
- Improvement in our cash flow position – to keep a buffer of three times the monthly cash flow requirement at all times.
- Improve economic viability of our water works in order to achieve positive return.
- Minimise indirect costs and support overheads – cost containment remains a key focus area and we will continue to improve efficiency of our operations.
- Stakeholder engagement - to ensure that our service stays relevant and effective to the immediate and long-term needs of our valuable stakeholders.

We believe that these initiatives will have a positive impact on our financial performance in the subsequent year.

## APPRECIATION

I would like to express my sincere thanks to all my Manco colleagues for their efforts in what has been an incredibly challenging period, and to Amatola Water employees for both their hard work and patience during the year.

I am grateful to our Board of Directors, led by our Chairman, Ms Nothemba Mlonzi, for their guidance and support during the reporting period.

I wish to thank all our clients for their continued business with Amatola Water. We pledge our commitment to continue to strive to meet their expectations.

To all our stakeholders, thank you for your continued support. We look forward to providing you with updates and sharing the growth story of Amatola Water during the year ahead.



ACTING CHIEF EXECUTIVE



## PERFORMANCE MEASUREMENT 2011/2012

Amatola Water measures organisational performance through the setting of Strategic Objectives. These objectives are reviewed annually and monitored by the organisation in the form of a Balanced Corporate Scorecard that balances the financial, customer, internal and learning and growth dimensions. To ensure strategic alignment across the organisation, the Balanced Corporate Scorecard is therefore cascaded to divisional level and then to individual employee level in the form of performance contracts.

The revised strategic plan for the period starting in July 2011 and ending in June 2012 had one strategic objective – i.e. To grow the bulk water service provision function of the organisation. The progress in achieving the objective as at the end of June 2012 is presented below per dimension of the Balanced Corporate Scorecard:

Objectives	Measure / Indicator	Wtg	Baseline	Y1-Q1 (Sept 11)	Y1-Q2 (Dec 11)	Y1-Q3 (Mar 12)	Y1-Q4 (June 12)	Audited AFS	Y1 Targets	Variance
<b>PROGRAMME : FINANCIAL</b>										
The corporate objective associated with the financial perspective is managing assets and resources optimally for sustainability and growth.										
Amatola Water recorded an R7, 937 million deficit versus a revised budget of a R0.062 million surplus. This is a significant improvement from a previous loss of R40, 040 million. This financial improvement is reflected in the improved debtors days and employee revenue ratio. The improvement has been driven primarily by increase in revenue growth in both primary and secondary business, and cost containment over the past year.										
The following three measures: Debtors days, current ratio and employee to revenue ratio were incorrectly shown on the 2011/2012 Business plan under the objective "increased revenue growth", while it should have been shown under "improve financial standing".										
F1	Improve financial standing									
	ROA									
	• Du Pont Ratios	10%	-7.20%	-1.5%	-6.34	-0.14%	-1.03%	-2.94%	0.10%	-2.84% Adverse
	ROA									
	• Debtors days	10%	160 days	140	135	129	171	113	120	7 days Favourable
	ROA									
	• Current ratio	10%	1.16	1.19	1.17	1.35	1.38	0.87	1.25	-0.41 Adverse
	ROA									
	• Employee to revenue ratio	10%	R 652 714	R 798 499	R 699 597	R 832 217	R 826 604	R 932 289	R 675 000	R257 289 Favourable
F2	Increase revenue growth									
	% Rand value growth of Revenue: Primary	8%	6.80%	10.8%	17.6%	18.7%	15.9%	14.93%	8.20%	6.73% Favourable
	% Rand value growth of Revenue: Secondary	8%	-18%	37.2%	21.3%	34.7%	28.2%	34.22%	20%	14.22% Favourable
	% Growth in Kilolitre water sold	8%	-1.70%	-0.2%	2.8%	3.74%	5.0%	5.02%	1%	4.02% Favourable
F3	Increase financial margins of business units									
	Percentage contribution (revenue less costs)	24%	35%	10.8%	4.79%	32.5%	27.8%	23%	35%	-12% Adverse
F4	Increase bulk water services infrastructure assets									
	% Infrastructure CAPEX vs Budget	12%	137%	2.8%	15%	6%	7%	7%	90%	-83% Adverse

Objectives	Measure / Indicator	Wtg	Baseline	Y1-Q1 [Sept 11]	Y1-Q2 [Dec 11]	Y1-Q3 [Mar 12]	Y1-Q4 [June 12]	Audited AFS	Y1 Targets	Variance
PROGRAMME : CUSTOMER										
The corporate objective associated with Customer perspective is developing sound customer relationship. An organization customer satisfaction survey has been completed and the overall score of 7.9 exceeds the annual target of 6. This encouraging score is a result of improved turnaround time on business proposals. There is also a continued high quality water services and high assurance as compliance with SANS class both in primary, secondary and effluent license standards. The retention of existing primary and secondary customers has been maintained for the whole financial year.										
C1	Preferred business partner with customer	20%	N/A	N/A	N/A	N/A	7.9	N/A	6.0	1.9 Favourable
C2	Quality product & service									
	% Compliance SANS Class 1 water (Primary)	7.5%	99.25	99.05%	98.88 %	98.88 %	98.88 %	99%	99%	No variance
	% Water supply assurance (Primary)	7.5%	98%	98%	98%	98%	98%	98%	98%	No variance
	% Compliance with SANS Class 1 compliant (Secondary)	7.5%	N/A	97.4%	97.42 %	97.42 %	97.42 %	97.42%	96%	1.42% Favourable
	% Compliance with effluent license standards (Secondary)	7.5%	N/A	80%	76.12%	76.12%	76.12%	77.09%	60%	17.09% Favourable
C3	Rapid response & flexibility									
	Average turnaround times on business proposals	20%	N/A	5 days	10 days	10 days	10 days	8.75 days	28 days	19.25 days Favourable
C4	Value for money									
	% Rand value growth with existing customers	20%	N/A	-6.7%	0	0	0	-1.67%	9%	-7.33% Adverse
C5	Be dependable / reliable									
	% Retention of existing Primary and Secondary customers	10%	N/A	100%	100%	100%	100%	100%	80%	20% Favourable

Objectives	Measure /Indicator	Wtg	Baseline	Y1-Q1 (Sept 11)	Y1-Q2 (Dec 11)	Y1-Q3 (Mar 12)	Y1-Q4 (June 12)	Audited AFS	Y1 Targets	Variance
PROGRAMME : INTERNAL PROCESSES										
The corporate objective associated with Internal Processes applying appropriate technology and ensuring sound governance. Accelerated excellence in the water production and effluent has been exceedingly achieved with scores of blue drop compliance on Amatola Water owned assets comfortable sitting above the target. There has also been recorded compliance in the blue and green drop particularly in the secondary business. Improvement on contract management has been cemented by successful compliance to the contract KPI's.										
A number of processes to be improved have been identified within the turnaround plan; these are ranging from, billing methods, vehicles, timesheets etc. An effort to put effective controls and governance to leverage unqualified organizational audit is expected to realize an unqualified organization audit										
P1	Excel at water production and effluent treatment	7.5%	86.30%	65%	80.4%	80.4%	95.38%	76.55%	88%	11.45 Adverse
	% of Blue Drop compliance Primary assets (Amatola Water owned)									
	% of Blue and Green Drop compliance Secondary business	7.5%	N/A	50%	ADM BD 65.40%	ADM BD 65.40%	ADM BD 74.62%	56.75	50%	6.75% Favourable
	Secondary business				ADM GD 52.45%	ADM GD 52.45%	ADM GD 52.45%			
					JGDM BD 95.38%	JGDM BD 95.38%	JGDM BD 95.38%			
P2	Effective costing and billing process	15%	N/A	10.5%	0	0	0	0	20%	20% Adverse
P3	Successful contract implementation and management	15%	Estimate 50%	65%	75%	75%	75%	72.5%	65%	7.5% Favourable
P4	Effective and efficient communication	15%	3.17	N/A	N/A	N/A	N/A	N/A	3.38	3.38 Adverse
P5	Optimise secondary and support business processes	15%	N/A	1	1	1	1	1	1	No Variance
P6	Effective controls and governance	25%	Un-qualified	Un-qualified	Un-qualified	Un-qualified	Un-qualified	Qualified	Qualified	Qualified Adverse



Objectives	Measure / Indicator	Wtg	Baseline	Y1-Q1 [Sept 11]	Y1-Q2 [Dec 11]	Y1-Q3 [Mar 12]	Y1-Q4 [June 12]	Audited AFS	Y1 Targets	Variance
PROGRAMME : LEARNING AND GROWTH										
The corporate objective associated with learning and growth is training and retaining dedicated staff. Human capital attraction and retention has been progressively managed with steady results during the reporting period with labor turnover suppressed to 2.3 percent for the year.										
Recruitment was put on hold with a moratorium put in place as from July 2011 as part of cost containment as well as significant reduction in training and development. These were seen as necessary to arrest the financial decline but cannot continue indefinitely without negative impacting on the organization long term sustainability.										
Recruitment of critical staff and undertaking key training in the 2012/13 financial year has been noted to improve the sustainability of the organization. Innovation and research has been strengthened with the joint study with Rhodes University on climate change together with the study done with the Water Research Commission to consider Energy Efficiency in the Water Sector.										
LG1	Human capital attraction and retention	15%	13%	2.6%	2.6%	1.6%	2.8 %	9.6%	9%	0.6% Adverse
	% Compliance with recruitment plan	15%	na	71%	0%	0%	0%	6.3%	90%	83.7% Adverse
	% Of internal promotions	15%	33%	70%	0%	0%	0%	17.5%	35%	17.5% Adverse
LG2	Skills development	20%	50%	16%	31%	64.3%		45%	60%	15% Adverse
LG3	Innovation and research opportunity	20%	1	2	2	2		2	2	No variance
LG4	Promote a culture of excellence, integrity and accountability	10%	3.6	3.31	3.31	3.31		3.2	3.65	0.43 Adverse
	Organisational Performance score	5%	N/A	No analysis	No analysis	No analysis	No analysis	No analysis	3	Adverse



# ***Review of Operations***

***Financial Performance***

***Employee Development & Leadership***

***Our Business***

***Stakeholder Management & Support***

***Partnering with our Clients***

***Client Satisfaction***

***Our Responsibility to the Environment***

***Our Responsibility to the Communities we Serve***

# Financial Performance



## SUMMARY

During the 2011/2012 financial year there has been an improvement in the water board's overall performance; however, there is still a lot that needs to be done. Below is a summary of the overall performance against the set targets.

KEY PERFORMANCE INDICATORS for the period ended 30 June 2012				
Indicator	Actual	Budget/ Business Plan	Variance	Favourable/ Adverse
Debtors days	113	120	7	Favourable
Current Ratios	0.87	1.25	-0.41	Adverse
Employees to revenue (R')	932 289	675 000	257 289	Favourable
Return on assets (%)	-2.94%	0.10%	-2.84%	Adverse
Sales Volumes (KI) - Raw water	8 168 454	8 906 000	(737 546)	Adverse
Sales Volumes (KI) - Treated water	30 834 486	30 220 500	613 986	Favourable

- Primary business grew by 15% from prior year.
- Secondary business grew by 34% from prior year.
- Water production grew by 5%.
- Total costs increased by R52 million which is a 14% increase from 2010/2011.
- Gross profit margin was 23%, which is less than the budgeted target of 35%.
- Investment in infrastructure was only 7% compared to a budget of 90% (due to moratorium).



### **GROSS PROFIT MARGIN**

During the current year a gross profit margin of 23% was achieved. This is still below the industry norm of more than 50%, which indicates that our tariffs are not cost reflective.

### **DEBTORS DAYS**

There has been a challenge of non-recoverability of debts at the year end. This has had a negative impact on the organisation's liquidity position as most clients were not able to pay their accounts on time. Since July 2012 a lot of work has been done in this area to reverse this position and the efforts are starting to bear positive fruits.

### **RETURN ON ASSETS**

To achieve positive results Amatola Water must maximize return on assets. This can only be done by ensuring 100 percent utilisation of assets. A number of areas have been identified where the organisation's assets were not achieving a positive return nor had returns below the set minimum standard, especially the water works. It has become evident that any water works producing less than 5m/l of water per day is not economically viable and therefore cannot achieve positive return.

In the 2012/2013 financial year the organisation will introduce an Assets Management Policy, in line with Section 38(1)(d) of the PFMA which states that the Accounting Officer of an institution must take full responsibility and ensure that proper control systems exist for assets and that :

- Preventative mechanisms are in place to eliminate theft, loss, wastage and misuse;
- Stock levels are at an optimum and economical level; and
- Processes (whether manual or electronic) and procedures are in place for the effective, efficient, economical and transparent use of the assets.

It is expected that the introduction of this policy will enable Amatola Water to achieve the above requirements as per the PFMA.

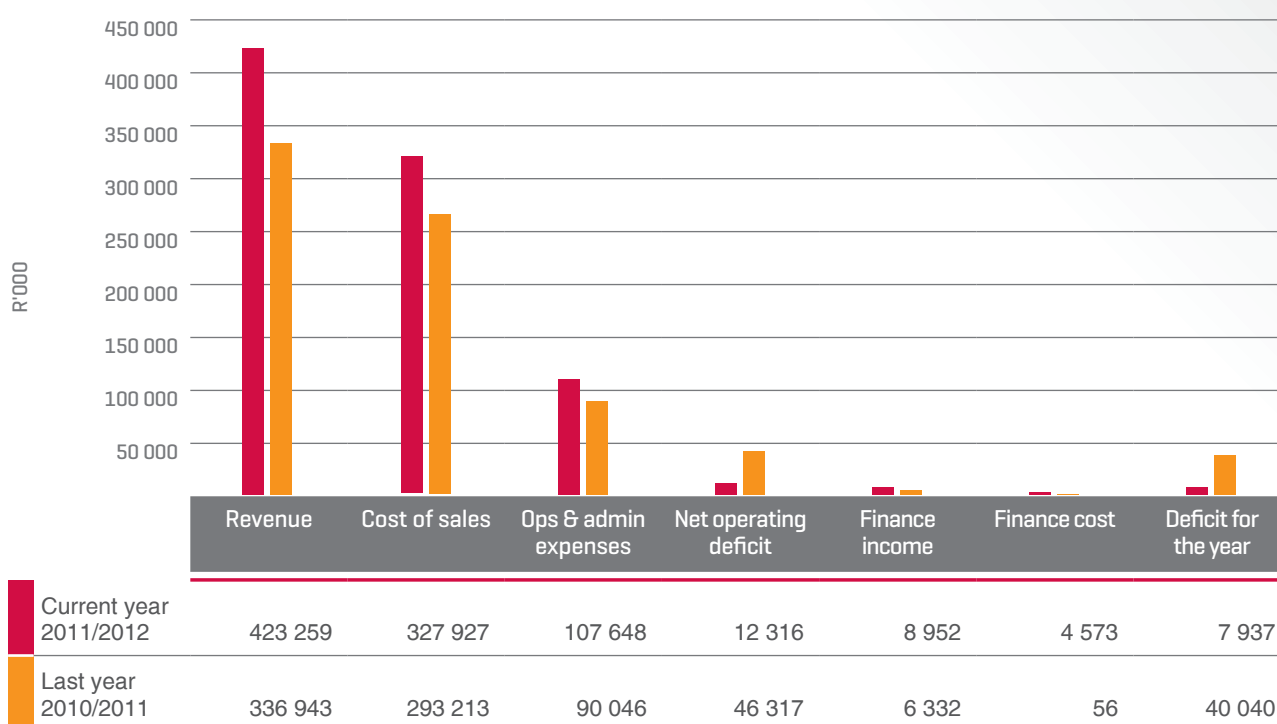
## **FINANCIAL PERFORMANCE RESULT**

The results from operations as at the end of June 2012 showed a loss of R7.9 million compared to the prior financial year's adjusted loss of R40 million. Despite reporting a loss during the review period, there has been considerable improvement from the previous financial year's performance. This is attributed to an increase in Section 30 activities and also in the volumes sold. Below is a summary of the operating results:

## **FINANCIAL POSITION RESULTS**

### **SUMMARY OF OPERATING RESULTS**

We have managed to decrease the prior year deficit from R 40, 040 million to R 7, 937 million. This has been one of the key focus areas towards the stabilisation of the organisation's balance sheet. In the longer term, Amatola Water will be in a better position to access the capital market and therefore be able to increase its infrastructure investment.



## PRIMARY AND SECONDARY BUSINESS

### PRIMARY

We have managed to increase the sales volume of water by 5% from the prior year, thereby resulting in an increase in revenue of R 22, 443 million from prior year. Managements intention is to put more effort in this business so that we remain focused to what is our primary objective in terms of the Water Act.

### SECONDARY

This business has grown in the past year and we did not have proper accounting procedures to account for revenue and expenditure for this segment, as a result a number of accounting errors were identified necessitating prior year adjustments. Going forward, proper accounting procedures will be implemented to improve accounting for this segment, especially in accounts such as advances, value added tax (VAT) and revenue recognition.

## CASH FLOW POSITION

Cash and cash equivalents increased from R35.8 million last year to R54.8 million this financial year, with monthly cash outflow standing at an average of R23 million a month. All cash requirements were met without asking for an overdraft from the bank. Going forward, the aim is to maintain a buffer of three times the organisation's monthly cash flow at all times.

## SUPPLY CHAIN MANAGEMENT

We have managed to achieve our targets in terms of BBEEE, but compliance with SCM regulations remains a big challenge. More still needs to be done towards ensuring that the organisation's Procurement is:

- Fair, equitable, transparent, competitive and cost effective;
- Promotes the objectives of the Broad-Based Black Economic Empowerment and PPPFA;
- Facilitates an efficient and cost-effective sourcing of goods and services for delivery of services to Amatola Water customers, thereby contributing to the national development agenda.

Categories	% Targets as per Codes of Good Practice		Amatola Water's Targets 2011/2012	Amatola Water's Actuals 2011/2012	Amatola Water's Actuals 2010/2011
	Years 0-5	Years 6-10			
B-BBEE Spend All Suppliers	50%	70%	65%	107%	101%
B-BBEE Spend QSE & EME	10%	15%	10%	54%	42%
Spend > 50% Black Owned	9%	12%	15%	35%	23%
Spend > 30% Black Women Owned	6%	8%	15%	10%	10%

The focus going forward is to ensure that a certain portion of the organisation's spend goes to women-owned businesses and to different suppliers, not only a few selected suppliers. In the 2012/2013 review period Amatola Water will adopt a Supply Chain Management Policy and it is anticipated that the introduction of this policy will ensure that the above objectives are achieved. Irregular expenditure has become a serious concern in our organisation, this has necessitated a thorough review and improvement of control in this area.

## GOING FORWARD

### VOLUME SOLD

The intention is to pay more attention to the primary business which is to provide bulk water supply, by ensuring that all our plants are always operating at maximum capacity and that each plant is producing at least 5 ML/day.

### MINIMISING INDIRECT COSTS AND SUPPORT OVERHEADS

Support costs remain a major concern in our business. The intention is to minimise these costs as far as possible since, for as long as these costs are sitting at the present level, they will always drain the organisation's profitability.

## CHANGE IN ACCOUNTING FRAMEWORK

The Accounting Practices Board (APB) and Financial Reporting Standards Council (FRSC) have issued a joint announcement stating that SA GAAP will be withdrawn and cease to apply in respect financial years commencing 1 December 2012. As Amatola Water, we have been using SA GAAP as an accounting framework, this change will result in Amatola Water having to adopt a new accounting framework for the period beginning 01 July 2013. National Treasury and the Public Sector Accounting Standards Board (ASB) are in the process of considering proposed changes to the Treasury Regulations to take into account the withdrawal of SA GAAP.

## RAW WATER TARRIF

DWA tariff increases over the years have resulted in an increased loss in our primary business due to our tariffs not being cost reflective. This is largely due to the fact that our percentage increase in revenue and return on assets (ROA) has not moved in-line with raw water cost increases.

We are currently involved with DWA to review our tariff as there is a need to cap tariff increases in some of our systems. We strongly feel that in our region where the income ratio is very low, these tariffs are becoming more unaffordable, which will result in increase in the various municipalities' debtors. This will therefore result in the municipalities not being able to pay Amatola Water thus negatively affecting our cash flow position.

## DEBT

Discussions are currently ongoing regarding the conversion of the DWA raw water debt owed by Amatola Water of R86 million, currently reflected as a trade payable, to a long-term loan payable over three years. The effect of this arrangement would be to ease Amatola Water's liquidity concerns in the short to medium term.



# Employee Development & Leadership



## FOSTERING OUR EMPLOYER BRAND

Amatola Water has continued to conduct itself as a value driven organisation in its day-to-day dealings with its clients. The values of Integrity, Excellence, Accountability and Responsibility define the working environment within the organisation. Communication and awareness initiatives were conducted during the year in order to keep these values alive and part of an ongoing internal process.

## HUMAN RESOURCES

### WORKFORCE PROFILE

The year has seen Amatola Water grappling with survival issues, while focusing less attention on issues of transformation. There was little change in the organisation's demographic representation and staff recruitment was kept to a minimum due to a moratorium on new appointments. However, continuous engagement with key stakeholders continued in order to maintain the momentum and ensure the organisation's commitment to its stated objective of becoming the employer of choice in the region.

Every effort has been made to ensure that Amatola Water employs the right people and that it obtains and retains the

right skills in order to take the organisation forward, both in terms of its performance capability and resourcefulness. In this regard, during the year under review 27 new appointments were made. The staff complement as at 30 June 2012 was as follows:

Permanent Employees	▸ 411
Non-permanent Employees	▸ 42
[Contract workers; In-service students; Learners]	

The recruitment of permanent employees for Amatola Water was designated for the following operational divisions:

Division	Number of employees
Operations	21
Planning & Development	0
Corporate Services	4
Finance	1
Business Development & Strategic Planning	1
CEO's Office	0

In terms of embracing and promoting equal opportunity employment, the employment of permanent staff fell within the following race and gender categories:

Gender & Race	Number of employees
African Male	23
Coloured Male	1
African Female	3

#### LABOUR TURNOVER

Labour turnover increased during the year under review and this could be attributed to the organisation's poor financial performance, coupled with the mooted restructuring process that was pronounced in the middle of the financial year. Labour turnover increased to 9.6 percent as compared to 6.6 percent in the 2010/2011 financial year. The voluntary turnover rate also increased to 6.3 percent as compared to 3.3 percent in 2010/2011. A total of 37 employee contracts were terminated during the year under review.

#### No of Terminations



#### ABSENTEEISM

Absenteeism increased by 0.34 percent to 2.37 percent compared to the previous financial year which was at 2.03 percent.

#### EMPLOYMENT EQUITY

Amatola Water continued to implement its five-year Employment Equity Plan (2009-2014). The plan guides the organisation's human resources practices in promoting employment equity, the recruitment and development of employees from designated groups, and the advancement

of the appropriate gender representation. The employment equity report highlighting the organisation's achievements and challenges was submitted to the Department of Labour and thereafter an assessment was done by the department.

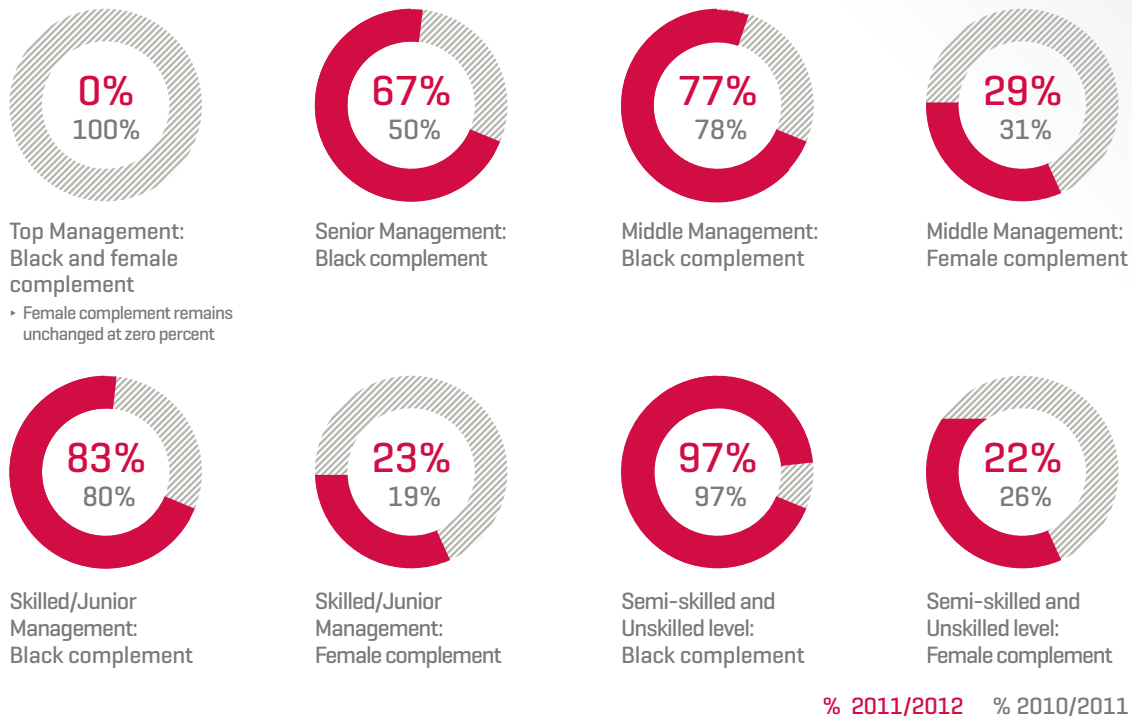
The workforce profile, according to occupational levels of Amatola Water as at 30 June 2012 was as follows:

#### Workforce Profile according to Occupational Level as at 30 June 2012

Description	Male				
	African	Coloured	Indian	White	Total
Top Management	0	0	0	0	0
Senior Management	2	0	0	1	3
Professionals & Mid-Management	13	0	2	7	22
Skilled Technical workers, academically qualified workers and Junior Management	64	11	1	11	87
Semi-Skilled and discretionary decision making	116	7	0	4	127
Unskilled	61	0	0	0	61
<b>Total Permanent</b>	<b>256</b>	<b>18</b>	<b>3</b>	<b>23</b>	<b>300</b>

Description	Female				
	African	Coloured	Indian	White	Total
Top Management	0	0	0	0	0
Senior Management	0	0	0	0	0
Professionals & Mid-Management	6	3	0	0	9
Skilled Technical workers, academically qualified workers and Junior Management	13	4	1	8	26
Semi-Skilled and discretionary decision making	60	4	0	7	71
Unskilled	5	0	0	0	5
<b>Total Permanent</b>	<b>84</b>	<b>11</b>	<b>1</b>	<b>15</b>	<b>111</b>

In terms of transforming the organisation on the basis of race and gender the following profile represents the status quo:



The non-representation of women at the two highest occupational levels has proved to be a challenge and is due to the failure of the organisation to attract suitably qualified female candidates. Recruitment strategies including head-hunting through recruitment agencies could not assist in supplying candidates who adequately meet the desired job requirements. There are plans to use the earliest opportunity to appoint women in the event that positions at these levels become available.

The male category has improved as compared to the last financial year.

The general observation is that in all occupational levels there is a gradual decline of female representation, which is an unfortunate trend. A concerted effort will be made to turn the situation around before the end of the current life-span of the Employment Equity Plan in 2014.

## SKILLS DEVELOPMENT

Considerable effort was placed on skills development during the year, as well as on ensuring that the need for personal and career development is met. The need to ensure that the organisation is well capacitated with the right skills to deliver on its mandate and meet its strategic objectives has been at the forefront of the organisation's activities. As a result, a total of R1 189 868 was spent on skills development for the period under review.

This translated to one percent of the payroll costs being spent, and is more than what is prescribed by the Broad-based Black Economic Empowerment (BBBEE) Codes of Good Practice to which Amatola Water subscribes.

- **Graduate Placement Programme:** was not undertaken during the year under review due to financial constraints.
- **Financial Study Assistance:** Only five employees were offered study loans to further their studies in various fields.

## ENERGY SETA ACCREDITATION

Amatola Water has been awarded full accreditation by the Energy SETA to provide and facilitate the Further Education & Training Certificate in Water & Wastewater Treatment Process Control Supervision on NQF Levels 2 & 4.

## EMPLOYEE WELLNESS

In collaboration with various service providers Amatola Water provided a variety of wellness and educational activities for employees, all aimed at reducing lifestyle related health risks, improving wellness and productivity, as well as increasing attendance.

The services of Discovery Health, Bonitas and Samwumed were solicited to ensure increased access to medical facilities and health services.

Clinical risks identified during the year include Body Mass Index (BMI), waist circumference, blood pressure, glucose, cholesterol as well as chronic diseases. Blood pressure was identified as the highest uncontrolled chronic disease. Chronic disease registers and compliance monitoring was maintained throughout the reporting period. Other health education programmes implemented include breast examinations, mental illness as well as Tuberculosis programmes.

### **OCCUPATIONAL HEALTH**

As a high risk work environment, Amatola Water places prime importance on the health of its employees and on compliance with the Occupational Health and Safety Act. To this end the organisation has instituted a full time occupational health clinic. This service is also extended to Amatola Water's long term clients like the Public Works Department, as well as the Amathole, Joe Gqabi, OR Tambo and Alfred Nzo District Municipalities, amongst others. No Occupational diseases were reported for this period. Other services provided were counselling and referrals to other institutions. Compensation for occupational injuries, diseases and emergency cases were also attended to by the clinic.

### **HIV/ AIDS**

HIV/Aids remained a priority in the institution. Employees continued to enjoy the support of the Siyakhana Occupational Health and Wellness Project in the form of education, support and treatment programmes. National AIDS Day was commemorated on 1 December and the need for Voluntary Counselling and Testing (VCT) was clearly identified and promoted, hence a VCT programme will be rolled out in the next financial year. The organisation has also pledged to train more Peer Educators to assist with the programme, going forward.

## **EMPLOYEE RELATIONS**

### **UNION RECOGNITION**

Amatola Water is 76 percent unionised. The South African Municipal Workers Union (SAMWU) being recognised as the sole bargaining agent.

### **COLLECTIVE BARGAINING**

The Local Labour Forum remained the primary platform for consultation, information sharing and joint problem solving with the labour formation.

Amatola Water also participated in the Amanzi Statutory Council, which is the labour component of all water boards affiliated to the South African Association of Water Utilities. Here parties engage and share ideas on labour challenges both within the sector as well as the country in general. On occasion, the statutory body endeavours to influence government policies on labour through the Nedlac framework.

### **PARTICIPATIVE MANAGEMENT**

The growth within the organisation during the period under review resulted in a necessity to decentralise the organisation's Local Labour Forum (LLF) into regional forums where both management and employee representation were able to deal with issues closer to their points of origin.

Other platforms of engagement during the year included extended management committee sessions and staff information sessions, where the executive leadership regularly visited various workplaces to entertain annotative ideas direct from the employees as part of the objective of obtaining commitment and boosting the morale in the workplace.

## **ORGANISATIONAL DESIGN**

Organisational restructuring was identified as a priority during the year, given the institution's precarious financial situation.

Subsequent to a detailed causal analysis being conducted on the financial decline, a comprehensive turnaround strategy was developed. The turnaround strategy, among others, sets a framework for the restructuring of the organisation's Primary, Secondary and Support functions at a functional and activity level and includes the ring-fencing of Section 29 and Section 30 business activities. This is to ensure that the viability of Amatola Water is not only incrementally improved but also enhanced in a substantial and sustainable manner.

Consequently, an extensive consultation process was embarked upon around the turnaround strategy with various stakeholders, including the local organised labour, as a vital stakeholder in the process.

## **PERFORMANCE MANAGEMENT**

The Performance Management process remains the primary framework for performance assessment of Amatola Water staff. Individual performance contracts have been aligned with the Corporate Scorecard to ensure that the strategies formulated by the Board and Senior Management are operationalised.

Specifically, this structured process enabled the organisation to manage organisational objectives and to assess individual competency, as well as produce career and personal development plans through the annual performance reviews.

Performance bonuses and performance notches, where applicable, were paid to staff in Grades A to Grade K during September 2011. Directors and Managers did not receive performance bonuses.

The organisational score for the July 2011/2012 assessment period is 3.59, compared to the 2010/2011 score of 3.31.



# Our Business



## WATER RESOURCES ADEQUACY

### SUPPLY POINTS

The number of bulk supply points to the Amatola Water infrastructure decreased by 37, compared to the previous financial year, due to the closure of Amatola Water's Rooikrantz and Dabi Works; while the number of domestic/industrial supply points increased by 26 in total. Amatola Water is in the process of handing over the domestic/ industrial clients to the relevant municipality, where possible. The two works were decommissioned due to the organisation's rationalisation and regionalisation of its schemes. The priority is to close down non-viable schemes and connect their service areas to the more viable schemes.

	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12
Bulk	293	288	292	292	323	324	332	353	316
Domestic/ Industrial	120	117	121	125	127	130	132	171	197

### TABLE OF WATER TREATMENT CAPACITY

Water treatment capacity per scheme and total treatment capacity are presented in the following table:

WTW CAPACITY	
Water Treatment Works [WTW]	Capacity per day [ML]
Binfield Park WTW	4.80
Albany Coast WTW	2.4 (Reverse Osmosis Desalination Plant)
Debe Nek WTW	1.50
Glenmore (Enxuba) WTW	0.50
Laing WTW	33.00
Masinedane (Keiskammahoek)	4.00

WTW CAPACITY	
Water Treatment Works [WTW]	Capacity per day [ML]
Upper Mnyameni WTW	0.56
Nahoon WTW	33.70
Peddie Regional WTW	6.56
Sandile WTW	18.00

Amatola Water now operates and maintains both conventional water treatment works and sea water desalination works. The Albany Coast desalination works is located at Bushmans River in the Ndlambe Municipality. The works abstracts raw water from beach wells, removes the salt content via reverse osmosis and supplies bulk water for the Bushmans River and Kenton-on-Sea settlements.

Water Treatment Works	Capacity Mℓ/d	Total 11/12 kWh	Total 11/12 m³	11/12 kWh/m³	10/11 kWh/m³	Mℓ/d	% of Plant Capacity
Rooikrantz Pump Station	1.2	208 974	0			0.00	0.00
Masinedane WTW	4	59 542	855 303	0.07	0.06	2.38	59.40
Glenmore WTW	0.5	222 690	493 263	0.45	0.61	1.37	274.04
Peddie WTW	6.56	731 803	2 858 861	0.26	0.27	7.94	121.06
Mnyameni WTW	0.29	7 704	98 697	0.08	0.08	0.27	94.54
Nahoon WTW	33.7	9 001 429	11 305 056	0.80	0.83	31.40	93.18
Laing WTW	33	10 490 549	8 833 546	1.19	1.2	24.54	74.36
Sandile WTW	18	4 952 823	6 869 285	0.72	0.74	19.08	106.01
Debe WTW	1.5	945 339	847 747	1.12	1.13	2.35	156.99
Bindfield Park WTW	4.8	986 317	1 501 427	0.66	0.63	4.17	86.89
<b>TOTAL</b>	<b>101.55</b>	<b>27 607 174</b>	<b>33 663 185</b>	<b>0.82</b>	<b>0.85</b>	<b>93.51</b>	<b>92.08</b>

## WATER PRODUCTION

The production of potable water increased by 10 percent compared to the previous reporting period, due to an increase in demand from our major customers.

An average total plant production loss of 4.6 percent was achieved during the year compared with the South African Association of Water Utilities (SAAWU) benchmark of 7 percent. Similarly, total network losses for treated water increased from 8.1 percent to 10.3 percent, against the 12 percent SAAWU benchmark.

The rest of the bulk potable water increases were recorded in the supply to Amathole District Municipality and individual consumers. The bulk raw water supply decreased by 5.2 percent due to the

drop in supply for Stutterheim Town, which made use of other resources, and Da Gama Textiles which downscaled production.

While there has been an increase on potable water sold, there has been a vast increase on electricity as one of the critical production input costs, which rose from 46c/kl to 56c/kl. This basically amounts to over 22.9 percent overall increase on electricity costs due to Eskom increases. However, water was pumped using slightly less electricity, which was also evident in the steady decline in electricity usage, which decreased from 0.85 to 0.82 kWh/m³ of water pumped as illustrated in the table above.

The decrease in energy usage can only be attributed to the performance of planned maintenance. It is evident that planned maintenance has been effective, hence unplanned maintenance has significantly reduced. This shows that there is improved asset utilisation.

Amatola Water also changed from SANS 241: 2006 to the newer version of SANS 241: 2011. Compared to the SANS 241: 2006, the SANS 241: 2011 version has stricter compliance requirements.

The water quality compliance on Amatola Water treatment works and distribution network have all complied with SANS 241: 2011 Parts 1 & 2.

## DROUGHT MANAGEMENT

Various studies have been completed over the past years to evaluate and optimise the operation of the Amatole Water Resource System, which consists of seven dams comprising Rooikrantz, Bridle Drift, Laing, Maden, Nahoon, Wriggleswade and Gubu dams. The reconciliation strategy of the system is reviewed on an annual basis to keep track of progress with the water use strategies being put in place, which includes activities such as water conservation and demand management strategy.

Consultants were appointed by the Department of Water Affairs for a period of three years from 2009 to review and implement the operating rules for the Amatole System taking into consideration the outcome of the findings of the reconciliation study. During the month of May each year, the status of dam levels in the system is reviewed, to determine when restrictions are to be implemented on the users.

## PLANT AND SYSTEMS MANAGEMENT

### NON REVENUE WATER

Bulk and distribution losses within the Amatola Water bulk systems were monitored by the water resources department throughout the reporting period, through a combined effort in water loss and demand management programme, culminating in monthly water loss reports. Water meters have been calibrated according to a set programme and specific needs. A combination of bulk water meter balance and meter variance reports, as well as water meter line diagrams have been used throughout the reporting period to track down water losses.

Water balances have been recorded on a monthly basis for all water abstracted, treated and distributed within the supply networks of Amatola Water. Key focus areas for the year include the Peddie Regional Scheme, Binfield Park Scheme as well as the Sandile Scheme. The identification of problem

areas was done through the logging of key water meters and the physical inspection of bulk pipeline routes. Early identification of water losses have assisted the organisation in addressing and reducing water losses which, in turn, resulted in reduced loss of revenue.

Amatola Water has also been assisting Ndlambe Municipality and Kouga Municipality with water conservation and water demand management activities during the financial year.

## WATER LOSS CONTROL

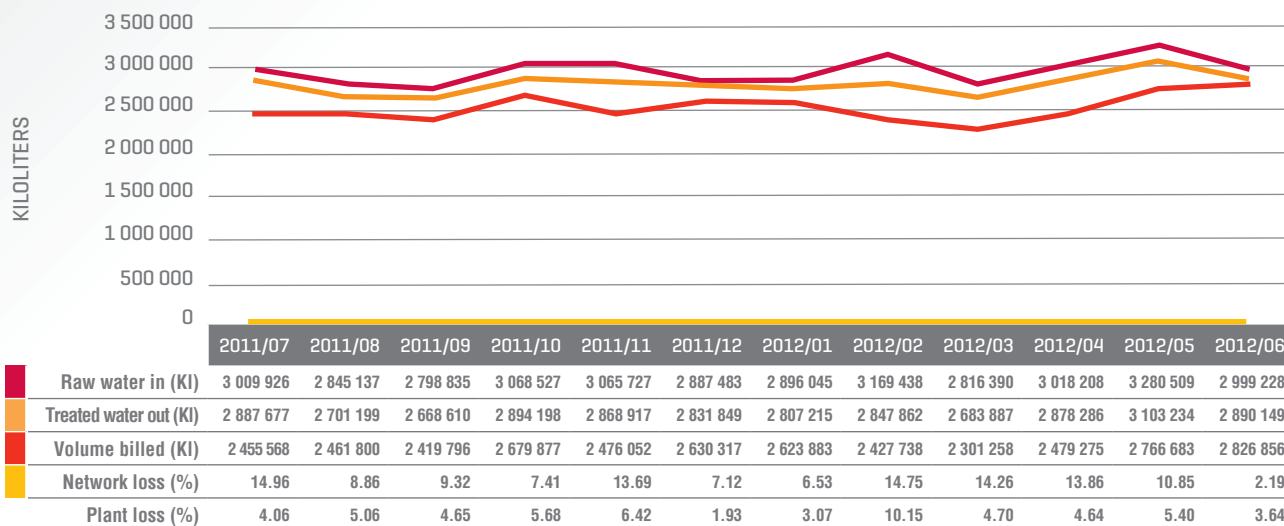
Plans that were put into effect during the reporting period paid off and the plant production water losses were reduced from 7.62 percent to 4.6 percent. A stringent annual water loss target, aimed at reducing water losses by a percentage every year, has been entrenched in the organisation's corporate scorecard. Routine maintenance and inspections throughout the abstraction, treatment and distribution infrastructure has been invaluable in minimising water losses.

Operations, through the implementation of programmes such as meter calibration and maintenance, network inspection, monthly water balance reviews and water losses have been recorded at 10.3 percent in distribution networks.

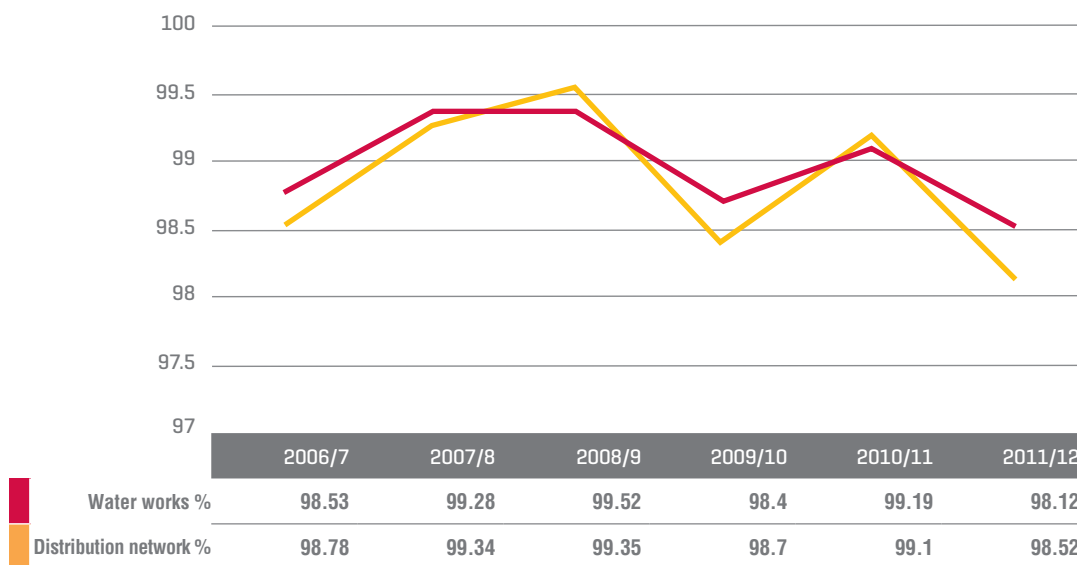
## STORAGE AND SUPPLY CAPACITY EXPANSION

The supply capacity at Nahoon Water Treatment Works has been increased through various plant optimisation processes. The Sandile Water Treatment Works has been interconnected to the Debe Water Treatment Works to circumvent the water shortages in the far Western supply side. The Peddie water treatment works' head of works was raised to accommodate an extra 49 liters per second. This intervention increased the supply to curb the water shortages in the Peddie area. In this way, the production and operational costs were reduced.

## WATER LOSSES



## WATER QUALITY RESULTS



The implementation of SANS 241: 2011 came with some challenges. The system's strict perimeters led to a slight decrease in compliance compared to the previous years. The limited sampling frequency which was implemented to control the costs was also a contributor to the slight change of 1.07% and 0.58% respectively for water works and the distribution networks.

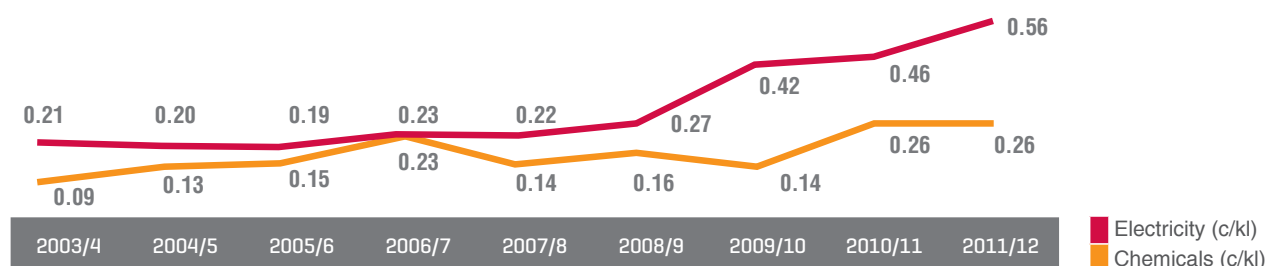
There has been a stringent water process control system in place at Amatola Water works which entails, amongst others, two-hourly water process and quality control tests by process control personnel to ensure compliance with SANS 241 standards.



Amatola Water % compliance [2011/2012]		
Scheme name	Final WTW %	Reservoirs%
Albany Coast	N/A	97.3
Binfield	98.7	98.4
Debe	96.9	97.9
Glenmore	98.1	97.9
Laing	98.9	98.9
Masinedane	99.6	N/A
Mnyameni	95.4	N/A
Nahoon	98.7	99.6
Rooikrantz	N/A	99.4
Sandile	98.3	99.2
Peddie	98.5	97.8
Peddie-Chalumna	N/A	97.9
Peddie-Bhira	N/A	99.4
<b>Average</b>	<b>98.12</b>	<b>98.51</b>

N/A - No production is taking place

## CHEMICAL USAGE AND ELECTRICITY COSTS



Chemical usage stayed the same at 26c/kl, with a very high transportation cost portion of the chemical price. Amatola Water also experienced a number of floods in the region during the review period which also contributed to the high chemical cost. Constant monitoring of the dosing systems and the application of optimum dosing during the floods has allowed the organisation to manage and lower its chemical usage.

## INFRASTRUCTURE STABILITY

Amatola Water recognises the importance of understanding the condition and costs associated with its critical infrastructure assets. In this regard, the utility has continued to make great strides in ensuring that it consistently maintains and enhances the condition of all assets over the short and long-terms,

consistent with the utility's anticipated growth and system reliability goals. Various asset repair, rehabilitation and replacement efforts were embarked upon during the financial year in order to minimise water supply disruptions and other negative consequences.

## INFRASTRUCTURE MASTER PLAN REVIEW

Amatola Water undertook a review of its Infrastructure Master Plan (IMP). The IMP is a twenty year capital expenditure programme to ensure that the existing infrastructure operated by Amatola Water can meet the future demands of the region in a sustainable, efficient and effective manner.

## FEASIBILITY STUDIES

The year under review has seen the completion of a feasibility study for the upgrade of a portion of Amatola Water's bulk infrastructure on the Nahoon Scheme. The proposed bulk infrastructure upgrade comprises the provision of a bulk water pipeline from the Nahoon Dam Water Treatment Works to Beacon Bay so as to augment the supply to Cambridge, Vincent, Beacon Bay, Wembley and Gonubie. The feasibility study is funded by Amatola Water. However, if taken forward the project may be implemented as a joint effort between the utility and Buffalo City Metropolitan Municipality. Processes are currently underway to source funding for the project.

The proposed upgrade is informed by the need to:

- Alleviate water supply demand pressures from the existing Buffalo City Metropolitan Municipality owned Umzonyana Water Treatment Works.
- Maximise usage of the available safe yield allocation from the Nahoon Dam.
- Provide for future development needs to address the social housing needs within the Buffalo City Metropolitan Municipality.

Phase one of the project requires funding of R150 million to upgrade the treatment works from 33ML/day to 40ML/day and to construct a bulk pipeline along the N6 national road to Beacon Bay.

Due to the ever increasing supply challenges within the Great Kei Municipality, the feasibility study was extended to investigate other medium to long term supply scenarios towards the Great Kei Municipality, including the East Coast Resorts, within the Amathole District Municipality. Centralised supply options investigated were from the Nahoon Water Treatment Works and from a new Regional Water Treatment Works in the vicinity of the Wiggleswade Dam, while decentralised supply options entailed local off-channel storage dams, desalination and re-use of treated effluent.

The Regional Water Treatment Works also provided other supply opportunities within the Buffalo City Metro Municipality, such as Bhisho and surrounding areas.

## PROJECT IMPLEMENTATION & SUPPORT SERVICES

### INTERNAL INFRASTRUCTURE PROJECTS

#### **QONGQOTHA & BERLIN NEW CONCRETE RESEVOIRS, MOUNT COKE PUMP STATION & RISING MAIN, AND LAING RAW WATER & SUPERNATANT PIPELINES**

Amatola Water is the bulk potable water provider for the Laing Dam Water Supply Scheme. The scheme supplies potable water to the Zwelitsha, King Williams Town, Bhisho and Berlin areas located within the Buffalo City Municipality. Recent developments in the area have resulted in the need to upgrade Qongqotha reservoir and Berlin reservoir on the Laing Scheme to ensure reliability and sustainability as well as provide for at least 24 hour storage capacity. The project was successfully completed and commissioned during the year under review with the addition of a 30ML reservoir at Qongqotha, a 6ML reservoir at Berlin, the construction of Mt Coke Pump Station and an additional 250mm rising main. Additional work on the Laing Raw Water and Supernatant pipelines is expected to be completed in the next financial year.

### EXTERNAL PROJECTS

#### **MTHATHA DAM WATER SUPPLY FEASIBILITY STUDY**

Amatola Water was appointed by the Department of Water Affairs (DWA) to provide a project implementing agent (PIA) proposal for the required support to the OR Tambo District Municipality (ORTDM). The aim of the feasibility study was to investigate the capacity of Mthatha Dam in terms of supplying both rural and urban areas. The study covered the following:

- Determination of the spare capacity of Mthatha Dam
- High level water demand management
- Hydrological analysis
- Alternative options of raw water augmentation
- Raw water pump station up-grading
- Rising main and gravity main assessment
- Type of pumps and specification
- Location of the new water treatment works
- Project appraisal (cost benefit analysis)
- Project life cycle and first order estimate
- Preliminary design.

The project was executed in three stages namely; stage A which covered the situation assessment, stage B for the needs assessment, gap analysis and options, while stage C covered the planning, preliminary design and costing. This study is still in progress. The total cost for the feasibility study and preliminary design is R2 846 752.

#### **COFFEE BAY REGIONAL WATER SUPPLY SCHEME**

The PIA appointment by DWA for the ORTDM also included bulk water provision for the Coffee Bay Regional Water Supply Scheme (RWSS). During the year, OR Tambo District Municipality secured Municipal Infrastructure Grant (MIG) funding to do the reticulation in the villages and increase the capacity of the water treatment works. The scope of the contract was extended to cover bulk mains to 34 villages. The project broadly consists of the following:

- Extend the existing Coffee Bay RWSS to incorporate the entire Ward 23 and 24 areas of the King Sabata Dalinyebo (KSD) local municipality.
- Construct pump stations, rising mains, command reservoirs, village reservoirs and reticulation.
- Increase the capacity of the water treatment works to 3Ml/day

Phase one of the project was completed in January 2012. Phase two was allocated an additional R113 million funding through the MIG programme. It commenced in April 2012 and is expected to be complete by June 2013.

#### **SIDWADWENI REGIONAL WATER SUPPLY SCHEME**

Amatola Water was appointed by the OR Tambo District Municipality to implement the Sidwadweni Bulk Water Supply project. A budget of R204 million was allocated for the project's two phases, including Phase 5a Part 2 and Bulk Augmentation.

The work on Phase 5a Part 2 of this project comprises the construction of bulk mains, village reticulation, reservoirs and pump stations around the town of Tsolo. Phase two of the project is the augmentation of the bulk supply.

#### **STERKSPRUIT WATER TREATMENT WORKS**

The Joe Gqabi District Municipality appointed Amatola Water as implementing agent to refurbish and upgrade the Sterkspruit Water Treatment Works. A revised amount of R60.6 million for the project was approved under the MIG programme.

The utility appointed a service provider to do the design and construction supervision for the upgrade. The first phase of the project is well underway. The regional reservoir and a section of pipeline has been completed. The construction of the upgrade is progressing to plan for completion in 2013.

#### **NDLAMBE BULK WATER SUPPLY**

Amatola Water was appointed by DWA as Implementing Agent for the Ndlambe Bulk Water Supply Project. The provision of sustainable bulk water supply of an acceptable quality within the Ndlambe Municipality has been hampered by unreliable assurance of supply and water quality related matters.

The purpose of the study is to investigate and determine the most beneficial regional bulk water supply alternative. Alternative water resources that have been considered include new surface water resources (Lower Fish River), desalination, groundwater and re-use in the form of centralised, decentralised (local) and a combination of supply alternatives.

The objective of the project is to ensure long-term sustainable bulk water supply that will allow for socio-economic development, while also considering short-term interventions to provide bulk water supply relief.

One of the key socio-economic drivers of the study is the proposed Thornhill development in Port Alfred. The Thornhill development comprises 5000 social housing opportunities. Currently, the provision of sustainable bulk water services is hampering this, as well as other, proposed developments.

The Feasibility Study is expected to be completed in December 2012, while implementation is expected to commence during October 2012 for a 36 month period. The anticipated project value is in the order of R879 million. Implementation of the identified Quick Wins projects will commence in October 2012 to the value of R161 million.

#### **KOUGA WATER DEMAND MANAGEMENT PROJECT**

Amatola Water has been appointed by DWA to implement a water conservation and demand management project at Kouga Municipality. A budget of R1.5 million has been set aside for the year to implement this project.

Out of 23 000 billing meters, some 4000 water meters recorded zero consumption within the Jeffreys Bay and Humansdorp municipalities. By using GIS map information and color codes, the relevant erven's water meters giving zero consumption were identified, inspected, conditioned and details recorded and repaired or replaced if needed. Of the zero recording water meters, 91 meters were found to be faulty. All information collected has been passed on to Kouga Municipality for use and future incorporation into the billing system. This completed activity should improve

the municipality's revenue collection. While a water balance exercise on water use in all local municipalities within Kouga Municipality has been compiled with available information, the installation of more bulk zone water meters is still a necessity.

Amatola Water is also in the process of compiling a business plan for the project.

## BUSINESS SYSTEMS IMPROVEMENT

### GEOGRAPHIC INFORMATION SYSTEMS (GIS)

The collection, verification and maintenance of spatial data for infrastructure within Amatola Water's area of operation is an ongoing organisational activity. Updating of attribute data continues as new infrastructure is developed. GIS also assists the utility in identifying bulk water services infrastructure beyond the boundaries of its area of operations. This includes the capturing of infrastructure information for the the Albany Coast area that has since been transferred to Amatola Water.

Global Positioning System (GPS) data has been collected during the past year to verify spatial data of Amatola Water's infrastructure using a sub-meter accuracy GPS unit. Schematic diagrams of water schemes have been updated on a continued basis. This information is used to assist with the management of water losses within the organisation's systems.

Relationships with GIS stakeholders have been established and the organisation is represented and kept abreast of the latest developments by the GIS department at various external meetings with local, provincial and national government. Amatola Water's GIS department played an important role in the development of an Infrastructure Master Plan (IMP) for water and sanitation services in Ndlambe Local Municipality. The system was developed to enable the Ndlambe Local Municipality to have a tool to assess and manage the development of water and sanitation services within the municipality.

A Generic Water and Sanitation Infrastructure Master Plan Database was developed and designed to ensure a common method of spatial data capturing. The design formed the basis for the data capturing and consists of spatial features and attribute details. A GPS Data Dictionary was developed to streamline GPS data capturing and to simplify the incorporation of the data into the geo-database.

Continued support has been given to the Water Conservation and Water Demand Management team throughout the reporting period to assist with the management of water losses within the organisation's systems.

### INFORMATION TECHNOLOGY

Supporting the business operation with appropriate Information and Communication Technology (ICT) systems in a manner that leverages on the latest technology and existing investments to improve overall efficiency continues to be the goal of the organisation. Overseen by the Information Management Steering Committee which includes all the Divisional Heads and the Chief Executive, the various ICT risks continue to be monitored and the various projects evaluated and prioritised.

The increase in Amatola Water's geographical area of operations has necessitated the addition of two remote schemes, thus extending the organisation's Wide Area Network (WAN) to 15 sites during the review period with more sites expected to be added in the forthcoming financial year.

The hold on Capital Expenditure (CAPEX) items has restricted the replacement of all the earmarked computer fleet. However, Amatola Water has endeavoured to continue its ICT preventative maintenance initiatives while still supporting its cost cutting initiatives. This includes the replacement of one of its key servers, upgrading of the mail exchange server at Nahoon and the replacement of 29 computers. The computer fleet currently consists of 55 laptops and 180 desktops with minimal change in the number of laptops. Microsoft products continue to be used on both desktops and servers for operating system and various back office functions.

### LOGISTICS

The fleet management approach continues to be driver management orientated. The vehicle management and tracking system provides the necessary information on driver performance. The information includes reporting on green band driving which reflects on fuel economy and indicates areas of improvement for drivers. Detailed fleet management reports are also used to manage costs, highlight any fuel abnormalities and assist with the appropriate allocation of costs.

Continuous monitoring and follow-ups on these reports has reduced the frequency of abnormalities significantly. On the maintenance side, Amatola Water has introduced a technical assessment of repairs, which highlights those that are a result of abuse. This is to create awareness to both drivers and Line-Managers in order to prevent repetition. The fleet section also highlights warranty claimable repairs for cost saving purposes.

Amatola Water has three formal stores, which hold selected strategic stock allowing quick response by Amatola Water Maintenance Department through having the necessary spares on hand. The three stores are situated at Nahoon Dam, Laing Dam and Sterkspruit.

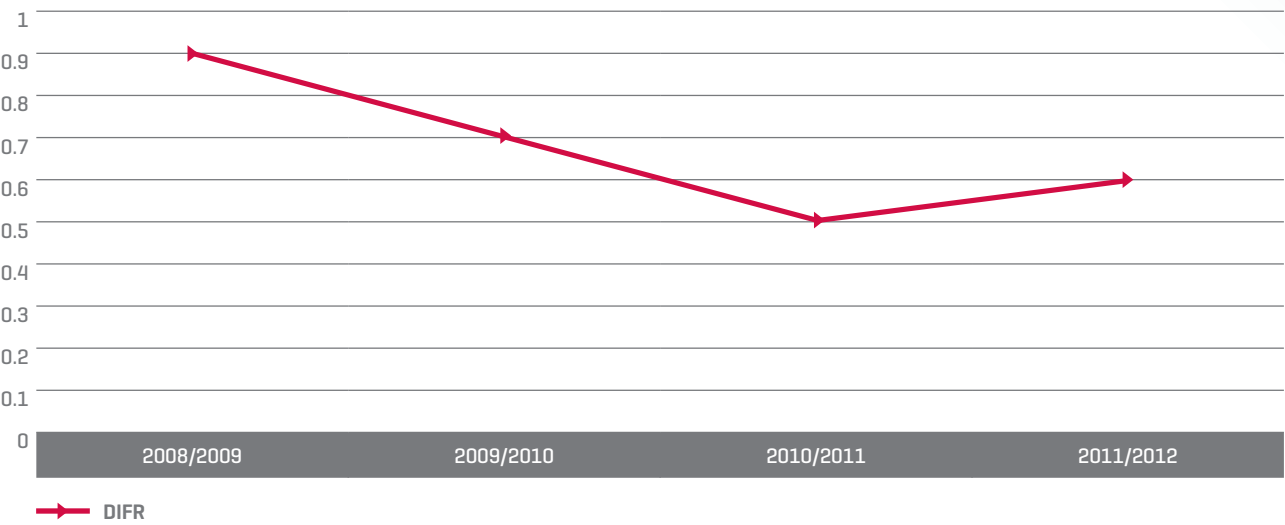


**SAFETY, HEALTH & ENVIRONMENT (SHE)**

Amatola Water retained its accreditation on the Occupational Health and Safety System OHSAS 18001:2007 following a successful audit conducted by the South African Bureau of Standards (SABS).

The Disabling Injury Frequency Rate (DIFR) is a key indicator of Amatola Water’s SHE performance system. The current DIFR for the organisation has been recorded as 0.59, compared to the organisation’s target of <0.50.

Amatola Water collects and analyses its statistical information relating to the occupational health and safety, occupational health diseases, rate of injuries and lost days. The following graphical information shows the 2011/2012 DIFR and annual trends.



# Stakeholder Management & Support



## STRATEGIC PARTNERSHIPS

As Amatola Water aims to consolidate its position as a preferred partner in the provision of services in the water sector, it has identified the formation of strategic partnerships with its stakeholders as a binding factor. The utility's expertise is well placed to assist municipalities and economic sectors looking to sustain long-term, high quality supply of water for household and industrial consumption.

As a public entity, Amatola Water is well positioned to partner on infrastructure projects including build, repair and upgrade of water infrastructure to meet increasing water demands.

The organisation is currently implementing its Growth Strategy which seeks to augment its geographical footprint and optimise its primary and secondary business activities. This attempt is done with the optimism of achieving the utility's vision of being the leading bulk water services provider in the entire Eastern Cape Province.

During this period, various stakeholder visits and presentations were conducted to create visibility and awareness of the utility's services to the following institutions:

- Provincial Department of Local Government and Traditional Affairs

- Department of Water Affairs (Eastern Cape)
- Coega Development Corporation
- Nelson Mandela Bay Metropolitan
- Eastern Cape Socio-Economic Consultative Council
- Eastern Cape Development Corporation

## SECTOR INSTITUTIONAL RELATIONS

### FORUM INTERACTIONS

Amatola Water continued to participate in various forums within the water sector at local, provincial and national government levels. Local government interaction occurs on a one-on-one basis with municipalities and at the meetings of the Eastern Cape Water Committee and its sub-structures. The purpose of the committee is to co-ordinate the development and management of water services in the Eastern Cape Province with a focus on backlog eradication, sanitation, infrastructure asset management and revenue generation linked to water services.

During this period, Amatola Water actively engaged with various provincial government departments, particularly the Department of Water Affairs (DWA) in relation to secondary services.

National forum activities undertaken by the organisation during the review period include active membership of the South African Association of Water Utilities (SAAWU) and service on various project steering committees of national studies undertaken by the Water Research Commission (WRC). Amatola Water is also a patron member of the Water Institute of Southern Africa (WISA).

## CLIENT RELATIONS

Achieving full adherence to the corporate values of Amatola Water is largely dependent on the organisation's ability to communicate in a continuous, transparent and precise manner with its clients and stakeholders. The utility utilises service level agreements to regulate customer relations when rendering services. The supply of bulk water is regulated through bulk supply agreements and secondary services are regulated through memorandums of agreement.

The following engagements were undertaken during the financial year:

### BULK SUPPLY AGREEMENTS

The Water Services Act No 108 of 1997 requires that the water board enters into supply agreements with its clients. Amatola Water has three bulk supply contracts with the Buffalo City Metropolitan Municipality (BCMM), the Amathole District Municipality (ADM) and the Ndlambe Municipality.

The existing agreement with BCMM is for a thirty year period ending in 2033, while the bulk potable water supply agreement between Amatola Water and Amathole District Municipality (ADM) is a three year supply contract, ending in March 2013. The bulk supply agreement between the Ndlambe Municipality and Amatola Water is effective for a period of 20 years until July 2030.

### MANAGEMENT CONTRACTS

Amatola Water has entered into three significant management contracts for the operation and maintenance of client infrastructure. The utility's customers include Amathole District Municipality, Joe Gqabi District Municipality and the Department of Public Works. These are discussed in detail in the next chapter of the Annual Report, Partnering with our Clients.

# Partnering with our clients



## NATIONAL GOVERNMENT & MUNICIPAL SUPPORT

In a bid to tackle the many water and sanitation challenges that the Eastern Cape Province grapples with, the utility continued to work with a variety of stakeholders including Water Services Authorities (WSAs) through water services provision contracts as a Support Services Agent. Services that were provided include the eradication of water services backlogs, infrastructure asset management, water quality monitoring, operations and maintenance, staff training, water supply and revenue management.

### JOE GQABI DISTRICT MUNICIPALITY

Amatola Water has a three year Water Service Provider management contract with the Joe Gqabi District Municipality (JGDM). Involvement in JGDM includes the refurbishment, operation, maintenance and management, and the ultimate upgrade of the Sterkspruit Water Supply System. This has been extended to include the Sterkspruit and Elundini Rural Schemes, as well as the newly built Water Treatment Works at Steynsburg and Mount Fletcher.

Major refurbishments in the plant at Sterkspruit were completed; however, continuous repair and refurbishment work was done in the distribution network and standalone schemes in both Senqu and Elundini.

The refurbishment programme entailed, among others - the installation of raw water metering and control equipment,

automated monitoring systems (SCADA), extension of standalone reticulation network automated poly dosing systems, lime feeders and a chlorination system.

Consequently, the water supply, quality and works production have been improved dramatically. Besides the retention for the second time of the national prestigious Blue Drop Award for the Sterkspruit Scheme, the communities on the ground attest to the improved water supply and services, with more villages receiving an uninterrupted supply of fresh and clean water.

The upgrade project will see the existing works capacity increased from 6.6MI/day to 12MI/day. This project is envisioned to have an immense positive socio-economic impact to the people of the Senqu Local Municipality. The Sterkspruit Water Supply Scheme upgrade project has been split into 3 phases for implementation, where the entire upgrade work will be such that there is no interruption of water supply to the communities.

### AMATHOLE DISTRICT MUNICIPALITY

Amathole District Municipality (ADM) extended its Operation and Maintenance contract with Amatola Water for a further three years. Amatola Water operates and maintains the entire bulk infrastructure of ADM at both water and wastewater treatment works, with the exclusion of the Stutterheim Water and Wastewater Treatment Works, and Alice Wastewater Treatment Works. A refurbishment and maintenance programme was undertaken at both water and waste water treatment works where major work included upgrades, installation of standby pump sets and repairs.



Amatola Water also provided assistance to ADM in the implementation of their business plan in order to improve Blue and Green Drop scores at a number of their plants. Although no Blue and Green Drop awards were received for the year under review, there has been a huge improvement in the overall scoring.

Amatola Water was also appointed by the Department of Labour to take on the legal responsibility of all ADM plants, as ADM could not undertake and fulfill the legal Occupational Health and Safety (OHS) Act requirements at the time.

Key to the performance in the review year of the ADM contract was the improvement of final water quality, water production throughput, water works availability and water treatment works water losses. The general performance of the bulk water service infrastructure has in some way increased. This is evident in the improved Blue Drop Certification results which are now in at 74.62%. The submission of water quality results and data to the Department of Water Affairs Blue Drop System also significantly improved.

ADM % COMPLIANCE	
Scheme Name	Final WTW %
Alice	98.2%
Bedford	97.3%
Butterworth	98.7%
Cathcart	99.5v
Centane	89.8%
Cintsa	98.7v
Cwebe	95.4%
Dwesa	93.2%
Elliotdale	99.3%
Fort Beaufort	95.4%
Haga-Haga	94.4%
Idutywa	93.5%
Kei Bridge	98.3%
Kei Mouth	99.1%
Kei Road	98.8%
Kotana	99%
Mendu	89.2%
Morgans Bay	98%

ADM % COMPLIANCE	
Scheme Name	Final WTW %
Ngqamakwe	91.3%
Qholora	93.5%
Seymour	97.2%
Toleni	96.2%
Willowvale	95.8%
Adelaide	96.2%
Hogsback	88.1%
<b>Average</b>	<b>95.76%</b>

### NDLAMBE LOCAL MUNICIPALITY

A R31 million drought intervention project, funded by the Department of Water Affairs of which Amatola Water was the implementing agent, was completed during the first half of the review period. Additional funding was made available to refurbish the Port Alfred Water Treatment Works filter system. These interventions were aimed at assisting the municipality with its Blue Drop scoring.

Ndlambe Municipality also received grant funding to develop a regional bulk supply scheme which will assist the municipality with the provision of potable water. Amatola Water has been appointed by the Department of Water Affairs to implement the construction of the regional water supply scheme. The year under review has seen the utility starting on the planning phase for the project, which entails a comprehensive feasibility study for possible underground, surface and seawater sources, an Environmental Impact Analysis and the Design stage.

Amatola Water's involvement with the Ndlambe Local Municipality remains varied, since the utility provides bulk potable water to the municipality through the Albany Desalination (Reverse Osmosis) Plant. The plant has since been upgraded to restore its full functionality and increased its capacity to 1.8MI/day to meet the municipal demand.

### OR TAMBO DISTRICT MUNICIPALITY

The year under review was the second year of the utility's three-year support services contract with the OR Tambo District Municipality (ORTDM) that expires on 30 June 2013. In the current support agreement, Amatola Water provides support in the implementation of the turnaround strategy that was developed in 2010. In terms of the contract Amatola Water provides support in the following areas:

- Water services units (WSU) 2 - Port St Johns and Ingquza Hill Local Municipalities and
- WSU 4 - Mhlontlo Local Municipality

As part of the contract, Amatola Water has been involved in several projects in the district which include the finalisation of the refurbishment programme, operation support, maintenance of treatment plants, assistance in blue and green drop activities, laboratory sampling, provision of protective clothing, providing support in standalone schemes, providing support in treatment plants in WSU 1 and the development of an operations and maintenance business plan.

A refurbishment programme that covered the construction of ablution facilities and offices in several plants was completed during this period. The refurbished Flagstaff Water Treatment Works is fully operational and the plant now has all the required process units to comply with quality standards.

Amatola Water provided operational and maintenance support in treatment plants under WSU 2 and 4 in order to ensure uninterrupted water supply in these areas. In addition, maintenance support in WSU 1 was provided, especially in the Thornhill, Mhlahlane (Mthatha) and Mqanduli Water Treatment Works. Operations and maintenance support was also provided in the newly upgraded Coffee Bay WTW.

Additional services provided by Amatola Water in the area include maintenance support such as refurbishing and replacing several boreholes and diesel engines in the district, mostly in Qumbu, Tsolo and Flagstaff. Amatola Water refurbished a reservoir and replaced seven non-operational boreholes in Flagstaff.

After receiving a poor blue drop score in 2011, ORTDM requested Amatola Water to develop a district wide programme that is aimed at improving the municipality's score going forward. Amatola Water has been appointed to develop water safety plans, plant audits and a laboratory sampling programme for compliance monitoring, as well as various other Blue Drop programmes to improve the municipality's overall Blue Drop scoring. Amatola Water is also assisting ORTDM with its Green Drop programme.

## DEPARTMENT OF WATER AFFAIRS

The Operation and Maintenance Management Agreement that Amatola Water has with the Department of Water Affairs (DWA) to manage 21 dams has been a springboard for many other opportunities for the utility in this period. These include the appointment of the utility as an implementing agent in cases where either a new bulk water infrastructure is to be

constructed or where emergency interventions are required due to drought, floods, gross water quality negligence or the upgrade and refurbishment of dysfunctional infrastructure.

The two parties continued to meet on a regular basis to facilitate the management contract and to discuss issues pertaining to normal operations and maintenance, and dam safety among others.

## DEPARTMENT OF PUBLIC WORKS

Amatola Water provides its services to both the Eastern and Western Regional Offices of the Department of Public Works (DPW) in the Eastern Cape. In the Western region the utility has been performing operations and maintenance of Standalone water and sewer systems. During the review period, the systems which Amatola Water maintains increased from 67 to 78 water and sanitation standalone schemes. This includes four major works at Patensie and Kirkwood Correctional Services.

Amatola Water was also appointed by DPW to develop operational and maintenance manuals and to supply the works with Blue and Green Drop Kits.

In the Eastern region, based in Mthatha, the utility has been appointed by DPW to undertake the refurbishment of water and sewer systems in various government facilities in the Province. The government sites are typical rural or peri-urban facilities of the Departments of Justice, Police, Correctional Services, Social Development, Health and Education.

The main purpose of such refurbishment has been to make these systems functional, but mainly to ensure that there is a sustainable supply of water and sanitation services to these facilities.

All the facilities have standalone water and sewer systems meaning that they are not connected to the municipal systems for various reasons ranging from the unavailability of the nearby municipal systems or non-functional municipal systems. However, a decision was taken to connect some of these systems, while those that are not feasible and viable to connect will be operated and maintained in their existing status as separate systems.

In response to this demand, Amatola Water has since opened a site office with a well-equipped workshop in Port Elizabeth, which also services the Cacadu District Municipality, while the workshop in Mthatha services ORTDM and surrounding municipalities.

## BUSINESS DEVELOPMENT & EXTERNAL SERVICES

### NEW BUSINESS GENERATION

Amatola Water's secondary business grew with several new contracts in the review period. New business has been sought using the mechanisms of direct negotiations with state entities and the submission of public tenders. Significant new appointments for the year are reflected in the following table:

Client	Project	Budget
<b>PRODUCT : PROJECT IMPLEMENTING AGENT</b>		
DWA	Mhlontlo Rain Water Harvesting	R 2 000 000
DWA	Rapid Response Unit	R 7 300 000
Joe Qgabi District Municipality	Sterkspruit WWTW Upgrade	R 11 700 000
O.R. Tambo District Municipality	Sidwadweni Water Supply	R 203 961 738
O.R. Tambo District Municipality	Coffee Bay Water Supply	R 113 653 953
<b>Sub Total</b>		<b>R 338 615 691</b>
<b>PRODUCT : PLANNING &amp; DESIGN</b>		
Alfred Nzo District Municipality	Ntabankhulu WTW Upgrade	R 3 281 000
Ikwezi Municipality	Bulk Water Supply Feasibility Study	R 384 000
Koukamma Municipality	Bulk Water Supply Feasibility Study	R 673 000
O.R. Tambo District Municipality	Mthatha Dam Bulk Supply	R 3 500 000
O.R. Tambo District Municipality	Coffee Bay Water Supply	R 113 653 953
<b>Sub Total</b>		<b>R 121 491 953</b>
<b>PRODUCT : WATER CONSERVATION &amp; DEMAND MANAGEMENT</b>		
Kouga Municipality	WCWDM Project	R 1 500 000
<b>Sub Total</b>		<b>R 1 500 000</b>
<b>Annual Total</b>		<b>R 461 607 644</b>

## SCIENTIFIC SERVICES

### EXTERNAL WATER QUALITY MONITORING SERVICES

The Amatola Water laboratory continued to assist Makana Local Municipality with the sampling and analysis for three of its schemes, namely; Riebeeck East, Grahamstown and Alicedale. The laboratory also assisted the Joe Qgabi District Municipality with its monthly compliance monitoring programme and conducts water analysis for the municipality on a monthly basis.

### LABORATORY ACCREDITATION

Following the suspension of the laboratory's accreditation status in the previous reporting period, it was still found that most of the non-conformances were not properly closed. This resulted in the laboratory's accreditation being withdrawn, effective January 2012.

The laboratory, however, is embarking on turnaround strategy to regain the accreditation, with additional methods from both chemistry and microbiology added. The chemistry methods identified include calcium, magnesium, potassium and sodium, ammonia, phosphate, sulphate, chloride and fluoride, with the physicals forming part of the scope. The microbiology methods include E.Coli, Total Coliform with HPC and Membrane filtration added to the previous scope. All chemistry methods have been validated and participate on Proficiency Testing Scheme with the Z-scores of less than two.

The application for the re-accreditation of the laboratory is scheduled to take place at the end of September 2012. A new building for the microbiology laboratory has been identified and renovations are underway. This might result in delay for the applications as the methods need to be validated and audited before the applications can be forwarded to SANAS.

## BLUE & GREEN DROP CERTIFICATION PROGRAMME

Amatola Water once again retained its prestigious Blue Drop status after the utility was awarded with three Blue Drop awards at the 2012 WISA Biennial Conference.

The utility received Blue Drop for its Nahoon and Laing Water Treatment Works, with Nahoon successfully retaining its Blue Drop status for the third consecutive time.

Similarly, Amatola Water, in partnership with the Buffalo City Metropolitan Municipality, was recognised for its outstanding work in providing quality water service in the Province and achieved a Provincial Top Performer award for the third consecutive year. In turn, the utility received a Certificate of Excellence in water services provision for the Buffalo City Municipality.

The Joe Gqabi District Municipality, with Amatola Water as its Water Services Provider retained its Blue Drop award for the second year in a row for the Sterkspruit Water Supply System.

The following table shows the Blue Drop average score for all the Water Treatment Works under the three Municipalities where Amatola Water is operational and their overall performance in the provincial log position. The Provincial Blue Drop performance log includes 16 WSA's that participated in the 2012 Blue Drop assessments.

Water Services Authority	Provincial Blue Drop log performance position	Blue Drop Score 2012	Blue Drop Score 2011	Blue Drop Score 2010	Water Services Provider	No. of works
Buffalo City Municipality & Amatola Water	1	92.55%	91.28%	95.2%	Amatola Water	8
Joe Gqabi District Municipality & Amatola Water	3	85.18%	83.49%	55%	Amatola Water	10
Amatole District Municipality & Amatola Water	5	74.62%	65.21%	68.2%	Amatola Water	39

The National Department of Public Works Port Elizabeth was congratulated on the Best Overall Provincial Risk Position on the performance of Middleburg Agricultural College wastewater treatment works which is managed by Amatola Water. The table below is the Blue Drop Score for the three Blue Drop Awards received by Amatola Water:

Blue Drop Certified System	Water Services Authority	Water Service Provider	Score
Sterkspruit WTW	Joe Gqabi District Municipality	Amatola Water	95.90%
Laing WTW	Buffalo City Metropolitan Municipality	Amatola Water	95.13%
Nahoon WTW	Buffalo City Metropolitan Municipality	Amatola Water	95.38%

Given the substantial number of works assessed where Amatola Water was involved and its improved Blue Drop Score, this has no doubt improved the provincial score to an impressive 82.1 percent. This has placed the province in the fourth position again on the National Performance Log, after Gauteng, Western Cape and KwaZulu-Natal, respectively.

In the Green Drop results, the Department did not assess the wastewater treatment works for this period but only looked at the risk per plant.

# Client Satisfaction



## OUR RESPONSIBILITY TO THE CLIENTS

Amatola Water commits itself to earning the trust and respect of its clients by providing safe, high-quality products and services through business activities based on excellent research, innovative technology and product development.

The utility remained committed to maintaining long-term relationships with its clients. With a dedicated team at hand, the utility managed all allocated client accounts, ensuring continuity of service and meeting or exceeding client expectations. It also collaborates with key roleplayers to maximise the effect of excellent customer service through a continuous supply of quality water.

During the year, Amatola Water consistently maintained its relationship with its clients in line with the following organisational objectives:

- C1 – Preferred business partner with client
- C2 – Quality product and service
- C3 – Rapid response & flexibility
- C4 – Value for money
- C5 – Be dependable and reliable

## CLIENT FEEDBACK

Amatola Water regards client satisfaction as the cornerstone of a solid relationship with its clients. As part of the utility's commitment to adding value to its clients, a client satisfaction survey is conducted on a biennial basis. The main aim of this research is to determine the satisfaction levels, perceptions and expectations of all Amatola Water clients. The findings of the survey provide the utility with inputs into the development of appropriate strategies with which to meet the projected customer expectations.

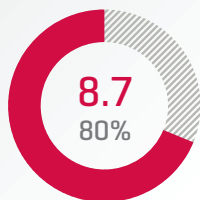
Below is a summary of the findings as per the survey conducted in the 2011/2012 financial year:

- Overall clients are impressed with the level and quality of service received from Amatola Water.
- Amatola Water scored well for all measures of service delivery (on SERVQUAL measure).
- High rankings were received for 'Tangibles' - physical appearance of facilities and the environment and infrastructure optimising service delivery, followed by 'Responsiveness' - the willingness of the personnel rendering the service to service the client's needs.

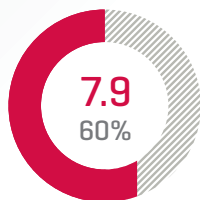
The rankings according to highest to lowest order have been awarded for Tangibles (8.7) and Responsiveness (7.9), Reliability (7.8); Assurance (7.7) and Empathy (7.4).



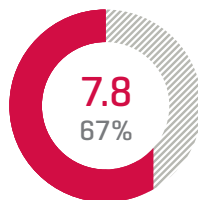
## SCORES FOR SERVICE DELIVERY



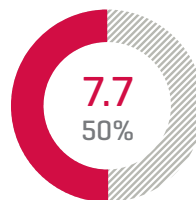
► **Tangibles**  
80% of respondents agreed that AW met its customer expectations on overall Tangibles.



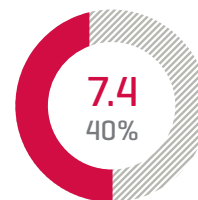
► **Responsiveness**  
60% of respondents agreed that AW met its customer expectations on overall responsiveness.



► **Reliability**  
67% of respondents agreed that AW met its customer expectations on overall reliability.



► **Assurance**  
50% of respondents agreed that AW met its customer expectations on overall assurance.



► **Empathy**  
40% of respondents agreed that AW met its customer expectations, another 40% agreed that AW exceeded while the remaining 20% agreed that AW fell below their expectations on overall empathy.

Overall scores on customer perception & expectations were calculated using SERVQUAL method to measure service delivery rendered by Amatola Water to its customers.

The overall perception of customers was 7.9 and the overall expectations were 7.77, with an overall gap of 0.12.

The 0.12 gap also indicates that Amatola Water clients are satisfied with the utility's service delivery and that not many areas require improvement.

on a quarterly basis to check for any recurring key issues and challenges. Clients such as Amathole District Municipality, Buffalo City Municipality, Ndlambe Local Municipality and Joe Gqabi District municipality co-operated very well in this area. The common issue in these reports was communication, and to improve on this area Amatola Water has put in place a designated team that monitors and manages the communication between the utility and its clients. These reports also highlighted the importance of furnishing clients with reports timeously for information sharing purposes. This has been consistently maintained during the review period.

## CLIENT COMPLAINTS HANDLING

The client complaints handling process was revised during September 2011 as this is one business process which is crucial to promoting efficiency when it comes to service delivery. The turnaround time on client complaints has continuously been handled and monitored as per the process.

Amatola Water also involved itself with its clients by becoming part of the clients' Integrated Development Plans (IDPs) Stakeholder Representative Forums. This enabled Amatola Water to identify the upcoming water related projects and water related issues raised by clients. Amatola Water became part of Amathole District Municipality and Buffalo City Metropolitan Municipality IDP Stakeholder Forums.

## CLIENT COMPLIANCE MONITORING TOOL

The client performance and compliance monitoring tool was created in order to monitor compliance and as an effective tool to minimise deviations from the Key Performance Indicators (KPIs) of the contracts. This tool has been applied for each contract Amatola Water entered into with the client. It also forms part of the review process of the contracts. The reviews seek to achieve collaborative relationships with Amatola Water and its clients.

Amatola Water also became part of councilor's forum meeting for the Joe Gqabi District Municipality (Senqu) to listen to their needs and wants. Going forward this role will be adapted to other clients as well.

## RELATIONSHIP MANAGEMENT

The year has seen Amatola Water attending to a substantive number of client queries cutting across the various day-to-day spheres of the business. Constructive feedback was collated

## CLIENT ENGAGEMENT STRUCTURES

Amatola Water involves itself in client engagement structures. The client engagement structures provide a platform where pertinent issues can be discussed and debated. The action points raised at these structures are monitored and implemented by Amatola Water and all concerned.

# *Our responsibility to the environment*



## ENVIRONMENTAL SERVICES

### ENVIRONMENTAL MANAGEMENT

Environmental management is complex and challenging merging concepts of sustainability, triple bottom lines, corporate governance, as well as corporate social and environmental investment. With increasing pressure on environmental resources, there exists a challenge to integrating social, economic and environmental factors into planning, implementing and decision-making so that sustainable resource development and use is able to serve both current and future generations.

Several key environmental challenges have been identified for Amatola Water. Broadly, these are Amatola Water's environmental footprint, environmental compliance, monitoring and auditing, integrated environmental management, technological challenges and climate change risks and uncertainty. Over the past year, several projects have contributed to addressing facets of these key challenges.

These include the following:

- Environmental inputs from the commencement of the Ndlambe Bulk Water Supply project have meant that environmental issues could address, or influence, key

decisions timeously. This has meant that as technical details have become available for various components of the overall project, relevant environmental authorisation applications could be submitted thus preventing project delays due to these authorisations not being in place. The project entails varied technical challenges, ranging from identifying surface and groundwater sources for abstraction to ultimate disposal of brine waste, with various pipelines (raw, potable and waste water) across the entire geographical extent of Ndlambe Local Municipality, taking cognizance of potential impacts to diverse ecosystems ranging from beaches to riverine forests.

- A water quality specialist study was undertaken for the environmental impact assessment for the proposed upgrade and expansion of the water treatment works at Fort Beaufort.
- Inputs were provided to the water quality component of the Amatole Water Supply System Reconciliation Strategy.
- Environmental input was provided for the development of the environmental awareness training for the Buffalo River Adopt-a-River Project beneficiaries undertaken by the Wildlife and Environment Society of South Africa (WESSA).

- Participation in provincial forums such as the Environmental Quality Management Forum and the Renewable Energy and Energy Efficiency Forum, has meant that Amatola Water remains abreast of relevant local environmental legislation and relevant information pertaining to environmental management.

These varied environmental inputs contribute to ensuring environmental monitoring and compliance within an integrated environmental management framework.

## RESEARCH & DEVELOPMENT

On-going participation in a Water Research Commission (WRC) funded project with Rhodes University, through the Institute for Water Research continued during the year. The aim of the project is to develop climate change adaptation measures and a decision-support system to assist Amatola Water in making strategic decisions to align with regional sustainability pressures.

## EXTERNAL INVOLVEMENT

### ADOPT-A-RIVER PROJECT (PHASE 2)

The appointment of Amatola Water to implement the Adopt-a-River Project was extended. An additional R2.5 million was availed by the Department of Water Affairs for phase 2 of the project, following the completion of phase 1 in August 2011.

This project entails the training of locally based women to care for the Buffalo River system by cleaning solid waste and clearing of alien vegetation along the river course. This work is expected to be completed in November 2012.

The objectives of the project included but were not limited to:

- Creating temporary employment for 100 women beneficiaries to clean up the Buffalo River from source to sea;
- Allow communities to take care of the cleanliness of their rivers and the surroundings;
- Encourage community members to guard against those who dump next to their areas and or near the river.

The Adopt-a-River Programme has, as its broad focus, the development of an increased awareness of South Africa's water resources and increasing community participation in taking care of these resources. It is hoped

that increased knowledge of water resources will develop into an active participation by stakeholders in contributing to environmental management, and ultimately result in better management and protection of our environment and, specifically, of scarce and precious water resources.

### RAINWATER HARVESTING – EASTERN CAPE

Amatola Water was appointed by the Department of Water Affairs as an Implementing Agent to support the Department in the implementation of a R4.7 million Rainwater Harvesting Programme in the Eastern Cape.

Around 250 households, farmer cooperatives and other entities from six district municipalities benefitted from the programme. This involved the supply and installation of a total of 500 rainwater harvesting tanks to the 250 beneficiaries. The beneficiaries were exposed to health and hygiene education and will later participate in an operation and maintenance training initiative.

The programme is aimed at enhancing water availability for poor rural households to enable them to have water supply for family food production and other productive uses.

Construction was completed in June 2012, with emerging contractors and local labour having been used to implement the facilities.

## CONTINUOUS IMPROVEMENTS IN OPERATIONS

Efforts in order to ensure continuous improvements in Operations have been consistently employed throughout the financial year so as to improve water and waste water quality, as well as business processes and services. Customer valued delivery processes, in particular, have been evaluated continually and improved upon, taking into consideration their efficiency, effectiveness and flexibility. These entailed, among others, plant optimisation and improvements which enhance organisational efficiency and effectiveness at Nahoon and Sandile water treatment works to increase production.

### ENERGY EFFICIENCY PLAN

The Energy Efficiency Plan remained part of the business' operational and strategic goals during this period. The plan does not only impact on electricity costs but also to the overall asset management costs and consequently improves the utilisation and efficiency of the organisation's asset base.

There has been a year-on-year 3.30 percent decrease in the ratio of Kwh/cubic meter of water produced from 0.847 in 2010/2011 to 0.82 in the 2011/2012 financial year. Due to organisation's precarious financial standing however, the pump efficiency monitoring programme was not conducted during the financial year. Even so, it has been most encouraging to see this decrease in the ratio which ultimately means that electricity was used more efficiently.

It is envisaged that in the 2012/2013 financial year, this pump efficiency monitoring program will commence in earnest once again.

There are a number of factors that have contributed to the decrease in the ratio, namely:

- Plant losses decreased from 7.62 percent in 2010/2011 to 5.0 percent in 2011/2012
- Total water production increased by 8.1 percent year-on-year, whilst the electricity unit usage only increased by 7.2 percent. This clearly indicates that electricity usage coupled with the pump efficiency monitoring programme has been further optimised.

The table below illustrates the trend on electricity usage and water sales. It is noted that energy usage has been managed within the envelopes of the acceptable parameters.

WTW	Capacity Ml/d	Total 2011/12 kWh	Total 2011/12 m <sup>3</sup>	2011/12 kWh/m <sup>3</sup>	2010/11 kWh/m <sup>3</sup>
Masinedane WTW	4	59 542	855 303	0.07	0.06
Glenmore WTW	0.5	222 690	493 263	0.45	0.61
Peddie WTW	6.56	731 803	2 858 861	0.26	0.27
Mnyameni WTW	0.29	7 704	98 697	0.08	0.08
Nahoon WTW	33.7	9 001 429	11 305 056	0.80	0.83
Laing WTW	33	10 490 549	8 833 546	1.19	1.2
Sandile WTW	18	4 952 823	6 869 285	0.72	0.74
Debe WTW	1.5	945 339	847 747	1.12	1.13
Bindfield Park WTW	4.8	986 317	1 501 427	0.66	0.63
<b>Total</b>	<b>101.55</b>	<b>27 607 174</b>	<b>33 663 185</b>	<b>0.82</b>	<b>0.85</b>

# *Our responsibility to the communities we serve*

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## **CORPORATE SOCIAL INVESTMENT**

The provision of safe and sufficient supplies of water to communities ranks as Amatola Water's principal and most effective avenue of corporate social investment. This stance is founded on the understanding that improvement in water services provision is a vital enabler of broader local, regional and national socio-economic development and advancement.

Guided by this prioritisation of services provision, Amatola Water has sought, by all practical means, to contribute positively to the well-being of the communities in which it operates. In this regard, the utility channels its social investing efforts into areas where it can deploy its internal resources and facilities effectively by collaborating with community stakeholders in securing maximum social benefit.

## **EDUCATION & OUTREACH**

### **NATIONAL WATER WEEK**

Amatola Water partnered with Nkonkobe Local Municipality in conducting an awareness campaign on water safety due to the increasing number of fatalities that have been reported as a result of drowning in our various areas of operation. This municipality was reported to be a drowning hotspot with high statistics for children and adults.

The target was Grade 8's and 9's educating them about the dangers of swimming in areas around our dams and the consequences that can be suffered. The campaign also emphasised on water conservation as one of the major interventions as well as preserving the environment.

Two hundred and twenty nine learners out of the two Senior Secondary Schools were in attendance, namely, Newton and St Josephs Senior Secondary Schools.

Department of Water Affairs made a presentation on the background of National Water Week and Career opportunities within the water sector.

### **SCHOOL TOUR PROGRAMME**

Amatola Water's educational programme continued during the year under review, hosting various school groups. The educational tours took place at Nahoon Dam, Butterworth WTW, Wriggleswade Dam and Laing Dam.

During the year under review a total of 725 learners and 120 students visited the water treatment works.

Amatola Water has continued to be highly praised by the schools for the outstanding educational support as well as the exceptional presentations during these tours.



## **JOB SHADOWING**

Amatola Water in partnership with the Department of Water Affairs hosted a Job Shadowing programme for Grade 9 learners from five Mdantsane schools as part of a Department of Education's Life Orientation syllabus for the year.

The job shadowing took place at the Nahoon Dam water treatment plant and Workshop, with a total of five local underprivileged schools participating on the programme. The learners got to see the on-the-job engineering that Amatola Water offers.

The main purpose of the programme was to assist learners to make the correct subject choices for Grade 10 in 2013. The anticipated spin-off from the day for Amatola Water was to see learners taking up engineering careers.

## **EAST LONDON JOB FAIR**

In partnership with the Eastern Cape Provincial Government and the Department of Labour, Amatola Water participated in the East London Job Fair held at the beginning of the reporting period.

The aim of the event was to provide a platform for work seekers and stakeholders involved in job creation initiatives to interact with a view to showcase their services which will benefit the unemployed people of the province.

Various other organisations exhibited at the Fair, including private sector companies as well as provincial government departments and Further Education & Training (FET) Colleges.

## **OTHER SKILLS DEVELOPMENT INITIATIVES**

### **DEPARTMENT OF WATER AFFAIRS**

Amatola Water in conjunction with the Department of Water Affairs implemented the Adopt A River-Shixini Programme for 40 unemployed youth based at Shixini Village in Willowvale. Of the 40 learners, 30 enrolled in the Water and Wastewater Learnership programme for a period of 12 months, while 10 learners were trained in basic bricklaying and plumbing skills. Both programmes were completed successfully.

### **AMATHOLE DISTRICT MUNICIPALITY**

Amatola Water continued to capacitate the Amathole District Municipality's (ADM) seconded staff. Through this programme a further 26 employees were enrolled to attend the N3 Water Treatment Practice at the Buffalo City Further Education and Training College. The programme was completed successfully.

## **SOCIAL TRANSFORMATION**

### **SOCIAL AND TRANSFORMATION ISSUES**

Central in the transformation agenda of Amatola Water is its corporate citizenship which seeks to define the organisation's commitment to all its stakeholders. These include its principals – the Department of Water Affairs, labour, communities, partners in government, municipalities, organised business formations and other formations of civil society including the environment.

The adopted objective of provision of bulk potable water services drives these noble ideals through a series of sub-objectives which serve as a unifying thread for the achievement of the primary existence of Amatola Water – that of ensuring a healthy nation through the elimination of water borne diseases. The commitment of Amatola Water has been sufficiently displayed in the manner in which it engages with its social partners for the general good of civil society.

### **BROAD-BASED BLACK ECONOMIC EMPOWERMENT (BBBEE)**

Amatola Water subscribes to the tenets of the Preferential Procurement Policy Framework Act 5 of 2000, and is fully committed to the principles of social transformation and the underlying black economic empowerment principles. Amatola Water has introduced the new Broad-Based Black Economic Empowerment Codes of Good Practice into all activities in line with its Level 2 BBBEE rating.



# ***Governance***

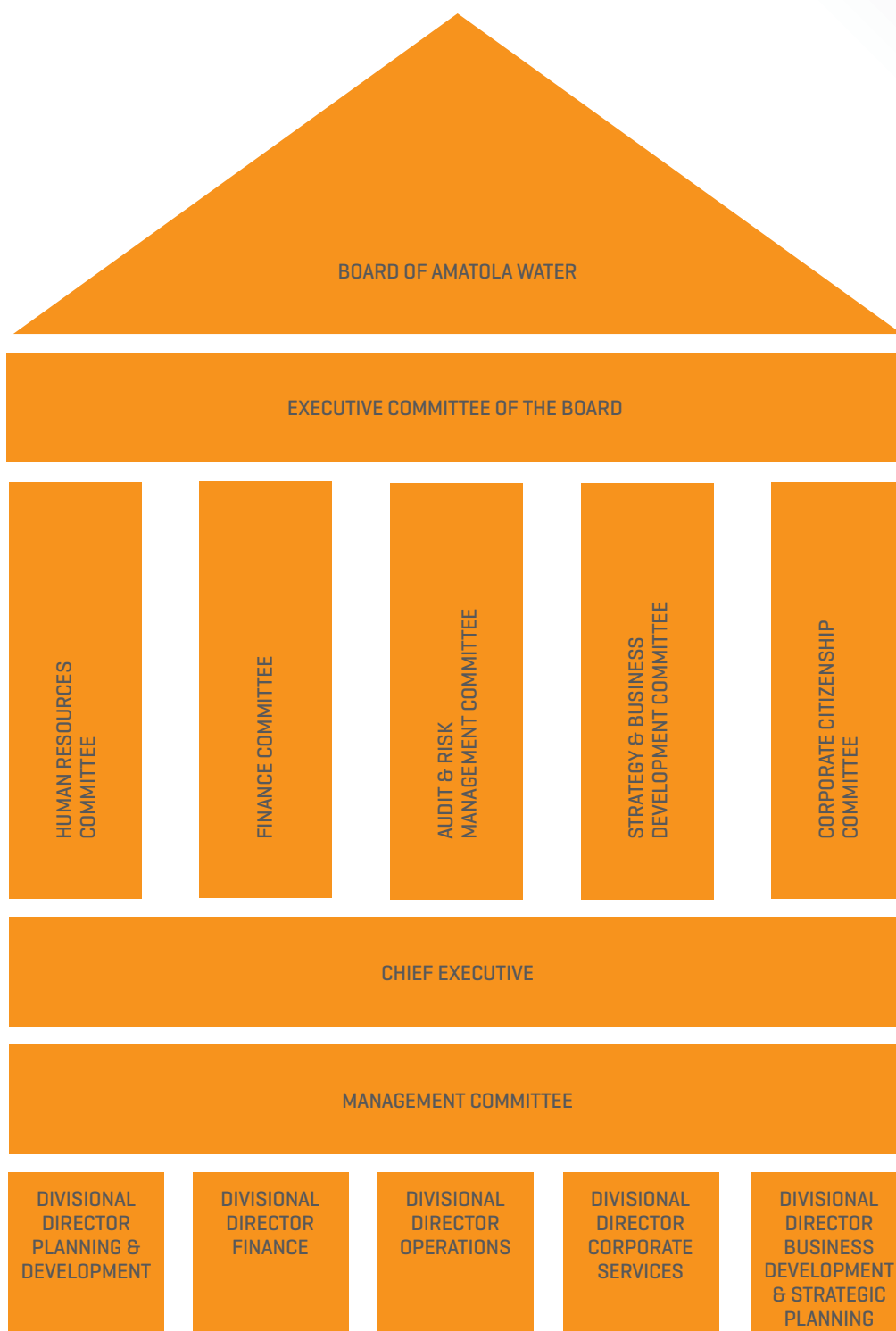
***Board of Amatola Water  
Management Committee***

***Company Secretary***

***Corporate Governance***

***G3 Profile Disclosures***

# Governance



## THE BOARD OF AMATOLA WATER

Amatola Water is wholly owned by the government of the Republic of South Africa through the Department of Water Affairs. All operations are conducted in the Republic of South Africa.

The Board constitutes the accounting authority of Amatola Water, reporting to the executive authority – the Minister of Water and Environmental Affairs. It comprises 13 members including the Chairperson and the Chief Executive Officer of the organisation. All members, with the exception of the Chief Executive Officer who is an ex-officio member, are non-executive directors nominated by various stakeholders and appointed by the Minister of Water and Environmental Affairs for a period of four years. The current Board's term is until 28 February 2014.

Amatola Water Board members pledge their commitment to ensuring that the affairs of the organisation are conducted with integrity and in accordance with generally accepted corporate practices. The Board is committed to upholding the governance principles incorporated in the Code of Corporate Practices and Conduct set out in the King III Report, the Public Finance Management Act (Act 1 Of 1999 as amended by Act 29 of 1999) and the provisions of the Water Services Act (Act 108 of 1997).

Board meetings are held on a quarterly basis, where decisions regarding overall policy and the implementation thereof are finalised.





The main responsibilities of the Board are:

- Ensuring efficiency and effectiveness of operations, the optimum utilisation of resources, legal compliance, safeguarding of assets and the existence of sound and effective internal controls;
- Adoption of the entity's strategic plan;
- Review and approval of business plans, budgets, major contracts and commitments;
- Accountability for the process of risk management;
- Monitoring organisational performance;
- Approval of major policy decisions;
- Appointing the Chief Executive Officer;
- Presentation of the financial statements and the assurance of integrity, objectivity and reliability of these statements; and
- Annual performance assessments of all sub-committees.

A Board Charter has been adopted to guide the members in discharging their duties and responsibilities. A performance management system is utilised with individual Board members assessed using the Department of Water Affairs' performance Management Toolkit.



Lynette  
Louw

Nombulelo  
Hackula

Simphiwe  
Dzengwa

Mhleli  
Matika

Chief  
Sizakele Ngwekazi

Sakhumzi  
Somyo

Ntombenhle  
Rulumeni



#### Rosette Nothemba Mlonzi ▶ Chairman

Ms Mlonzi is an attorney of the High Court of South Africa. Apart from running her legal practice Mlonzi and Company Attorneys in East London, she occasionally acts as a Judge of the High Court. She has a Bachelor of Proc, LLB and an MBA. She has extensive experience in the fields of business and law, and has held a number of leadership positions at various other institutions.

Amatola Water Committees - Chairman and Head of the Executive Committee of the Board (EXCO).

#### Mxolisi Koyo [Cllr] ▶ Member

Cllr Koyo is the Executive Mayor of Chris Hani District Municipality and the Deputy Chairman of the South African Local Government Association (SALGA) in the Eastern Cape. He holds a Bachelor of Agriculture degree from Fort Hare University and has qualifications in the field of local government.

Amatola Water Committees – Head of Finance Committee and member of EXCO and Corporate Citizenship Committees.

#### Lynette Louw [Prof] ▶ Member

Prof Louw is appointed in the Raymond Ackerman Chair of Business Administration in the Department of Management at Rhodes University and is the deputy Dean in the Faculty of Commerce. She boasts an assortment of expertise and credentials. She is the former Vice-President of Public Relations and Finance for the NEPAD Council, and former Chairman of the Commission of Socio-Economic Development and Trade.

Amatola Water Committees – Head of Strategy & Business Development Committee and member of EXCO and Finance Committees.

#### Mhleli Matika ▶ Member

Mr Matika is a board member of the East London Industrial Development Zone (ELIDZ), serving in various committees including the Audit, Finance and Tender committees. He is a former councillor of Buffalo City Municipality (BCM) and has played a role in the South African Local Government Association (SALGA), having served as the Chairman of the SALGBC Executive Committee and an EXCO member in the Eastern Cape branch. He has an extensive background in union affairs, human resources management and labour matters.

Amatola Water Committees – Head of Human Resources Committee and member of EXCO and Strategy & Business Development Committees.

#### Sakhumzi Somyo ▶ Member

Mr Somyo is the former Executive Mayor of the Amathole District Municipality. He is a high profile local government role player who has previously served as Chairman of the Eastern Cape branch of the South African Local Government Association (SALGA) and as a National Executive Committee Member of SALGA. His qualifications include a Bachelor of Arts degree and a Teacher's Diploma from the University of Fort Hare.

Amatola Water Committees – Member of Audit & Risk Committee.

#### Zikhona Ramncwana ▶ Member

Ms Ramncwana has qualifications in organisational development, project management, navigator leadership, as well as a Bachelor of Social Work degree and Honours in Industrial Relations and Human Resources respectively. She is the National Employee Wellness Manager for Transnet National Ports Authority and a former Human Resources Manager for Transnet Port Terminals in East London.

Amatola Water Committees – Member of Human Resources and Audit & Risk Committees.

#### Nombulelo Hackula ▶ Member

Ms Hackula boasts extensive experience in the areas of strategy, supply chain management and change management from private and public sectors. Her work experience includes a stints as Purchasing Manager for Daimler South Africa and former Deputy Director General in the Office of the Premier in the Eastern Cape. She is a BSc graduate from the University of Fort Hare and holds various post graduate qualifications including a Senior Executive Program (SEP) from Harvard Business School, Harvard University, State of Connecticut in the United States. She is the founding chairman of Transformation Africa and is currently employed as the Head of Department of Social Development and Special Programmes, Eastern Cape.

Amatola Water Committees – Head of Corporate Citizenship Committee and member of EXCO and Finance Committees.

#### Simphiwe Dzengwa ▶ Member

Mr Dzengwa, who hails from Zwelitsha, has extensive experience in business management, development finance and budgeting. He has Masters Degrees in Business Administration (MBA) and Public Administration (MPA). He has worked in senior management positions in institutions such as ABSA Bank and the Development Bank of South Africa (DBSA). His early career started as a public service financial and budgeting manager in the Eastern Cape and in National Government. He is currently the Head of Innovate Eastern Cape.

Amatola Water Committees – Member of Finance and Strategy & Business Development Committees.

#### Sizakele Ngwekazi [Chief] ▶ Member

Chief Ngwekazi is the head of Amabhele Traditional Community in Peddie and is deputy secretary of the Congress of Traditional Leaders in the Eastern Cape. He is a member of the Provincial House of Traditional Leaders, in the Eastern Cape and participates in the Rural Development Forum in the Rharhabe Kingdom. He is a teacher by profession. His qualifications include a bachelor's degree in Education and certificates of management in tourism and sport. He currently serves as a member of the Nompumelelo Hospital Board.

Amatola Water Committees – Member of Human Resources and Corporate Citizenship Committees.

#### Ntombenhle Rulumeni ▶ Member

Ms Rulumeni holds a bachelor's degree in Social Sciences and a post graduate diploma in Industrial Relations. She has a mixture of national and international experience in various areas including Strategic Mentorship and Coaching. She has worked for the German Technical Corporation as Technical Advisor and the British Consul in the United Kingdom as a Project Manager for British Investments in South Africa. She is currently involved in a Climate Change Project.

Amatola Water Committees – Member of Audit & Risk and the Strategy & Business Development Committees.

#### Khululwa Ncamiso ▶ Member

Ms Ncamiso is a Councillor and a former Speaker of the Council of Ndlambe Local Municipality. Her qualifications include a Teacher's Diploma from the Cape College of Education, an Advanced Certificate in Education from Rhodes University, a Certificate in Executive Leadership Municipal Development Programme from the University of Pretoria and a Local Government Law Administration Certificate from the University of Fort Hare.

Amatola Water Committees – Member of Human Resources Committee.

#### Lionel Billings ▶ Member

Mr Billings has worked for companies such as Volkswagen SA, Telkom SA, Coega Development Corporation and the Business Partners. His qualifications include BComm Acc, BComm Acc (Hons) and CA(SA). He is a member of the South African Institute of Chartered Accountants (SAICA) and has served on the Equity Development sub-committee for the Eastern Cape, as well as a member of the district association representing members in commerce and industry.

Amatola Water Committee – Member of Finance Committee.

#### Nomonde Gwabeni [Mnukwa] ▶ CEO [Ex Officio up to 16 March 2012]

Ms Gwabeni is a former Chief Executive Officer of Amatola Water and an ex-officio member of the Board. She holds an MBA from the University of KwaZulu-Natal. She is a former Chief Director of the Department of Water Affairs in the Eastern Cape.

#### Xola Bomela ▶ Acting CEO [Ex Officio from 16 March – 30 June 2012]

Mr Bomela is the Director of Operations and was delegated by the Board of Amatola Water as Acting Chief Executive Officer and as an ex-officio member of the Board from 16 March to 30 June 2012. His qualifications include a bachelor's degree in Electrical engineering from the University of Cape Town and a Master of Science degree in Electrical Engineering from Stellenbosch University.

## BOARD COMMITTEES

EXECUTIVE COMMITTEE	AUDIT AND RISK COMMITTEE
<p><b>COMPOSITION</b></p> <p>Chairman of the Board; Chairman of the Finance Committee; Chairman of the Human Resources Committee; Chairman of the Strategy and Business Development Committee; Chairman of the Corporate Citizenship Committee; and the Chief Executive Officer of Amatola Water.</p> <p><b>FUNCTION</b></p> <p>The Executive Committee functions as the secondary governance structure of the Board and is responsible for monitoring the execution of Amatola Water's strategy and adherence to broad governance policies in delivering the core business of the organisation. It deliberates on issues relating to business planning and monitors business and executive performance.</p> <p>The committee meets quarterly before all Board meetings.</p>	<p><b>COMPOSITION</b></p> <p>Three non-executive members of the Board of Amatola Water and two independent members appointed outside of Amatola Water.</p> <p><b>FUNCTION</b></p> <p>The Audit Committee is responsible for overseeing internal control, financial reporting and compliance with regulatory matters. It reviews:</p> <ul style="list-style-type: none"> <li>▸ The adequacy of internal controls and risk management systems;</li> <li>▸ The Annual Financial Statements;</li> <li>▸ Other information in the Annual Report for consistency with the financial statements;</li> <li>▸ Audit findings;</li> <li>▸ The process of preparing financial information;</li> <li>▸ The process of monitoring compliance with laws and regulations;</li> <li>▸ The process of monitoring compliance with the internal Code of Conduct;</li> <li>▸ The fraud prevention strategy.</li> </ul> <p>The committee meets at least three times annually.</p>
CORPORATE CITIZENSHIP COMMITTEE	STRATEGY & BUSINESS DEVELOPMENT COMMITTEE
<p><b>COMPOSITION</b></p> <p>Three non-executive Board members, the Chief Executive Officer and the Director of Corporate Services. Members of the Management Committee attend on invitation.</p> <p><b>FUNCTION</b></p> <p>The role of the Corporate Citizenship Committee is to assist the Board in fulfilling its oversight responsibilities. Its focus is on matters relating to, or having a bearing on the overall corporate citizenship of Amatola Water. The responsibility for the formulation of related policies and strategies are assigned to this committee.</p> <p>The committee meets quarterly.</p>	<p><b>COMPOSITION</b></p> <p>Four non-executive Board members, the Chief Executive Officer and the Director of Planning and Development. Members of the Management Committee attend on invitation.</p> <p><b>FUNCTION</b></p> <p>The role of the Strategy and Business Development Committee is to assist the Board in fulfilling its oversight responsibilities. The specific focus of the Committee is on matters relating to, or having a bearing on strategic direction and general performance of Amatola Water including business development.</p> <p>The committee meets quarterly.</p>

## BOARD COMMITTEES

### HUMAN RESOURCE COMMITTEE

#### COMPOSITION

Four non-executive Board members, the Chief Executive Officer and the Director of Corporate Services. Members of the Management Committee attend on invitation.

#### FUNCTION

As part of its leadership role in the implementation of transformation and human resource programmes and initiatives, the HR Committee:

- Evaluates the human resource policies of Amatola Water in order to ascertain that they comply with the Labour laws of the Republic of South Africa;
- Advances the strategic objectives of Amatola Water so that they are suitably developed and improved as far as is necessary to advance the interests of Amatola Water and its employees;
- Monitors the implementation of the said policies through periodic management reports and makes recommendations as well as report to the Board of Amatola Water;
- Has authority to approve all HR related strategies and plans aligned to the HR policies already approved by the Board.

The committee meets quarterly.

### FINANCE COMMITTEE

#### COMPOSITION

Five non-executive Board members, the Chief Executive Officer and the Chief Financial Officer. Members of the Management Committee attend on invitation.

#### FUNCTION

The focus of the Finance Committee lies on matters relating to, or which have a bearing on the overall financial management and performance of Amatola Water. The responsibility for policies and strategies relating to Treasury activities, procurement, optimum debtors management and budgeting also rests with this committee. The committee is further accountable for overseeing the awarding of tenders by the water board.

The committee meets quarterly.

## MANAGEMENT COMMITTEE

The Management Committee comprises of the Chief Executive Officer and four Divisional Directors. The core responsibilities of the Management Committee include the implementation of policies and the development and implementation of procedures as well as managing the daily operations of the organisation.

Management ensures that relevant legislation and regulations are adhered to and that adequate internal financial controls are developed, implemented and maintained.

### Nomonde Gwabeni [Mnukwa] ▶ CEO [Ex Officio up to 16 March 2012]

Ms Gwabeni holds an MBA from the University of KwaZulu-Natal. She has vast experience in the water sector. Her previous roles include, among others, being Chief Director of the Department of Water Affairs in the Eastern Cape and Deputy Chairperson of the National District Water Services Managers Forum.

### Xola Bomela ▶ Director of Operations & Acting CEO [Ex Officio from 16 March – 30 June 2012]

Mr Bomela is the Director of Operations, responsible for operations, engineering, maintenance and physical asset management support. Between March and June 2012 he was delegated by the Board of Amatola Water as Acting Chief Executive Officer and as an ex-officio member of the Board. His qualifications include a bachelor's degree in Electrical Engineering from the University of Cape Town and a Master of Science degree in Electrical Engineering from Stellenbosch University.

### Craig Step ▶ Chief Financial Officer

As Chief Financial Officer, Mr Step is responsible for the organisation's financial management, management accounting and supply chain management functions. He has an Honours Degree in Commerce and is an associate member of the South African Institute of Chartered Accountants.

### Craig Thompson ▶ Director of Planning and Development Division

Mr Thompson is a seasoned Professional Engineer. He holds a Bachelor of Science degree in Civil Engineering. His area of responsibility includes infrastructure planning, project development, scientific services and water resources.

### Mzwandile Gogwana ▶ Director of Corporate Services

Mr Gogwana holds a Bachelor of Arts degree and Masters in Administration from the University of Fort Hare. He has extensive experience in the HR field, which includes stints at the Buffalo City Municipality and the Amathole District Municipality in the capacity of Director: Human Resources, as well as serving as a consultant for various municipalities and private institutions within the Eastern Cape, including SALGA and DBSA.



## COMPANY SECRETARY

The Company Secretary provides support to the Board as follows:

- Guidance to Board members related to the discharge of their duties;
- Development of systems to support the Board;
- The induction of Board members;
- Updating the Board on new and relevant legislation;
- Guidance on ethics and good governance.

The Company Secretary further provides advice and support to the Management Committee on compliance issues.

## CORPORATE GOVERNANCE

### KING III COMPLIANCE

Amatola Water is committed to compliance with and to implementing the provisions and recommendations of King III. The key focus area is integrated reporting, which needs to be developed going forward.

Amatola Water has adopted the GRI G3 sustainability reporting guidelines as distributed by Global Reporting Initiative. Compliance has been determined at the C level and the necessary Applications Level Index Grid can be found in the Annual Report on page 59.

### RISK MANAGEMENT

The Board of Amatola Water ensures that the organisation maintains adequate accounting records and that processes have been implemented to identify and manage business risk. Risk management encompasses all significant business risks, including operational risks which have the potential to undermine the achievement of the organisation's business objectives.

Amatola Water, assisted by its Internal Auditors, undertakes a business risk identification process every second year to facilitate the Board's assurance of strategy development and implementation, so as to mitigate the identified risks. Information gathered during the business risk identification process forms the core of the internal audit planning strategy to ensure resources are focused. This information also assists the Board and the Amatola Water management in setting standards for the implementation of appropriate internal

control systems. Methods, procedures and systems are implemented to assist with:

- Safeguarding of assets and reduction of risk of losses through error, fraud or other irregularities;
- Ensuring the accuracy and completeness of accounting records; and
- Achieving timely preparation of financial statements and information in compliance with relevant legislation and generally accepted accounting policies and procedures.

### INTERNAL AUDIT

The annual internal audit, which is an outsourced activity, plays an important role in corporate governance. The internal audit measures:

- The effectiveness and application of policies, procedures, systems and processes;
- Management risks;
- Effectiveness of internal control;
- Reliable accounting records and compliance with legislation; and
- Safeguarding of assets

### CODE OF ETHICS

Amatola Water has an internal Code of Ethics for its employees, one that requires all employees to maintain the highest standards of behaviour and ethics. All employees are required to adhere to this code in terms of their employment engagement. A separate Code of Ethics regulates the conduct of the Board.

### GOING CONCERN

Management of Amatola Water has considered the going concern ability of the entity and concluded that the going concern assumption is valid due to the following:

- Amatola Water is contracted to provide bulk water to three municipalities in the region for a period of more than 12 months.
- Amatola Water has recently entered into Section 30 contracts of more than R460 million.
- Discussions are advanced on conversion of R86 million DWA payable into a long term debt.
- The provision of water is an essential supply and thus it is expected that this provision will not be compromised by national government.

Table 1:  
Non Executive Board Member's Emoluments for year ended 30 June 2012

Name	Board meetings R	Travel and other reimbursements R	2012 Totals R	2011 Totals R
NR Mlonzi - Chairperson	56 265.05	560.64	56 825.69	63 536.00
L Louw	54 530.79	2 219.04	56 749.83	63 030.68
M Koyo	32 642.37	0.00	32 642.37	52 944.68
S Somyo	20 180.74	1 308.16	21 488.90	21 021.59
M Matika	45 801.66	6 015.20	51 816.86	68 069.25
S Ngwekazi	30 346.64	8 386.24	38 732.88	60 662.97
N Hackula	25 268.80	0.00	25 268.80	64 526.33
N Rulumeni	31 672.15	630.72	32 302.87	40 360.32
Z Ramncwana	15 091.75	0.00	15 091.75	45 875.69
S Dzengwa	34 792.26	560.64	35 352.90	68 196.58
KC Ncamiso	12 058.77	5 676.49	17 735.26	47 115.05
L Billings	7 192.18	3 562.40	10 754.58	
Audit Committee				
K Mockler	24 153.00	18 760.00	42 913.00	32 534.63
N Meinie - Anderson	9 473.00	0.00	9 473.00	8 262.22
Total	399 469.16	47 679.53	447 148.69	636 135.99

Table 2:  
Executive Management Cost for the year ended 30 June 2012.

Name	Cash Component	Acting Allowance + Vehicle Allowance Package+ Subsistence & Travel Package	Basic Adjustment	Long Service Awards	Leave Payout / [Unpaid Leave]	Family Cover, Disability, Group Life, Pension	Performance Bonus	Basic Backpay	AW Pension Package	Medical Package	2012 Total	2011 Total
R	R	R	R	R	R	R	R	R	R	R	R	R
Ms N Gwabeni (Mnukwa): CEO	651 329.82	115 475.78	0.00	0.00	80 522.07	38 569.96	0.00	1 141 153.65	46 318.68	15 750.00	2 089 119.96	1 140 110.55
C Step - Divisional Director: Finance	443 844.59	59 425.71	20 942.54	0.00	62 377.78	45 132.34	0.00	201 048.41	0.00	10 500.00	843 271.37	1 215 641.21
C Thompson -Divisional Director: P & D	894 798.70	174 879.00	21 402.15	0.00	(8 852.42)	81 773.86	0.00	435 801.19	0.00	21 000.00	1 620 802.48	1 378 086.38
M Gogwana - Divisional Director: Corporate Services	633 499.22	66 120.00	16 336.92	0.00	0.00	33 277.68	0.00	332 660.47	88 431.95	21 000.00	1 191 326.24	825 503.33
X Bomela- Divisional Director: Operations	909 272.09	162 260.00	22 055.79	500.00	0.00	78 326.93	0.00	449 111.07	0.00	21 000.00	1 642 525.88	1 393 905.15
L. Tebbutt- Divisional Director: Finance (Acting)	431 200.00	4 189.42	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	435 389.42	0.00
Total	3 963 944.42	582 349.91	80 737.40	500.00	134 047.43	277 080.77	0.00	2 559 774.79	134 750.63	89 250.00	7 822 435.35	5 953 246.62

Table 3:

Amatola Water Board and Committee Members attendance - 01 July 2011 to 30 June 2012

NB: The Total number of Meetings for each member differs due to the re - election of members to different Board Committees.

DESIGNATION	NAME	BOARD (4 MEETINGS)	EXECUTIVE BOARD (2 MEETINGS) (4 SPECIAL)	AUDIT COMMITTEE (3 MEETINGS)	FINANCE COMMITTEE (4 MEETINGS) (5 SPECIAL)	CORPORATE CITIZENSHIP COMMITTEE (4 MEETINGS)	HUMAN RESOURCES COMMITTEE (4 MEETINGS)	STRATEGY & BUSINESS DEVELOPMENT (4 MEETINGS)
Chairperson (Non Executive Director)	NR Mlonzi	3 of 4	6 of 6	-	-	-	-	-
Member ( Non Executive Director)	S Dzengwa	4 of 4	-	-	8 of 9	-	-	4 of 4
Member ( Non Executive Director)	N Hackula	0 of 4	5 of 6	-	8 of 9	4 of 4	-	-
Member ( Non Executive Director)	M Koyo	3 of 4	6 of 6	-	6 of 9	2 of 4	-	-
Member ( Non Executive Director)	L Louw	4 of 4	5 of 6	-	9 of 9	-	-	2 of 4
Member ( Non Executive Director)	M Matika	4 of 4	5 of 6	-	-	-	4 of 4	4 of 4
Member ( Non Executive Director)	KC Ncamiso	3 of 4	-	-	-	-	2 of 4	-
Member ( Non Executive Director)	S Ngwekazi	4 of 4	-	-	-	4 of 4	4 of 4	-
Member ( Non Executive Director)	Z Ramnwana	3 of 4	-	1 of 3	-	-	2 of 4	-
Member ( Non Executive Director)	N Rulumeni	3 of 4	-	3 of 3	-	-	-	4 of 4
Member ( Non Executive Director)	S Somyo	4 of 4	-	3 of 3	-	-	-	-
Member (Non Executive Director)	L Billings	2 of 4	1 of 1 (Invitee)	-	5 of 5	-	-	-
Ex Officio Member (Chief Executive Officer)	N Gwabeni (Mnukwa)	2 of 4	2 of 6	1 of 2	3 of 5	2 of 3	2 of 3	2 of 3
Member (Acting Chief Executive Officer)	X Bomela	2 of 2	1 of 1	1 of 1	4 of 4	1 of 1	1 of 1	1 of 1
Member (Acting Chief Executive Officer)	C Thompson	-	3 of 3	1 of 1	1 of 1	1 of 1	1 of 1	1 of 1
AMATOLA WATER AUDIT COMMITTEE MEMBERS ATTENDANCE								
Chairperson (Independent Specialist Non Executive)	KG Mockler	1 of 1	-	3 of 3	-	-	-	-
Member (Independent Specialist Non Executive)	N Anderson	-	-	3 of 3	-	-	-	-

## G3 PROFILE DISCLOSURES

G3 Profile Disclosures	Profiles	Annual Report Page Reference
<b>1</b>	<b>Strategy and analysis</b>	
1.1	Statement from the most senior decision-maker of the organisation.	Chairman's Report Page 5
<b>2</b>	<b>Organisation Profile</b>	
2.1	Name of the organisation.	Service Offerings page 1 or <a href="http://www.amatolawater.co.za">www.amatolawater.co.za</a>
	Operational structure of the organisation	Corporate Governance page 46 to page 55
2.2	Primary brands, products, and/or services.	Service Offerings page 1 or <a href="http://www.amatolawater.co.za">www.amatolawater.co.za</a>
	Countries in which the organisation's operations are located	Corporate Governance page 48
	Nature of ownership	Corporate Governance page 48
2.3	Operational structure of the organisation	Corporate Governance page 46 to page 55
2.4	Location of the organisation's headquarters	Back cover or <a href="http://www.amatolawater.co.za">www.amatolawater.co.za</a>
	Awards received in the reporting period	Three Blue Drop Awards and one Excellence Award page 38 OHSAS 18001:2007 page 31
2.5	Countries in which the organisation's operations are located	Corporate Governance page 48
2.6	Nature of ownership	Corporate Governance page 48
2.7	Markets served	Operational Map page 2, Review of Operations page 14 to page 45
2.8	Scale of the reporting organisation	Historical Statistical Overview page 92 to 94
2.9	Significant changes during the reporting period in terms of size, structure or ownership	No change
2.10	Awards received in the reporting period	Blue Drop Awards – Partnering with Our Clients page 38
<b>3</b>	<b>Report parameters</b>	
3.1	Reporting period for information provided	Approval of the Financial Statements page 65
3.2	Date of most recent previous report	30 September 2011
3.3	Reporting cycle	Approval of the Financial Statements page 65
3.4	Contact point for questions about the report or its contents	Back cover or <a href="http://www.amatolawater.co.za">www.amatolawater.co.za</a>
3.5	Process for defining report content	As defined by Water Services Act No. 108 of 1997 and the Public Finance Management Act No. 1 of 1999 and <a href="http://www.amatolawater.co.za">www.amatolawater.co.za</a>



G3 Profile Disclosures	Profiles	Annual Report Page Reference
3.6	Boundary of the report	As defined by Water Services Act No. 108 of 1997 and the Public Finance Management Act No.1 of 1999
3.7	Any specific limitations on the scope or boundary of the report	No limitations
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that can significantly affect comparability from period to period and/or between organisations	None
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement	Page 84 to 86
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the report	None
3.12	Table identifying the location of the standard disclosures in the report	Current table serves this purpose
<b>4</b>	<b>Governance, commitments and engagement</b>	
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.	Corporate Governance page 46 to page 55
4.2	Indicate whether the chair of the highest governance body is also an executive officer	Corporate Governance page 46 to page 55
4.3	For organisations with a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members	Corporate Governance page 46 to page 55
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	Review of Operations page 14 to page 45
4.14	List of stakeholder groups engaged by the organisation	Page 32 and Communications and Stakeholder Engagement Strategy (available on request)
4.15	Basis for identification and selection of stakeholders with whom to engage	Corporate Citizenship Policy Statement (available on request)

## PERFORMANCE

<b>G3 Performance Indicators</b>	<b>Report on performance indicators (minimum of 10 performance indicators, including at least one from each of; social ,economic and environment)</b>	<b>As per table below</b>		
<b>Indicator Reference</b>	<b>Indicator Description</b>	<b>Page No.</b>	<b>Amatola Water summary disclosure</b>	<b>Fully Disclosed</b>
<b>Economic Performance Indicators</b>				
EC 1	(Core Indicator) Direct economic value generated & distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments	70 - 73	The report indicates the 2012 total revenue (R423,259 million), operating expenses (R435,575 million), cost of sales: direct salaries, Corporate social responsibility spending has been limited due to the deficit, Accumulated deficit (R -5,038 million), Payments on interest bearing borrowings ( R2,829 million)	Yes
EC3	(Core Indicator) Coverage of the organization's defined benefit plan obligations	88	Amatola Water operates a defined contribution plan	Yes
EC4	(Core Indicator) Significant financial assistance received from government	84	No assistance received from Government. All transactions are of a related party nature.	Yes
<b>Environmental Performance Indicators</b>				
EN 4	(Core Indicator) Indirect energy consumption by primary energy source	24	Total kWh of electricity consumed by water treatment works disclosed in the report.	Yes
EN 7	(Additional Indicator) Initiatives to reduce indirect energy consumption and reductions achieved	24	Brief description of the pump-efficiency monitoring programme was implemented. The increase was due to Eskom tariff, however the consumption dropped from 0.85 to 0.82 kWh/m <sup>3</sup>	Yes
EN 8	(Core Indicator) Total water withdrawal by source	26	Total volume abstracted from surface water amounted to 35.855m kl per year	Yes
EN28	(Core Indicator) Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations		No fines have been imposed	Yes
<b>Labour Practices and Decent Work Performance Indicators</b>				
LA 1	(Core Indicator) Total workforce by employment type, employment contract and region	19 20	The following is disclosed in the report: - Permanent employees 411 - Non-permanent 42 - Breakdown of staff according to level, race & gender	Partial

Indicator Reference	Indicator Description	Page No.	Amatola Water summary disclosure	Fully Disclosed
LA 2	(Core Indicator) Total number and rate of employee turnover by age group, gender and region	20	A breakdown of permanent staff according to race & gender is disclosed	Partial
LA 4	(Core Indicator) Percentage of employees covered by collective bargaining agreements	22	Amatola Water is 76% unionised	Yes
LA 7	(Core Indicator) Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by region	31 20	The following is disclosed in the report: - Disabling incident frequency rate 0.59 - Absenteeism 0.34% increase	Partial
LA 8	(Core Indicator) Education, training, counselling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	21 22		Partial
LA 12	(Additional Indicator) Percentage of employees receiving regular performance and career development reviews	22	Annual performance assessment reviews	Partial
<b>Human Rights Performance Indicators</b>				
HR5	(Core Indicator) Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights	22	Amatola Water is 76% unionised and a collective bargaining agreement is in place.	Yes
HR 6	(Core Indicator) Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor		No child labour has been utilised	Yes
<b>Society Performance Indicators</b>				
SO 8	(Core Indicator) Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations		No significant fines imposed	Yes



# ***Annual Financial Statements***

## **REPORTS**

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## **FINANCIAL STATEMENTS**

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## ACCOUNTING BASIS

The financial statements that follow on pages 70 to 90 summarise the financial performance and standing of Amatola Water for the year ended 30 June 2012.

The financial statements have been compiled and are presented in accordance with South African Statements of Generally Accepted Accounting Practice and complies with the Water Services Act (Act 108 of 1997) and the Public Finance Management Act (Act 1 of 1999, as amended by Act 29 of 1999). SA GAAP will be withdrawn by South Africa's Financial Reporting Standards Council (FRSC) and Accounting Standards Board (ASB) for financial years commencing from 1 December 2012.

Publication of Amatola Water's financial statements is undertaken to create public awareness and understanding of the financial management and policies that have been made within Amatola Water's organisation to regulate the financial affairs of the business and to safeguard it from excessive or avoidable risk.

## REPORT OF THE AUDIT COMMITTEE

### AUDIT COMMITTEE RESPONSIBILITY

The audit committee reports that it has complied with its responsibilities arising from Section 51(1) (a) (ii) of the Public Finance Management Act of 1999 and Treasury Regulation 27.1. The audit committee also reports that it has adopted appropriate formal terms of reference as per its audit charter, has regulated its affairs in compliance with this charter and has fulfilled all its responsibilities as contained therein.

### THE EFFECTIVENESS OF INTERNAL CONTROL:

The system of internal control has not been effective and adequate during the year as evidenced by:

- Various reports of the internal auditors;
- The audit report on the annual financial statements; and
- The management letter of the external auditors to management.

The above reports drew attention to a number of shortcomings in the exercise of good internal control. In a few instances it was indicated that policies and procedures needed to be improved but most of the unsatisfactory features reported on related to failure to comply with policies and procedures which were satisfactory.

The committee is satisfied that management has put in place a plan to deal with the shortcomings. The committee has also tasked the internal auditors with conducting a follow up exercise to assure it that the necessary remedial steps have been taken as a matter of urgency.

The risk assessment for the organisation was updated during the year and the enterprise-wide risk management framework is currently being drawn up.

### EVALUATION OF FINANCIAL STATEMENTS:

The audit committee :

- Reviewed the audited financial statements to be included in the Annual Report, with the external auditors and the Accounting Authority;
- Reviewed the external auditors management letter and management responses;
- Reviewed the accounting policies and practices;
- Satisfied itself that the significant adjustments resulting from the audit were complete, accurate and valid; and
- Reviewed the Annual Financial Statements and recommended to the Board that they be adopted.



Ken Mockler ▸ Chairperson : Audit Committee  
East London, 31 October 2012



## **APPROVAL OF THE FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 30 JUNE 2012**

The Board is responsible for the preparation and fair presentation of the annual financial statements of Amatola Water, comprising the statement of financial position at 30 June 2012, and the statement of comprehensive income, the statement of changes in equity and statement of cash flow for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Water Services Act 108 of 1997 and sub-section 55(1)(b) of the Public Finance Management Act of 1999, as set out on pages 70 to 90.

The Board's responsibility includes: overseeing the implementing and maintaining of internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The Board's responsibility also includes ensuring adequate accounting records and that an effective system of risk management is adopted, as well as the preparation of the supplementary schedules included in these financial statements.

The Board has made an assessment of the entity's ability to continue as a going concern and is satisfied that Amatola Water has adequate resources to remain operational for the foreseeable future.

The auditor is responsible for reporting on whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

### **APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS**

The annual financial statements of Amatola Water, as identified in the first paragraph, were approved by the Board on 1 November 2012 and are signed on its behalf by



Nothemba Mlonzi ▶ Chairperson



Xola Bomela ▶ Acting Chief Executive

## **INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT AND THE EXECUTIVE AUTHORITY, THE MINISTER OF THE DEPARTMENT OF WATER AFFAIRS FOR THE YEAR ENDED 30 JUNE 2012**

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the financial statements of Amatola Water as set out on pages 70 to 90, which comprise the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### **ACCOUNTING AUTHORITY'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Statements of Generally Accepted Accounting Practice and the requirements of the Public Finance Management Act of South Africa (PFMA), 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'S RESPONSIBILITY**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Public Audit Act of South Africa, the General Notice issued in terms thereof and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### **BASIS FOR QUALIFIED OPINION**

Note 20 to the financial statements disclose irregular expenditure incurred during the year, as required to be disclosed in terms of section 55(2)(b)(i) of the PFMA. The entity did not have adequate systems in place to identify and maintain records of all instances of irregular expenditure incurred. Our audit resulted in material adjustments to the amounts originally identified and disclosed by the entity. Following these material adjustments and based on the test nature of our audit we were unable to determine whether any further adjustments were necessary to the amounts disclosed as irregular expenditure.

### **QUALIFIED OPINION**

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, these financial statements present fairly, in all material respects, the financial position of Amatola Water as at 30 June 2012

and its financial performance and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice and the requirements of the Public Finance Management Act of South Africa.

#### **EMPHASIS OF MATTER**

We draw attention to the matter below. Our opinion is not modified in respect of this matter.

As disclosed in note 15 to the financial statements certain corresponding figures have been restated as a result of prior year misstatements identified during our audit of the financial statements of the current year. These restatements relate to accumulated surplus of R24,5 million (2010:R745 000), advances received amounting to R22 million (2010: R545 000) and receivables of R1,8 million (2010:R200 000).

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

#### **PUBLIC AUDIT ACT REQUIREMENTS [PAA]**

In accordance with the Public Audit Act of South Africa, and the General Notice issued in terms thereof, we report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

#### **PREDETERMINED OBJECTIVES**

We performed procedures to obtain evidence about the usefulness and reliability of the information in the Performance Measurement report as set out on pages 10 to 13 of the annual report, and reported thereon to the accounting authority. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

The material findings from our report to the accounting authority are as follows:

#### **USEFULNESS OF INFORMATION**

##### **Presentation**

A total of 71% of major variances between planned and actual achievements were not explained in the annual performance report for the year under review as per the National Treasury annual report preparation guide. This was due to a lack of documented and approved internal policies and procedures to address reporting processes and events pertaining to performance management and reporting. No review was performed of the presentation of the annual performance report by management.

#### **RELIABILITY OF INFORMATION**

##### **Validity**

The National Treasury Framework for managing programme performance information (FMPPI) requires that processes and systems which produce the indicator should be verifiable. A total of 80% of the actual reported performance for the

various quarterly results reported, relevant to the financial programme, differed materially when compared to the source information and/or evidence provided. This was due to a lack of standard operating procedures for the recording of actual achievements and source information not being retained.

#### Accuracy

The National Treasury Framework for managing programme performance information (FMPPI) requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. A total 68% of the actual reported indicators for the various quarters relevant to Financial and Customer programmes were not accurate when compared to source information. This was due to a lack of standard operating procedures for the recording of actual achievements and source information on which quarterly results were calculated not being retained by senior management. Final reported results based on the audited financial statements were however accurate.

In addition to the above material findings, we drew attention to the following matter in our report to the Accounting Authority:

#### ACHIEVEMENT OF PLANNED TARGETS

Only 51% of targets were achieved by the entity. This is mainly as a result of the focus on institutional reform that took priority during the financial year to ensure the future sustainability of the entity.

#### MATERIAL ADJUSTMENTS TO THE PERFORMANCE MEASUREMENT REPORT

Material misstatements relating to 25% of the annual achievement reported in the annual performance measurement report were identified during the audit, all of which were corrected by management.

#### COMPLIANCE WITH LAWS AND REGULATIONS

We performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. Our findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

##### Annual financial statements, performance and annual report

Section 55 (1)(a) of the PFMA requires the accounting authority to keep full and proper records of the financial affairs of the entity and the annual financial statements should fairly present the state of affairs of the entity, its business, its financial results, its performance against predetermined objectives, and its financial position as at the end of the financial year concerned. Material misstatements of assets, liabilities, revenue, related parties and irregular expenditure identified by the auditors in the submitted financial statements were subsequently corrected. As described in the basis for qualification paragraph in the report on the financial statements, above, uncertainty as to the completeness of irregular expenditure exist, resulting in the financial statements receiving a qualified audit opinion.

##### Expenditure management

The accounting authority did not take effective steps to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 51(1)(b)(ii) of the PFMA.

Goods, works or service were not, in all instances, procured through a procurement process which is fair, equitable, transparent and competitive as required by the PFMA section 51(1)(a)(iii).

Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) and qualified for the contract in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).

Construction projects were not always registered with the CIDB, as required by section 22 of the CIDB Act and CIDB regulation 18.

#### Human resource management

Four critical positions were vacant for extended periods during the year, two in senior management and two in finance. The accounting authority did not have adequate succession plans in place to manage the vacancies in these key positions.

#### INTERNAL CONTROL

We considered internal control relevant to our audit of the financial statements, and the reports on predetermined objectives and compliance with laws and regulations, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies relating to leadership, financial and performance management and governance that resulted in the basis for the qualified opinion, findings on performance against predetermined objectives and compliance with laws and regulations, as included in this Report.

The weakened control environment was the result of the vacancies in the positions of chief executive officer, chief financial officer and the supply-chain manager, who left the employ of the entity during the year.

The control environment relating to procurement and contract management did not operate effectively during the financial period following the loss in key management personnel. Implementation and compliance with policies and procedures that enable and support compliance with the entity's procurement regulations were not monitored, resulting in instances of identified irregular expenditure not being prevented or detected timeously.

The lack of a formal system of controls over the reporting against predetermined objectives contributed to the reporting of quarterly results which cannot be verified against supporting documentation as the results were prepared from live information of which copies were not retained.

#### OTHER MATTER

The matters contained in the Report on Other Legal and Regulatory Requirements are not considered to affect our opinion contained in our Report on the Financial Statements, unless indicated.



KPMG Inc.  
Registered Auditor

Per Marileen de Wet  
Chartered Accountant (SA)  
Registered Auditor  
Director  
1 November 2012

KPMG Terraces  
Corner of Stewart and Quartzite Drives  
Selborne  
East London



## STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

	NOTES	2012 R'000	Restated 2011 R'000	Restated 2010 R'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	5	297 881	322 898	301 977
Total non-current assets		297 881	322 898	301 977
<b>Current assets</b>				
Inventories	6	1 607	1 960	2 320
Trade and other receivables	7	131 074	89 079	106 395
Cash and cash equivalents	8	54 764	35 754	26 798
Total current assets		187 445	126 793	135 513
<b>TOTAL ASSETS</b>		<b>485 326</b>	<b>449 691</b>	<b>437 490</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves</b>				
Capital contribution		274 557	274 557	274 557
Accumulated (Deficit) / Surplus		(5 038)	2 899	42 939
Total capital and reserves		269 519	277 456	317 496
<b>Non-current liabilities</b>				
Long term borrowings	9	982	1 847	4 142
Total non-current liabilities		982	1 847	4 142
<b>Current liabilities</b>				
Trade and other payables	10	213 960	167 559	113 397
Current portion of long term borrowings	9	865	2 829	2 455
Total current liabilities		214 825	170 388	115 852
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>485 326</b>	<b>449 691</b>	<b>437 490</b>

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2012

VOLUME	NOTES	2012 Kilolitres KI' 000	Restated 2011 Kilolitres KI' 000
Treated Water Volume Sold		30 835	28 524
Raw Water Volume Sold		8 168	8 613
		39 003	37 137

		R'000	R'000
<b>REVENUE</b>	<b>2</b>	<b>423 259</b>	<b>336 943</b>
Cost of sales	3	(327 927)	(293 213)
<b>Gross Profit</b>		<b>95 332</b>	<b>43 730</b>
Operating and administrative expenses	3	(107 648)	(90 046)
Net operating deficit		<b>(12 316)</b>	<b>(46 316)</b>
Finance income	4	8 952	6 332
Finance cost		(4 573)	(56)
<b>Deficit for the year</b>		<b>(7 937)</b>	<b>(40 040)</b>
<b>Deficit for the year</b>		<b>(7 937)</b>	<b>(40 040)</b>
Other comprehensive income		-	-
<b>Total comprehensive deficit</b>		<b>(7 937)</b>	<b>(40 040)</b>

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2012

	NOTES	Capital contribution R'000	Accumulated Surplus / (deficit) R'000	Total R'000
<b>Balance at 1 July 2010</b>		<b>274 557</b>	<b>42 194</b>	<b>316 751</b>
- Prior year error	15	-	745	745
<b>Balance at 1 July 2010 - Restated</b>		<b>274 557</b>	<b>42 939</b>	<b>317 496</b>
Restated deficit for the year		-	(40 040)	(40 040)
- Prior year error	15	-	(24 534)	(24 534)
Deficit for the year		-	(15 506)	(15 506)
<b>Balance at 30 June 2011</b>		<b>274 557</b>	<b>2 899</b>	<b>277 456</b>
Deficit for the year		-	(7 937)	(7 937)
<b>Balance at 30 June 2012</b>		<b>274 557</b>	<b>(5 038)</b>	<b>269 519</b>

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2012

	Notes	2012 R'000	Restated 2011 R'000
CASH FLOWS GENERATED FROM OPERATING ACTIVITIES		22 362	45 952
Cash receipts from consumers		(524 511)	(401 231)
Cash paid to suppliers and employees		542 494	440 907
Cash generated by operations	13	17 983	39 676
Interest income		8 952	6 332
Interest expense		(4 573)	( 56)
CASH UTILISED IN INVESTING ACTIVITIES		( 523)	(35 075)
Additions to property, plant & equipment		(556)	(35 134)
Proceeds on sale of property, plant & equipment		33	59
CASH UTILISED IN FINANCING ACTIVITIES		(2 829)	(1 921)
Proceeds from long term borrowings		-	1 200
Repayment of interest-bearing borrowings		(2 829)	(3 121)
CASH AND CASH EQUIVALENTS FOR THE PERIOD			
Net increase for the year		19 010	8 956
At the beginning of the year		35 754	26 798
At end of year	8	54 764	35 754

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

### 1. ACCOUNTING POLICIES

#### BASIS OF PREPARATION

The Financial Statements are prepared on the historical costs basis and incorporate the following principal accounting policies, which conform to South African Statements of Generally Accepted Accounting Practice (SA GAAP), the Public Finance Management Act (Act 1 of 1999, as amended by Act 29 of 1999) and the Water Services Act (Act 108 of 1997). These principal accounting policies are consistent with the previous year.

#### Capital contribution

Capital contribution comprises of Inventory and Property, Plant and Equipment transferred from the Department of Water Affairs (DWA).

#### Property, plant and Equipment

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

- it is probable that future economic benefits associated with the item will flow to the company; and
- the cost of the item can be measured reliably

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 recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised. The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment.

#### Cost model

Property, Plant and Equipment held for use in the production or supply of goods or services or for administrative purposes are stated at cost, less accumulated depreciation and any impairment losses.

Property, Plant and Equipment which were transferred to Amatola Water at no cost from DWA are recorded at depreciated replacement cost of the assets on the date of transfer, with the resultant credit being recorded as a Capital Contribution.

Depreciation commences when assets are ready for their intended use.

Depreciation is provided on all property, plant and equipment other than freehold land, to write down the cost, less residual value, on a straight line basis over their useful lives as follows:

Property, Plant and Equipment Depreciation Table	
Buildings	20 yrs
Pipelines	30 yrs
Reservoirs	35 yrs
<b>Pump stations</b>	
Building and civil works	35 yrs
Electrical	15 yrs



Property, Plant and Equipment Depreciation Table	
Mechanical	20 yrs
<b>Water treatment works</b>	
Building and civil works	50 yrs
Electrical	15 yrs
Mechanical	20 yrs
<b>Other equipment</b>	
Furniture and fittings	6 yrs
Other equipment	5 yrs
Computer equipment and software	3 yrs
Plant and equipment	5 yrs
Scientific equipment	4 yrs
Motor vehicles	4 yrs

The residual value and the useful life of each asset are reviewed at each financial year end.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The surplus or deficit arising from the recognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The surplus or deficit 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.

#### Software costs

Packaged software and the direct costs associated with the development and installation thereof are capitalised. Software is depreciated in full on a straight-line basis over three years.

#### Inventory

Inventory is valued at the lower of the weighted average cost and estimated net realisable value. Inventory comprises plant spares and stores, chemicals and fuel.

Obsolete, redundant and slow moving inventory is identified and written down to its estimated net realisable value.

No value is included in the Annual Financial Statements for water held in reservoirs and pipelines as this value has been calculated as not significant.

#### Impairment

The carrying amounts of the entity's assets, other than inventories and trade receivables, which are separately assessed and provided against where necessary, are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. The recoverable amount is

the higher of the asset's fair value less expenses to sell the asset, or the asset's value in use. Value in use is estimated taking into account future cash flows, forecast market conditions and the expected lives of the assets.

Such cash flows are discounted using a rate that reflects current market value of money and the risks associated with the specific asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses are recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in profit and loss.

#### **Revenue recognition**

Revenue, which excludes Value Added Tax, represents water sales to customers and management services rendered. Revenue from the sale of water and management services rendered is recognised when all the following conditions have been satisfied:

- the significant risks and rewards of ownership have been transferred to the consumer;
- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### **Project Revenue**

Project Revenue is recognised into the accounting records of Amatola Water on the basis of a stage of completion method.

#### **Interest income**

Interest is recognised on a time proportionate basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to Amatola Water.

#### **Provisions**

Provisions are recognised when Amatola Water has a present legal and constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

#### **Operating leases**

Operating Leases are those leases which do not fall within the scope of the definition of Finance Leases. Operating Lease Rentals are charged against Operating Income as they become due on a straight line basis.

#### **Financial Instruments**

##### **Measurement**

Financial instruments are initially measured at cost, which includes transaction costs. Subsequent to initial recognition, these instruments are measured as set out below:

##### **Held to maturity financial assets**

Investments are reflected at amortised cost, applying the yield-to-maturity basis. Amatola Water has both the intention and the ability to hold the financial investments to maturity.

##### **Trade and other receivables**

Trade and other receivables are stated at amortised cost, less impairment losses.

##### **Cash and Cash Equivalents**

Cash and Cash Equivalents are measured at fair value.

**Trade and other payables**

Short-term payables with no stated interest rate are measured at the original invoice amount as the effect of discounting is immaterial.

**Interest-bearing borrowings**

Interest-bearing borrowings are reflected at amortised cost, applying the yield-to-maturity basis.

**Cash and cash equivalents**

For the purpose of the Cash Flow Statement, Cash and Cash Equivalents comprise Cash on Hand and deposits held on call with banks, all of which are available for use, unless otherwise stated.

**Employee benefits****Short term employee benefits**

The cost of all short term employee benefits is recognised during the period in which the employee renders the related service.

Accruals for employee entitlements to salaries, wages, performance bonuses, annual and sick leave represent the amount which the entity has a present obligation to pay as a result of employees' services provided to the statement of financial position date. The accruals have been calculated based on current salary and wage rates.

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

**Defined contribution plans**

The entity's policy is to provide retirement benefits for employees. Obligations for contributions to defined contribution provident plans are recognised as an expense in the Statement of Comprehensive Income as incurred.

**Assets and liabilities acquired under common control transaction**

Assets and liabilities acquired under common control transaction have been valued at book value on the basis that the operation simply has been moved from Albany Coast Water Board to Amatola Water Board under the control of the Department of Water Affairs.

**Standards in issue not yet effective**

At date of authorisation of these financial statements, the following accounting standards and amendments to published accounting standards, which are relevant to Amatola Water were in issue but not yet effective.

	Effective for annual periods beginning on or after
IAS 1 amendment - Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income	1 July 2012
IFRS 7 (Amendment) - Disclosure Offsetting financial assets and financial liabilities	1 July 2013
IFRS 13 - Fair Value Measurement	1 July 2013
IFRS 9 - Financial Instruments	1 July 2015
IAS 32 - Offsetting financial assets and financial liabilities	1 July 2014
IFRS 1 Amendment - Government Loans	1 July 2013

The Board believes that the adoption of these standards in future periods will have no material financial impact on the financial statements of Amatola Water.

## 2. REVENUE

	2012 R'000	2011 R'000
<b>Revenue comprises:</b>		
Raw water sales	10 810	10 647
Treated water sales	161 930	139 650
Management Fees (Sec 30)	250 519	186 646
	<u>423 259</u>	<u>336 943</u>

## 3. OPERATING EXPENSES

	2012 R'000	2011 R'000
<b>Cost by function</b>		
Cost of sales	327 927	293 213
Operating and administrative expenses	107 648	90 046
	<u>435 575</u>	<u>383 259</u>

The net operating (deficit) is stated after taking the following into account:

	2012 R'000	2011 R'000
<b>Auditors' remuneration:</b>		
External audit fee - current	519	404
Other audit services	54	58
Internal audit fee	125	210
Bad debts recovered	-	(10 266)
Bad debts provision	459	-
<b>Consultancy fees</b>	6 290	1 460
<b>Cost of sales - Primary Business</b>		
Raw water purchases	52 569	46 690
Water research levies	1 764	1 430
Electricity	21 897	17 106
Chemicals	10 357	7 322
Employee benefit costs	50 309	52 009
Depreciation and impairment	15 999	10 482
	<u>152 895</u>	<u>135 039</u>
<b>Cost of sales - Secondary Business</b>		
Chemicals	8 021	7 430
Employee benefit costs	31 710	21 360
Fees: contracts	-	2 580
Repairs & maintenance	48 209	41 440
Diesel	1 398	675
Project costs	85 694	84 689
	<u>175 032</u>	<u>158 174</u>

	2012 R'000	2011 R'000
Depreciation and impairment	9 577	3 687
Employee benefit costs not relating to cost of water sold	37 735	40 110
Non-executive board member emoluments (i)		
Board member fees	399	568
Travel disbursements	48	68
Executive management emoluments (ii)	7 822	5 953
Operating lease payments	10 617	8 725
Repairs & maintenance	13 014	14 793
Technical service fees	545	104
Profit on disposal of property, plant & equipment	(35)	(15)
(i) Refer to the non-executive board member emoluments table on page 56 in the annual report.		
(ii) Refer to the executive management emoluments table on page 57 in the annual report.		

#### 4. FINANCE INCOME

	2012 R'000	2011 R'000
Income from Financial Asset	1 058	2 025
IAS 39 Adjustment	7 894	4 307
	<b>8 952</b>	<b>6 332</b>

#### 5. PROPERTY, PLANT AND EQUIPMENT

	Immovable assets	Movable assets	Capital work in progress	Total 2012
<b>2012</b>				
<b>Cost</b>				
At beginning of year	396 822	47 111	14 513	458 446
Additions	3 825	2 244	63 126	69 195
Disposals	-	(291)	(68 639)	(68 930)
<b>At end of year</b>	<b>400 647</b>	<b>49 064</b>	<b>9 000</b>	<b>458 711</b>
<b>Accumulated depreciation</b>				
At beginning of year	(105 452)	(30 092)	-	(135 544)
Depreciation charge	(13 233)	(10 866)	-	(24 099)
Disposals	-	288	-	288
Impairment	(1 476)	-	-	(1 476)
<b>At end of year</b>	<b>(120 161)</b>	<b>(40 670)</b>	<b>-</b>	<b>(160 830)</b>
<b>Net carrying amount at end of year</b>	<b>280 487</b>	<b>8 394</b>	<b>9 000</b>	<b>297 881</b>



	Immovable assets	Movable assets	Capital work in progress	Total 2012
<b>2011</b>				
<b>Cost</b>				
At beginning of year	336 388	44 874	42 570	423 832
Additions	60 430	2 761	66 585	129 776
Disposals	-	(524)	(94 642)	(95 166)
Impairment	-	-	-	-
<b>At end of year</b>	<b>396 818</b>	<b>47 111</b>	<b>14 513</b>	<b>458 442</b>
<b>Accumulated depreciation</b>				
At beginning of year	(93 923)	(27 935)	-	(121 858)
Depreciation charge	(11 529)	(2 640)	-	(14 169)
Disposals	-	483	-	483
Impairment	-	-	-	-
<b>At end of year</b>	<b>(105 452)</b>	<b>(30 092)</b>	<b>-</b>	<b>(135 544)</b>
<b>Net carrying amount at end of year</b>	<b>291 366</b>	<b>17 019</b>	<b>14 513</b>	<b>322 898</b>

Generally Accepted Accounting Practice requires that financial statements should reflect the economic substance of events and transactions and not merely the legal form. Amatola Water recognises and records those assets which are resources controlled by the enterprise and result in receipt of economic benefits or rewards and in incurring risks incidental to ownership, even though legal ownership has not passed. The Transfer Agreement between Department of Water Affairs (DWA) and Amatola Water requires that the assets are recorded at the depreciated replacement cost. The Transfer Agreement between Amatola Water and DWA was concluded with effect from 1 July 1998. In terms of Section 63(1)(c) of the National Water Act 1998 (Act 36 of 1998), powers and responsibility for the control, operation, administration and maintenance of immovable assets were delegated to Amatola Water by the Minister of Water Affairs.

In terms of the Transfer Agreement, DWA has agreed to transfer the major water services works to Amatola Water. These works comprise pipelines, reservoirs, pump stations and water treatment works in Amatola's designated area. In terms of Section 73(2)(a) of the Water Services Act 1997 (Act 108 of 1997), legal ownership will be transferred with the written approval of the Minister of Water Affairs and on registration of the properties in the name of Amatola Water by the Registrar of Deeds.

Although ownership and possession of immovable assets has been transferred, the transfer of land has not been effected as surveys of the land still need to be completed as the extent of the land to be transferred can not be determined before the relevant land diagrams have been approved by the Surveyor-General.

In terms of the transfer of Albany Coast Water Board's immovable assets, DWA has agreed to transfer the major water services works to Amatola Water. These works comprise pipelines, reservoirs, pump stations and water treatment works in Amatola's designated area. In terms of Section 73(2)(a) of the Water Services Act 1997 (Act 108 of 1997), legal ownership will be transferred on registration of the properties in the name of Amatola Water by the Registrar of Deeds.

Immovable assets are insured by Amatola Water and may only be encumbered with the written approval of the Minister of Water Affairs.

A reclassification was made from capital work in progress additions to immovable asset additions of R46, 425 million for the 2011 comparative amounts as these assets were ready for use on 30 June 2011.

## 6. INVENTORIES

	2012 R'000	2011 R'000
Plant spares and stores	1 353	1 418
Chemicals	225	467
Fuel	29	75
	<b>1 607</b>	<b>1 960</b>

### Recognition and valuation of water

The quantity of water held in the reservoirs and pipelines at year end has not been included in inventory as it is not considered material to the fair presentation of the annual financial statements.

## 7. TRADE AND OTHER RECEIVABLES

	2012 R'000	2011 R'000
<b>Trade receivables</b>	26 929	21 663
Less: Impairment loss	(99)	(297)
	<b>26 830</b>	<b>21 366</b>
<b>Other receivables</b>	104 893	67 715
Less: Impairment loss	(649)	(2)
	<b>104 244</b>	<b>67 713</b>
	<b>131 074</b>	<b>89 079</b>

## 8. CASH AND CASH EQUIVALENTS

### Cash and cash equivalents comprise:

	2012 R'000	2011 R'000
Cash	2	2
Bank	48 838	18 980
Short-term deposits	5 924	16 772
	<b>54 764</b>	<b>35 754</b>

## 9. LONG TERM BORROWINGS

	2012 R'000	2011 R'000
<b>Unsecured</b>		
<b>Department of Water Affairs</b>		
Raw water purchases	771	3 505
<b>Secured</b>		
<b>Nedbank</b>		
Bond	1 076	1 171
<b>Total borrowings</b>	<b>1 847</b>	<b>4 676</b>
Less: current portion	(865)	(2 829)
<b>Total long term borrowings</b>	<b>982</b>	<b>1 847</b>

The raw water debt is repayable over 10 years in monthly installments of R 196 353, final payment on 30 October 2012. Interest is charged at a rate determined by the Minister of Finance in terms of section 80(1) (a) and section 80(1)(b) of the Public Finance Management Act as revised from time to time. The average rate for the year was 9%.

## 10. TRADE AND OTHER PAYABLES

	2012 R'000	2011 R'000
Trade creditors	116 309	84 621
Other (i)	97 651	82 938
	<b>213 960</b>	<b>167 559</b>

(i) Other payables includes an amount of R 77,788 million (R 64,978 million - 2011) paid by customers in advance.

Discussions are currently ongoing regarding the conversion of the DWA raw water debt owed by Amatola Water of R86 million, currently sitting as a trade payable, to a long-term loan payable over three years.

## 11. COMMITMENTS

	2012 R'000	2011 R'000
Capital commitments contracted for	8 786	8 077
Capital commitments on project implementation contracts	9 065	12 194
<b>Total</b>	<b>17 851</b>	<b>20 271</b>

### Operating lease commitments - motor vehicles

One hundred and fifteen motor vehicles are leased under non-cancellable operating leases. The lease payments include a maintenance portion for the duration of the lease term. The leases are for an initial period of five years. The future minimum lease payments under the non-cancellable operating leases are as follows:

	2012 R'000	2011 R'000
Less than 1 year	8 786	8 077
More than 1 year and less than 5 years	9 065	12 194
<b>Total</b>	<b>17 851</b>	<b>20 271</b>

## 12. CONTINGENT LIABILITIES

### Guarantees

Guarantees in the normal course of business from which it is anticipated that no material liabilities will arise. The guarantee is issued against short term deposits (refer to note 8).

	2012 R'000	2011 R'000
ESKOM	1 148	1 140
Nedbank	1 000	1 000
	<b>2 148</b>	<b>2 140</b>

### Contingent Liabilities

#### DWA Water Research Levy

33 592

-

Amatola Water is in dispute with the Department of Water Affairs in relation to charges and interest raised on the departments Water Research Levy/ Catchment Management Area accounts. These charges and interest have been raised on the balances outstanding even though the accounts have not been reconciled for a number of years and Amatola Water has not received statements but payment has been made on a timely basis.

## 13. NOTES TO THE STATEMENT OF CASH FLOWS

	2012 R'000	2011 R'000
<b>Net cash generated from operations</b>	<b>13 224</b>	<b>(32 162)</b>
Operating deficit	(7 937)	(40 040)
Adjusted for:		
Net interest income	(4 379)	(6 276)
Non cash items		
Depreciation and impairment	25 575	14 169
Profit on disposal of property, plant & equipment	(35)	(15)
Changes in working capital	4 759	71 838
Decrease / (Increase) in inventories	353	360
Decrease / (Increase) in trade and other receivables	(41 995)	17 316
Increase in trade and other payables	46 401	54 162
	<b>17 983</b>	<b>39 676</b>

## 14. RELATED PARTIES

Amatola Water has entered into various purchase, service and borrowing transactions with its Executive Authority, Department of Water Affairs (DWA), in the ordinary course of business.

	2012 R'000	2011 R'000
Projects Revenue - DWA	99 154	72 808
Dam Management Fees paid by DWA to Amatola Water	7 473	7 411
Raw water purchases from DWA (Refer to note 3)	52 569	46 690
Interest on outstanding Debt	4 128	-
Water Research Levy	1 502	1 430
 DWA Receivable	 7 959	 21 589
DWA Payable	86 635	52 895
Interest-bearing borrowings from DWA (Refer to note 9)	771	3 505

### Key Management Personnel

Key Management Personnel compensation comprised of the following:

#### Executive Directors

Short-term employee benefits	7 822	5 200
Performance Bonus	-	753

#### Non - Executive Directors

Short-term employee benefits	447	636
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## 15. PRIOR PERIOD ERROR

During the financial year the following prior period errors were found:

During the previous financial years Amatola Water recognised revenue and costs on project implementation agent contracts on the agency basis. However, when comparing the principles of the contracts to IAS 18: Revenue, it was apparent that Amatola Water is acting as Principle rather than as agent. As such revenue and costs relating to prior years should be disclosed on a gross basis rather than a management fee only basis which is used when accounting for agency contracts.

Project revenues dating back to 2010 financial period, were found to be over recognised in the statement of comprehensive income due to advances not being identified on invoices issued. These amounts should have been recognised as advances in the period billed and not as revenue. Furthermore some costs were not captured in the correct period, resulting in accrued income not being identified and recognised as these projects are billed on cost plus basis. Refer below for the effect on the financial statements.

Project revenue of R72.808 million received from DWA were not disclosed in the prior year. The disclosure have been updated to reflect these transactions with DWA. This has Rzero impact on the statement of comprehensive income.

In the 2011 financial period, it was found that advances on operation and maintenance contracts amounting to R8,400 million were recognised incorrectly to revenue.

Depreciation on infrastructure assets (Water Treatment Works, Pipelines and Reservoirs) of R10, 482 million classified as operating expenditure was reclassified to cost of sales. This has a R zero impact on the statement of comprehensive income.

The effect of these prior period errors is as follows in the financial statements of Amatola Water:

#### Statement of Financial Position Effect

	Accumulated Surplus	Trade and other Payables	Trade and other receivables
Balance as at 30 June 2010	(42 194)	113 942	106 195
Project revenues previously off set against advances recognised to revenue	-	(545)	-
Project costs included in receivables not recongised in cost of sales	-	-	(1 072)
Accrued revenue for 2010 previously not recognised	-	-	1 272
Effect on profit & loss	(745)		
Restated balance at 30 June 2010	(42 939)	113 397	106 395
Balance as at 30 June 2011 as previously reported	(26 688)	(145 587)	90 896
Prior period error 2011:			
Advances recognised to revenue	-	(21 972)	-
Project costs included in receivables not recognised in cost of sales	-	-	(2 492)
Accrued revenue not previously recognised	-	-	1 947
Reversal of 2010 accrued revenue	-	-	(1 272)
Carry-forward effect on profit & loss 2010	(745)	-	-
Effect on profit & loss	24 534	-	-
Restated balance at 30 June 2011	(2 899)	(167 559)	89 079

#### Statement of Comprehensive Income Effect

	Revenue	Cost Of Sales
2010		
Revenue previously reported	239 546	(155 084)
Project revenue recognised as project advances	545	-
Revenue accruals raised for 2010	1 272	-
Project cost not recognised into expenditure	-	(1 072)
Costs previously netted off to revenue	9 363	(9 363)
	250 726	(165 519)



2011		
Balances previously reported	276 786	(198 040)
Advances recognised to revenue	(23 789)	-
Revenue accruals raised for 2011	1 947	-
Reversal of revenue accruals raised in 2010	(1 272)	-
Project cost not recognised into expenditure	-	(1 420)
Costs previously netted off to revenue	83 271	(83 271)
Depreciation reclassified to Cost of Sales	-	(10 482)
Restated amounts at 30 June 2011	336 943	(293 213)

## 16. FINANCIAL INSTRUMENTS

Amatola Water adheres to a management strategy that makes explicit provision for ongoing review and active management of the organisation's exposure to financial risks.

Exposure to interest rate and credit risk arises in the normal course of the entity's business.

### 16.1 MATURITY PROFILE OF FINANCIAL INSTRUMENTS

Maturity profiles of the financial assets and liabilities at 30 June 2012 are summarised as follows:

2012				
	Current interest rate	0 - 12 months R'000	<5 years R'000	TOTAL
<b>Assets</b>				
Cash and cash equivalents	5.8%	54 764	-	54 764
Trade and other receivables	8.5%	131 074	-	131 074
<b>Liabilities</b>				
Trade and other payables	8.5%	(213 960)	-	(213 960)
Long term loans	8.5%	(865)	(982)	(1 847)
		<b>(28 987)</b>	<b>(982)</b>	<b>(29 969)</b>
<b>Percentage profile (%)</b>		<b>97</b>	<b>3</b>	<b>100</b>

2011				
	Current interest rate	0 - 12 months R'000	<5 years R'000	TOTAL
<b>Assets</b>				
Cash and cash equivalents	5.6%	35 754	-	35 754
Trade and other receivables	8.5%	89 079	-	89 079
<b>Liabilities</b>				
Trade and other payables	8.5%	(167 559)	-	(167 559)
Long term loans	8.4%	(2 829)	(1 847)	(4 676)
		<b>(45 555)</b>	<b>(1 847)</b>	<b>(47 402)</b>
<b>Percentage profile (%)</b>		<b>96</b>	<b>4</b>	<b>100</b>

## 16.2 CREDIT RISK

Financial assets which potentially subject the entity to concentrations of credit risk consist principally of cash and trade receivables.

The entity's cash equivalents are placed with high credit quality financial institutions.

Credit risk with respect to trade receivables is limited as trade debtors mainly comprise (95 percent) bulk consumers, namely Local and District Municipalities. The remainder relates to water supply to domestic and industrial consumers.

Credit risk with respect to sundry receivables is also limited as sundry debtors mainly comprise of DWA, Local and District Municipalities in relation to MIG, RBIG and other capital funding.

Ongoing credit evaluation is performed on the financial condition of debtors mainly smaller Local Municipalities and the District Municipalities. Trade receivables are presented net of impairment losses.

### Impairment losses

The aging of trade receivables at the reporting date was:

	Gross 2012 R'000	Impairment 2012 R'000	Gross 2011 R'000	Impairment 2011 R'000
Not past due date	19 850	3	17 464	-
One month past due date	5 502	5	3 296	-
Two months past due date	81	4	69	-
Three months past due date	82	4	66	-
More than four months	1 414	83	768	297
	26 929	99	21 663	297

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2012 R'000	2011 R'000
Balance as at 1 July	297	149
Impairment loss (decrease) / increased	(198)	148
Balance at 30 June	99	297

The aging of sundry receivables at the reporting date was:

	Gross 2012 R'000	Impairment 2012 R'000	Gross 2011 R'000	Impairment 2011 R'000
Not past due date	56 821	203	52 218	-
One month past due date	30 124	444	5 084	-
Two months past due date	4 493	-	6 468	-
Three months past due date	8 577	-	484	-
More than four months	4 878	2	5 278	2
	104 893	649	69 532	2

The movement in the allowance for impairment in respect of sundry receivables during the year was as follows:

	2012 R'000	2011 R'000
Balance as at 1 July	2	12 674
Impairment loss increased / (decrease)	647	(12 672)
Balance at 30 June	649	2

### 16.3 INTEREST RATE RISK

The entity generally adopts a policy of ensuring that its exposure to changes in the interest rates is on a floating rate basis.

#### Sensitivity analysis

In order to calculate the cash flow sensitivity analysis for variable rate instruments, the average long term loans and borrowings for the period was determined. A change of 100 basis points in interest rates at the reporting date would have a maximum increase / (decrease) of approximately R18 474 in profit.

### 16.4 LIQUIDITY RISK

The entity manages liquidity risk through proper management of working capital, capital expenditure and actual versus forecasted cash flows. Adequate reserves, liquid resources and unutilised borrowing facilities are also maintained.

## 17. EMPLOYEE BENEFITS

The entity provides retirement benefits for all permanent employees by making contributions to a defined contribution provident fund. The fund, Orion, is administered by Old Mutual and subject to the Pension Funds Act, 1956 as amended.

	2012 Number of staff	2012 R'000	2011 Number of staff	2011 R'000
Employer's contributions to the above fund	304	6 042	360	5 170
Other funds	57	1 579	50	506

## 18. KEY SOURCES OF ESTIMATION UNCERTAINTY

There are no key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that management have assessed as having a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### Going concern

Management of Amatola Water has considered the going concern ability of the entity and concluded that the going concern assumption is valid due to the following:

- ▶ Amatola Water is contracted to provide bulk water to three municipalities in the region for a period of more than 12 months.
- ▶ Amatola Water has recently entered into Section 30 contracts of more than R460 million.
- ▶ Discussions are advanced on conversion of R86 million DWA payable into a long term debt.
- ▶ The provision of water is an essential supply and thus it is expected that this provision will not be compromised by national government.

## 19. FRUITLESS AND WASTEFUL EXPENDITURE

### Reconciliation of fruitless and wasteful expenditure

	2012 R'000	2011 R'000
<b>Opening balance</b>	35	-
Fruitless and wasteful expenditure - current year	961	35
Fruitless and wasteful expenditure condoned	-	-
Transfer to receivables for recovery	(914)	-
Fruitless and wasteful expenditure awaiting condonement	-	-
	<b>82</b>	<b>35</b>

### Analysis of current year fruitless and wasteful expenditure

Incident	Value R'000
<b>Overpayment made to fixed term contract workers made erroneously</b>	961
Amount recovered 30 June 2012	465
Amount Outstanding at 30 June 2012	449
Irrecoverable amount (Employees left employ of Amatola Water)	47

#### **Note : Disciplinary steps taken/Criminal proceedings**

Investigations have been undertaken and disciplinary action has been instituted

### Analysis of prior year fruitless and wasteful expenditure

Incident	Value R'000
Late submission of PAYE Return to SARS resulting in interest and penalties	35

#### **Note : Disciplinary steps taken/Criminal proceedings**

Investigations have been undertaken and disciplinary action has been instituted

## 20. IRREGULAR EXPENDITURE

### Reconciliation of irregular expenditure

	2012 R'000	2011 R'000
<b>Opening balance</b>	13 314	-
Irregular expenditure - Current year		
- Relating to overspending on contracts awarded	15 011	12 590
- Other irregular expenditure	19 836	724
Irregular expenditure condoned	-	-
Transfer to receivables for recovery	-	-
Irregular expenditure awaiting condonement	-	-
	<b>48 161</b>	<b>13 314</b>

## Analysis of current irregular expenditure

Incident	Note	Value R'000
Over spending on expired contracts	1	15 011
Deviation from procurement policy not approved	1	2 691
Procurement policy not adhered to in awarding of bids	1	17 145

**Note : Disciplinary steps taken/Criminal proceedings**

Investigations to be undertaken and disciplinary action to be instituted

## Analysis of prior year irregular expenditure

Incident	Note	Value R'000
Over spending on expired contracts	1	10 341
Deviation from procurement policy not approved	1	185
Deviations approved outside authority of delegation	1	2 249
Procurement policy not adhered to in awarding of bids	1	539

**Note : Disciplinary steps taken/Criminal proceedings**

Investigations to be undertaken and disciplinary action to be instituted

Irregular expenditure as disclosed above has been included in operating expenditure and cost of sales as disclosed in the statement of comprehensive income.

## 21. TAXATION

Amatola Water is exempt from income taxation in terms of section 10(1)(t)(ix) of the Income Tax Act.



# **Annexures**

## **Annexure A**

**Five Year Historical Statistical  
Overview 2008 ▶ 2012**

## **Annexure B**

**Split of Primary and Secondary Business**



## FIVE YEAR HISTORICAL STATISTICAL OVERVIEW 2008 ▶ 2012

	2012 R000	%	2011 R000	%	2010 R000	%	2009 R000	%	2008 R000	%
<b>OPERATIONS</b>										
Revenue	423 259	25.6	336 943	40.7	239 546	(4.4)	250 549	24.8	200 803	101.9
Cost of Sales	327 927	11.8	293 213	64.6	155 084	(13.0)	178 184	28.5	138 689	146.0
Operating and Admin Expenses	107 648	19.5	90 046	16.1	107 295	38.3	77 562	30.2	59 581	26.5
Net Operating (Deficit)/Surplus	(12 316)	(73.4)	(46 316)	791.2	(22 833)	339.4	(5 197)	(305.2)	2 533	(20.0)
<b>FINANCIAL POSITION</b>										
Capital Contribution	274 557	-	274 557	-	274 557	-	274 557	-	274 557	-
Reserves	0	-	0	-	-	-	0	-	0	-
Retained (Deficit)/Surplus	(5 038)	(273.8)	2 899	(94.2)	42 939	(13.9)	49 845	24.2	40 125	45.2
Long-term Liabilities	982	(46.8)	1 847	(71.3)	4 142	(35.6)	6 436	(27.1)	8 834	(9.3)
Current Liabilities	214 825	26.1	170 388	79.7	115 852	22.2	94 811	30.8	72 497	66.1
Total Equity and Liabilities	485 326	7.9	449 691	5.6	437 290	2.7	425 649	7.5	396 013	11.4
Non-current Assets	297 881	(7.7)	322 898	21.0	301 977	13.2	266 829	(10.4)	297 941	6.4
Current Assets	187 445	47.8	126 793	(20.2)	135 313	(14.8)	158 820	61.9	98 072	30.0
Total Assets	485 326	7.9	449 691	5.6	437 290	2.7	425 649	7.5	396 013	11.4
<b>CASH FLOW POSITION</b>										
Cash flow from Operating Activities	22 362	51.3	45 952	1 657.7	(15 869)	437.9	(2 950)	(108.7)	33 843	949.7
Cash Flow util. in /gen. from Investing Activities	(523)	(98.5)	(35 075)	(73.3)	9 489	(146.9)	(20 243)	(13.3)	(23 336)	410.4
Cash Flow utilised in Financing Activities	(2 829)	(47.3)	(1 921)	3.5	(2 697)	35.7	(1 988)	1.8	(1 952)	(34.4)
Net Cash Increase/(Decrease) for year	19 010	(112.3)	8 956	135.6	(9 077)	(64.0)	-25 181	(394.3)	8 555	(297.9)

## FIVE YEAR HISTORICAL STATISTICAL OVERVIEW 2008 ▶ 2012

### RATIOS

	2012 R000	%	2011 R000	%	2010 R000	%	2009 R000	%	2008 R000	%
Revenue (Kilolitres x 1000)										
Treated Water Sales	30 835	8.1	28 524	(8.3)	30 635	(1.6)	31 121	6.9	29 122	19.2
Raw Water Sales	8 168	(5.2)	8 613	9.7	8 401	7.0	7 848	2.8	7 637	1.8
Total Water Sales	39 003	5.0	37 137	(4.7)	39 036	0.2	38 969	6.0	36 759	15.1
Revenue (R'000)										
Treated Water Sales	161 931	16.0	139 650	7.8	136 153	5.1	129 486	13.5	114 074	23.1
Raw Water Sales	10 810	1.5	10 647	37.0	10 479	34.8	7 773	9.0	7 129	5.2
Total Water Sales	172 741	14.9	150 297	9.5	146 632	6.8	137 259	13.2	121 203	21.9
Revenue (R'000): Primary Activity										
Bulk Supply: Urban and Peri-urban	129 468	19.5	108 380	7.9	104 846	4.4	100 460	13.0	88 918	23.4
Bulk Supply: Rural	38 860	3.0	37 735	18.4	36 934	15.9	31 871	17.9	27 032	21.6
Revenue (R'000): Other Activity										
Industrial and Domestic Reticulation	4 413	5.5	4 182	(15.1)	4 852	(1.5)	4 928	(6.2)	5 252	1.5
Average Raw Water Sales Tariff (R/Kl)	1.323	7.1	1.236	24.8	1.2	25.9	0.990	6.2	0.933	3.3
Average Treated Water Sales Tariff (R/Kl)	5.25	7.3	4.90	17.7	4.4	6.8	4.16	6.1	3.92	3.3
Average Water Sales Tariff (R/Kl)	4.43	9.4	4.05	14.9	3.8	6.6	3.52	6.7	3.30	5.9
Cost of Sales (R/Kl)	3.51	4.6	3.35	53.1	2.4	10.0	2.19	4.8	2.09	7.2
Labour Cost (R/Kl)	1.29	(7.9)	1.40	68.7	0.9	13.6	0.83	3.2	0.80	16.0

## FIVE YEAR HISTORICAL STATISTICAL OVERVIEW 2008 ▶ 2012

	2012 R000	%	2011 R000	%	2010 R000	%	2009 R000	%	2008 R000	%
Electricity cost (R/Kl)	0.56	21.9	0.46	109.4	0.3	58.8	0.22	24.0	0.18	(1.2)
Chemical cost (R/Kl)	0.34	30.8	0.26	60.4	0.1	(13.4)	0.16	1.6	0.16	(32.7)
Raw water purchases (R/Kl)	1.35	7.2	1.26	28.3	1.0	(1.1)	0.98	3.4	0.95	9.6
Water research levies(R/Kl)	0.05	0.0	0.04	0.0	0.0	(4.4)	0.04	0.0	0.04	33.3
Current Ratio	0.87	17.3	0.74	(55.7)	1.2	(30.8)	1.68	24.4	1.35	(21.9)
Trade Debtors (days)	113	17.1	96	(8.1)	161.8	54.1	105	64.1	64	39.1
Return on Assets	(0.026)	50.3	(0.053)	(307.7)	(0.1)	307.7	(0.013)	(285.7)	0.007	(22.2)
Debt-Equity Ratio	0.80	31.5	0.62	100.2	0.4	22.8	0.31	19.2	0.26	44.4
Working Ratio	1.01	0.0	1.13	15.0	1.0	5.0	0.98	5.4	0.93	-

## PRODUCTIVITY

Number of Employees	455	24.0	367	10.9	367.0	10.9	331	13.7	291	16.4
Average Revenue per Employee (R'000)	930	1.3	918	21.3	652.7	(13.8)	757	9.7	690	73.4
Cash Disbursed to Employees	96 789	(1.3)	98 072	52.6	72 226.6	12.4	64 284	25.4	51 262	28.4
Net increase / (decrease) in cash and cash equivalents	19 010	(112.3)	8 956	135.6	(9 077.4)	(64.0)	-25 181	(394.3)	8 555	165.4

## SPLIT OF PRIMARY AND SECONDARY BUSINESS

FOR THE YEAR ENDED 30 JUNE 2012

	Primary Business (Bulk Supply) 2012 R'000	Primary Business (Bulk Supply) 2011 R'000	Secondary Business 2012 R'000	Secondary Business 2011 R'000	TOTAL 2012 R'000	TOTAL 2011 R'000
<b>Revenue</b>	172 740	150 297	250 519	186 646	423 259	336 943
<b>Cost of Sales</b>	(152 895)	(135 039)	(175 032)	(158 174)	(327 927)	(293 213)
<b>Gross profit</b>	<b>19 845</b>	<b>15 258</b>	<b>75 487</b>	<b>28 472</b>	<b>95 332</b>	<b>43 730</b>
Operating and Administration Expenses	(22 410)	(31 418)	(85 239)	(58 628)	(107 648)	(90 046)
<b>Net operating deficit</b>	<b>(2 564)</b>	<b>(16 160)</b>	<b>(9 752)</b>	<b>(30 156)</b>	<b>(12 316)</b>	<b>(46 316)</b>
<b>Interest Income</b>	<b>1 863</b>	<b>2 209</b>	<b>7 089</b>	<b>4 123</b>	<b>8 952</b>	<b>6 332</b>
<b>Finance Cost</b>	<b>( 952)</b>	<b>( 19)</b>	<b>(3 621)</b>	<b>( 37)</b>	<b>(4 573)</b>	<b>( 56)</b>
<b>Deficit for the year</b>	<b>(1 653)</b>	<b>(13 970)</b>	<b>(6 284)</b>	<b>(26 070)</b>	<b>(7 937)</b>	<b>(40 040)</b>

**Note:**

Operating and Administrative costs, as well as net finance income, are allocated based on the gross profit contribution margins.



