



Annual Report
2012/13

Contents

OVERVIEW OF AMATOLA WATER

Vision, Mission, Values and Legislative Mandate
20 Year Strategy

PERFORMANCE REVIEW AT A GLANCE

Chairmans Report
Chief Executives Report
Performance Review

REVIEW OF OPERATIONS

Financial Sustainability
Optimizing Operational Efficiencies
Infrastructure Stability and Resilience
Water Resources Adequacy
Product Quality
Leadership and Employee Development
Stakeholder Management and Support
Customer Satisfaction and Collaboration
Community and Environmental Sustainability

GOVERNANCE

ANNUAL FINANCIAL STATEMENTS

ANNEXURES



Vision

To be the dominant Bulk Water Service Provider in the Eastern Cape.

Mission

Amatola Water provides sustainable bulk, quality, and clean water to Water Service Authorities enhancing equitable access of water services to all.

Values

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

- Excellence
- Integrity
- Accountability
- Responsibility

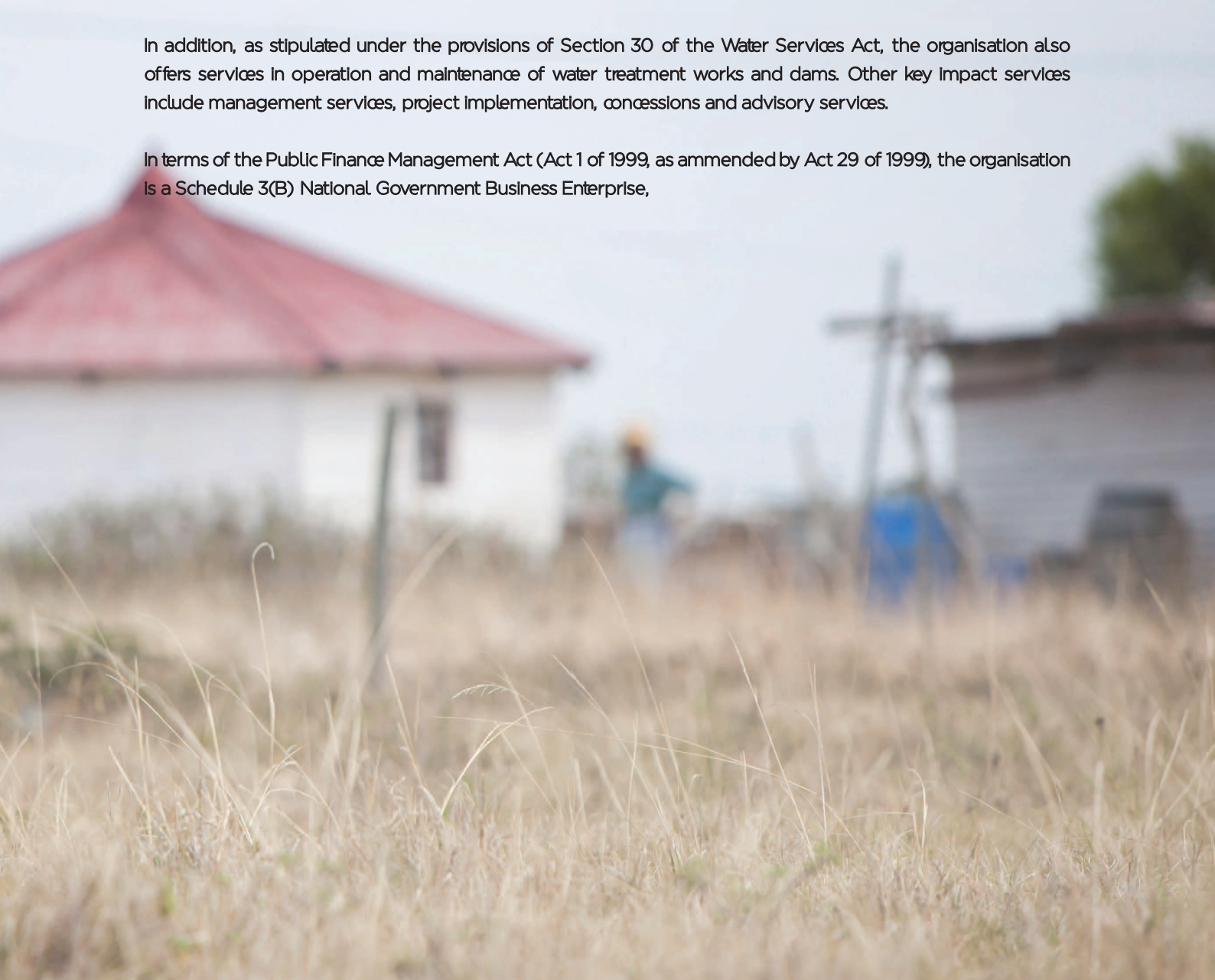
Legislative Mandate

Amatola Water was established as a water board in 1998 in terms of the Water Services Act (Act 108 of 1997).

As mandated by Section 29 of the Water Services Act, Amatola Water's primary function is the provision of bulk water supply services of both potable and untreated water, as well as that of waste water treatment and other related services for public benefit.

In addition, as stipulated under the provisions of Section 30 of the Water Services Act, the organisation also offers services in operation and maintenance of water treatment works and dams. Other key impact services include management services, project implementation, concessions and advisory services.

In terms of the Public Finance Management Act (Act 1 of 1999, as amended by Act 29 of 1999), the organisation is a Schedule 3(B) National Government Business Enterprise,





Amatola Water 20 Year Strategy

The year under review saw the utility developing a new strategic direction. The new strategic direction is based on what Amatola Water, as an Entity of State, believes to be its role and purpose of formation. In this process of alignment, the organisation, for the first time has adopted a 20-year planning horizon for its long-term strategic goals, as the State has done in documents such as the National Development Plan. These 20-year strategic goals outline the organisation's long term direction within which the strategic goals and objectives for the next five years have been set.

The organisation's strategic focus is informed by an extensive literature review. Most notable are the National Development Plan, the National Water Act, the Department of Water Affairs' Strategy and the Institutional Reform and Re-alignment document.

According to Schedule 4B of the Constitution, local government must provide water and sanitation services limited to potable water supply systems and domestic waste water and sewage disposable systems. With local government mandated with the distribution of potable water, the abstraction of raw water and the production of potable water therefore remains the responsibility of water boards. The Institutional Reform and Re-alignment documents further confirm the water boards role.

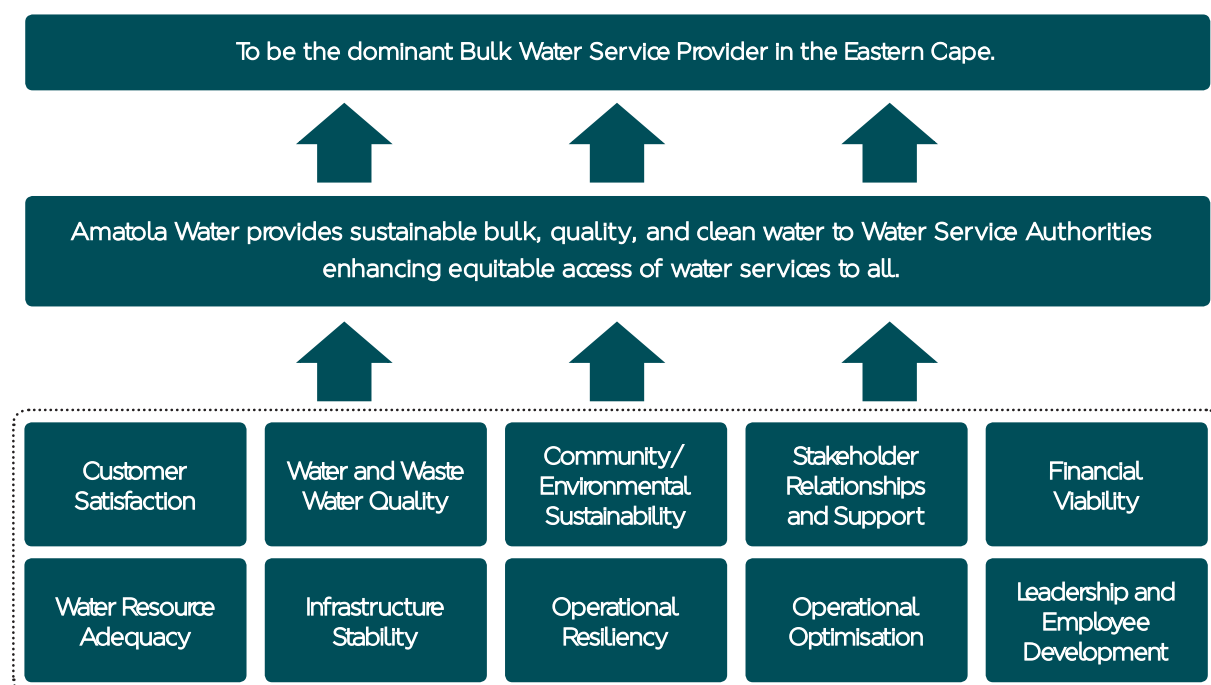
As such Amatola Water's new strategic direction has been outlined as that of the provision of potable water and sanitation services through bulk infrastructure, thus aligning and preparing for IRR process. In the past Amatola Water has been drawn into assisting water service authorities with water services delivery in many different areas and activities which has resulted in a 50/50 split between its Primary and Secondary business activities (Sec 29 and Sec 30 activities as per the Water Service Act). Strategically focusing, on the reason for its formation as a state entity, the organisation's 20-year strategic goal is to have a 90/10 split between these activities. With 90 percent of its business being that of bulk water and sanitation activities and 10 percent being advisory and related services to Water Service Authorities.

As part of Amatola Water's contribution to a decent standard of living for all South African citizens, the utility has adopted the Guidelines for Human Settlement Planning and Design (Red Book) standard of approximately 750 litres per household per day on all infrastructure projects. In this regard, the organisation believes that, in considering the 20-year planning cycle and the National Development Plan, it needs to start now to achieve the desired standard for all South Africans.

As a Schedule 3B entity of the Public Finance Management Act (PFMA) Amatola Water needs to be a financially sustainable. Water schemes of less than five megalitres per day tend not to be viable, Amatola Water currently has various of these schemes and plans to upgrade these as part of its sustainability. Regional Bulk Infrastructure Grant funding has been allocated to the utility over the next three years to upgrade these plants and those requiring upgrading to produce 750 litres/household/day.

As a unique post-democracy rural water board, the utility believes this new strategic direction will allow it to perform the function it was created for in a manner that successfully contributes to the quality of life of the citizens within the Eastern Cape.

In setting goals, objectives and targets in order to achieve its Vision and Mission, Amatola Water used the ten outcomes of successful water utility as its framework, as indicated below. The same ten outcomes have been used in this Annual Report.



Performance Review at a Glance



Performance Review 2012/13

The scorecard and shareholders compact were approved prior to the audited financial results becoming available in the previous year. The results identified the urgent need for a financial turnaround strategy which was developed and then approved by the Board. As part of this turnaround certain of the scorecard objectives were reprioritized and therefore intentionally not met.

	Objectives	Measure / Indicator	Baseline	Target 2012/13	Actual 2012/13	Comments	
Financial							
F1	Improve financial standing	ROA - Du Pont Ratios	-7.20%	0.10%	8.51%	Target well exceeded based on the improved financial performance for the financial year.	🟢🟢🟢
		ROA - Debtors days	118 days	120	295	Secondary business Debtors days has increased for the year and the target was not met. A significant increase in May and June invoices further affected this result. Various initiatives have been put in place to correct this and it is a standing item on the MANCO's agenda.	🔴🔴
		ROA - Current ratio	0.87	1.25	1.03	Improving steadily however the dispute on DWA debt and the holding of "agency" debt and liability is negatively affecting this ratio.	🟡🟡
		ROA-Employee to revenue ratio	R 675 K	R 675K	R831K	Target significantly exceeded as staff numbers declined with controlled recruitment and primary revenue increased.	🟢🟢🟢
F2	Increase revenue growth	% Rand value growth of Revenue: Primary	2.50%	8.20%	12.92%	Primary Revenue achieved greater than target with additional water sold to Buffalo City Metro.	🟢🟢🟢
		% Rand value growth of Revenue: Secondary	36.10%	20%	-10%	Overall reduction of Secondary Business Revenue due to deliberate strategy to reduce Secondary business and focus on Primary business mandate.	🔴🔴
		% Growth in Kilolitre water sold	-4.90%	1%	1.44%	Target exceeded with additional volume sold primarily at Nahoon Treatment Works.	🟢🟢🟢
F3	Increase financial margins of business units	Percentage contribution (revenue less costs)	28.4%	35%	30%	Cost cutting measures successful but full target not met due to strategic reduction in secondary business.	🟡🟡
		% Labour costs of total costs	42%	40%	37.4%	Target achieved through managing staff costs and total costs.	🟢🟢🟢
F4	Increase bulk water services infrastructure assets	% Infrastructure CAPEX vs. Budget	35%	90%	7.76%	As part of financial recovery there was a moratorium placed on all but the most urgent capex for one year.	🔴🔴
		Average of financial resources / funding mobilised from DWA	0	R 30 mil	R500 mil	Amatola Water has secured R500 mill Regional Bulk Infrastructure Grant funding to extend bulk supply to socioeconomic depressed areas in the Amathole District Municipality and to assist in the elimination of backlogs.	🟢🟢🟢

🟢🟢🟢 Target achieved

🟡🟡 Target partially achieved











🔴🔴 Target not achieved

	Objectives	Measure / Indicator	Baseline	Target 2012/13	Actual 2012/13	Comments	
Customer							
C1	Preferred business partner with customer	Minimum satisfaction score per customer	n/a	6,0	No Score	Customer satisfaction survey postponed due to reprioritisation aligned to turnaround.	🔴🔴
		Identify opportunities an obtain concession contracts	n/a	1	2	Sterkspruit and Mthatha Water Treatment Works identified for concession and the concept and model is being further developed.	🟢🟢🟢🟢
		Average turnaround times on responding to customer complaints	n/a	48hrs	5.3 hours	Target well exceeded with rapid response.	🟢🟢🟢
		Identify opportunities for Build, Own & Operate Waste Water Treatment Works	n/a	1	1	Potential opportunity at Kouga Municipality for the Jefferys Bay Waste Water Treatment Works was identified but the opportunity forgone due to current financial constraints.	🟢🟢🟢
C2	Quality product & service	% Compliance South African National Standard Class 1 water (Primary)	99,15	99%	98.9%	The target was fractionally not achieved but the industry requirement of 96% for class 1 water still well exceeded.	🟡🟡🟡
		% Water supply assurance (Primary)	99%	98%	99.0%	The target has been exceeded due to quick response for our maintenance teams.	🟢🟢🟢
		% Compliance with South African National Standard Class 1 compliant (Secondary)	n/a	96%	97.3%	Results are satisfactory and the target has been exceeded. Overall the South African National Standard Class 1 water quality has been achieved.	🟢🟢🟢
		% Compliance with effluent license standards (Secondary)	n/a	15%	65.1%	Results are satisfactory and the target has been exceeded. The initial target was low but set with no benchmark information available.	🟢🟢🟢
C3	Rapid response & flexibility	Average turnaround times on business proposals	n/a	28 days	16 days	The target has been exceeded with rapid turnarounds on proposals such as National Treasury.	🟢🟢🟢
C4	Value for money	% Rand value growth with existing customers	1%	9%	0.35%	Overall reduction of Secondary Business Revenue due to refocused secondary business strategy.	🔴🔴
C5	Be dependable / reliable	% Retention of existing Primary and Secondary customers	100%	80%	100%	All customers have been retained.	🟢🟢🟢
C6	Influence Institutional Realignment and Reform	No. of sessions conducted with Department of Water Affairs and/or Water Services Authorities	n/a	2	2	2 Sessions with Department of Water Affairs and a session including Umgeni Water also held.	🟢🟢🟢

Target achieved


Target partially achieved











Target not achieved

	Objectives	Measure / Indicator	Baseline	Target 2012/13	Actual 2012/13	Comments
Internal processes						
P1	Excel at water production and effluent treatment	% of Blue Drop compliance Primary assets (Amatola Water owned)	86.30%	88%	87.7 %	Target fractionally not achieved but detailed programs in place to continue to improve in this area. 
		% of Blue and Green Drop compliance Secondary business	60.61%	50%	52.5%	Target exceeded. 
P2	Effective costing and billing process	% Billed time Grade K employees and above vs. available time	n/a	20%	n/a	Systems not fully implemented to gather this information but Activity Based Costing will be used in the next year to do so. 
		Improve/optimize Operation & Maintenance value chain (repairs to payment)	60 days	120 days	28 days	Target well exceeded as Amatola Water continues to perform its primary business activities well. 
		Optimize primary bulk water supply (improve unbilled water – meter accuracy, water losses)	15%	10%	14%	Small improvement from the baseline but target not achieved. Particular problems on Peddie and Binfield relating to billing points still in process of been corrected. 
P3	Successful contract implementation and management	% of compliance to the KPI's	Estimate 50%	65%	65%	Compliance and target has been achieved. 
P4	Effective and efficient communication	Best Company to Work For Survey Implementation Plan	3,17	3,38	No Score	Best Company to Work For Survey postponed due to reprioritisation aligned to turnaround strategy. 
P5	Optimize secondary and support business processes	Number of identified processes successfully implemented and improved	n/a	1	2	New Supply Chain Management policy and process approved by the Board. Secondary Business Customer Charters and upfront payments introduced. 
P6	Effective controls and governance	Organisational audit outcome	Qualified	Un-qualified	Un-qualified	Significant focus on compliance is starting to produce the desired results. 
P7	Change Management	Employee satisfaction index in scores (1-10)	0	5	No score	No employee satisfaction survey undertaken for the year but improvements in the organisation performance been regularly communicated to assist in change management. 

 Target achieved

 Target partially achieved

 Target not achieved

	Objectives	Measure / Indicator	Baseline	Target 2012/13	Actual 2012/13	Comments
Learning and growth						
LG1	Human capital attraction and retention	% Labour turnover	6.7%	9%	12.8%	The poor financial position and related financial constraints, previous concerns regarding retrenchment and general uncertainty about the sustainability of the organisation contributed to the increase in staff turnover. 
		% Compliance with recruitment plan	n/a	90%	39%	As part of the financial turnaround strategy a moratorium on all but the most urgent recruitment was put in place resulting in many positions not being filled as per the recruitment plan. 
		% of internal promotions	33%	35%	45%	Although there was a reduction in recruitment, when recruitment was performed Amatola Water exceeded its target for internal promotions 
LG2	Skills development	% of staff PDP training completed	66.67%	60%	100%	Although only legal and compliance training considered during this year due to the financial constraints, all of the this training was completed successfully 
		Implement Learning Academy	n/a	50%	25%	There was a delay in securing the funding due to onerous conditions of funding. These have now been resolved and an agreement has been signed and the establishment of the Project Steering Committee is underway to oversee the implementation process. 
LG3	Innovation and research opportunity	Number of active research projects	2	2	2	Two Water Research Committee projects on Climate Change and the impact of Capital Expenditure on Water Boards have been undertaken. 
		Implementation of renewable energy projects linked to water service provision	0	0	1	Energy saving device has been installed on the Bushmans River Reverse Osmosis plant. 
LG4	Promote a culture of excellence, integrity and accountability	Organisational Performance score	3,3	3,65	No Score	The reprioritisation of objectives as part of the turnaround affected the management of individual contracts. 
		Cultural analysis score	n/a	3	No Score	The cultural analysis study was delayed for the financial year. 
		No. of internal customer relationship management initiatives conducted	n/a	2	0	Customer initiatives postponed due to the reprioritisation relating to the turnaround strategy. 

Review of Operations





Financial Sustainability

Organisational Financial Status

Considerable effort has been made during the financial year to ensure that Amatola Water was able to achieve its constitutional mandate and also ensure its sustainability. This year has been proof that working hard and in unison definitely leads to the achievement of bigger goals.

During the review period the organisation managed to achieve most of its set financial targets and succeeded in turning around its finances to a more promising and stable position. These are some of the achievements for the review period:

- Moved from deficit of R7.9 million in 2011/12 to a surplus position of R25.084 million in 2012/13.
- Increased gross profit from R95 million in 2011/12 to R105 million in 2012/13.
- Improvement in liquidity position, from R55 million to more than R100 million as at the end of June 2013.
- Moved from a technical insolvent position to a solvency position, where current assets exceed current liabilities.
- Resumed payment of outstanding raw water accounts to the Department of Water Affairs at R2.4 million per month.
- Committed more than R20 million toward the upgrade of Amatola Water treatment plants. Progress has been made in securing additional funding.

During the year the organisation also undertook to review the useful life of some of its assets with zero values. This resulted in the recapitalisation of the current year depreciation charge of more than R7 million and all the prior year's zero valued assets were accounted for in terms of estimated value, thereby adjusting the income statement respectively.

The new asset management policy was also approved by the Board. The aim going forward is to conduct an extensive revaluation of assets, especially on Amatola Water infrastructure assets. This will also mean an amendment to some of the organisation's asset accounting policies.

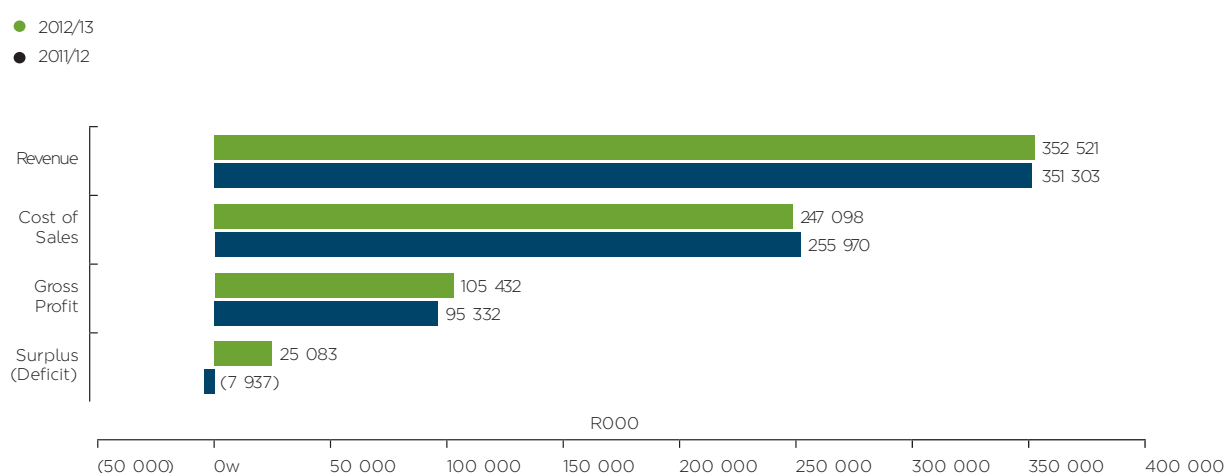
However, the year was not without any challenges. Debtors recovery was one of the major challenges. The rate of converting debtors to liquid cash remained far too long than the creditors conversion period. This caused a serious cash flow risk to the organisation.

The return on assets remained far below the norm. It is anticipated that the planned upgrade of six of the utility's water treatments plants, effective in 2013/14, will result in a much improved return on assets.

Amatola Water's gross profit percentage still remains below 50 percent, however, it is expected that this ratio will soon reach the 50 percent mark and above.

Labour costs, both direct and indirect remained above the benchmark target, at more than 40 percent of total costs. However, the organisation has instituted interventions to remedy this situation, such as strict control on overtime, while also aiming to review some allowances related policies.

Consolidated Results for 2012/13



Split of Primary and other Activities for the year ended 30 June 2013

	Primary Business (Bulk Supply) 2013 R000	Primary Business (Bulk Supply) 2012 R000	Secondary Business 2013 R000	Secondary Business 2012 R000	TOTAL 2013 R000	TOTAL 2012 R000
Revenue	195 057	172 740	157 465	178 562	352 522	351 302
Cost of Sales	(156 482)	(152 895)	(90 616)	(103 075)	(247 098)	(255 970)
Gross profit	38 574	19 846	66 850	75 487	105 424	95 333
Operating and Administration Expenses	(30 582)	(22 409)	(53 001)	(85 239)	(83 583)	(107 648)
Net operating deficit	7 992	(2 563)	13 850	(9 752)	21 841	(12 315)
Interest Income	2 633	1 864	4 562	7 088	7 195	8 952
Finance Cost	(1 446)	(952)	(2 506)	(3 621)	(3 952)	(4 573)
Profit/(Deficit) for the year	9 178	(1 651)	15 905	(6 285)	25 083	(7 937)

Consolidated Financial Performance

Primary Business

In the supply of potable water to municipalities, also known as Section 29 activities in terms of Water Services Act, the volume supplied for potable water increased by 2.9 percent, however, the volumes for the raw water supply went down by about 300 000 k/l year on year. Some of the Amatola Water plants are still under-recovering their costs due to the volume of water produced. It was identified during the year that any water treatment works which produced less than five mega litres per day is not viable. Amatola Water's focus therefore in the coming year will be to improve production in these water works through a major capital injection, with the hope that there will significant positive returns.

Great emphasis was placed on cost reduction measures, especially in the management of direct costs and overhead costs. Monitoring of the standard costs per kilolitre against the actual costs was conducted and all major variances were investigated. This initiative yielded positive results during the year.

Amatola Water also participated in the raw water pricing strategy revision process where it strongly piloted the need for a review of raw water pricing, especially in the Eastern Cape region which is very rural and to some degree poverty stricken. In this regard, a request was also put forward that some of the water board's schemes be treated as social schemes, thereby capping the raw water increase to ensure access to affordable water to the end users. The organisation's strategy in this regard for the coming three years is to maintain the potable water increase at single digit.

Below is a graphical representation of performance for this business:

Volume	Kilolitres Kℓ' 000 2013	Kilolitres Kℓ' 000 2012
Treated Water Volume Sold	31 723	30 835
Raw Water Volume Sold	7 842	8 168

Average potable water tariff increase over the next five years

	2013	2014	2015	2016	2017	2018
Average potable water tariff increase % over the next 5 years	9.8%	9.8%	9.0%	8.5%	8.1%	8.0%

Expected Volumes Increased over the Next Five Years

	2013	2014	2015	2016	2017	2018
Increase in water sales (Percentage)	5.0%	3.1%	10.6%	14.8%	13.6%	7.6%
Volume of water billed (Potable)	30 600 000	32 216 711	36 360 000	42 840 000	49 680 000	54 000 000
Volume of water billed (Raw Water)	8 168 000	7 755 901	7 833 460	7 911 794	7 990 912	8 070 821
AW Volume Sold including Right of Use (RoU)	38 768 000	39 972 612	44 193 460	50 751 794	57 670 912	62 070 821
Right of Use (RoU)		0	2 799 122	8 945 024	10 049 312	13 477 818
Total Water Sold excluding Right of Use (RoU)	38 768 000	39 972 612	41 394 338	41 806 770	47 621 600	48 593 003

Secondary Business

Secondary business improved quite significantly during the 2012/13 financial year, with new business from the King Sabata Dalindyebo Presidential Intervention (worth more than R500 million) and the Ndlambe Quick Wins project as some of the major projects taken up during the review period. The utility was also able to ensure that all billing for costs incurred were done timely and accurately. In addition, the advance receipts accounting procedure was also rolled out during the review period.

Support Services

The year ended with support services costs still above the benchmark target. In this regard strong budgetary control measures and costs cutting initiatives were introduced and are starting to yield positive results in this area.

Supply Chain Management

The Board-approved Supply Chain Management Policy came into effect on 1 November 2012. As the organisation was faced with a large amount of irregular, fruitless and wasteful spending in the prior period, there was therefore an urgent need to introduce this policy with the aim of reducing and eventually eliminating all such spending. Although some challenges were experienced during the roll out of the new policy, however, there were major achievements as well. These included the setting up of bid committees, concluding the terms of reference for all the committees.

Agency versus Principal

During the year, a concerted effort went into analyzing the organisation's implementing agent contracts, as over the past years these had been treated as if Amatola Water was the principal to the contract, thereby taking the costs plus implementing agent fee to the statement of financial performance and also reflecting project work in progress in the balance sheet. After extensive analysis of these contracts it was realized that in fact the utility was the agent in these contracts and not the principal as initially perceived, and that it should therefore be recognizing only the implementing fee component in the statement of financial performance.

	2013 R000	2012 R000
Revenue	352 521	351 302
Cost of sales	(247 098)	(255 970)

Going forward

For the coming financial year more improvements are anticipated on the financial performance of the organisation. These are some of the areas where special focus will be placed:

- Capacitating the Supply Chain Management Department;
- Obtaining an organisational credit rating; and
- Being active in the capital market.

The Development Bank of South Africa has come forward also showing their intention to form a financing partnership to fund water related infrastructure in the Eastern Cape, and the organisation looks forward to this partnership. The year 2013/14 will also mark the beginning of the upgrade of six of Amatola Water water treatment plants.



Optimizing Operational Efficiencies

Water Production

Water Produced

Despite the limited and hugely strained production capacity of Amatola Water plants, the production of water has once more improved on average by 13 percent. This is evidence of the suppressed demand in most of the supply areas, which was quantified through an internal study. Through this study this demand was established and thus six of the plants in the Table 1 will be upgraded to ease the capacity pressure by a significant magnitude of 60 Mℓ/d.

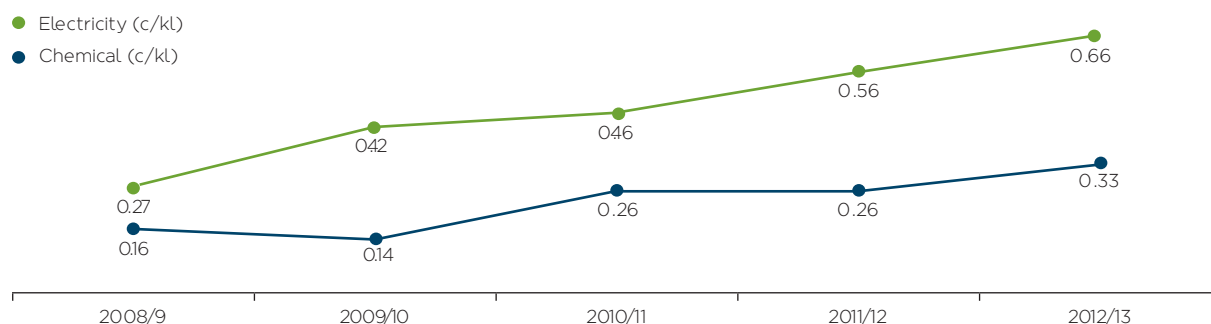
Currently, as illustrated in the table below, almost all of the plants are run over 100 percent of their capacity. This puts strain on both the production and distribution system and thus there is a slight increase in the non-revenue water.

	Design Capacity [Mℓ/d]	Production vs. Capacity [%]	Planned Production [m³/annum]	Actual Production [m³/annum]
Nahoon WTW	33.70	115	10,633,304	13,999,109
Laing WTW	33.00	66	8,127,876	7,808,624
Sandile WTW	18.00	104	6,122,739	6,709,183
Peddie Regional WTW	6.56	109	1,986,290	2,576,282
Binfield Park WTW	4.80	94	1,440,850	1,629,270
Masinedane (Keiskammahoek)	4.00	26	657,833	370,054
Albany RO	2.40	138	801,134	1,195,460
Debe Nek WTW	1.50	119	649,005	641,744
Glenmore WTW	0.50	157	194,150	282,255
Upper Mnyameni WTW	0.29	103	97,583	107,809
	104.75	-	30,710,764	35,319,790

Production Efficiency

The increase in production came at cost since the infrastructure is hugely strained by its limited capacity, however, the major input cost were managed and controlled at acceptable levels. The main controllable cost drivers that have a direct impact on the extent of the production efficiency that the organisation shall report on, are the chemical and electricity costs.

Chemical vs Electricity



In contrast with Amatola Water's production growth of over 13 percent and Eskom tariff increase of over 16 percent, the electricity costs have been controlled to a minimum rise of 14.98 percent of electricity real cost. The table below demonstrates another control variable of kWh per cubic meter that is used to monitor, evaluate and control the electricity usage in the production and distribution of bulk water. In this table, it is illustrated that there has been 4.78 percent increase on actual electricity used of 0.86 from that of 0.82 kWh per m³.

WTW	Capacity [Mℓ/d]	Total 12/13 [kWh]	Total 12/13 [m ³]	11/12 [kWh/m ³]	12/13 [kWh/m ³]	Mℓ/d	% of Plant Capacity
Nahoon WTW	33.70	9 942 344	12 398 800	0.80	0.80	34.44	102
Laing WTW	33.00	10 315 856	8 742 031	1.19	1.18	24.28	74
Sandile WTW	18.00	4 998 394	6 867 296	0.72	0.73	19.08	106
Peddie WTW	6.56	720 090	2 530 114	0.26	0.28	7.03	107
Bindfield Park WTW	4.80	1 014 165	1 576 155	0.66	0.64	4.38	91
Albany Coast	2.41	1 934 224	844 772	-	2.29	2.35	97
Masinedane WTW	2.00	58 718	1 094 495	0.07	0.05	3.04	152
Debe WTW	1.50	884 772	731 692	1.12	1.21	2.03	135
Rooikrantz WTW	1.20	181 655	-	-	-	-	-
Glenmore WTW	0.50	208 507	258 670	0.45	0.81	0.72	144
Mnyameni WTW	0.29	8 307	101 360	0.08	0.08	0.28	97
TOTAL	103.96	30 267 032	35 145 385	-	-	97.63	-

This shows that the production and distributions systems have been run efficiently in terms of electricity usage, while more water has been produced and distributed. This efficient use of electricity is an attribute and outcome of effective asset management through planned maintenance and effective asset operation, as illustrated in the above table.

The second major production input cost is the chemical cost which records an increase of 38 percent from 26 to 36 cents per cubic meter. This could have been much higher had we not applied the stringent water process control systems in all Amatola

Water works which entails amongst others hourly water process and quality control tests by process control personnel, to ensure compliance with SANS 241 standards. Chemicals usage and water production is also monitored closely on weekly basis to achieve optimum usage. This increase is mainly caused by some externalities such as transportation, fuel, electricity and manufacturing costs and the foreign exchange rates on imported aluminum. Pursuant to keeping this cost under control, the new contracting arrangements with the current chemical suppliers from this incoming financial year, are such that the price to Amatola Water is shielded from the pervasive external costs.

Plant and Systems Management

Non-Revenue Water

Amatola Water has embraced the level of Non Revenue Water (NRW) as a key performance indicator of optimisation and operational efficiency, resulting in the organisation's levels of non-revenue water being at significantly low levels compared to the general water sector standards.

The Water Balance Framework, illustrated in the table below, which was developed by the International Water Association (IWA) as a standard international water balance structure and terminology has been adopted by the operations of the organisation to control and manage the revenue and non-revenue water.

Amatola Water used the Water Balance Framework as a guide to implement NRW reduction strategies by addressing each of its components. This approach enabled the utility to take a fresh look at the NRW problem and the factors influencing it. The framework provided a starting point for the water services managers to assess NRW, modify operations and infrastructure to address such factors, and implement the required policies and practices.

The following graph illustrates the production and distribution water losses which are the combination of commercial and physical losses. The production and distribution water losses for the year were respectively recorded as 5.63 and 9.49 percent.

Bulk and distribution losses within the Amatola Water bulk systems are monitored by the Water Resources department. This is done through a combined effort in water loss/demand management program and meetings with the Operations and Finance Divisions. Water loss reports are produced on a monthly basis. A combination of bulk water meter balance reports, meter variance reports and water meter line diagrams are used to track down water losses. Water meters are calibrated according to a set programme and specific needs.

Water balances are recorded monthly for all water abstracted, treated and distributed within the supply networks of Amatola Water. Key focus areas include the Peddie Regional Scheme, Binfield Park Scheme as well as the Sandile Scheme. The identification of problem areas is done through logging of key water meters and physical inspection of bulk pipeline routes. Early identification of water losses assists the water board in addressing and reducing water losses which, in turn, results in reduced loss of revenue.

Amatola Water completed Phase 1 of the Kouga Municipality water conservation and demand management project during the financial year. Phase 2 of the project has been allocated a further R1 million for the 2013/14 national financial year.

Water Losses

	2012 /07	2012 /08	2012 /09	2012 /10	2012 /11	2012 /12	2013 /01	2013 /02	2013 /03	2013 /04	2013 /05	2013 /06	Total
Plant Loss (%)	7.4	8.0	5.4	1.0	5.1	7.9	4.8	5.4	1.4	5.1	2.5	5.2	4.9
Network Loss (%)	15.3	8.3	9.0	5.0	10.6	2.3	11.8	10.9	12.5	8.8	10.5	9.0	9.5

Health and Safety Management Systems

Amatola Water is committed to Health and Safety and as such has instituted the Health and Safety system at all its workplaces to protect the organisation and its employees against legal action and ensure the safety of the workforce. With the increase in accident claims and changes to legislation on safety in the workplace, such as fatalities in the workplace, it became even more important to ensure the organisation had a robust Health and Safety Management System. Becoming OHSAS 18001 certified has been an effective way for Amatola Water to reduce the risks that the organisation could face following a health and safety incident. The following have been the benefits of the system to Amatola Water:

Reduction in Accidents

From emergency procedures to hazard and risk identification, having the OHSAS 18001 - Health and Safety system in place helped reduce the accidents and the costs that come with them. The disabling incident frequency rate (DIFR) is a key indicator of Amatola Water's Health & Safety System performance. The Amatola Water DIFR at the end of the reporting period stood at 0.44 compared to a target of <0.8. This is the lowest rate that the organisation has ever recorded. By putting in new systems to reduce accidents the organisation has also managed to reduce the risk of losing key workers through injury. This helped ensure that disruptions caused by accidents were kept at a minimum.

Demonstrating Commitment to Health and Safety

Amatola Water's commitment to safety in the workplace was consistently communicated throughout the reporting period to all customers, staff and general stakeholders, about how seriously it takes safety in the workplace. As part of the commitment, a recertification assessment in terms of OHSAS 18001 was undertaken in May 2013 to assess the overall effectiveness of our OHSAS 18001 Management System in order for SABS to extend the certification for a further three years. The extension was indeed granted to Amatola Water, to be OHSAS 18001 certified for the next three years, effective October 2013.

Minimization of the Risk of Legal Action

The organisation has strived to ensure that it is compliant with the latest health and safety regulations. Occupational Hygiene Surveys were done on 24 April 2013 to determine compliance with requirements of the Hazardous Chemical Substances Regulations, 1995 and Regulations for Biological Agents, 2001. The main objective of both surveys was to assist management in investigating and checking the efficiency of engineering and process control measures provided to contain and limit emission of hazardous substance and identify corrective measures or improvements that could further reduce personal exposure levels.

Enhancement of the Reputation and Brand

The OHSAS certification has demonstrated that the organisation adheres to high standards with regards to health and safety – enabling it to get ahead of competitors who have not achieved the standard.

Business Systems Improvement

Geographical Information Systems (GIS)

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. Attribute data is updated regularly as new infrastructure is developed, while schematic diagrams of water schemes are also updated on a continued basis. This information is used to assist with the management of water losses within the organisation's systems.

The GIS unit assists in identifying bulk water services infrastructure beyond the boundaries of Amatola Water's area of operations and 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 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 is given to the Water Conservation and Water Demand Management team to assist 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.



Infrastructure Stability and Resilience

Infrastructure Master Plan Review

The Amatola Water Infrastructure Master Plan (IMP), 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, has been reviewed during the year, however finalization is still pending.

Project Implementation and Support Services

Internal Capital Projects

Capital Projects : Amatola Water Infrastructure

Amatola Water's challenging financial position over the past year resulted in the curtailment of its internal infrastructure capital project programme.

The utility was however able to source funding to enable it to increase treatment capacity at a number of its treatment works, thereby increasing supply to 750 litres per household per day.

During the year under review, Amatola Water has secured funding through the Regional Bulk Infrastructure Grant (RBIG) programme to upgrade its bulk infrastructure to improve service delivery access and quality while realizing economies of scale to simultaneously reduce bulk water tariffs to water service authorities.

The project objective is to upgrade the Peddie, Sandile, Debe Nek, Masincedane, Binfield and Nahoon Water Treatment Works as well as associated distribution infrastructure. These upgrades will allow Amatola Water to provide bulk potable water capacity to eliminate backlogs and increase water supply to 750 litres per household per day. The project will result in the improvement in quality of life to 47 142 households.

Amatola Water has reviewed the various technical aspects in order to deliver on this project. The water resources are adequate. A total of approximately R498 million is required for the intervention.

Key deliverables for this project include:

- The upgrade of the following Amatola Water treatment works:

Treatment Works	Municipality Served	Current Capacity (Mℓ/day)	Proposed Capacity (Mℓ/day)
Sandile	Nkonkobe, Ngqushwa and Buffalo City Metro	18	36
Nahoon	Buffalo City Metro (Mdantsane area)	33	40
Peddie	Ngqushwa	6.5	13
Debe Nek	Nkonkobe	1.5	5
Masinedane	Amahlathi	4	6
Binfield	Nkonkobe	4.8	10
Totals		67.8	110

- Elimination of rural household backlogs and the increase in household supply to 750 litres per day:

Treatment Works	Municipality Served	Current Households Served	Future Households Served	Backlog Eradicated
Sandile	Nkonkobe, Ngqushwa and Buffalo City Metro	19 809	19 903	94
Nahoon	Buffalo City Metro (Mdantsane area)	17000	17000	0
Peddie	Ngqushwa	13303	14866	1563
Debe Nek	Nkonkobe	2847	3002	155
Masinedane	Amahlathi	2835	4059	1224
Binfield	Nkonkobe	7100	8215	1115
Totals		43085	47142	4057

- Reduction in bulk water supply tariffs from R6.98/kℓ in 2012/13 to approximately R 4.071 in 2015/16.
- Supply of Blue Drop certified water within the six water supply schemes.

Capital Projects : Implementing Agent Activities

Nahoon East Coast Bulk Supply Pipeline

A feasibility study and preliminary design for the upgrade of a portion of its bulk infrastructure on the Nahoon Scheme were completed during the year. The proposed bulk infrastructure upgrade comprises the provision of a bulk water pipeline from the Nahoon Dam Water Treatment Works to Beacon Bay to augment the supply to Cambridge, Vincent, Beacon Bay, Wembley and Gonubie.

The project will be implemented as a joint effort between Amatola Water and the Buffalo City Metropolitan Municipality, funded through the Department of Water Affairs' Regional Bulk Infrastructure Grant programme.

The proposed upgrade has been informed by the need to:

- Alleviate high increase in demand 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.

The estimated project cost is R206 million, which entails the upgrade of the treatment works, from 33 to 40Mℓ/day, and construction of 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 that were investigated included the Nahoon Water Treatment Works as well as a new Regional Water Treatment Works in the vicinity of the Wriggleswade Dam, while decentralised supply options investigated included local off-channel storage dams, desalination and re-use of treated effluent.

External Projects

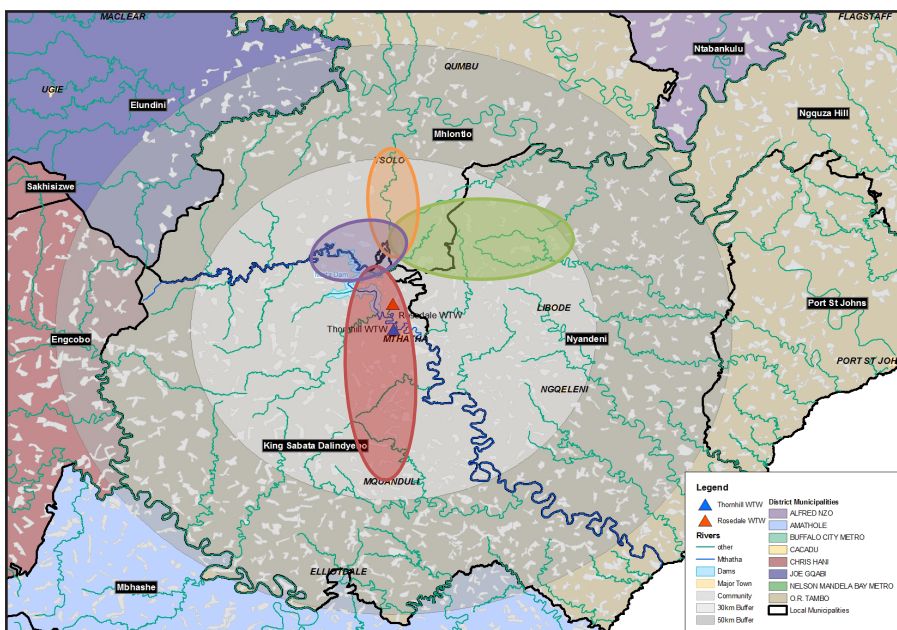
King Sabata Dalindyebo Presidential Intervention (KSD PI)

In respect of the Water and Sanitation Work Stream the objective of the intervention is to upgrade the water and waste water infrastructure to ensure its stability and reliability, as well as to enhance the environmental integrity of the Mthatha River in order to improve rural livelihoods, promote the social and economic development of the KSD Local Municipality.

In light of the above expectations, Amatola Water was appointed in October 2012 as an Implementing Agent for the bulk water and sanitation infrastructure. A comprehensive project plan was developed, which identified the various project water and sanitation elements to the value of over R 2.6 billion to be implemented over a five-year period.

The water supply initiatives all centre around the Mthatha Dam, which is the biggest dam in the Eastern Cape Province, with a volume of 254 000 million litres and has the capacity to supply quality water to the people of KSD, Nyandeni and Mhlontlo Local Municipalities. The Mthatha Dam will feed into the four corridors via two major regional water treatment works, being Thornhill and Rosedale.

The initial intervention will focus on the first 30km radius of the four corridors from the Mthatha Dam, utilising approved water use license of 150 million litres per day. Ultimately the supply area of Mthatha Dam will be extended to a 50 kilometer radius of supply. In addition, the Coffee Bay local corridor that is currently under construction will ultimately link to the Mqanduli corridor and terminal reservoir. For sanitation, the augmentation of wastewater treatment works and bulk sewer pipelines within Mqanduli and Mthatha are in support of economic growth.



The table below reflects current contracts being implemented by Amatola Water on behalf of O.R Tambo District Municipality.

No. Of Contracts	Contract Description	Contract Amount
WATER		
Raw Water Contracts		
Contract 1	Thornhill Raw Water Main Rehabilitation Phase 1 - Refurbishment of Raw Water Pipeline from Mthatha Dam to Thornhill Water Treatment Works - Construction of new DN 1200 Steel Pipe	R 40 000 000
Contract 2	Thornhill Raw Water Main Rehabilitation Phase 1 - Refurbishment of Existing DN 800 Steel Pipe	R 30 000 000
Contract 3	Thornhill Raw Water Main Rehabilitation Phase 1 : Design, Supply and Installation of Mechanical and Electrical Equipment	R 7 000 000
Contract 4	Thornhill Raw Water Main Rehabilitation Phase 1 : New DN 800 Raw Water Main Steel Pipe	R 22 000 000
Sub-Total Raw Water		R 99 000 000
Thornhill WTW Contracts		
Contract 5	Thornhill Bulk Water Supply: Thornhill Water Treatment Works - Civil Works: MIS204248/1	R 24 500 000
Contract 6	Thornhill Bulk Water Supply: Thornhill Water Treatment Works - Electrical and Mechanical Works: MIS204248/2	R 26 500 000
Sub-Total Thornhill		R 51 000 000
TOTALS 1 (Raw Water and Thornhill WTW)		R 150 000 000
Libode Contracts		
Contract 1	Libode Bulk Supply Pipeline (Gravity Main from Existing 3ML Reservoir to Booster Pump) - Contract No: MIS 200542/1	R 49 500 000
Contract 2	Libode Bulk Supply Pipeline - Contract No: MIS 200542/2	R 27 500 000
Contract 3	Gravity Main from 1st Command Reservoir to Libode Town - Contract No: MIS 200542/3	R 18 500 000
TOTALS 2 (Libode)		R 95 500 000
SANITATION		
Mthatha WWTW Upgrade		
Contract 1	Phase 1B-1 Upgrade of the Mthatha Waste Water Treatment Works	R 19 500 000
Contract 2	Phase 1B-2 Upgrade of the Mthatha Waste Water Treatment Works: New Intake Works	R 21 000 000
TOTAL 3 (Mthatha WWTW)		R 40 500 000
TOTAL (1+2+3)		R 286 000 000

The successful implementation of the project will go a long way in transforming Mthatha into the economic and social power house of the OR Tambo District Municipality and the whole of the Eastern Cape.

Ndlambe Regional Bulk Water Supply

Amatola Water was appointed as Implementing Agent for the Ndlambe Bulk Water Supply Project. The provision of sustainable bulk water supply at an acceptable quality within the Ndlambe Municipality had been hampered due to the nature of existing water resources that are unreliable in terms of assurance of supply and water quality related matters.

The purpose of the study was to investigate and determine the most beneficial regional bulk water supply alternative. Alternative water resources that were 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. Sandile is being considered as a preferred alternative.

The project will ensure a long-term sustainable bulk water supply for socio-economic development, while also considering short-term interventions to provide short term relief in terms of bulk water supply.

One of the key socio-economic drivers of the study is the proposed Thornhill development in Port Alfred. The Thornhill development will comprise of 5 000 social housing opportunities, which has been hampered by a lack of sustainable bulk water services.

An additional alternative to supply raw water from the Sandile Dam is currently being evaluated. This alternative could improve economies of scale and regional efficiencies.

Quick Wins to the value of R214 million will be completed in June 2014. These will allow for uninterrupted water supply in Alexandria and 7 Mℓ/day SANS 241 water supply in Port Alfred through the new Port Alfred BWRO plant. The remainder of the project can be implemented from April 2014 over a two or three-year period.

Coffee Bay Regional Water Supply Scheme

Phase 1 of the project was completed in January 2012. The project broadly consists of the following:

- Extending the existing Coffee Bay Regional Water Supply to incorporate the entire Ward 23 and 24 areas of the KSD Local Municipality.
- Construction of pump stations, rising mains, command reservoirs, village reservoirs and reticulation.
- Increasing the capacity of the water treatment works to 3Mℓ/day

Phase 2 was allocated an additional R113 million funding through the Municipal Infrastructure Grant (MIG) programme, it commenced in April 2012 and was expected to be complete by June 2013. Legal challenges have however delayed the implementation of the second phase.

Sidwadweni Regional Water Supply Scheme

Amatola Water was appointed by the OR Tambo District Municipality (ORTDM) on 28 March 2012 to implement the Sidwadweni Bulk Water Supply project. A budget of R 204 million was allocated to the project, which comprises two phases, including Phase 5a Part 2 and Bulk Augmentation.

Phase 5a Part 2 comprises the construction of bulk mains, village reticulation, reservoirs and pump stations around the town of Tsolo. Phase 5a Part 2 is 65 percent complete and due for completion in March 2014.

The next phase of the project would be the interim bulk supply. Final design of the interim bulk water abstraction and treatment infrastructure is 85 percent complete.

The final bulk supply is at a master planning level that will see the construction of a 50Mℓ/day water treatment works near the preferred Ntabaleng Dam site for the Mzimvubu Strategic Infrastructure Programme project.

Sterkspruit Water Treatment Works

Amatola Water was appointed by Joe Gqabi District Municipality as implementing agent to refurbish and upgrade the Sterkspruit Water Treatment Works (WTW). A revised amount of R 60.6 million was approved under the Municipal Infrastructure Grant (MIG) programme for the project.

The first phase of the project has been well underway and due for completion in September 2013. The plant has been upgraded from a 6 Mℓ/d to 12Mℓ/d, and its distribution network to service the local social and economic needs of the Senqu Municipality. This upgrade has been a success since it was done in such a manner that there was no interruption of water supply to the communities. This project will definitely have an immense positive socio-economic impact to the people of the Senqu Local Municipality. Amatola Water has also been appointed for phase 2 of the project with a value of R 75.2 million.

Kouga Water Demand Management Project

Amatola Water entered into a three year tripartite agreement with the Department of Water Affairs (DWA) and Kouga Municipality under which Amatola Water implemented a water conservation and water demand management project. DWA has set aside a budget of R1.5 million for the 2012/13 year to implement phase one of this project.

Within Jeffreys Bay and Humansdorp Municipalities, some 4000 water meters recorded zero consumption. It was decided to investigate the reason for this. By using Geographical Information System (GIS) map information and color coding, the relevant erven's water meters giving zero consumption were identified, inspected, condition determined and details recorded and repaired and or replaced where needed.

Amatola Water inspected some 2400 meters of these zero recording water meters of which 91 meters were found to be faulty. All information collected was passed on to the technical and financial divisions of the Kouga Municipality for use and future incorporation into the billing system. This completed activity should improve revenue collection. A water balance exercise on water use within all local municipalities within Kouga Municipality has been compiled with available information, but the installation of more bulk zone water meters is a necessity and included in Phase 2 of the project.

Amatola Water has successfully completed Phase 1 of the Kouga Municipality water conservation and demand management project. The Department of Water Affairs has allocated a further R1 million for Phase 2 of the project for the 2013/14 financial year.

Section 30 Business Generation

Amatola Water's section 30 business continued to grow during the year, with several new contracts secured. Significant new appointments for the year are reflected in the following table:

Product	Client	Project	Budget
Project Implementing Agent (PIA)	DWA	Rain Water Harvesting Project	R 2 350 000
	O.R. Tambo District Municipality	KSD Presidential Intervention Project	R 595 000 000
	DWA	Jansenville Crisis Intervention Project	R3 200 000
Sub Total			R 600 550 000
Planning	Sundays River Valley Municipality	Kirkwood WTW Upgrade	R 828 000
			Sub Total
Water Conservation & Water Demand Management	Kouga Municipality	WCWDM Project (Project Phase 2)	R 1 000 000
			Sub Total
Annual Total			R 602 378 000

Planned Maintenance

The past financial year has once again seen a steady trend of moving from corrective maintenance to that of a more proactive maintenance philosophy. The proactive maintenance philosophy, coupled with continuous plant and system improvement initiatives have played a major role in production equipment availability and reliability.

This has been evident in most Amatola Water treatment plants achieving consistently high water quality and also sustaining increases in volumes of water sold.

All Workshops (Pipeline, Meters, Pumpstations, Property & Radio-Telemetry)	Planned Maintenance	Unplanned Maintenance
Issued Service Orders	3449	987
Completed	3362	966
Outstanding	87	21
% Completed	97%	98%
% Outstanding	3%	2%
Ratio(Planned vs. Unplanned Maintenance Works)	78%	22%

The implementation of a proactive planned maintenance schedule for distribution network of pipeline and associated equipment also gained momentum and yielded great results of system's availability. The engineering and maintenance unit continued to implement a planned maintenance system for all critical Programmable Logic Control (PLC) systems at the various plants and pump stations.

A ratio of 78:22 for planned versus unplanned maintenance was achieved for the year. This is much closer to the universal benchmark of 80:20. An impressive total of 97 percent of all logged service orders were also achieved.

The establishment and implementation of the Artisan Utilisation System bore fruits for the utility through the achievement of acceptable levels of productivity in the maintenance personnel. Achieving such desired levels of productivity has been the main contributor to the achievement of the good results as indicated above.



Water Resources Adequacy

Drought Management/ Resource Planning

The Amatole Water Resources Systems supplies the water requirements of the Buffalo City Municipality consisting of East London, Mdantsane, King William's Town and Bhisho urban complex, the town of Stutterheim and Mlungisi, and villages in the surrounding rural areas.

The water resources of the Amatole System are regulated by seven dams namely, Gubu, Wriggleswade, Maden, Rooikrantz, Laing, Bridledrift and Nahoon Dams.

The Wriggleswade Dam provides an additional safe yield of 31.8 million m³/a, of which approximately 18 m³/a should be available for domestic or industrial use. The finalisation of the volume of water required for environmental purposes will reduce the available yield for domestic / industrial use and thereby moving the augmentation date forward.

Various water demand strategies has been compiled and tabled in the report which needs to be implemented by the relevant stakeholders in the near future. The effective implementation of these strategies will then determine the expected augmentation date within the Amatole System.

Integrated System

A study to determine rules to optimise the operation of the system has been initiated by the Department of Water Affairs (DWA) and completed by the Operating Rules Study Team. The operating rules, which have since been approved by DWA, entail a transfer of water from the Wriggleswade Dam to dams downstream in the system, when the water levels in these lower dams drop to predetermined levels. The transfer rates are such that they sustain the requirements on the dams only and are not used to re-fill the dams.

The Amatole Systems Analysis Technical Steering Group (ASATSG) has reviewed the system yield, based on the adopted operating rules, using the Water Resources Yield Model. The ASATSG has further reviewed the system yield, based on varying operating rules, the results of which indicate that

the system yield could be further increased to 108.1 million m³/a by adjusting the transfer trigger dam levels of the downstream dams under Scenario 1, i.e. transfer when Wriggleswade Dam is spilling.

The yield of the System, when operated as an integrated system in accordance with the current approved operating rules, is some 5.2 million m³/a (5.4%) greater than the sum of the yields of the individual dams. Integrated system operation is therefore an imperative to ensure reconciliation of supply and requirement going forward.

Agreements have not as yet been concluded with Buffalo City Metropolitan Municipality (BCMM) to facilitate the effective implementation of the new adopted operating rules. Despite the above, the system yield of 100.1 million m³/a has been used as the basis for the current reconciliation planning.

The higher possible yield of 108.1 million m³/a (as per ASATSG presentation of June 2012) has however been considered as a scenario in the reconciliation planning.

The capacity of Wriggleswade Dam can be utilised to supplement either the Bridledrift and or Nahoon Dams. This is made possible by a tunnel and canal system that has the capacity to transport 3m³/ sec (259 200 kℓ/day) either into the Buffalo River or Nahoon River catchments. Water can be released into the Yellowwoods River that flows into the Buffalo River to supplement Laing and Bridle Drift Dams or into the Nkobongo River that flows into the Nahoon River, feeding into the Nahoon Dam.

Yellowwoods Transfer

Previous environmental studies on the KwaNkwebu River, a tributary of the Yellowwoods River, recommend to limit the rate of transfer between the Wriggleswade and Laing Dams to a rate lower than that for which the transfer system had been designed, in order to protect an environmentally sensitive reach of the river. It was initially envisaged that this would limit the yield possible from the System, requiring by-pass infrastructure to circumvent the constraint.

The new adopted operating rules are however such that transfers are undertaken at lower rates, but over longer periods of time, thereby avoiding the need for by-pass infrastructure to ensure that the system yield is achievable.

Water Balance

The graph below shows the current high- and low-growth water requirement scenarios against supply available from the System, as per the current operating rules. Similar graphs have been provided for system yields based on the individual dams, as well as for various proposed amendments to the current operating rules.

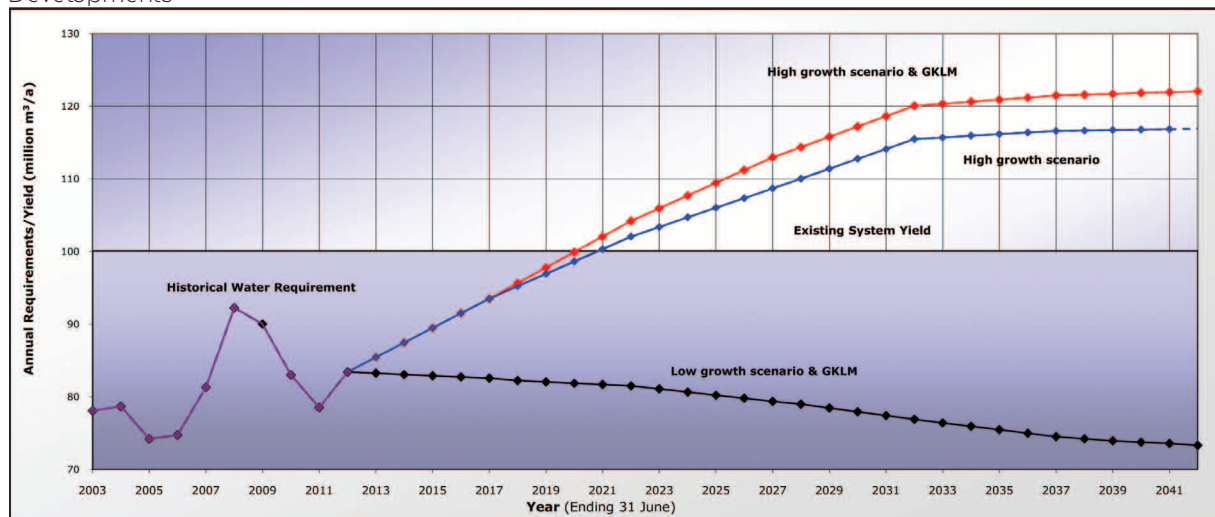
Based on the high-growth water requirement scenario, measures to reduce the requirement or to increase the system yield would have to be implemented by:

- Yield of individual dams (94.9 million m³/a) : 2018
- Current operating rules (100.1 million m³/a) : 2021
- Maximum yield possible from the System (108.1 million m³/a) : 2026

Based on the low water requirement scenario, the System has adequate yield to meet the requirements inclusive of supplies to the Great Kei area indefinitely.

Amatole Water Supply System

Developments



The Amatole Water Supply System Reconciliation Strategy (AWSSRS) has undertaken a conceptual (desktop) review of the Sandile/Binfield Park Dams supply augmentation option, identified in the Strategy Study as one of the more favourable augmentation options due to its low Unit Reference Value (URV) and short lead time (no need to construct a dam; it uses surplus yields from these existing dams). The findings of the review however indicated that the surplus yields available from these dams to augment supplies to the Amatole Water Supply System (AWSS) are significantly lower than previously anticipated and that more detailed investigations are required to confirm the dam yields. The need to register and monitor water use from these dams was also identified. It can also be noted that the Department of Agriculture and Rural Development (DoARD) are reviewing the agricultural water requirements from these dams, whilst DWA has initiated processes to develop operating rules for the respective dams.

A screening of surface water supply options workshop was held on 26 March 2012, the key outcomes of which are as follows:

The following schemes/options are considered the most viable of the options identified to date and should be put forward for more in-depth study for consideration for implementation:

- Wesselshoek Dam (Kwelera River) – the most favourable of the options at this point in time;
- Ravenswood Dam (Keiskamma River) – only if a large yielding dam is required; and
- Stone Island Dam (Nahoon River) – potential environmental implications.

NOTE: * A number of the above comments were extracted from the draft status report 2012 of the Amatole System to provide information on the whole complexity of status and future water resource development requirements to ensure sustainable water resources within the Amatole Region.

A similar operational analysis report was completed by DWA for the Sandile and Binfield Park dams. A draft report that provided drought operating rules for these systems was completed during December 2012.

Supply points

The number of connections/supply points increased during the year by 29 bulk consumer points, while the domestic/industrial supply points decreased by 37 in total.

Supply Points	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13
Bulk	288	292	292	323	324	332	353	316	345
Domestic/ Industrial	117	121	125	127	130	132	171	197	160

Table of water treatment works capacity

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

Water Treatment Works Works Capacity	
Water Treatment Works (WTW)	Daily capacity in Mℓ/d
Binfield Park WTW	4.80
Dabi WTW	0.72 (has been closed since end of November 2009)
Albany Coast WTW	2.4
Debe Nek WTW	1.50
Glenmore (Enxuba) WTW	0.50
Laing WTW	33.00
Masinedane (Keiskammahoek)	4.00
Upper Mnyameni WTW	0.56
Nahoon WTW	33.70
Peddie Regional WTW	6.56
Rooikrantz WTW	1.20 (closed since mid December 2010, not decommissioned yet for emergency purposes)
Sandile WTW	18.00

Amatola Water operates and maintains both conventional water treatment works, as well as a desalination treatment works. The Albany Coast desalination works which 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, is located at Bushmans River in the Ndlambe Municipality.



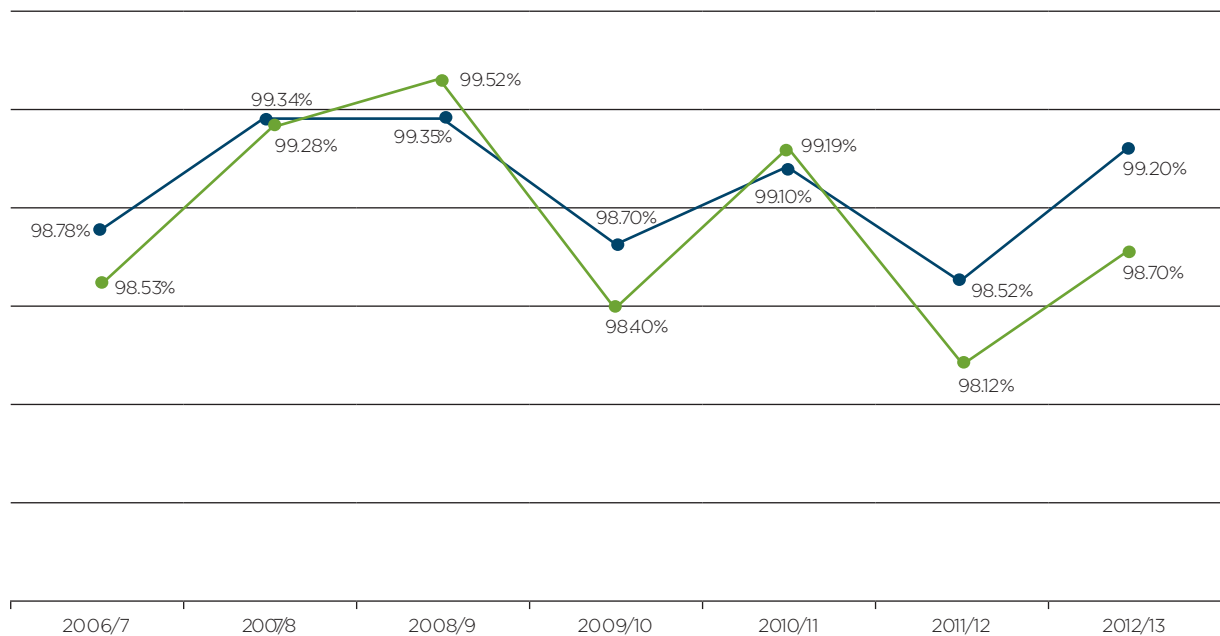
Product Quality

Product Quality

Amatola Water's water quality compliance in all its water treatment works and distribution network is in line with the SANS 241:2011.

Water Quality Results - % level of compliance

- Water Works
- Distribution Network

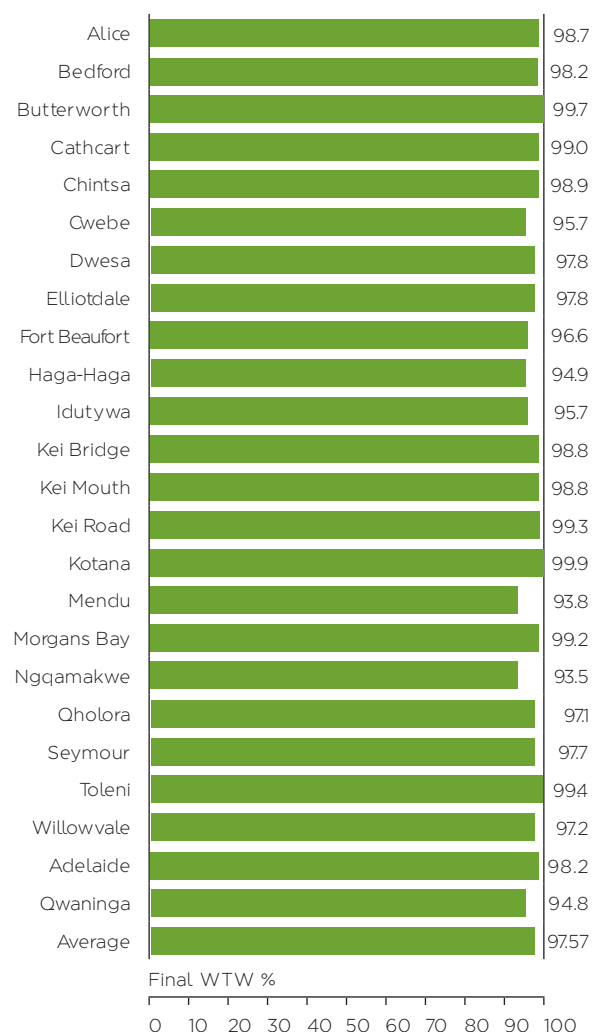


With its stringent measures, the implementation of the SANS 241:2011 standards in the previous reporting period of 2011/12 lead to the slight decrease on water quality compliance but the organisation has since now improved its water quality compliance as shown in the graph above.

The improvement has been observed despite Amatola Water experiencing several floods in its service area between the months of July and December 2012. This is also the period in which the consumption of chemicals was high which in turn contributed to high chemical cost as illustrated in the above graph.

This improvement is also an attribute of the stringent water process control system in place at Amatola Water works which entails amongst others hourly water process and quality control tests by process control personnel, to ensure compliance with SANS 241 standards.

Key to the performance of potable water produced during the review year within ADM, was the consistency in excellent quality of potable water, as illuminated in the table below. The general performance of the bulk water infrastructure has in some way improved, resulting in less interruptions in peak season and right through the year.



Blue Drop Accreditation

Amatola Water managed to receive three Blue Drop Awards at the WISA Conference held in May 2012. The organisation also received an award as recognition for the Best Overall Provincial Risk Position for the Middleburg Agricultural College wastewater treatment works of the National Department of Public Works' Port Elizabeth branch.

The following table shows 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%

In turn, Amatola Water was once again recognised for its outstanding work in providing quality water service in the Province. The utility received a Certificate of Excellence in water services provision for the Buffalo City Municipality as well as a Blue Drop award for the Sterkspruit water supply system.

Scientific Services

Laboratory Accreditation

The scientific services department continued to provide water quality control services during the financial year. Water quality has been monitored as per SANS 241 2011 standards on all works owned and operated by Amatola Water which include microbial and chemical analysis.

Support was given to Joe Gqabi Municipality District Municipality as well as Amathole District Municipality.

Amatola Water has embarked on a process to regain SANAS accreditation.



Leadership and Employee Development

Human Capital

Amatola Water employs 424 employees comprising of 374 permanent and 50 non-permanent employees from diverse backgrounds and cultures. The Human Resources initiatives support the flow of this human capital into, through and out of the organisation and are grouped into key functions including attraction, retention, capacity building, etc.

The alignment and effectiveness of these functions has ensured that Amatola Water has the right skills mix in the right positions at the right time.

The sufficient supply of capacitated human capital has enabled the organisation to deliver on its mandated services during the review period.

In all business activities, it has been the utility's endeavour to treat all our employees fairly and with respect, to provide a safe working environment and to offer access to development opportunities and career progression. These principles have been consistent across the business and were applied equally to both permanent and temporary workers.

The period allowed a continued focus on internal service delivery, through the development and implementation of initiatives and policies that enabled the achievement of Amatola Water's corporate objectives for the year.

Workforce Profile

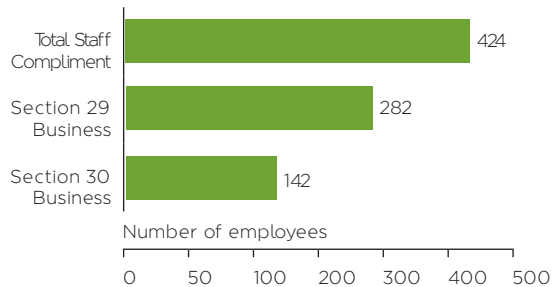
Amatola Water continued to focus on the viability of the organisation, thus staff recruitment was kept to a minimum due to an ongoing moratorium on recruitment. The Board, however, approved exceptions to the moratorium for 19 critical and scarce skills positions, as well as approved positions for replacements on a like-for-like basis to maintain the current level of staff numbers - ensuring continuity and non-disruption of service delivery, cost effectiveness and vigorously minimising staff losses.

Of the appointments that were made, various occupational levels were addressed, such as Senior Management, Professional – Mid Management, Skilled Technical – Junior Management, which all fell under scarce skill category, contributing to the organisations required skills mix.

Every effort was made to ensure that Amatola Water employed the right people and that the right skills were obtained and retained in order to take the organisation forward in terms of its performance capability, resourcefulness and delivering on the mandate.

For the year under review, a staff complement of 379 was targeted, with 297 employees for Section 29 business and 82 employees for Section 30 business. The actual staff complement of 374 at the end of the review period was lower than the projected staff complement of 397, as reflected in the below table.

Details of the staff establishment per Division, as at 30 June 2013, were as follows:



Division	Permanent employees	Non-permanent employees	Total employees
Operations	276	47	323
Finance	33	1	34
CEO's Office	16	1	17
Corporate Services	20	0	20
Planning & Development	29	1	30
Grand Total:	374	50	424

A target of 90 percent compliance to the recruitment plan was set for the year. However, due to the moratorium placed on recruitment the set target could not be achieved, despite the Board's approved exceptions to the moratorium.

During the review period, 13 appointments were made, as per the tables below.

The recruitment of permanent employees per Division:

Division	No. of employees
Operations	2
Finance	6
Corporate Services	2
Planning & Development	3

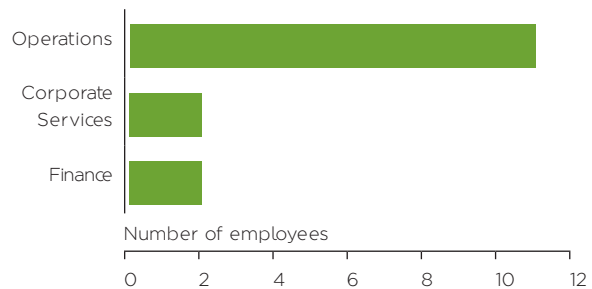
In terms of embracing and promoting equal opportunity employment, the employment of permanent staff fell within the following race and gender categories:

Staff Appointments according to Gender

African Male	5
White Male	1
Coloured Male	1
African Female	3
Coloured Female	2
White Female	0

A total of 15 internal employees were moved to promotional positions that allowed for career advancement. The organisation was able to achieve and exceed its target of 35 percent career advancement of internal employees to higher positions (termed internal promotions for purposes of this report) through the recruitment process.

The career advancement of internal employees appointed to higher positions in Amatola Water is displayed, per Division below:



During the year under review, the organisation continually assessed its current and future workforce needs, aligning these with its business objectives. Staff recruitment focused on well managed attraction, retention and engagement of staff with the necessary expertise, experience and skills within a framework that ensures employment equity and diversity. Transformation regarding equity and diversity was encapsulated in the organisation's Employment Equity Plan that is periodically reviewed.

Labour Turnover

Labour turnover increased to 12.8 percent, compared to 9.6 percent of the previous year. This negatively exceeded the projected staff turnover of 9 percent for the reporting period by 3.8 percent. The increase in labour turnover can be attributed to the organisation's poor financial performance, job insecurity caused by Section 30 business contract expiry.

Staff exits are detailed below:

Terminations	2013	2012
Resignations	34	26
Dismissals	3	4
Retirement	12	2
Deceased	4	3
Contract Expiry	2	0
Disability (medical boarding)	0	2
Total	55	37

Absenteeism

Absenteeism decreased by 2 percent to 0.28 percent as compared to the previous financial year which was 2.37 percent.

Organisational Culture

The organisational values of integrity, excellence, accountability and responsibility were consistently entrenched throughout the working environment of Amatola Water this period, with the organisation recognising the importance of living these core values.

The promotion of a culture of responsibility, excellence, integrity and accountability was one of the strategic objectives for the year and required, among other things, that a cultural analysis study be conducted. After due consideration of the current organisational climate, in part caused by the instability and employee uncertainty regarding the financial situation, management resolved not to conduct a cultural analysis study.

Participation in the Best Company to Work for Survey was put on hold for the 2012/13 period. Full implementation of the Best Company to Work for Survey Action Plan, developed in line with the previous year's participation, aimed at improving change management, effective and efficient communication, among others, was restricted by the organisation's financial standing.

Change management initiatives with specific focus on effective and efficient communication were maintained through quarterly human resources road shows, staff information sessions, divisional meetings and electronic staff briefs. The creation of a positive culture in Amatola Water that promotes team work and a positive organisational citizenship remained one of the key priorities.

Organisational Design/ Development

Organisational development for the year under review was aimed at facilitating organisational development processes and focused on identifying priority areas to enhance the effectiveness of individuals, business units and the entire organisation.

Amatola Water's turnaround strategy for 2011/2012 set a framework for the restructuring of the organisation's Primary, Secondary and Support functions at a functional and activity level, and included the ring-fencing of Section 29 and Section 30 business activities, thus organisational restructuring was identified as a priority.

Performance Management

The Performance Management process remained the primary framework for performance assessment of Amatola Water staff, with individual performance contracts aligned to the Corporate Scorecard to ensure operationalisation of organisational strategies.

Regarding the overall organisational performance and subsequent score, the reprioritisation of objectives as part of the turnaround strategy affected the management of individual performance contracts and objectives; consequently no average organisational score was achieved for the year under review.

Within the parameters of the Remuneration Policy, which allows for organisational reward rather than individual performance rewards, a specific Board approval was obtained for the payment of Bonus to existing Amatola Water employees.

Employment Equity

Recognising the benefits that a diverse workforce can offer, the organisation continued to subscribe to the principles of employment equity and sustained the implementation of our five-year Employment Equity Plan (2009-2014), which guides the organisation's human resource practices in promoting employment equity, the recruitment and development of employees from designated groups and the advancement of gender representation. The organisation has not changed in the top and senior management occupational levels under the male category, whilst targets have been exceeded in the other occupational levels within this category. In the female category, there has been a regression in the top, senior, middle management and the semi-and unskilled occupational levels. Targets were only met at skilled technical/ junior management occupational level.

Along with this, an annual Employment Equity report was submitted to the Department of Labour. The organisation's staff profile as at 30 June 2013 reflected in the following table.

Description	Male					Total
	African	Coloured	Indian	White		
Top Management	↓	0	0	0	0	0
Senior Management	→	2	0	0	1	3
Professionals & Mid-Management	↑	12	0	2	6	20
Skilled technical workers & Junior Management	↑	60	9	1	10	80
Semi-Skilled	↑	112	7	0	3	122
Unskilled	↑	52	0	0	0	52
Totals Permanent		238	16	3	20	277

Description	Female					Total
	African	Coloured	Indian	White		
Top Management	↓	0	0	0	0	0
Senior Management	↓	0	0	0	0	0
Professionals & Mid-Management	↓	5	2	0	0	7
Skilled technical workers & Junior Management	↑	13	4	1	8	26
Semi-Skilled	↓	51	5	0	5	61
Unskilled	↓	3	0	0	0	3
Totals Permanent		72	11	1	13	97

Description	Disability			Total
	Male	Female		
Top Management	0	0	0	
Senior Management	0	0	0	
Professionals & Mid-Management	0	0	0	
Skilled technical workers & Junior Management	0	0	0	
Semi-Skilled	→	2	0	2
Unskilled	→	1	0	1
Totals Permanent	3	0	3	

↑ Exceeding target → No change ↓ Below target

A percentage of appointments both internally and externally were made in line with the organisation's employment equity targets. Considerable progress was made in meeting employment equity targets at various occupational levels through the recruitment process, increased employment of Black women, especially at management levels and at technical skilled positions, remained a challenge. The inability to meet the employment equity target of three percent for people with disabilities for the whole organisation, irrespective of the occupational level, has also been a challenge.

A commitment has been made to institute strategies focused on increasing the number of employees with disabilities and considerable effort is made to attract qualified and skilled women at these levels. Policies and some strategies that assist in removing barriers regarding the achievement of this were adopted and implemented by the organisation to fulfil this transformation agenda. Preferential recruitment where possible, was one other strategy employed to address these areas of improvement and concern. Other key interventions included the participation and involvement of Employment Equity Committee representative in the entire recruitment process as well as on the alignment of training and development to creating a pool of qualified employees in line with employment equity targets.

Training and development

Amatola Water training priorities for the year under review were dictated by its Workplace Skills Plan, which is the product of detailed individual performance development plans and skills audit based skills needs. With this in mind and in conjunction with the Energy Water Sector Education and Training Authority (EWSETA) and the organisation's strategic plan, Amatola Water contributed positively to the expansion of the provincial water services knowledge space.

A skills audit was conducted and completed and formed the basis for training and development interventions as well as other capacity development initiatives implemented during the year under review. The skills audit covered all the employees and guided the process through the Performance Development Plans to ensure that Amatola Water has the right skills mix to deliver on both its strategy and mandate from a human capital perspective

Learnership Programme in Water and Wastewater Purification

Amatola Water Learnership programme formed part of a number of interrelated initiatives for the year, aimed at ensuring the success of Amatola Water as a business to provide water services of a world class standard.

A learnership agreement was signed with the EWSETA on

Water and Wastewater Treatment NQF Level 2 as part of a capacity building initiative. The programmes target learners from previously disadvantaged groups specifically focusing on women.

Learning Academy

The Amatola Water Learning Academy is envisioned as a vehicle for the coordination and integration of water services related training throughout the Eastern Cape Province, and beyond. As an accredited training provider by the Energy & Water SETA (EWSETA) to facilitate Water & Wastewater Treatment Process Control Supervision at NQF Level 2 and 4, as well as a Skills Programme, through its Learning Academy, the organization aims to advance water and sanitation training, as well as other critical skills development needs of the Province in the water services sector. Its main aim is to address high unemployment, skills shortage, poverty and other related challenges, which require an integrated and holistic approach to knowledge management and skills development, over and above programme level.

A R30 million funding agreement with the Development Bank of South Africa (DBSA) to train a minimum of 300 learners as Water Process Controllers over a period of three years was concluded during the period under review under the Amatola Water Learning Academy banner. The trainee target group is primarily unemployed, previously disadvantaged youth. Agreements for placement and possible employment of these learners were entered into with various municipalities. The implementation phase will commence in the 2013/14 financial year, stretching over a three-year period.

The Department of Water Affairs contributed about R1 million to the Learning Academy as co-funding. A Project Steering Committee has been developed to oversee the implementation of the Learning Academy. Road shows held during the past year forged a partnership with Water Service Authorities (WSA) and other water utilities. The Buffalo City Metropolitan Municipality, Amathole District and Cacadu District Municipalities signed letters of intent to absorb learners as interns upon completion of the programme. The recruitment process is underway for first 100 learners in the next financial year.

Additional Training and Development Initiatives

In addition to the legal and compliance training undertaken during the review period, additional training interventions identified as being critical to achieving strategic organisational objectives were also implemented. In an effort to enhance the skills capacity of the engineering component of the organisation, Amatola Water in conjunction with the Engineering Council of South Africa collaborated in order to ensure the professional registration of Amatola Water technicians.

Employee Wellness

The organisation recognizes that a healthy, productive and motivated workforce is essential to the success and growth of the organisation, hence the provision of education and counselling on a wide range of issues aimed at helping our employees to play an active role in their own health and well-being. To cater for identified wellness needs the organisation ran a number of employee wellness programmes, in line with the national and international designated health calendar.

Programmes for the year included TB awareness; Hypertension; Diabetes Mellitus; Body Mass Index Calculations and Anti-Smoking awareness. In an effort to reach the more remote areas within Amatola Water's geographical area, Discovery Health Wellness all-in-one health screening were conducted at remote sites.

Occupational Health

Amatola Water offers an in-house Occupational Health and Wellness service manned by a full time Occupational Health Nurse in conjunction with contracted services from doctors practicing in the occupational health field.

Periodic surveillance was part of the service offering to ensure the suitability of employees for specific jobs, as well as to avoid threatening diseases like Asbestosis and noise-induced-hearing loss. Amatola Water operates in an environment where diseases like typhoid, hepatitis, and other chemicals related biological reaction poses threats to the employees of Amatola Water.

The primary focus of Amatola Water's Occupational Health system has been the pre-employment baseline and post employment medical surveillance and annual surveillance and compliance conducted with the view of ensuring the occupational health and employment practices of the organisation meets the employment legislation requirements along with optimal utilization of the workforce. Leave of absence related trends were established so as to put mitigating measures in place, such as counselling, disciplinary processes in cases of abuse and management training in handling absenteeism at the workplace.

HIV/ Aids

Amatola Water acknowledges the challenges faced by employees and their families with regards to HIV and AIDS. The fact that there is still no cure for the disease, the stigma it still carries within our communities, together with its implications to the lives of the employees, remains a challenge to the entity.

Amatola Water, collaboratively with Amathole District Municipality and Nkonkobe Municipality engaged in the zero campaigns during the World Aids Day events. These joint

events highlighted the importance of close collaboration in the fight against HIV and AIDS.

Amatola Water employees and their families continued to enjoy the support of Siyakhana Health Trust and the Department of Health for access to Voluntary Counselling and Testing (VCT) and treatment management.

The organization continued to use peer educators in each workplace to provide the much needed support pertaining to managing diseases at the workplace. Continuous Amatola Water awareness creation and education related to disease management and the workplace takes place. Amatola Water successfully managed the effects of this pandemic in relation to its human capital demand and supply to implement its organisational objectives.

Employee Relations

Amatola Water values its employees as one of the key strategic assets in pursuit of its business goals. Through legislative framework and collective agreement signed between the organisation and the South African Municipal Workers Union (SAMWU), Amatola Water demonstrated its intention of cultivating, promoting and fostering worker participation in decision making processes and sound workplace relations. The organization remained committed in implementing and promoting the Organisational Rights Agreement.

Collective Bargaining

Collective bargaining remains a key philosophy in the management of labour relations within the institution. The South African Municipal Workers Union (SAMWU) is the sole bargaining agent with membership reaching 75 percent.

Participative Management

Through the Local Labour Forum (LLF), Amatola Water continued to foster a culture of consultation and participative decision making in the organisation. The LLF remained the primary platform for consultation, information sharing and joint problem solving and proved to be successful in the past year.

The registration of the Amanzi Bargaining Council as a bargaining platform for employee rights and benefits introduced a new dimension in the collective bargaining processes within Amatola Water, as well as the sector as a whole.

Other platforms of engagement during the year included extended management committee sessions and staff information sessions, where the executive leadership visited the various workplaces to engage with employees as part of demonstrating employer commitment and boosting the morale in the workplace.



Stakeholder Management and Support

Stakeholder Relationships and Support

Amatola Water places a high value on reporting and communicating in an open and honest way with all its stakeholders. In managing stakeholder relationships, the Board approved a Stakeholder Framework along with the re-designation of the Business and Development Division to a Stakeholder Relationship Management unit within the Office of the Chief Executive Officer.

An analysis of the organisation's environment and influences was conducted and a list of stakeholders developed and coupled together into a stakeholder matrix which identifies and classifies stakeholders as follows:

Statutory stakeholders - include the legislated stakeholders that directly and indirectly affect Amatola Water operations. Statutory stakeholders are usually concerned about the organisation's governance and compliance, strategy, performance and risk.

Contracted stakeholders - include all stakeholders that make it possible for Amatola Water to deliver on its legislated mandate both internally and external.

Non-contracted - include all stakeholders who have both direct and indirect interest in the operations of Amatola Water.

Key Strategic Engagements with Major Stakeholders

Department of Water Affairs

- The utility complied to all legislative requirements in terms of the submission of its Annual Shareholders

Compact and Business Plan by required dates. Quarterly reports were also submitted to the Department of Water Affairs (DWA) timeously.

- Various interactions with the Department of Water Affairs occurred during the year, mainly focused around the Institutional Realignment and Reform project. These included inputs on principles, engagement on boundary considerations and preparation as an entity for reform. Board representatives also participated in consultation with the political leaders in the Eastern Cape Provincial Government on the subject.
- Amatola Water has been appointed to the Ntabelanga Dam / Mzimvubu River Scheme Steering committee with particular attention to the potable water supply master planning, including supply to three district municipalities in the area.
- The organisation has actively participated and contributed to all three work streams - Pricing Strategy Review, Infrastructure Funding Models, Economic Regulator - in the Pricing and Economic Regulation reforms (PERR) Project.
- Amatola Water's Interim Chief Executive Officer (CEO) participated in the Regional Bulk Infrastructure Grant (RBIG) Planning and Coordinating Committee.
- Full participation in Minister – Chairpersons Forum
- Full participation in Deputy General – CEO Forum
- Water Services Act review consultations and submissions to National Treasury

- Consultation on Amatola Water's financial turn-around and progress was undertaken.
- Participation in Board meetings and in research on rural water boards also occurred during the review period.
- Amatola Water actively participated in the Eastern Cape Provincial Water Forum.

Key Municipal Interaction

- Tariff consultations were completed timeously with Buffalo City Municipality and the Amathole District Municipality.
- Advisory services for master planning for O.R Tambo District Municipality and participation in strategic planning.
- Consultation with Ndlambe Local Municipality on short term and long –term sustainable bulk water provision for the municipality.

Water Research Commission

- Various project steering committees and cooperation of national studies were undertaken during the period.

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 organisation utilizes Service Level Agreements (SLAs) to regulate client relations when rendering services. The supply of bulk water is regulated through bulk supply agreements, while secondary services are regulated through Memorandums of Agreement.

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. The three year bulk potable water supply agreement between Amatola Water and ADM lapsed in March 2013 and has been extended until negotiations for a new contract have been completed. The bulk supply agreement with the Ndlambe Municipality is effective for a period of 20 years, until July 2030.

Memorandums of Understanding

Amatola Water has a Memorandum of Understanding with Rhodes University and has already combined on projects regarding climate change and institutional and social development in the Sundays River region. Memorandum of Understanding also exist with The Fort Hare University and Buffalo City FET College, working together to increase skills and knowledge in the water sector.

Sector Institutional Relations

Forum Interactions

Amatola Water continued to participate in various forums within the water sector at local, provincial and national government levels.

Amatola Water actively engaged at the provincial level with various government departments relating to secondary services and in particular with the Department of Water Affairs (DWA).

The local government interaction occurred on a one-on-one basis with municipalities as well as at the meetings of the Eastern Cape Water Committee and its sub-structures. The Committee co-ordinates 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.

National forum activities undertaken by the organisation 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).



Customer Satisfaction and Collaboration

National Government & Municipal Support

OR Tambo District Municipality

The financial year under review was the third and final year of the three-year support services contract that expired in June 2013. In this support agreement, Amatola Water provided support in the implementation of the turnaround strategy that was developed in 2010. In terms of the contract Amatola Water provided support in the following areas:

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

During the last seven months of the support agreement, Amatola Water managed to secure a five-year contract for the Blue Drop Management and provision of other water services. This contract involves managing the Blue Drop for the entire OR Tambo District. The contract was signed on 26 June 2013.

As part of the support contract, Amatola Water had been involved in several projects in the district which included water meter installation program, operation support, maintenance of treatment plants, assisting in blue drop activities, laboratory sampling, plant process audits, provision of Blue Drop kits, providing support during the peak season, and development of Water Safety Plans.

Amatola Water has installed inlet and outlet meters that were not installed to improve the water balancing.

The Water Safety Plans for the entire district were successfully developed and delivered to the district. The development and operationalisation of the water safety plans are integral parts of the Blue Drop assessment and they have placed the district at a good base towards the preparation for the next assessment.

The district municipality also appointed Amatola Water to take charge of the operation and maintenance of the Thornhill Water Supply Scheme, Mhlahlane, Mqanduli and Mthatha Sewage System collection network during the peak period or summer holidays of 2012/2013. The duration of the appointment was two months, for the months of December and January, and this happened in the backdrop of the long term appointment of five years.

The purpose of Amatola Water's involvement was to improve the reliability and security of water supply and quality. This also entailed the reduction of sewage spillages from the Mthatha Sewage System collection and distribution network such as pump stations. The intervention was a success as there were no major outages reported for the entire peak period.

The organisation is now on the journey to improve the overall Blue Drop score of the OR Tambo District Municipality. This journey includes the management of the five Key Performance Areas (KPA) of the Blue Drop:

- Blue drop KPA 1 – Risk Management
- Blue drop KPA 2 – Process Management
- Blue drop KPA 3 – Water Quality Compliance
- Blue drop KPA 4 – Management Accountability
- Blue drop KPA 5 – Asset Management

It is believed that the successful management of these five KPA's with relationship management between Amatola Water and ORTDM will lead to a Blue Drop award for ORTDM

Amathole District Municipality

This contract has come to its maturity looking at the sustainability and consistence of bulk water services provisioning in the Amathole District Municipality. The empirical evidence is in the consistent achievement of SANS 241:2011 compliance standards in both water quality and effluent quality.

A refurbishment and maintenance programme was undertaken within the stringent resources at both water and waste water treatment works and distribution networks.

Joe Gqabi District Municipality (JGDM)

For the duration of the contract Amatola Water provided the towns of Sterkspruit and its surroundings, Mt Fletcher and Steynsburg of JGDM with the best service possible. The testament to this level of service is how frequently Amatola Water was awarded with Blue Drop Accreditation awards for successive years in a row.

Our commitment to utilising cutting edge technology has lead to the ability to keep operating and maintenance costs low while preserving Sterkspruit fresh water resources. Due to this diligence we won the Excellence Blue Drop Award and Best Team in 2010, which was complimented with the actual Blue Drop Awards for the years of 2011 and 2012.

Our organisation's involvement in JGDM has brought the attention of the country to the rural municipality, by winning two Blue Drop Certifications; which recently had received bad publicity in the prior years for poor water quality.

The operation and maintenance contract in which Amatola Water operates and manages the Water Schemes of the Municipality expired on the 30 June 2013.

Dam Management

The Operation and Maintenance Management Agreement that Amatola Water has with the Department of Water Affairs (DWA) to manage 21 dams has translated to a number of spin offs for the utility. These include the appointment of Amatola Water as the department's project implementing agent in cases where either 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 dysfunctional infrastructure.

The two parties meet on a bi-monthly basis to facilitate the management contract and to discuss issues pertaining to normal operations and maintenance, including dam safety. The combating of Water Hyacinth on the Kubisi river system, Wriggleswade Dam and Laing Dam were some of the many interventions which were undertaken during the year, covering a total 260ha with a 90 percent success rate in fighting the invasive aquatic weed.

The following Key Performance Areas where focused on:

- Planned maintenance on the 21 dams was done according to the prescribed Operation and Maintenance Manuals;
- Quarterly dam safety inspections were done according to the department's prescribed rules;
- Combating water weeds;
- Civil repair work on canals;
- Bush clearance;
- Flood control as per the Emergency Preparedness Plans; and
- Verification of Departmental assets for the asset register.

Department of Public Works

The utility assisted the Department of Public Works (DPW) in the Eastern Cape through an Operation and Maintenance Agreement to improve service delivery to its clients. The agreement allowed Amatola Water to operate and maintain 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 services 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 nonfunctional municipal systems.

Amatola Water'S work focused on the major water and sewer treatment works, to ensure that they become Blue and Green Drop compliant as per the Department Water Affairs Regulations. Amatola Water registered all waste water works and potable water works as per DWA requirements. Operational Manuals were developed and planned maintenance ensured cost savings for the Department of Public Works.

Client Relationship Management

Client Feedback

Amatola Water participated in regular platforms to get a better understanding of how the organisation is perceived by its clients and what they regard as the most important issues for the success of the business partnership.

In this regard, the utility has, during the past year, involved itself by becoming part of its clients' Integrated Development Plans (IDPs) Stakeholder Representative Forums. This enabled the utility 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.

On a monthly basis, clients received high level project reports, geared towards updating them on the status quo of the projects. Quarterly client reports were also collated for each client, including ADM, Joe Gqabi and Ndlambe Municipality. These reports identified key issues and challenges, as well as initiatives to address those challenges.

Complaints Handling Process

The customer complaints handling process continued during the year, with client complaints addressed in a timely manner by the relevant personnel within Amatola Water.

Client Engagement Structures

Client engagement structures are both formal and informal forums whereby operational and strategic issues are discussed and action items are derived. This is another way that the utility has continuously improved the relationship with its clients during the reporting period.



Community and Environmental Sustainability

Environmental Services

Environmental management is complex and challenging, merging concepts of sustainability, triple bottom lines, corporate governance and corporate social and environmental investment. With increasing pressure on environmental resources, there exists a challenge to integrating social, economic and environmental factors in to planning, implementing and decision-making so that resource development and use is able to serve both current and future generations sustainably. The annual strategic review and the development of organisational 20-year goals and 5-year objectives provided an ideal opportunity to assess and review environmental sustainability issues for the organisation.

Several key environmental challenges have been identified for Amatola Water: these have relevance both as a consequence of Amatola Water activity but may also have a consequence to Amatola Water activity. Broadly, these are Amatola Water's environmental footprint, environmental compliance, monitoring and auditing, integrated environmental management, technological challenges, climate change uncertainty and organizational environmental awareness.

Over the past year, several initiatives have contributed to addressing facets of these key challenges. Participation in WRC funded projects with Rhodes University (through the Institute for Water Research) 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 in meeting supply assurance (both quantity and quality). 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 authorization applications could be submitted to relevant provincial and national authorities thus preventing project delays due to authorizations 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: beaches, riverine forests, rivers, wetlands and estuaries. A study was undertaken to assess and determine the environmental water requirements for the Great Fish Estuary, considered a key ecologically sensitive and important estuary in the Eastern Cape. The KSD PI has similar environmental authorization challenges, but considers both aspects of water services delivery, namely water supply and sanitation.

Research & Development

Continued service to the Water Research Commission through participating in reference groups and reviewing research proposals and conference abstracts creates the opportunity to remain informed of water sector research and technology development, and contributed to Amatola Water's involvement in professional networking.

On-going participation in provincial forums such as the Environmental Quality Management Forum and the Renewable Energy and Energy Efficiency Forum, has enabled that Amatola Water to remain abreast of relevant local environmental legislation and relevant information pertaining to environmental management. These varied

environmental inputs contributed to ensuring environmental monitoring and compliance within an integrated environmental management framework.

Community Sustainability

As a rural water board Amatola Water realizes it has an important role to play in improving rural livelihoods and increasing community sustainability. Water is central to community development not only as a basic human right, but in supporting health and economic development. Construction of water infrastructure creates employment and stimulates the local economies. The principle of contributing to the quality of rural livelihoods is incorporated wherever possible into the business of Amatola Water. During the review period, three main initiatives stood out in terms of the utility's contribution in this area as detailed below:

Improved Standards

Looking forward at the a 20 year planning cycle, the National Development Plan and Growth strategy, as well as the socioeconomic issues relating to water in rural areas within the water board's gazette area, the organisation believes that it needs to increase its design standards to ensure the decent desired standard of living in the region. As part of Amatola Water contribution to a decent standard of living for all South Africans, it has adopted the design standard of approximately 750 litres per household per day on all infrastructure projects to align with the intent of the National Development Plan.

This design standard based on 750 litres a day per household in rural areas, is significantly higher than the minimum standard of the Rural Development Programme (RDP) 25 litres per person per day. The improved standard as implemented will allow for greater social and economic development and assist in the country in addressing inequalities. On the ground this translates to home connections, the ability for watering of a small garden and the ability to have a shower like citizens in a town or city. Amatola Water will continue to advocate this design standard in various platforms for a broader adoption and continued development of communities.

Upgrading Works in Amathole District Municipality

In applying its position on improved standards, the utility has begun an intervention in the Ngqushwa, Nkonkobe and Amahlathi Municipalities located within the Amathole District Municipality to upgrade its bulk water supply. These areas are economically depressed and currently mainly receiving the minimum standard of water of 25 litres per person per day. Amatola Water plants supplying this area and critical distribution networks will, in the coming year, be upgraded to 750 litres per household per day to improve quality of life. This improved quality of life will allow be for improved household health and economic opportunities as directly linked to the improved level of water supply.

This initiative is planned to effect this improvement in quality of life to 47 142 households within the region. About 4057 households in this area which currently have no access to services, will as part of the initiative, have access to water services for the first time.

It is important that providing this improvement in quality of life is done a sustainable, economically viable and affordable manner. To assist with this the Department of Water Affairs has made Regional Bulk Infrastructure Grant (RBIG) funding available to support this project.

This combined with the improved economies of scales is estimated to result in a 48 percent reduction in real terms in tariff per kℓ from Amatola Water.

Implementing Agency and Advisory Service in Oliver Tambo District Municipality (ORTDM)

Amatola Water is the Project Implementing Agent for a variety of water projects in ORTDM. As part of its advisory services, Amatola Water has based design anchoring the water supply on the existing Mthatha Dam (which is the largest dam in the Eastern Cape and has an existing licensed allocation of 150 mega litres to OR Tambo District Municipality) and is currently under-utilised. This approach will have many benefits. Designed at the 750 litres per household per day standard, the projects will enable the ORTDM to make a significant improvement in the communities lives as follows:

- 999 villages will be supplied and the higher standard who currently have no formal services at all.
- 1057 villages to be supplied who currently have some level of service but not consistently at RDP standards.
- 85 villages which currently have services at the minimum standard that will be further improved.

Social Contribution

The well-being of our communities is very important to Amatola Water. The prosperity of our business is closely aligned to the health and well-being of the communities in which we work. We recognise that our investment in communities will bring benefits in terms of our reputation, the commitment and advocacy of our employees, and the loyalty of our clients.

The provision of safe and reliable supply of water is Amatola Water's principal and most effective avenue of corporate social investment. This stance is founded on the understanding that an improvement in water services provision is a vital enabler of broader local, regional and national socio-economic development and advancement. In this regard, we continued to channel our social contribution efforts into areas where we could deploy our internal resources effectively to secure maximum social benefit.

Our commitment to supporting the communities in our area of operation has led to partnerships with all challenges has led to partnerships with both local and national government in order to advance services delivery imperatives.

Rainwater Harvesting-Eastern Cape

Amatola Water has continued to support the Department of Water Affairs Rainwater Harvesting Programme over the past year. 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.

The Rain Water Harvesting Programme benefited 250 households in the 6 district municipalities in the Eastern Cape Province. Emerging Contractors and Local labour were used to implement the facilities to develop, skill transfer and temporarily employment. The budgeted cost of the programme was R 2.35 million and construction is due for completion in August 2013.

Skills Transfer

Joe Gqabi District Municipality

Amatola Water concluded a historic transfer of 21 employees to the Joe Gqabi District Municipality. The transfer reflected the noble objectives of water provision for the benefit of all South Africans, but most importantly in the most rural areas of the province.

The transfer follows a three-year Operations and Maintenance Contract between Joe Gqabi District Municipality and Amatola Water.

At the time when Amatola Water took over the management contract, there was a lot of negative publicity about the water provision to the area. Since then there has been remarkable improvement of water provision in the area with the municipality having been awarded back to back Blue Drop Certificates by the Department of Water Affairs in 2011 and 2012.

At the end of the contract in June 2013, Amatola Water transferred of 21 of its employees together with infrastructure and vehicles as a going concern to the Joe Gqabi Municipality in a bid to empower the municipality both through skills and resources as well as to ensure sustainability of the water services standards.

This transfer ensured that there were no disruptions to water provision for the communities, no job losses as well as the continuation of support to the client. The agreement was realized in July 2013.

Shixini Adopt-a-River Programme

Twenty-nine unemployed youth from rural areas in Phase one of the Shixini Project were trained in Water and Waste Water treatment. The 29 unemployed youth was made up of 19

black females and 10 black males. All the learners that were certified competent and graduated from the programme were classified as Class I and II Plant Operators respectively. All these learners have since been employed by various municipalities and at Amatola Water.

In Phase 2, of the Shixini Project in Water and Waste Water treatment, 20 learners were recruited. Out of the 20 youth, 17 are black females and 3 black males. The objective of the learnership programme is to build capacity and create a pool of employees from which recruitment is made within the scarce skill category.

Education & Outreach

National Water Week

Amatola Water in partnership with Mquma Local Municipality in Butterworth hosted the 2013 National Water Week Celebrations on 19 & 20 March 2013.

The two-day water awareness campaign included the fixing of taps and water leaks at the former Butterworth Teachers Training College, as well as a workshop for local schools, targeting Grade 9, 10, 11 and 12 learners from the Junior Secondary and High Schools in Butterworth.

The campaign emphasized the importance of water conservation as one of the major interventions in preserving the environment and the country's water resources.

Around 300 learners from 16 schools in and around Butterworth were in attendance.

School Tour Programme

During the financial year, Amatola Water continued to host various groups from Universities, Further Education and Training (FET) Colleges, High and Primary Schools within the Eastern Cape at its various water treatment plants for guided tours. The educational tours took place at Nahoon Dam, Butterworth Water Treatment Works (WTW), Wriggleswade Dam, Binfield, Kotana WTW at Ngqamakhwe and Sterkspruit WTW.

A poster with all the steps in purifying water at the water treatment works was distributed at various platforms such as school tours, exhibitions and other events where learners, students and unemployed youth were hosted.

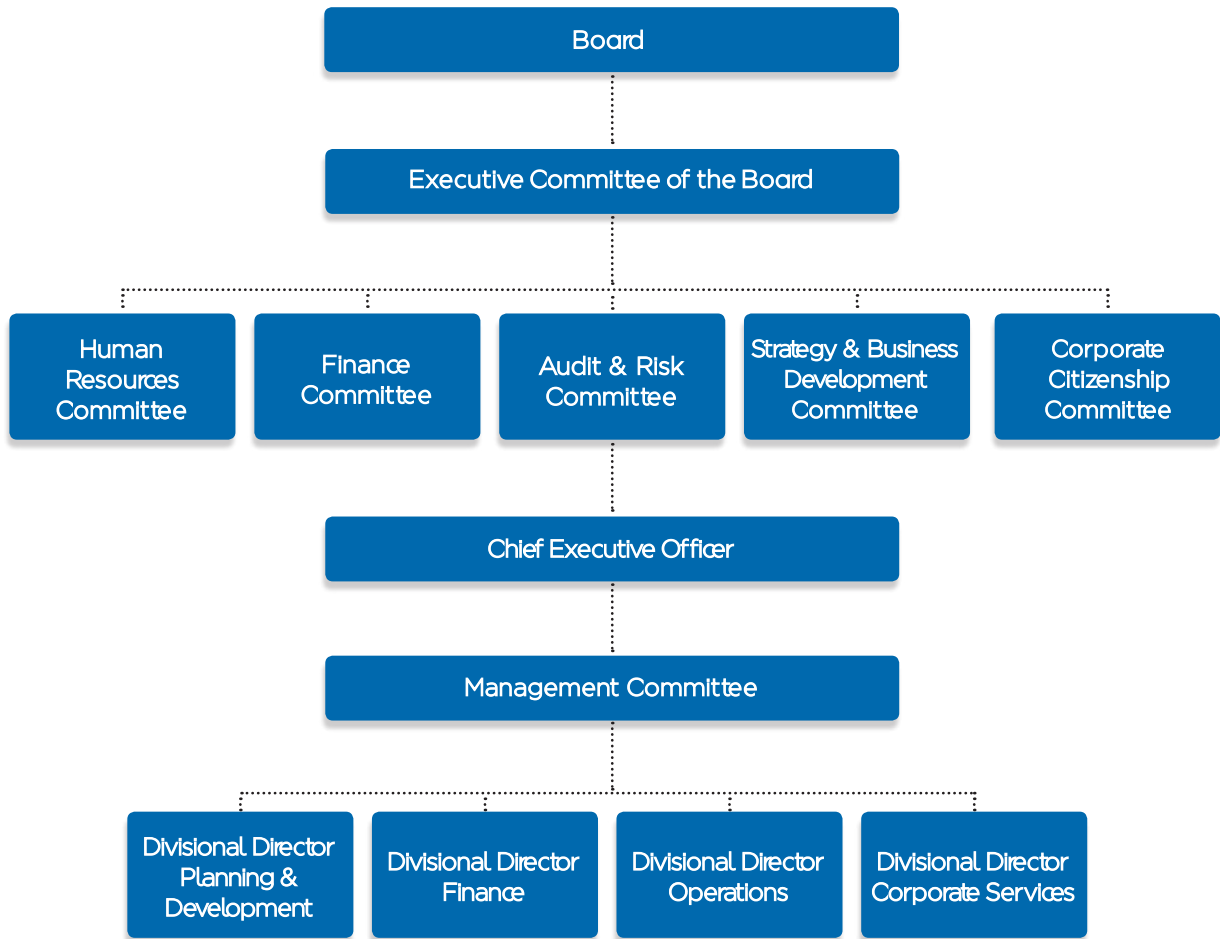
325 learners and 42 Students visited the water treatment works during the year under review.

With Amatola Water's outstanding educational support and exceptional presentations during these tours, schools and institutions have continued to exceptionally praise the organisation.

Governance



Amatola Water Governance Structure



The Board of Amatola Water

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).

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 who is a permanent attendee, 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.

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:

- Adoption of strategic plan;
- Ensuring efficiency and effectiveness of operations, optimum utilisation of resources, legal compliance, safeguarding of assets and the existence of sound and effective internal controls;
- Review and approval of business plans, budgets, major contracts and commitments;
- Accountability for the process of risk management;
- Monitoring 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 and a performance management system is utilised with individual Board members being assessed using the Department of Water Affairs' performance Management Toolkit.

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 Executive Committee of the Board (EXCO).

Prof Lynette Louw 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 and member of EXCO and Finance Committees.

Mxolisi Koyo Member

Clr 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 qualifications in the field of local government.

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

Sakhumzi Somyo Member

Clr Somyo was the 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.

Nombulelo Hackula Member

Ms Hackula boasts wide experience in the areas of strategy, supply chain management and change management from private and public sectors. Her working experience includes a stint as a Purchasing Manager for Daimler South Africa, and a 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, US. 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.

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.

Simphiwe Dzungwa Member

Mr Dzungwa, 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 renowned 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.

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 has been employed as a Human Resources Manager for Transnet Port Terminals in East London. She is currently the National Employee Wellness Manager for Transnet National Ports Authority in their Head Office in Parktown.

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

Sizakele Ngwekazi Member

Chief Ngwekazi is the head of Amabhele Traditional Community in Peddie. He is also a member of Nompumelelo Hospital Board. He is a teacher by profession with a Bachelor of Arts degree in Education. He has certificates of management in tourism and sport. He is deputy secretary of the Congress of Traditional Leaders in the Eastern Cape. He is also involved in the Rural Development Forum in the Rharhabe Kingdom. He is currently a member of Provincial House of Traditional Leaders, in the Eastern Cape.

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

Mhleli Matika Member

Mr Matika is currently 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.

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 Cooperation as Technical Advisor and has previously worked for the British Council 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 Strategy & Business Development Committees.

Lionel Billings Member

Mr Billings has worked for companies such as Volkswagen SA, Telkom SA, and the Coega Development Corporation. He is currently employed by Business Partners as the Head National Consulting Services and initially occupied the office of Chief Operating Officer for the Eastern Cape Division. At the Coega Development Corporation he was responsible for international investment promotion and business development as manager in the Metals Unit.

His qualifications include BComm Acc, BComm Acc (Hons), and he qualified as a chartered accountant with the South African Institute of Chartered Accountants (SAICA) after serving articles with KPMG. He is a member of South African Institute of Chartered Accountants 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.

Mzimkulu Msiwa Interim CEO

Mr Msiwa is the interim Chief Executive of Amatola Water and a permanent attendant of Board meetings. He is a professional Engineer holding among other qualifications a Masters Degree in Business Leadership from Unisa and BSc Civil Engineering (Natal University). He is a former Chief Executive of Umgeni and has worked for various organisations including Nelson Mandela Metro (Port Elizabeth Municipality then). He specialises in the development and implementation of the Turn Around Strategies in the Water Sector. He is currently retired and holds the position of Interim CEO at Amatola Water.

Board Committees

Executive Committee

Composition

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 of Amatola Water.

Function

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.

The committee meets quarterly before all Board meetings.

Audit & Risk Committee

Composition

Two non-executive members of the Board of Amatola Water and two independent members appointed outside of Amatola Water.

Function

The Audit Committee is responsible for overseeing internal control, financial reporting, risk and compliance with regulatory matters. It reviews:

- The adequacy of internal controls and risk management systems;
- The Annual Financial Statements;
- Other information in the Annual Report for consistence with the financial statements;
- Audit findings;
- The process of preparing financial information;
- The process of monitoring compliance with laws and regulations;
- The process of monitoring compliance with the internal Code of Conduct;
- The fraud prevention strategy;
- Whether the procedure adopted by management to assess the risks is satisfactory;
- Management's plan to mitigate identified risks; and
- Risk exposures and tolerances and recommendations to the board.

The committee meets at least three times annually.

Corporate Citizenship Committee

Composition

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

Function

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.

The committee meets quarterly.

Strategy & Business Development Committee

Composition

Four non-executive Board members; the Chief Executive Officer and the Director of Strategy and Business Development. Members of the Management Committee attend on invitation.

Function

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.

The committee meets quarterly.

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 provision of leadership 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;

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 the Chief Executive and four Divisional Directors. The core responsibilities of the Management Committee are the implementation of the Strategy of the Board and the development and implementation of policies and 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.

Mzimkulu Msiwa Interim Chief Executive Officer

Mr Msiwa is the interim Chief Executive of Amatola Water and a permanent attendant of Board meetings. He is a professional Engineer holding among other qualifications a Masters Degree in Business Leadership from Unisa and BSc Civil Engineering (Natal University). He is a former Chief Executive of Umgeni and has worked for various organisations including Nelson Mandela Metro (Port Elizabeth Municipality then). He specialises in the development and implementation of the Turn Around Strategies in the Water Sector. He is currently retired and holds the position of Interim CEO at Amatola Water.

Xola Bomela Director of Operations

Mr Bomela is the Director of Operations, responsible for operations, engineering, maintenance and physical asset management support. 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.

Jabulani Dlamuka Director of Finance

Mr Dlamuka is a CA (SA) holding a Bachelor of Commerce Honours in Accounting from University of KwaZulu Natal. He has extensive experience in the accounting and related fields and has worked for amongst other institutions Transnet, Umgeni Water and EThekweni Municipality.

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 (Up to 31 March 2013)

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.

Nolitha Klu Acting Director of Corporate Services (1 April to 30 June 2013)

Ms Klu has more than eight years of managerial experience in Human Resource Management and Development in both the private and public sectors and a lecturer in the same field at institutions of higher learning Rhodes, Fort Hare and WSU universities. She has post graduate qualifications in Human Resources Management and Human Resources Development, Honours in Industrial Psychology, Btech in HRD, Post Graduate Diploma in Management Studies and Senior Management Development programme (SMDP).

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 and

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 and that can be found in the Annual Report on page 59.

Risk Management

The Board of Amatola Water ensures that processes have been implemented to identify and manage business risk and that the organisation maintains adequate accounting records. Risk management encompasses all significant business risks: strategic and 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:

- Proactive mitigation of business risks that negatively affect the organization ability to implement its strategy successfully;
- Safeguarding of assets and reduction of risk of losses through error, fraud or other irregularities; and
- Ensuring the accuracy and completeness of accounting records and timeously prepared complaint financial statements.

Amatola Water is in the process of developing and moving towards a new Enterprise-wide Integrated Risk Management approach which will be fully implemented in the new financial year.

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

Social and Transformation Issues

The interests of Amatola Water is interpreted within the parameters of an organisation which strives to sustain itself as an organ of state and as a responsible corporate citizen. This approach gives effect to the notion of redefining success in terms of lasting positive effects of all stakeholders.

Social responsibility initiatives such as learnership programmes and graduate placements are part of the institution's projects which are meant to demonstrate Amatola Water's commitment to the principle of corporate citizenship

The provision of sufficient and safe supply of water to, current and future, customer communities ranks also amongst Amatola Water's principal and most effective avenue of corporate

social investment. This stance is founded on the understanding that, an improvement in water services provision is a vital enabler of broader local, regional and national socio-economic development and advancement

The prime intent of the organisation is to pursue delivery and expansion of viable and sustainable water supply services. Such achievement is believed to best demonstrate Amatola Water's social responsibility, both as a customer-centred service organisation and as an organ of state.

Guided by the above, Amatola Water seeks, by all practical means, to contribute positively to the well-being of the society and communities in which it operates and areas where it can deploy its internal resources and facilities effectively by collaborating together with community stakeholders in securing maximum social benefit.

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.

Employment Equity

Recognising the benefits that a diverse workforce can offer, the organisation continued to subscribe to the principles of employment equity and sustained the implementation of our five-year Employment Equity Plan (2009-2014), which guides the organisation's human resource practices in promoting employment equity, the recruitment and development of employees from designated groups and the advancement of gender representation.

The organisation has not changed in the top and senior management occupational levels under the male category, whilst targets have been exceeded in the other occupational levels within this category. In the female category, there has been a regression in the top, senior, middle management and the semi-and unskilled occupational levels. Targets were only met at skilled technical/ junior management occupational level.

Code of Ethics

AW has an internal Code of Ethics for its employees, requiring 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

The Board is satisfied that Amatola Water has adequate resources to remain operational for the foreseeable future. For this reason, Amatola Water continues to adopt the 'going concern' basis in preparing its accounts. The independent auditors concur with this basis.

Table 1:
Non Executive Board Member's Emoluments for year ended 30 June 2013

Name	Board meetings	Travel and other reimbursements	2013 Totals	2012 Totals
	R	R	R	R
NR Mlonzi - Chairperson	45 104.84	0.00	45 104.84	56 825.69
L Louw	48 549.22	1 045.36	49 594.58	56 749.83
M Koyo	46 224.01	0.00	46 224.01	32 642.37
S Somyo	43 076.14	0.00	43 076.14	21 488.90
M Matika	53 024.84	5 168.40	58 193.24	51 816.86
S Ngwekazi	33 125.94	6 841.57	39 967.51	38 732.88
N Hackula	28 135.47	661.09	28 796.56	25 268.80
N Rulumeni	43 996.57	0.00	43 996.57	32 302.87
Z Ramncwana	34 592.06	390.00	34 982.06	15 091.75
S Dzengwa	54 057.86	0.00	54 057.86	35 352.90
KC Ncamiso	37 413.29	9 898.80	47 312.09	17 735.26
L Billings	14 126.52	3 562.40	17 688.92	10 754.58
Audit Committe				
K Mockler	55 558.58	15 532.00	71 090.58	42 913.00
N Meinie - Anderson	4 602.15	0.00	4 602.15	9 473.00
Total	541 587.49	43 099.62	584 687.11	447 148.69

Table 2:
Executive Management Cost for the year ended 30 June 2013

Name	Cash Component	Acting Allowance + Vehicle Allowance Package+ Subsistence & Travel Package	Basic Adjustment	Long Service Awards	Unpaid Leave	Family Cover, Disability, Group Life, Pension	Performance Bonus	Basic Backpay	AW Pension Package	Medical Package	2013 Total	2012 Total
	R	R	R	R	R	R	R	R	R	R	R	R
Mr M. Msiwa: Interim CEO	1 784 190.96	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1 784 190.96	0.00
J Dlamuka - Divisional Director: Finance	820 523.12	240 000.00	0.00	0.00	0.00	162 666.53	0.00	28 481.57	49 045.26	13 339.60	1 314 056.08	843 271.37
C Thompson - Divisional Director: P & D	1 169 606.01	144 000.00	0.00	0.00	-17 704.90	54 347.75	0.00	33 876.92	0.00	41 492.00	1 425 617.78	1 620 802.48
M Gogwana - Divisional Director: Corporate Services	609 729.12	49 500.00	0.00	0.00	0.00	117 268.46	0.00	25 859.30	41 407.23	34 728.00	878 492.11	1 191 326.24
X Bomela- Divisional Director: Operations	1 160 092.43	194 280.00	0.00	0.00	-9 738.16	56 001.58	0.00	34 911.56	0.00	62 256.00	1 497 803.41	1 642 525.88
C Step - Divisional Director: Finance												843 271.37
Ms N Gwabeni (Mnukwa): CEO												2 089 119.96
L. Tebbutt- Divisional Director: Finance (Acting)												435 389.42
Total	5 544 141.64	627 780.00	0.00	0.00	27 443.06	390 284.32	0.00	123 129.35	90 452.49	151 815.60	6 900 160.34	7 822 435.35

Table 3:
Amatola Water Board and Committee Members attendance - 01 July 2012 to 30 June 2013

Designation	Name	Board (4 Meetings) (1 Special)	Executive Board (2 Meetings)	Audit Committee (3 Meetings)	Finance Committee (3 Meetings) (1 Special)	Corporate Citizenship Committee (4 Meetings)	Human Resources Committee (3 Meetings)	Strategy & Business Development (4 Meetings)
Chairperson (Non - Executive Director)	NR Mlonzi	4 of 5	2 of 2	-	-	-	-	-
Member (Non Executive Director)	S Dzengwa	5 of 5	-	-	4 of 4	-	-	4 of 4
Member (Non Executive Director)	N Hackula	3 of 5	1 of 2	-	4 of 4	4 of 4	-	-
Member (Non Executive Director)	M Koyo	3 of 5	1 of 2	-	3 of 4	4 of 4	-	-
Member (Non Executive Director)	L Louw	5 of 5	2 of 2	-	2 of 4	-	-	4 of 4
Member (Non Executive Director)	M Matika	5 of 5	2 of 2	-	-	-	3 of 3	3 of 4
Member (Non Executive Director)	KC Ncamiso	5 of 5	-	-	-	-	3 of 3	-
Member (Non Executive Director)	S Ngwekazi	4 of 5	-	-	-	4 of 4	3 of 3	-
Member (Non Executive Director)	Z Ramncwana	5 of 5	-	-	-	-	2 of 3	-
Member (Non Executive Director)	N Rulumeni	5 of 5	-	3 of 3	-	-	-	4 of 4
Member (Non Executive Director)	S Somyo	5 of 5	-	3 of 3	-	-	-	-
Member (Non Executive Director)	L Billings	2 of 5	-	-	3 of 4	-	-	-
Permanent Attendee (Interim CEO)	M Msiwa	4 of 5	2 of 2	3 of 3	2 of 4	2 of 4	1 of 3	3 of 4
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	0 of 1	-	1 of 3	-	-	-	-

G3 Profile Disclosures

G3 Profile Disclosures	Profiles	Annual Report Page Reference
1	Strategy and analysis	
1.1	Statement from the most senior decision-maker of the organisation.	Chairman's Report Page
2	Organisation Profile	
2.1	Name of the organisation.	Service Offerings page or www.amatolawater.co.za
	Operational structure of the organisation	Corporate Governance page 46 to page
2.2	Primary brands, products, and/or services.	Service Offerings page or www.amatolawater.co.za
	Countries in which the organisation's operations are located	Corporate Governance page
	Nature of ownership	Corporate Governance page
2.3	Operational structure of the organisation	Corporate Governance page 46 to page
2.4	Location of the organisation's headquarters	Back cover or www.amatolawater.co.za
	Awards received in the reporting period	Three Blue Drop Awards and one Excellence Award page OHSAS 18001:2007 page
2.5	Countries in which the organisation's operations are located	Corporate Governance page
2.6	Nature of ownership	Corporate Governance page
2.7	Markets served	Operational Map page 2, Review of Operations page 14 to page
2.8	Scale of the reporting organisation	Historical Statistical Overview page 92 to
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
3	Report parameters	
3.1	Reporting period for information provided	Approval of the Financial Statements page
3.2	Date of most recent previous report	30 September 2011
3.3	Reporting cycle	Approval of the Financial Statements page
3.4	Contact point for questions about the report or its contents	Back cover or www.amatolawater.co.za
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 www.amatolawater.co.za

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
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
4	Governance, commitments and engagement	
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
4.2	Indicate whether the chair of the highest governance body is also an executive officer	Corporate Governance page
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
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	Review of Operations page
4.14	List of stakeholder groups engaged by the organisation	Page 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

G3 Performance Indicators

Report on performance indicators (minimum of 10 performance indicators, including at least one from each of; social, economic and environment)

As per table below

Indicator Reference	Indicator Description	Page No.	Amatola Water summary disclosure	Fully Disclosed
Economic Performance Indicators				
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		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		Amatola Water operates a defined contribution plan	Yes
EC4	(Core Indicator) Significant financial assistance received from government		No assistance received from Government. All transactions are of a related party nature.	Yes
Environmental Performance Indicators				
EN 4	(Core Indicator) Indirect energy consumption by primary energy source		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		Energy consumption increased by 4.78% on actual electricity used from 0.82 to 0.86 kWh/m ³ . This increase is far lower than the actual Eskom tariff increase of 16%.	Yes
EN 8	(Core Indicator) Total water withdrawal by source		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
Labour Practices and Decent Work Performance Indicators				
LA 1	(Core Indicator) Total workforce by employment type, employment contract and region		The following is disclosed in the report: - Permanent employees 374 - Non-permanent 50 - 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		A breakdown of permanent staff according to race and gender is disclosed	Partial
LA 4	(Core Indicator) Percentage of employees covered by collective bargaining agreements		Amatola Water is 75% unionised	Yes
LA 7	(Core Indicator) Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by region		The following is disclosed in the report: - Disabling incident frequency rate 0.44% - Absenteeism 0.28% 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			Partial
LA 12	(Additional Indicator) Percentage of employees receiving regular performance and career development reviews		Annual performance assessment reviews	Partial
Human Rights Performance Indicators				
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		Amatola Water is 75% 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
Society Performance Indicators				
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

Accounting Basis
Report of Audit Committee
Approval of Financial Statements
Report of the Independent Auditors

Financial Statements

Statement of Financial Position
Statement of Comprehensive Income
Statement of Changes in Equity
Statement of Cash Flows
Notes to the Financial Statements

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 2013.

The financial statements have been compiled and are presented in accordance with South African Statements of Generally Accepted Accounting Practice and complies with 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). At the date of authorisation of these financial statements, the Accounting Standards Board (ASB) had revoked SA GAAP effective for years ending 1 December 2012. The ASB has indicated that Government Business Enterprises (GBE) should continue applying the accounting frameworks that were applicable prior to 1 December 2012 until a new framework has been issued. As such, there are no new standards of SA GAAP that will become effective for Amatola Water.

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.

APPROVAL OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2013

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 2013, 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 pagesto

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 27 September 2013 and are signed on its behalf by

Nothemba Mlonzi - Chairperson

Mzimkulu Msiwa - Chief Executive

INDEPENDENT AUDITOR'S REPORT

to Parliament and the Executive Authority, the Minister of the Department of Water Affairs on Amatola Water Board

Report on the Financial Statements

We have audited the financial statements of the Amatola Water Board as set out on pages 70 to 90 , which comprise the statement of financial position as at 30 June 2013, the statements of comprehensive income, statement of changes in equity and 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 board of directors which constitutes 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 (PFMA) of South Africa, 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 audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Amatola Water Board as at 30 June 2013, 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.

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 Review as set out on pages x to y 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 following material objectives were selected:

- Financial
- Customer

There were no material findings on the Performance Review concerning the usefulness and reliability of the information.

Additional matter

Although no material findings concerning the reliability of the performance information were identified in the Performance Review, we drew attention to the following matter in our report to the accounting authority:

Achievement of planned targets

Of the total number of 43 targets planned for the year, 15 of the targets were not achieved during the year. This represents 35 percent of total planned targets that were not achieved during the year under review.

This was mainly due to underspending of the budget relevant to the Learning and growth objective.

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:

Expenditure management

The accounting authority did not take effective steps to prevent irregular expenditure, as required by section 51(1)(b) (ii) of the PFMA. This irregular expenditure occurred due to goods and services being contracted for without following the procurement process.

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

Quotations were awarded to suppliers whose tax matters had not been declared by the South African Revenue Services to be in order as required by Treasury Regulations 16A9.1(d) and the Preferential Procurement Regulations.

Liability Management

Money was borrowed without authorisation by notice in the National Government Gazette by the Minister of Finance and approval by the accounting authority, subject to the conditions imposed by the Minister of Finance, in contravention of section 66(3)(b) of the PFMA.

Auditing Profession Act

In accordance with our responsibilities in terms of sections 44(2) and 44(3) of the Auditing Profession Act, we report that we have identified certain unlawful acts or omissions committed by persons responsible for the management of Amatola Water which constitute reportable irregularities in terms of the Auditing Profession Act, and have reported such matters to the Independent Regulatory Board for Auditors. The matters pertaining to the reportable irregularities have been described in Note 24 to the annual financial statements.

Internal control

We considered internal control relevant to our audit of the financial statements, performance review 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 that resulted in the opinion, the findings on the performance review and the findings on compliance with laws and regulations included in this Report.

Financial and performance management

The entity's financial and performance management systems are not appropriately designed to identify material misstatements relating to revenue, accrued income and payments received in advance. Policies and procedures that enable and support the review and monitoring of compliance with procurement regulations were not always followed by line managers in the field. As a result of the ineffective controls in those cases, irregular expenditure were incurred and not prevented or detected timeously.

Agreed-upon procedures engagements

An engagement was performed in accordance with International Standards on Related Services 4400, Engagements to Perform Agreed-upon Procedures Regarding Financial Information. The procedures performed were to assist management in ensuring that the completed Public Entity Consolidation Template submitted to the Office of the Accountant General, National Treasury have been completed in accordance with the instructions issued by the Office of the Accountant General, National Treasury and is accurate in accordance with the financial records for the period ended 31 March 2013.

KPMG Inc.
Registered Auditor

Per Marileen de Wet
Chartered Accountant (SA)
Registered Auditor
Director
7 October 2013

KPMG Terraces
Corner of Stewart and Quartzite Drives
Selborne
East London
5214

STATEMENT OF FINANCIAL POSITION

for the year ended 30 June 2013

	NOTES	2013 R'000	2012 R'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	292 525	297 881
Total non-current assets		292 525	297 881
Current assets			
Inventories	6	1 585	1 607
Trade and other receivables	7	285 221	131 074
Cash and cash equivalents	8	106 402	54 764
Total current assets		393 208	187 445
TOTAL ASSETS		685 733	485 326
EQUITY AND LIABILITIES			
Capital and reserves			
Capital contribution		274 557	274 557
Accumulated Surplus / (Deficit)		20 045	(5 038)
Total capital and reserves		294 602	269 519
Non-current liabilities			
Long term borrowings	9	10 740	982
Total non-current liabilities		10 740	982
Current liabilities			
Trade and other payables	10	353 950	213 960
Current portion of long term borrowings	9	26 441	865
Total current liabilities		380 391	214 825
TOTAL EQUITY AND LIABILITIES		685 733	485 326

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2013

			2013 Kilolitres KL 000	2012 Kilolitres KL 000
VOLUME		NOTES		
Treated Water Volume Sold			31 723	30 835
Raw Water Volume Sold			7 842	8 168
			R000	R000
	REVENUE	2	352 521	351 302
	Cost of sales	3	(247 098)	(255 970)
Gross Profit			105 423	95 332
	Operating and administrative expenses	3	(83 583)	(107 648)
Net operating surplus / (deficit)			21 840	(12 316)
	Finance income	4	7 195	8 952
	Finance cost		(3 952)	(4 573)
Surplus / (deficit) for the year			25 083	(7 937)
Surplus / (deficit) for the year			25 083	(7 937)
Other comprehensive income			-	-
Total other comprehensive surplus / (deficit)			25 083	(7 937)

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2013

	NOTES	Capital contribution R000	Accumulated Surplus / (deficit) R000	Total R000
Balance at 1 July 2011		274 557	2 899	277 456
Deficit for the year		-	(7 937)	(7 937)
Balance at 30 June 2012		274 557	(5 038)	269 519
Surplus for the year		-	25 083	25 083
Balance at 30 June 2013		274 557	20 045	294 602

STATEMENT OF CASH FLOWS

for the year ended 30 June 2013

	Notes	2013 R000	2012 R000
CASH FLOWS GENERATED FROM OPERATING ACTIVITIES		59 847	22 362
Cash receipts from consumers		226 147	442 479
Cash paid to suppliers and employees		(171 443)	(424 496)
Cash generated by operations	13	54 704	17 983
Interest income		7 195	8 952
Interest expense		(3 952)	(4 573)
CASH UTILISED IN INVESTING ACTIVITIES		(7 328)	(523)
Additions to property, plant & equipment		(7 328)	(556)
Proceeds on sale of property, plant & equipment		-	33
CASH UTILISED IN FINANCING ACTIVITIES		(1 091)	(2 829)
Proceeds from long-term borrowings		1 946	-
Repayment of interest-bearing borrowings		(927)	(2 829)
CASH AND CASH EQUIVALENTS FOR THE PERIOD			
Net increase for the year		51 638	19 010
At the beginning of the year		54 764	35 754
At end of year	8	106 402	54 764

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2013

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 entity; 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
Pump stations	
Building and civil works	35 yrs
Electrical	15 yrs
Mechanical	20 yrs

Property, Plant and Equipment Depreciation Table

Water treatment works

Building and civil works	50 yrs
Electrical	15 yrs
Mechanical	20 yrs

Other equipment

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 in the accounting records of Amatola Water on the Agency basis for implementing agents contracts and on the stage of completion basis for projects conducted on the principal basis.

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:

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 and annual 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.

Standards in issue not yet effective

At date of authorisation of these financial statements, the Accounting Standards Board (ASB) had revoked SA GAAP effective for years ending 1 December 2012.

The ASB has indicated that Government Business Enterprises (GBE) should continue applying the accounting frameworks that were applicable prior to 1 December 2012 until a new framework has been issued. As such, there are no new standards of SA GAAP that will become effective for Amatola Water.

2. REVENUE

	2013 R000	2012 R000
Revenue comprises:		
Raw water sales	11 192	10 810
Treated water sales	183 864	161 930
Management Fees (Sec 30)	157 465	178 562
	<u>352 521</u>	<u>351 302</u>

3. COST OF SALES AND OPERATING EXPENSES

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

	2013 R000	2012 R000
Auditors' remuneration and other material expenses:		
External audit fee - current	580	519
External audit fee - Under recovery from prior year and other audit services	432	54
Internal audit fee	485	125
Bad debts provision	5 411	459
Consultancy fees	2 561	6 290
Cost of sales - Primary Business		
Raw water purchases	56 665	52 569
Water research levies	1 828	1 764
Electricity	26 133	21 897
Chemicals	10 418	10 357
Employee benefit costs	48 964	50 309
Depreciation and impairment	12 474	15 999
	<u>156 482</u>	<u>152 895</u>
Cost of sales - Secondary Business		
Chemicals	6 797	8 021
Employee benefit costs	41 948	31 710
Repairs & maintenance	24 957	48,209
Diesel	1 307	1 398
Project costs	15 607	13 737
	<u>90 616</u>	<u>103 075</u>

	2013 R000	2012 R000
Depreciation and impairment	207	9 577
Employee benefit costs relating to support services	31 689	37 735
Non-executive board member emoluments (i)		
Board member fees	542	399
Travel disbursements	43	48
Executive management emoluments (ii)	6 904	7 822
Other general expenses	12 100	-
Operating lease payments	9 311	10 617
Repairs and maintenance	9 878	13 014
Technical service fees	3 437	545
Loss / (Profit) on disposal of property, plant & equipment	1	(35)

(i) Refer to the non-executive board member emoluments table on page ??? in the annual report.

(ii) Refer to the executive management emoluments table on page ??? in the annual report.

4. FINANCE INCOME

	2013 R000	2012 R000
Income from Financial Asset	3 881	1 058
Unearned Interest Income relating to Trade and other receivables	3 314	7 894
	<u>7 195</u>	<u>8 952</u>

5. PROPERTY, PLANT AND EQUIPMENT

	Immovable assets	Movable assets	Capital work in progress	Total 2013
2013				
Cost				
At beginning of year	400 647	49 064	9 000	458 711
Additions	2 665	3 726	7 349	13 740
Disposals and transfers	-	(168)	(6 414)	(6 582)
At end of year	403 312	52 622	9 935	465 869
Accumulated depreciation				
At beginning of year	(120 161)	(40 670)	-	(160 831)
Depreciation charge	(13 468)	788	-	(12 680)
Disposals and scrapped assets	-	167	-	167
At end of year	(133 629)	(39 715)	-	(173 344)
Net carrying amount at end of year	269 683	12 907	9 935	292 525

	Immovable assets	Movable assets	Capital work in progress	Total 2012
2012				
Cost				
At beginning of year	396 822	47 111	14 513	458 446
Additions	3 825	2 244	63 126	69 195
Disposals and transfers	-	(291)	(68 639)	(68 930)
At end of year	400 647	49 064	9 000	458 711
Accumulated depreciation				
At beginning of year	(105 452)	(30 092)	-	(135 544)
Depreciation charge	(13 233)	(10 866)	-	(24 099)
Disposals and transfers	-	288	-	288
Impairment	(1 476)	-	-	(1 476)
At end of year	(120 161)	(40 670)	-	(160 831)
Net carrying amount at end of year	280 486	8 394	9 000	297 881

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. Details of properties are available for inspection at Amatola Water's head office.

6. INVENTORIES

	2013 R000	2012 R000
Plant spares and stores	1 386	1 353
Chemicals	167	225
Fuel	32	29
	1 585	1 607

7. TRADE AND OTHER RECEIVABLES

	2013 R000	2012 R000
Trade receivables	47 552	26 929
Less: Impairment loss	(917)	(99)
	46 635	26 830
Other receivables	243 828	104 893
Less: Impairment loss	(5 242)	(649)
	238 586	104 244
	285 221	131 074

8. CASH AND CASH EQUIVALENTS

	2013 R000	2012 R000
Cash and cash equivalents comprise:		
Petty Cash on hand	-	2
Bank	34 276	48 838
Short-term deposits	72 126	5 924
	106 402	54 764

9. LONG TERM BORROWINGS

	2013 R000	2012 R000
Unsecured		
Department of Water Affairs		
Raw water purchases	34 299	771
Secured		
Standard Bank - Finance Lease	1 900	-
Nedbank - Bond	982	1 076
Total borrowings	37 181	1 847
Less: current portion	(26 441)	(865)
Total long term borrowings	10 740	982

The raw water debt of R33 715 268 is repayable over 16 months in monthly installments of R 2 107 204, final payment is due on 1st October 2014. This is an interest free loan as per agreement between Amatola Water and the Department of Water Affairs.

The Nedbank bond is secured by a R1 million investment over erf 31427 East London. It is repayable over 10 years in monthly installments of R 14 312, final payment on 28 February 2021. The average rate of interest for the year was 9%.

10. TRADE AND OTHER PAYABLES

	2013 R000	2012 R000
Trade creditors	224 955	116 309
Other	77 808	19 862
Advances	51 187	77 789
	353 950	213 960

11. COMMITMENTS

	2013 R000	2012 R000
Operating commitments contracted for	8 606	8 786
Capital commitments contracted for	6 734	9 065
Total	15 340	17 851

Finance lease commitments - motor vehicles

During the period under review Amatola Water entered into 2 finance lease arrangements for the acquisition of heavy duty motor vehicles for a period of 5 years. On termination of the lease period the ownership of the vehicles transfers to Amatola Water for no consideration.

	Minimum Lease Payments	Finance Charges	Present Value of Minimum Lease Payments
Less than 1 year	475	(137)	338
More than 1 year and less than 5 years	1 425	(292)	1 133
Total	1 900	(429)	1 471

Operating lease commitments - motor vehicles

One hundred and fourteen 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:

Less than 1 year	5 612	8 786
More than 1 year and less than 5 years	3 537	9 065
Total	9 149	17 851

Operating lease commitments - office equipment

Amatola Water rents office machinery for use for normal business purposes. The lease payments include service agreements and monthly rental amounts. These leases are over a variable period ranging between 0 months to 3 years.

Less than 1 year	206	219
More than 1 year and less than 5 years	117	240
Total	323	459

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).

	2013 R000	2012 R000
Nedbank bond guarantee	1 000	1 000
ESKOM	1 148	1 148
	2 148	2 148

Contingent Liabilities

DWA Water Research Levy	33 592	33 592
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Amatola Water is in dispute with the Department of Water Affairs in relation to charges and interest raised on the Department's Water Research Levy/ Catchment Management Area accounts. These charges and interest have been raised even though the accounts have not been reconciled for a number of years and Amatola Water has not received statements. Payments have however been made timeously based on meter readings.

13. NOTES TO THE STATEMENT OF CASH FLOWS

	2013 R000	2012 R000
Net cash generated from operations	68 637	13 224
Adjusted for:		
Operating (surplus) / deficit	25 083	(7 937)
Net interest income	(3 243)	(4 379)
Non cash items		
Re-financing of long outstanding raw water debt into long term loan	34 115	-
Depreciation and impairment	12 680	25 575
Loss / (Profit) on disposal of property, plant & equipment	1	(35)
Changes in working capital	(13 932)	4 759
Decrease in inventories	22	353
(Increase) in trade and other receivables	(154 147)	(41 995)
Increase in trade and other payables	140 193	46 401
	<u>54 704</u>	<u>17 983</u>

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.

	2013 R000	2012 R000
Projects Revenue - DWA	73 000	99 154
Dam Management Fees paid by DWA to Amatola Water	8 861	7 473
Raw water purchases from DWA (Refer to note 3)	56 664	52 569
Interest on outstanding Debt	3 701	4 128
Water Research Levy	1 830	1 502
DWA Receivable	23 961	7 959
DWA Payable	52 335	86 635
Interest-bearing borrowings from DWA (Refer to note 9)	34 299	772

Key Management Personnel

Key Management Personnel compensation comprised of the following:

Executive Directors

Short-term employee benefits	6 904	7 822
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Non - Executive Directors

Short-term employee benefits	585	447
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15. PRIOR PERIOD ERROR

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

Amatola Water project contracts were reviewed by Amatola Water staff in conjunction with the internal auditors, as a result of this review of the majority of contracts were found to be agency in form and in substance. This necessitated a review of prior period information where projects were disclosed as principal rather than agency.

The effect on the prior period information is as follows:

Statement of comprehensive income effect

	Revenue	Cost of Sales
Previously reported	423 259	(327 927)
Costs and revenue previously reported as principal costs and revenues	(71 957)	71 957
	<u>351 302</u>	<u>(255 970)</u>

There is a nil effect on the equity of Amatola Water and thus has not been reported in the statement of changes in equity.

16. CHANGE IN ESTIMATE

During the year, Property, plant and equipment that had a zero value as at 01 July 2012 or that became fully depreciated in the current financial year and were still in use by Amatola Water had their useful lives re-assessed as their expected useful life had expired and management deemed them useful for at least 3 more years. As a result the expected useful life of these assets were extended, as provided for in IAS 8: Accounting policies, Change in accounting estimates and Errors.

	2013	2014	2015
Effect of change in useful life: Depreciation	(5 422)	2 711	2 711

17. 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.

17.1 Maturity profile of financial instruments

Maturity profiles of the financial assets and liabilities are summarised as follows:

	Current interest rate	2013		
		0 - 12 months R000	<5 years R000	TOTAL
Assets				
Cash and cash equivalents	5.8%	106 402	-	106 402
Trade and other receivables	8.5%	285 221	-	285 221
Liabilities				
Trade and other payables	8.5%	(353 950)	-	(353 950)
Long term loans	8.5%	(26 441)	(10 740)	(37 181)
		<u>11 232</u>	<u>(10 740)</u>	<u>492</u>

	2012			TOTAL
	Current interest rate	0 - 12 months R000	<5 years R000	
Assets				
Cash and cash equivalents	5.6%	54 764	-	54 764
Trade and other receivables	8.5%	131 074	-	131 074
Liabilities				
Trade and other payables	8.5%	(213 960)	-	(213 960)
Long term loans	8.4%	(865)	(982)	(1 847)
		(28 987)	(982)	(29 969)

172 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 receivables 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 receivables 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 receivables 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 2013 R000	Impairment 2013 R000	Gross 2012 R000	Impairment 2012 R000
Not past due date	41 167	-	19 850	3
One month past due date	4 705	-	5 502	5
Two months past due date	753	-	81	4
Three months past due date	(8)	-	82	4
More than four months past due date	935	917	1 414	83
	47 552	917	26 929	99

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

	2013 R000	2012 R000
Balance as at 1 July	99	297
Impairment loss increased / (decreased)	818	(198)
Balance at 30 June	917	99

The aging of sundry receivables at the reporting date was:

	Gross 2013 R000	Impairment 2013 R000	Gross 2012 R000	Impairment 2012 R000
Not past due date	212 575	-	56 821	203
One month past due date	11 311	-	30 124	444
Two months past due date	9 779	82	4 493	-
Three months past due date	235	-	8 577	-
More than four months past due date	9 500	5 160	4 878	2
	<u>243 400</u>	<u>5 242</u>	<u>104 893</u>	<u>649</u>

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

	2013 R000	2012 R000
Balance as at 1 July	649	2
Impairment loss increased	4 593	647
Balance at 30 June	<u>5 242</u>	<u>649</u>

173 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 R10 299 in profit.

174 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.

18. EMPLOYEE BENEFITS

	2013 Number of staff	2013 R000	2012 Number of staff	2012 R000
Employer's contributions to the above fund	274	5 586	304	6 042
Other funds	55	1 512	57	1 579

19. 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.
- Amatola Water has entered into an agreement with DWA to convert R37 million of the R86 million DWA payable into a long term debt. Discussions are on going relating to the remaining portion.
- The provision of water is an essential supply and thus it is expected that this provision will not be compromised by national government.

20. FRUITLESS AND WASTEFUL EXPENDITURE

Reconciliation of fruitless and wasteful expenditure

	2013 R000	2012 R000
Opening balance	82	35
Fruitless and wasteful expenditure - current year	-	961
Transfer to receivables for recovery	-	(914)
	<u>82</u>	<u>82</u>

21. IRREGULAR EXPENDITURE

Reconciliation of irregular expenditure

	2013 R000	2012 R000
Opening balance	48 161	13 314
Irregular expenditure - Current year		
- Relating to overspending on contracts awarded	9 530	15 011
- Other irregular expenditure	11 025	19 836
	<u>68 716</u>	<u>48 161</u>

Irregular expenditure of R11 025 million incurred in the 2012/13 financial year was condoned after year end.

Analysis of current year irregular expenditure

2013 Incident	Value R000
Procurement policy not adhered to in awarding of bids	11 025
Overspending on expired contracts	9 530
Disciplinary steps taken/Criminal proceedings	
Investigations to be undertaken and disciplinary action to be instituted	

Analysis of prior year irregular expenditure

2012 Incident	Value R000
Over spending on expired contracts	15 011
Deviation from procurement policy not approved	2 691
Procurement policy not adhered to in awarding of bids	17 145
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.

22. TAXATION

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

23. REPORTABLE IRREGULARITY

A reportable irregularity was identified during the current year's audit (2012/13) as no income tax, Unemployment Insurance Fund and Skills Development Levy were declared on the monthly payments made to the Interim Chief Executive. When evaluating these payments against the Fourth Schedule of the Income Tax Act and Interpretation Note 17 of South African Revenue Services the auditors believed that Amatola Water had not interpreted the tax legislation correctly and has therefore not acted in compliance with the Income Tax Act.

Section 45 of the Auditing Professions Act imposes an obligation on the registered auditor to report any unlawful act or omission by a person responsible for the management of an entity, which has caused or is likely to cause a material financial loss to the entity or its creditors to the Independent Regulatory Board for Auditors (IRBA). A Reportable Irregularity was thus reported to IRBA on 23 September 2013.

Amatola Water has, as an interim measure Amatola Water has withheld employee tax at a rate of 25% from the payments made subsequent to the irregularity being identified and is in communication with the South African Revenue Services in order to determine whether the Interim Chief Executive qualifies as an independent contractor, the amount of withholding tax that should be withheld on payments made and any liability that will be incurred as a result of the reported irregularity.

Annexures



FIVE YEAR HISTORICAL STATISTICAL OVERVIEW 2009 - 2013

	2013 R000	%	2012 R000	%	2011 R000	%	2010 R000	%	2009 R000	%
OPERATIONS										
Revenue	352 521	0.3	351 302	46.7	239 546	(4.4)	250 549	24.8	200 803	101.9
Cost of Sales	247 098	(3.5)	255 970	43.7	155 084	(13.0)	178 184	28.5	138 689	146.0
Operating and Admin Expenses	83 583	(22.4)	107 648	38.8	107 295	38.3	77 562	30.2	59 581	26.5
Net Operating (Deficit)/Surplus	21 840	(277.3)	-12 316	137.0	(22 833)	339.4	-5 197	(305.2)	2 533	(20.0)
FINANCIAL POSITION										
Capital Contribution	274 557	-	274 557	-	274 557	-	274 557	-	274 557	-
Reserves	0	-	0	-	-	-	0	-	0	-
Retained (Deficit)/Surplus	20 045	(497.8)	-5 038	(110.1)	42 939	(13.9)	49 845	24.2	40 125	45.2
Long-term Liabilities	10 740	993.6	982	(84.7)	4 142	(35.6)	6 436	(27.1)	8 834	(9.3)
Current Liabilities	380 391	77.2	214 623	126.4	115 852	22.2	94 811	30.8	72 497	66.1
Total Equity and Liabilities	685 733	41.4	485 123	14.0	437 290	2.7	425 649	7.5	396 013	11.4
Non-current Assets	292 525	(1.8)	297 679	11.6	301 977	13.2	266 829	(10.4)	297 941	6.4
Current Assets	393 208	109.8	187 445	18.0	135 313	(14.8)	158 820	61.9	98 072	30.0
Total Assets	685 733	41.3	485 124	14.0	437 290	2.7	425 649	7.5	396 013	11.4
CASH FLOW POSITION										
Cash flow from Operating Activities	57 947	(161.5)	22 159	851.1	(15 869)	437.9	-2 950	(108.7)	33 843	949.7
Cash Flow util. in/gen. from Investing Activities	(7 328)	1 309.4	-320	98.4	9 489	(146.9)	-20 243	(13.3)	-23 336	410.4
Cash Flow utilised in Financing Activities	1 019	136.0	-2 829	(42.2)	(2 697)	35.7	-1 988	1.8	-1 952	(34.4)
Net Cash Increase/(Decrease) for year	51 638	(174.5)	19 010	175.5	(9 077)	(64.0)	-25 181	(394.3)	8 555	(297.9)

FIVE YEAR HISTORICAL STATISTICAL OVERVIEW 2009 - 2013

RATIOS	2013	2012	2011	2010	2009
	R000	R000	R000	R000	R000
	%	%	%	%	%
Revenue (Kilolitres x 1000)					
Treated Water Sales	31 723	161 930	30 635	31 121	29 122
	2.9	25.1	(1.6)	6.9	19.2
Raw Water Sales	7 842	10 810	8 401	7 848	7 637
	(4.0)	39.1	7.0	2.8	1.8
Total Water Sales	39 565	172 740	39 036	38 969	36 759
	1.4	25.8	0.2	6.0	15.1
Revenue (R'000)					
Treated Water Sales	183 864	129 468	136 153	129 486	114 074
	13.5	28.9	5.1	13.5	23.1
Raw Water Sales	11 192	38 860	10 479	7 773	7 129
	3.5	21.9	34.8	9.0	5.2
Total Water Sales	195 057	172 740	146 632	137 259	121 203
	12.9	25.8	6.8	13.2	21.9
Revenue (R'000): Primary Activity					
Bulk Supply: Urban and Peri-urban	143 850	129 468	104 846	100 460	88 918
	11.1	28.9	4.4	13.0	23.4
Bulk Supply: Rural	46 984	38 860	36 934	31 871	27 032
	20.9	21.9	15.9	17.9	21.6
Revenue (R'000): Other Activity					
Industrial and Domestic Reticulation	4223	4412	4 852	4928	5252
	(4.3)	(10.5)	(1.5)	(6.2)	1.5
Average Raw Water Sales Tariff (R/Kl)					
Average Raw Water Sales Tariff (R/Kl)	1.427	1.323	1.2	0.990	0.933
	7.8	33.6	25.9	6.2	3.3
Average Treated Water Sales Tariff (R/Kl)					
Average Treated Water Sales Tariff (R/Kl)	5.80	5.25	4.4	4.16	3.92
	10.4	26.2	6.8	6.1	3.3
Average Water Sales Tariff (R/Kl)					
Average Water Sales Tariff (R/Kl)	4.93	4.43	3.8	3.52	3.30
	11.3	25.7	6.6	6.7	5.9
Cost of Sales (R/Kl)					
Cost of Sales (R/Kl)	3.64	3.51	2.4	2.19	2.09
	3.7	60.3	10.0	4.8	7.2
Labour Cost (R/Kl)					
Labour Cost (R/Kl)	1.24	1.29	0.9	0.83	0.80
	(4.1)	55.4	13.6	3.2	16.0
Electricity cost (R/Kl)					
Electricity cost (R/Kl)	0.66	0.56	0.3	0.22	0.18
	17.6	155.2	58.8	24.0	(1.2)

FIVE YEAR HISTORICAL STATISTICAL OVERVIEW 2009 - 2013

	2013	2012	2011	2010	2009
	R000	R000	R000	R000	R000
	%	%	%	%	%
Chemical cost (R/Kl)	0.33	0.34	0.1	0.16	0.16
	(2.2)	109.9	(13.4)	1.6	(32.7)
Raw water purchases (R/Kl)	1.43	1.35	1.0	0.98	0.95
	6.3	37.5	(1.1)	3.4	9.6
Water research levies (R/Kl)	0.05	0.05	0.0	0.04	0.04
	0.0	0.0	(4.4)	0.0	33.3
Current Ratio	1.03	0.87	1.2	1.68	1.35
	18.4	(48.0)	(30.8)	24.4	(21.9)
Trade Debtors (days)	295	136	161.8	105	64
	116.9	29.7	54.1	64.1	39.1
Return on Assets	0.04	(0.053)	(0.1)	(0.013)	0.007
	170.4	(307.7)	307.7	(285.7)	(22.2)
Debt-Equity Ratio	1.33	0.80	0.4	0.31	0.26
	31.5	158.1	22.8	19.2	44.4
Working Ratio	0.94	1.01	1.0	0.98	0.93
	0.0	2.8	5.0	5.4	-
PRODUCTIVITY					
Number of Employees	424	455	367.0	331	291
	(4.6)	37.5	10.9	13.7	16.4
Average Revenue per Employee (R'000)	831	772	652.7	757	690
	5.2	2.0	(13.8)	9.7	73.4
Cash Disbursed to Employees	129 506	96 789	72 226.6	64 284	51 262
	33.8	50.6	12.4	25.4	28.4
Net increase / (decrease) in cash and cash equivalents	51 638	19 010	(9 077.4)	-25 181	8 555
	(174.5)	175.5	(64.0)	(394.3)	165.4

SPLIT OF PRIMARY AND SECONDARY BUSINESS

for the year ended 30 June 2013





	Primary Business (Bulk Supply) 2013 R000	Primary Business (Bulk Supply) 2012 R000	Secondary Business 2013 R000	Secondary Business 2012 R000	TOTAL 2013 R000	TOTAL 2012 R000
Revenue	195 057	172 740	157 465	178 562	352 522	351 302
Cost of Sales	(156 482)	(152 895)	(90 616)	(103 075)	(247 098)	(255 970)
Gross profit	38 574	19 846	66 850	75 487	105 424	95 333
Operating and Administration Expenses	(30 582)	(22 409)	(53 001)	(85 239)	(83 583)	(107 648)
Net operating deficit	7 992	(2 563)	13 850	(9 752)	21 841	(12 315)
Interest Income	2 633	1 864	4 562	7 088	7 195	8 952
Finance Cost	(1 446)	(952)	(2 506)	(3 621)	(3 952)	(4 573)
Profit/(Deficit) for the year	9 178	(1 651)	15 905	(6 285)	25 083	(7 937)

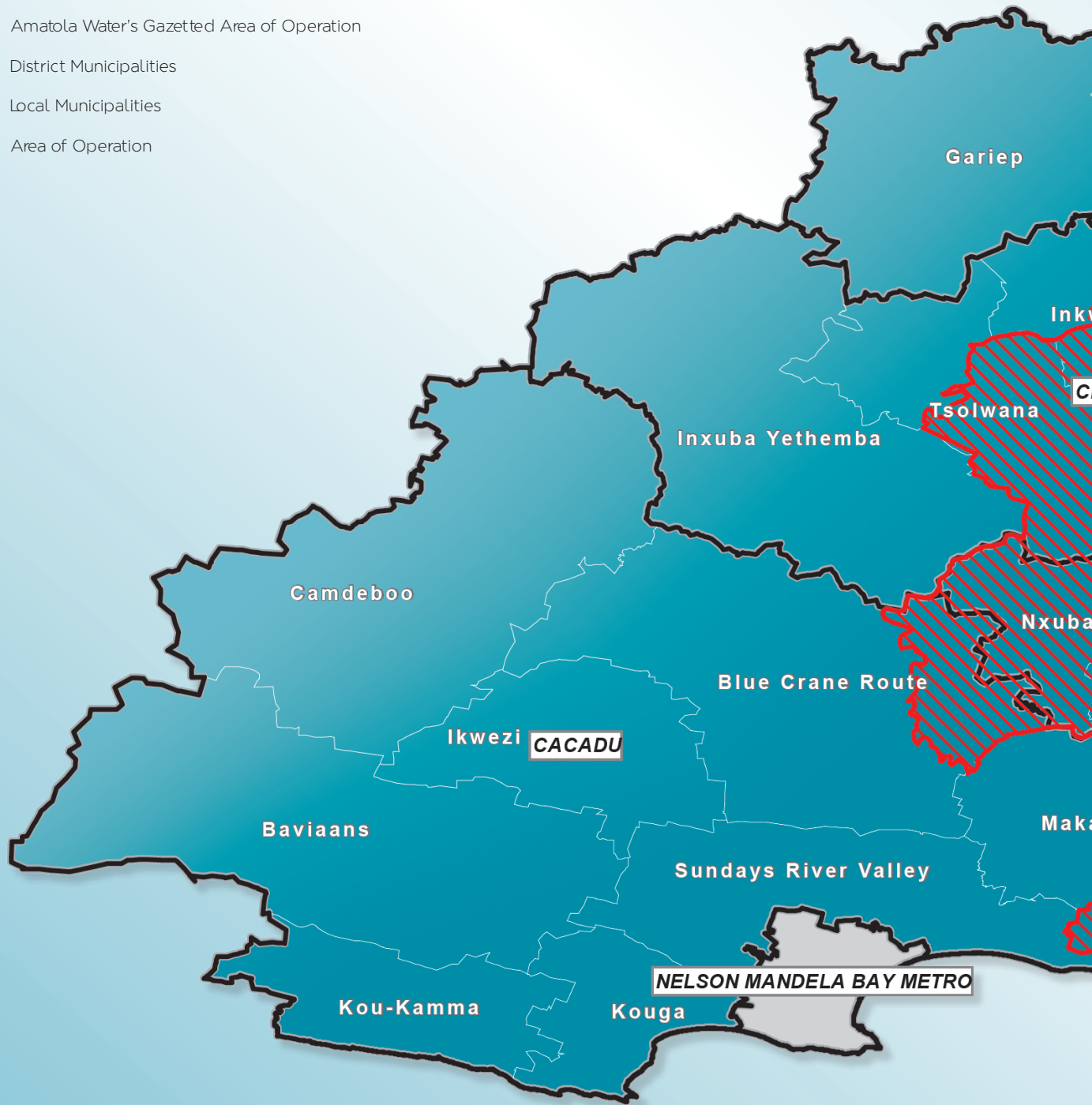
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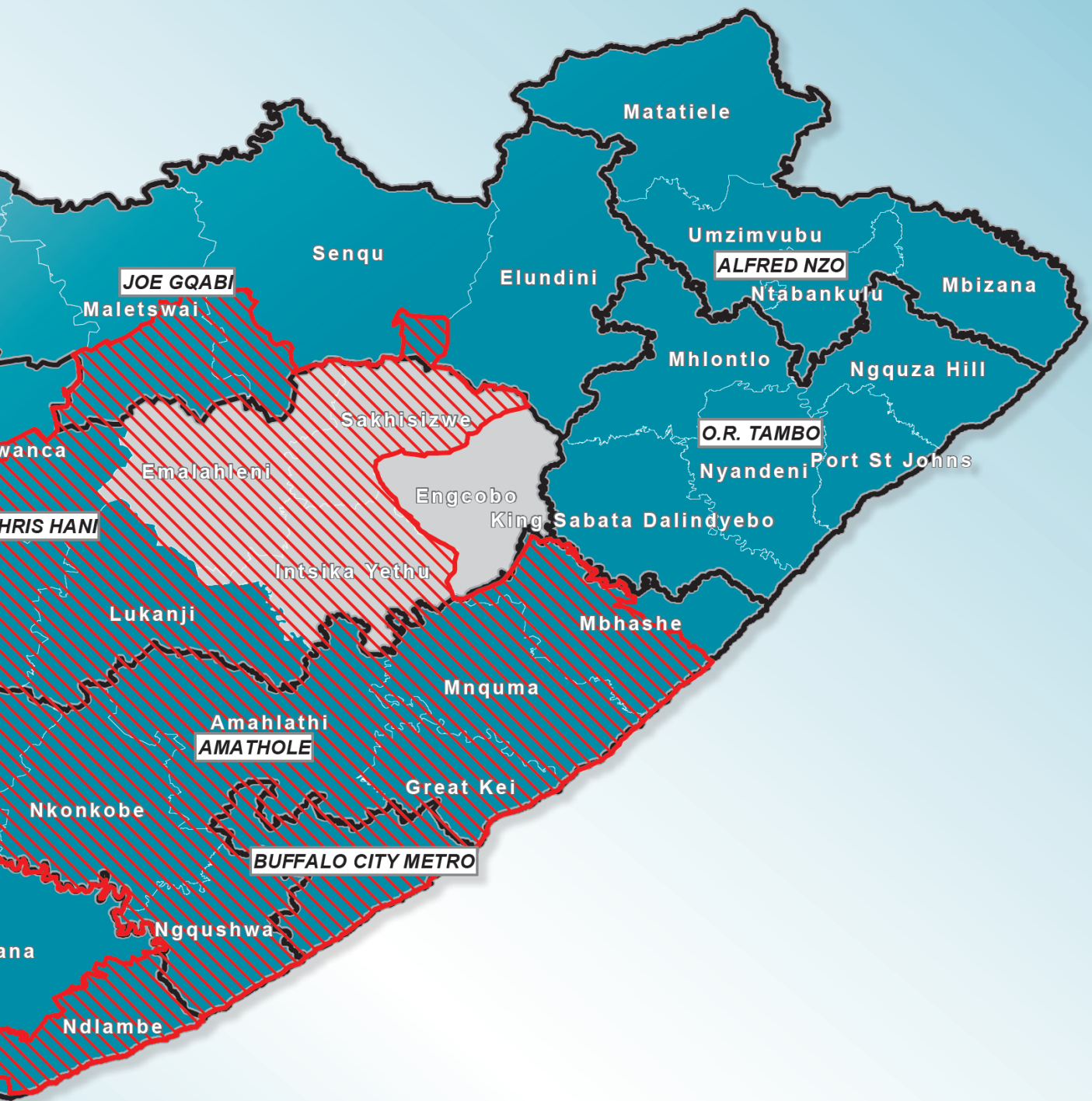
Operating and Administrative costs, as well as net finance income, are allocated based on the gross profit contribution margins.

Amatola Water Area of Operation 2012/13

Legend

-  Amatola Water's Gazetted Area of Operation
-  District Municipalities
-  Local Municipalities
-  Area of Operation





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