



ANNUAL REPORT
2014/2015

WATER HAS NO SUBSTITUTE



ABBREVIATIONS

AC	- Audit Committee	MANCO	- Management Committee
AG	- Auditor-General	MBA	- Masters in Business Administration
ASB	- Accounting Standard Board	MFMA	- Municipal Finance Management Act
AFWA	- African Water Association	MIG	- Municipal Infrastructure Grant
ASIDI	- Accelerated Schools Infrastructure Development Initiative	MW	- Mhlathuze Water
BBBEE	- Broad-Based Black Economic Empowerment	MWIG	- Municipal Water Infrastructure Grant
BDS	- Blue Dot System	NERSA	- National Energy Regulator of South Africa
BRICS	- Brazil, Russia, India, China, South Africa	NT	- National Treasury
CEPPPAWU	- Chemical Energy Pulp, Paper and Printing Allied Workers Union	NWTW	- Nsezi Water Treatment Works
CFO	- Chief Financial Officer	O&M	- Operation & Maintenance
CMA	- Catchment Management Agency	PCCAA	- Prevention and Combating of Corrupt Activities Act
CMF	- Catchment Management Forum	PDA	- Protected Disclosure Act
COGTA	- Cooperative Governance and Traditional Affairs	PFMA	- Public Finance Management Act
CoU	- City of uMhlathuze Municipality	RBM	- Richards Bay Minerals
DBSA	- Development Bank of Southern Africa	RBIG	- Regional Bulk Infrastructure Grant
DBE	- Department of Basic Education	RMB	- Rand Merchant Bank
DEA	- Department of Environmental Affairs	SAAWU	- South African Association of Water Utilities
DEDTEA	- Department of Economic Development, Tourism and Environmental Affairs	SAA	- South African Airways
DM	- District Municipality	SAICA	- South African Institute of Chartered Accountants
DoE	- Department of Education	SAICEE	- South African Institute of Electrical Engineers
DWS	- Department of Water and Sanitation	SA GAAP	- South African Statements of Generally Accepted Accounting Practices
ECSA	- Engineering Council of South Africa	SARB	- South African Reserve Bank
EIA	- Environment Impact Assessment	SCADA	- Supervisory Control and Data Acquisition
EMS	- Environmental Management System	SCM	- Supply Chain Management
EWSETA	- Energy and Water SETA	SOE	- State Owned Enterprise
EXCO	- Executive Committee	SMME	- Small Medium Micro Enterprise
FY	- Financial Year	TGS	- Tugela Goedetrouw Transfer Scheme
GDP	- Gross Domestic Product	TR	- Treasury Regulations
GRAP	- Generally Recognised Accounting Practice	UDM	- uThungulu District Municipality
HoD	- Head of Department	UKDM	- uMkhanyakude District Municipality
HR	- Human Resources	WMA	- Water Management Areas
IAS	- International Accounting Standards	WSA	- Water Services Authority
IDZ	- Industrial Development Zone	WRM	- Water Resource Management
IFRS	- International Financial Reporting Standards	WUL	- Water Use License
INCA	- Infrastructure Finance Corporation Limited	WTP	- Water Treatment Plant
ISA	- International Standard on Auditing	WTW	- Water Treatment Works
LM	- Local Municipality	WWTP	- Waste Water Treatment Plant
		ZCCI	- Zululand Chamber of Commerce and Industries
		ZDM	- Zululand District Municipality

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MHLATHUZE WATER

“YOUR PREFERRED WATER SERVICE PROVIDER”

Mhlathuze Water is one of the leading water utilities in South Africa today, providing a world-class service to its customers. The organisation’s commitment and focused direction in providing safe and dependable water services is indicative in its consistent success. Based in KwaZulu-Natal, Mhlathuze Water’s area of supply covers some 37 000km² stretching from the uThukela River in the South and up the East Coast to the Mozambique and Swaziland borders, around Vryheid and back to the uThukela River. Within this region, Mhlathuze Water has built and operates an inter-basin transfer scheme, a major water treatment plant, an offshore waste water disposal pipeline, and manages water treatment and sewage plants on an agency basis for industry.

OUR SERVICES:

- Bulk Water Provision: Raw, Purified and Clarified
- Bulk Waste Water Disposal
- Scientific Services
- Water Resources Management
- Services to Water Services Authorities (WSA)
- Implementing Agent for School’s Water and Sanitation Infrastructure, and Working for Water Programme



VISION

To be the regional water and waste water service provider of choice for all stakeholders in the water value chain.

MISSION

To provide and expand affordable, sustainable, quality and reliable regional water and waste water services to stakeholders, improve quality of life and contribute to development.

CORE VALUES

Enthusiasm

We will treat people with respect, warmth, integrity, passion, courtesy and enthusiasm to make them feel special.

Honesty and transparency

We will develop a culture of trustworthiness, transparency and loyalty that responds to our customers and fellow employees with honesty and passion.

Excellence

We will continue to stretch available resources so that Mhlathuze Water will continue producing work of excellence.

Fairness

We will maintain high ethical standards, and allocate and share responsibility in a fair and equitable manner.

Accountability

We will make ourselves available to our customers and remain accountable to all our stakeholders at all times.

Creativity and Innovation

We will continually strive for new, different and better ways of doing what we do and always challenge the status quo, mindset and assumptions.



MANDATE

CONSTITUTION

The Constitution of the Republic of South Africa is the Supreme Law of the Land. No other law or government action can supersede the provisions of the Constitution. Section 27(1) (b) clearly states, “Everyone has the right to have access to sufficient food and water “(2) and, “The state must take reasonable legislative and other measures, within its available resources, to achieve the progress realisation of each of these rights”.

WATER ACT

Mhlathuze Water is a statutory water utility that was established in terms of section 176 of the Water Act (Act No. 54 of 1956).

WATER SERVICES ACT

Mhlathuze Water is deemed to be a Water Board in terms of the Water Services Act (Act No. 108 of 1997) of South Africa.

PUBLIC FINANCE MANAGEMENT ACT

Corporate Governance embodies processes and systems by which State-Owned Enterprises (SOE) are directed, controlled and held to account. In addition, the legislative requirements based on an SOE’s enabling legislation and corporate governance with regard to SOE are applied through the precepts of the Public Finance Management Act (PFMA) (Act No. 1 of 1999) and run in tandem with the Protocol on Corporate Governance, which encapsulates the principles contained in the King III Report on Corporate Governance. In the PFMA schedule, Mhlathuze Water is listed as a Schedule 3(B) Public entity of the national government state-owned enterprises.



NOTE OF APPRECIATION

The mandate of Mhlathuze Water during the year under review, could not have been fulfilled without the support, cooperation and contribution of the following stakeholders:

- Department of Water and Sanitation;
- His Majesty, King Goodwill Zwelithini Zulu;
- Board of Directors of Mhlathuze Water;
- Department of Cooperative Governance and Traditional Affairs, KwaZulu-Natal;
- Department of Education;
- Department of Basic Education;
- Department of Environmental Affairs;
- Office of the Premier in KwaZulu-Natal;
- Amakhosi;
- Municipalities;
- Contractors;
- Customers;
- Financial Institutions;
- Professional bodies;
- Institute of Higher Education;
- Schools; and
- Employees of Mhlathuze Water.

CHAIRPERSON'S REPORT



MS DUDU MYENI
CHAIRPERSON OF THE BOARD

Mhlathuze Water's Mission is to provide and expand affordable, sustainable, quality and reliable regional water and waste water services to stakeholders, improve quality of life and contribute to development.

2014/2015 HIGHLIGHTS

- Mhlathuze Water launched its bottled Water Package Plant at the Nsezi Water Treatment Plant;
- Visibility of the Mhlathuze Water brand at exhibitions was held at different events including the Water Show Africa that took place in Johannesburg in March 2015;
- Our Level 2 BBBEE certification has improved on points;
- The launch of the Jozini Ingwavuma Bulk Water Supply Project in Jozini/Ingwavuma, situated in the uMkhanyakude District Municipality, was officially opened by the Minister of Water and Sanitation; and
- Memoranda of Understanding were signed between the Durban University of Technology and the Tshwane University of Technology.

Mhlathuze Water prides itself on its achievements in various aspects of its business. These achievements below are an indication of the efforts we put into cultivating a culture of excellence in our employees.

- The FEM Awards: Health and Safety Award - Federated Employer Mutual Assurance - low risk medium employer.
- Corporate Business of the Year – Business Excellence Awards: Zululand Chamber of Commerce and Industry, 2014.
- Service Excellence in the Public Sector – Business Excellence Awards: Zululand Chamber of Commerce and Industry, 2014.
- Premium Award, overall winner – Business Excellence Awards: Zululand Chamber of Commerce and Industry, 2014.

STRATEGIC PARTNERSHIPS

We believe in the importance of strategic partnerships in order to achieve the highest levels of service delivery together. This financial year, Mhlathuze Water signed the contracts with the following partners in an effort to grow our business and to contribute to the growth of businesses in our area of operation.

City of uMhlathuze

Mhlathuze Water commenced with the operation and maintenance of the City of uMhlathuze's Water Treatment Plants and Waste Water Treatment Plants and associated bulk distribution infrastructure in June 2014.

Richards Bay Minerals (RBM)

In 2014, Mhlathuze Water was awarded a three-year contract to operate the main water and waste water treatment plant for Richards Bay Minerals.

Mhlathuze Water has participated in a number of drought initiatives by supplying Water Tanks and filling up Jojo Tanks using Water Tankers. The organisation also engaged with stakeholders such as the Department of Water and Sanitation, industries and municipalities where discussions took place on how best to optimise the supply of water from our rivers and lakes as well as the Goedetrouw Dam.

CONCLUSION

We have had bold, inspiring and visionary leadership from the Minister of Water and Sanitation Mrs Nomvula Mokonyane, who was relatively new in the portfolio at the beginning of the 2014/2015 financial year. We look forward to her continued enablement and advice on the restructuring of the water and sanitation sector.

I wish to thank all members of the Board for their dedication to Mhlathuze Water during the course of the year. We congratulate the management and employees on their sterling performance. Despite the drought in KwaZulu-Natal, I am confident that, with our collective resolve, insight and foresight, we shall triumph.



Ms Dudu Myeni
Chairperson of the Board

“Mhlathuze Water prides itself on its achievements in various aspects of its business. These achievements are an indication of the effort we put into cultivating a culture of excellence in our employees.”





MR SIBUSISO MAKHANYA
CHIEF EXECUTIVE OFFICER

CHIEF EXECUTIVE OFFICER'S REPORT

to launch the project and the event was attended by all the key stakeholders in the region of uMkhanyakude and KwaZulu-Natal as a whole. The project was commissioned and now the community from Othobothini now has access to water.

HIGHLIGHTS

- Mhlathuze Water commissioned its bottled water at Nsezi Water Treatment Plant; and
- Certification of both ISO 14001 and 9001 were maintained.

During the year in review Mhlathuze Water along with the country at large, has faced many challenges but has managed to once again deliver world class water services to its stakeholders, customers, employees and the community at large. Our success as a business is central to our ability to be a world-class water service provider and employer of choice.

THUKELA TRANSFER SCHEME

Mhlathuze River is the main source of raw water for Mhlathuze Water. It is fed by the Goedetrouw Dam which has normally been at 80%. Upstream to the Goedetrouw Dam is the Mvuzane River inflow where the Thukela Transfer Scheme discharges into the Mvuzane River stream. The Thukela Emergency Transfer System is used to augment the dam level when it drops as a result of high water demand. Since the commissioning of the emergency scheme, it has not been in service because the dam level was high enough. During the second semester of the 2014 calendar year, as a result of minimum summer rainfall received and low raw water resources, it was necessary to officially declare that KZN is in a drought situation. This drought had an adverse effect on the Mhlathuze Water systems with the Goedetrouw Dam dropping to below 65% for the first time since it was commissioned in 1995. The Thukela Transfer Scheme was then put into operation, supplying a total capacity of 0.94 m³/l.

I am pleased to report that we delivered a solid operational performance in the 2014/2015 financial year. The results reflect the healthy state of our operating assets and a team that is continuing to deliver even when faced with a drought crisis.

RURAL DEVELOPMENT PROGRAMME

Increase in Budget for Externally Funded Projects

The budget was increased from R330m to R367m for externally funded projects (Jozini project, in particular).

Launch of Jozini Ingwavuma Project Phase 1A

One of the flagship projects in which Mhlathuze Water played an instrumental role was the Jozini Ingwavuma Project Phase 1A. The Honourable Minister Ms Nomvula Mokonyane visited Jozini Local Municipality under Umkhanyakude District Municipality

WATER PURIFICATION AND BOTTLING WATER PACKAGE PLANT

It was a proud moment for Mhlathuze Water to have the Bottling Water Package Plant commissioned in April 2015. This milestone forms part of the marketing strategy of having

our own purified water from the Nsezi Water Treatment Plant. The bottled plant is rated at 125 l/h. The water that is produced at Nsezi Water Treatment Works meets all drinking water standards and is tested by our SANAS 17025 accredited laboratory. For now, the bottled water will only be used for marketing purposes. We can proudly say, "Quench your thirst with the water service provider of choice".

HUMAN CAPITAL

Mhlathuze Water has met all the requirements of the SANS 16001 Wellness and Diseases Management System and is currently awaiting certification.

Disability Targets

Our set target was 2%; we exceeded it as we are currently standing at 2, 8%.

Female and Youth Targets

All positions are identified and informed by our strategy of prioritising and promoting females. We are currently at 46%. There is a deliberate attempt to fill vacancies with females. This is benchmarked against the KZN economically active population, which is 47% females and 53% males.

Youth Development

The youth (<35 years) represent 43% of our workforce with two African females being part of the Executive team.

Employer-Assisted Study Programmes

There are 21 employees who are currently being assisted in furthering their studies. Two of them are to complete their Masters degrees in Business Administration before the end of 2015, and the other two are expected to complete by the end of 2016. Four of them are doing B Tech degrees with Durban University of Technology, two of them are expected to complete their studies by the end of 2015. Seven are busy with their National Diplomas with the University of South Africa. Four are pursuing their National Certificates with various institutions and two are doing the "N" courses with the Tertiary Vocational and Education Institutions (TVET's).

In 2014/2015 there were six employees who completed their studies, two of them graduated with their in Masters in Business Administration, two Bachelor of Technology and Commerce in Management and two in postgraduate diplomas in Business Administration and Management. There were two males and four females.

Professional Registrations

We have 12 professional registrations for the 2014/2015 financial year. Amongst these we have three professional Natural Scientists and nine certified Natural Scientists.



ORGANISATIONAL CERTIFICATION AND ACCREDITATION

Mhlathuze Water continuously strives to maintain the ISO 9001 Quality Management System Certification, and thus focuses on the on-going improvement of business performance and ensures that our product and services efficiently meet customer and official statutory and regulatory requirements. The safety and wellbeing of our employees, customers and stakeholders is a top priority for the organisation and therefore we have implemented and maintained the ISO 18001 Health and Safety Certification. The organisation has also maintained the ISO 14001 Environmental Management Systems Certification.

We are currently at an advanced stage of attaining the SANS 16001: Disease and Wellness Management Systems Certification.

We have maintained our Level 2 BBBEE Certification; this is a great improvement on points.

INITIATIVES TOWARDS MINIMISING THE IMPACT OF THE DROUGHT

• **Lake Mzingazi**

As of September 2014, we could not abstract from Lake Mzingazi, which supplies Richards Bay and Enseleni, as it had reached the minimum allowable abstraction level. The Richards Bay system was supplemented with water volumes from Nsezi WTP as requested by the CoU. The supplement was over and above the contracted volume (25ML/d). The system capacity at Nsezi for the Richards Bay System was 40 ML/d. Diesel pumps had to be hired and utilised to meet the additional requested volumes for the CoU (55ML/d).

• **Lake Cubhu**

Due to the decreasing lake levels, as from August 2014, Esikhaleni WTW was supplemented with 7,5ML/d (raw water from Mhlathuze Water weir P/S) and this volume was increased gradually over the months up to the maximum system capacity of 30ML/d in January 2015, as per the request from the CoU District Municipality. The CoU is currently contracted for 15ML/d.

• **RBM OPS Contract**

Mhlathuze Water currently operates the Water Treatment Plant (WTP) and Waste Water Treatment Plants (WWTP)

for Richards Bay Mining (Mining Ponds). In 2014, Mhlathuze Water tendered and was awarded the contract to operate the main water and waste water treatment plants. This contract is for a period of three years.

• **City of uMhlathuze Contract**

Mhlathuze Water commenced with the operation and maintenance of the CoU's WTPs and WWTPs and associated bulk distribution infrastructure as from June 2014. The arrangement continued to be on a month-to-month interim arrangement.

MEMORANDA OF UNDERSTANDING Memorandum of Understanding with the Durban University of Technology (DUT) and Tshwane University of Technology

Memoranda of understanding were recently signed with both Durban University of Technology and Tshwane University of Technology. Mhlathuze Water committed to working together with the two institutions in the field of water and sanitation with the intention to:

- Collaborate on projects focussed on addressing the research need of Mhlathuze Water;
- Share best practices; and
- Collaborate on focussed skills development.

The five year agreements are in line with one of Mhlathuze Water's strategic objectives to 'Resource the organisation with the required skills and competence to deliver the strategic intent'.

Memorandum of Understanding between Mhlathuze Water and Isibusiso Esihle Science Discovery Centre/Rural Development

Isibusiso Esihle Science Discovery Centre (IESDC) is a non-profit organisation based in Velabusha Village located in the rural area of KwaNgwanase in the Mhlathuze local Municipality.

The Centre aims to create a solid and enabling environment for rural youth and educators to learn, conceptualise and operationalise science principles.

The IESDC also intends to:

- Demystify the perception and myth that Science and Maths are difficult subjects;
- Expose rural youth educators to practical science activities;

- Make Science and Maths learning practical and interesting through play;
- Create awareness of science to the community at large; and
- The centre has access to 88 schools in the area that do not have resources to assist them in understanding and conceptualising Science and Technology. Through this partnership, MW hopes to contribute towards the rural development programme through the promotion of science in these areas. The agreement, which links to one of the goals in the Corporate Scorecard of 'Collaboration and partnerships with academic and other institutions', is for a period of three years.

APPRECIATION AND ACKNOWLEDGEMENTS

My sincere appreciation goes to the Chairperson, Members of the Board and the Executive Committee for their support, and confidence displayed in me for the 2014/2015 Financial Year.

I express my gratitude to the Department of Water and Sanitation, both regional and National, for the trust they have placed in the Management and Board of Mhlathuze Water. Your continuous support provided us the opportunity to create a positive organisational platform for strategic planning, decision-making and day-to-day operations in order to deliver on our mandate of providing good quality water.

Lastly, I would like to convey my sincere appreciation to our customers for the confidence they have in Mhlathuze Water and to our employees for their selfless dedication in ensuring the ongoing success of the organisation.



Mr Sibusiso Makhanya
Chief Executive





MR MUSA XULU

CHAIRPERSON: AUDIT & RISK COMMITTEE

This report is provided by the Audit and Risk Committee in respect of the 2014/2015 financial year of Mhlathuze Water in compliance with section 38(1)(a)(ii) and 77(a) of the Public Finance Management Act (PFMA). The Audit Committee's operations are guided by a detailed charter that is informed by the PFMA and King III, as approved by the Board.

MEMBERSHIP

The Audit and Risk Committee was appointed by the Board of Directors in respect of the 2014/2015 financial year.

The current Audit Committee members were appointed on 12 March 2011:

- Musa Xulu (Chairperson);
- Brian Rawlins;
- Elliot Mzimela – Resigned 1 November 2014;
- Bonginkosi Mshengu – appointed as a Board Member on 1 October 2014; and
- Nica Gevers.

All members of the Committee are not executive members of Mhlathuze Water.

AUDIT AND RISK COMMITTEE REPORT

FOR THE YEAR ENDED 30 JUNE 2015

PURPOSE

The purpose of the Audit and Risk Committee is to:

- Assist the Board in discharging its duties relating to the safeguarding of assets, the operation of adequate systems, control and reporting processes, and the preparation of accurate reporting and financial statements in compliance with the applicable legal requirements and accounting standards;
- Provide the Chief Financial Officer, internal and external auditor's access to the Chairperson of the Audit Committee or any member of the Audit Committee as is required in relation to any matter falling within the remit of the Audit Committee;
- Meet with the external auditors at least on an annual basis and discuss External Audit matters;
- Provide a forum for discussing business risk and control issues and developing recommendations for consideration by the Board;
- Monitor enterprise-wide, operational strategic, regulatory, safety and other risks, as well as to ensure adequate mitigation thereof by way of monitoring controls that have been implemented to curtail and minimise risk;
- Review Mhlathuze Water's financial statements and other compliance reports;
- Oversee the activities of and ensure coordination between the internal and external audit;
- Perform duties that are assigned to it by the Water Services Act, and as governed by other legislative requirements;
- Receive and deal with any complaints concerning the accounting practices, internal audit or the content and audit of its financial statements or related matters; and

- Conduct an annual review of the Audit and Risk Committee's work and terms of reference and make recommendations to the Board to ensure that the Audit and Risk Committee operates at maximum effectiveness.

EXECUTION OF FUNCTIONS

The Audit and Risk Committee has executed its duties and responsibilities during the financial year in accordance with its terms of reference as they relate to the Mhlathuze Water's accounting, internal auditing, internal control and financial reporting practices.

During the year under review, the Committee:

- Recommended approval of the external audit engagement letter, the plan and the budgeted audit fees payable to the external auditor;
- Reviewed the audit, evaluated the effectiveness of the auditor and its independence and evaluated the external auditor's internal quality control procedures;
- Obtained an annual written statement from the auditor that its independence was not impaired;
- Determined the nature and extent of all non-audit services provided by the external auditor and approved all non-audit services undertaken;
- Obtained assurances that no member of the external audit team was hired by Mhlathuze Water during the year;
- Obtained assurances from the external auditor that adequate accounting records were being maintained; and
- Considered whether any reportable irregularities were identified and reported by the external auditors in terms of Auditing Profession Act, 2005, and determined that there were none.

In respect of the financial statements, the Committee among other matters:

- Confirmed the going concern as the basis of preparation of the annual financial statements;
- Reviewed compliance with the financial conditions of loan covenants and determined that the capital of Mhlathuze Water was adequate;
- Examined and reviewed the annual financial statements, as well as all financial information disclosed to the public prior to submission and approval by the Board;
- Ensured that the annual financial statements fairly presented the financial position of Mhlathuze Water as at the end of the financial year, and the results of operations and cash flows for the financial year and considered the

basis on which Mhlathuze Water was determined to be a going concern;

- Considered accounting treatments, significant unusual transactions, fruitless expenditure and accounting judgements;
- Considered the appropriateness of the accounting policies adopted and changes thereto;
- Reviewed the external auditor's audit report; and
- Considered any problems identified and reviewed any significant legal and tax matters that could have a material impact on the financial statements.

In respect of internal control and Internal Audit, including forensic audit, the Audit Committee amongst other matters:

- Reviewed and approved the annual internal audit charter and audit plan;
- Considered the reports by the internal and external auditor on Mhlathuze Water's systems of internal control including financial controls, business risk management and maintenance of effective internal control systems;
- Received assurance that proper and adequate accounting records were maintained and that the systems safeguarded the assets against unauthorised use or disposal thereof;
- Reviewed significant issues raised by internal and forensic audit processes and the adequacy of corrective action in response to significant internal forensic audit findings; and
- Based on the above, the Committee formed the opinion that there were no material breakdowns in internal control, including financial controls, business risk management and maintaining effective material control systems.

In respect of risk management and information technology, the Committee, insofar as relevant to its functions:

- Reviewed Mhlathuze Water's policies on risk assessment and risk management, including fraud risks and information technology risks as they pertain to financial reporting and the going concern assessment, and found them to be sound;
- Considered and reviewed the findings and recommendations of the Internal Auditor; and
- Monitored and evaluated significant IT investments, delivery of services and the management of IT.

In respect of legal and regulatory requirements to the extent that they may have an impact on the financial statements, the Committee:

- Reviewed with management legal matters that could

have a material impact on Mhlathuze Water;

- Reviewed adequacy and effectiveness of Mhlathuze Water's procedures to ensure compliance with legal and regulatory responsibilities; and
- Monitored complaints received via Mhlathuze Water's ethics line, including complaints or concerns regarding accounting matters, internal accounting records, the content of financial statements, potential violations of the law and questionable accounting and auditing matters.

In respect of the coordination of assurance activities, the Audit and Risk Committee reviewed the plans and work outputs of the internal and external auditors and concluded that these were adequate to address all significant financial risks facing the business.

INDEPENDENCE OF EXTERNAL AUDITOR

The Committee is satisfied that KPMG is independent of Mhlathuze Water after taking the following factors into account:

- Representations made by the Auditor to the Audit and Risk Committee;
- The Auditor does not, except as external auditor or in rendering permitted non-audit services, receive any remuneration or other benefit from Mhlathuze Water;
- The Auditor's independence was not impaired by any consultancy, advisory or other work undertaken by the auditor;
- The Auditor's independence was not prejudiced as a result of any previous appointment as Auditor; and
- The criteria specified for independence by the Independent Regulatory Board for auditors and international regulatory bodies.

ANNUAL FINANCIAL STATEMENTS

Following review by the Audit and Risk Committee of the Annual Financial Statements of Mhlathuze Water for the year ended 30 June 2015, the Committee is of the view that in all material respects, they comply with the relevant provisions of Water Services Act, South African Statements of Generally Accepted Accounting Practice (SA GAAP) and fairly present the financial position at that date and the results of operations and cash flows for the year ended. The Committee has also satisfied itself of the integrity of the remainder of the Annual Report. Having achieved its objectives, the Committee has recommended the financial statements and Annual Report for

the year ended 30 June 2015 for approval to the Mhlathuze Water Board.

GOING CONCERN

The Department of Water and Sanitation (DWS) is currently in the consultative process of considering establishing a single Water Board in KwaZulu-Natal. The proposed roadmap was presented at a meeting between the Minister and the representatives of Umgeni Water and Mhlathuze Water, and extensive consultations are underway.

However, Mhlathuze Water has no reason to believe that this process will negatively impact the going concern assumption of Mhlathuze Water for the foreseeable future.

The going concern assumption is a fundamental principle in the preparation of financial statements. Mhlathuze Water has applied and complies with applicable accounting principles, which assume that, MW will continue to exist long enough to carry out its objectives and commitments and will not liquidate in the foreseeable future.

Under the going concern assumption, Mhlathuze Water is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations.

All assets and liabilities were recorded on the basis that the entity will be able to realise its assets, discharge its liabilities, and obtain refinancing (if necessary) in the normal course of business.

On behalf of the Audit and Risk Committee:



Mr M.M Xulu

Chairperson of the Audit and Risk Committee

Richards Bay



CORPORATE GOVERNANCE

The Board of Mhlathuze Water was appointed by the previous Minister of Water Affairs, Ms Edna Molewa, in accordance with the provisions of the Water Services Act (Act No. 108 of 1997) for a term of office of four years with effect from 1 March 2011 to 28 February 2015. On 28 February 2015 the term of office for the existing Board was extended by the Minister to 30 June 2015 and on 01 June 2015 the Minister extended the Board's term of office further in order to make allowance for the Department of Water and Sanitation to complete the process of appointing a new Board.

The Board of Mhlathuze Water is established in terms of the Water Services Act (WSA) and must comply with the requirements of the Public Finance Management Act (PFMA). It subscribes to the recommendations of the King Commission on Corporate Governance as well as the principles of Generally Accepted Accounting Practice (SA GAAP). As per King III, the Board's responsibilities are to strategically drive the organisation while ensuring that its interests are protected

at all times. In ensuring that there is good governance in the organisation, the Board has a written charter that governs its powers, functions and responsibilities.

In terms of the PFMA, the Board is accountable and responsible to the shareholder for the financial performance and affairs of the organisation. The Board attends to matters of policy and sets strategic direction and the Executive Committee executes the Board mandates and reports to the Board on a quarterly basis.

Mhlathuze Water recognises that transparency, disclosure, financial controls and accountability are the pillars of any good system of corporate governance through the various skills set and vast experience of the Board members, the organisation is able to deliver services and benefit its stakeholders. In order to ensure that its Board Members are kept up to date on all developments, Mhlathuze Water offers its Board training under the IODSA umbrella and also conducts Board evaluations through the IODSA to ensure independence and objectivity of the assessments.



Mhlathuze Water Board Members



DUDU MYENI

Chairperson of the Board. Ms Myeni has vast experience in the education sector. She is also a well-established businesswoman who is passionate about the upliftment of rural communities. Her expertise in business and education add value to the Board. Ms Myeni serves as the Executive Chairperson of the Jacob Zuma Foundation, Chairperson of South African Association of Water Utilities (SAAWU), she has been re-elected as the President of Accounting and Financial Women's Alliance (AFWA) and is also the Chairperson of South African Airways (SAA).



POPPY DLAMINI

Chairperson of the HR/Remuneration Committee and Member of the Service Delivery Committee. Ms Dlamini is an environmental and conservation expert. Her involvement in this sector spans 20 years. Some of her achievements include project managing the Umgeni Water Sustainability Report, which won several international awards. She introduced and led the implementation of the global best practice and environmental conservation and management, including the Global Reporting Initiative pertaining to corporate governance. She currently serves on the Board of iSimangaliso Wetlands Park.



THEMBINKOSI MADIKANE

Chairperson of the Service Delivery Committee and Member of the HR/Remuneration Committee. Mr Madikane is a professional engineer with more than 20 years' experience in the consulting engineering environment and he is a Managing Director of Igoda Projects. He is a Chairperson of the Engineering Council of South Africa (ECSA)'s Professional Engineers Registration Committee and serves on various other ECSA committees. Mr Madikane is the Vice-President of the South Africa Institute of Electrical Engineers and also a Council member. He is a Fellow of the South African Academy of Engineering and South Africa Institute of Electrical Engineers.



BONGINKOS MSHENGU

Chairperson of the Finance Committee and Member of the Audit & Risk Committee. Mr Mshengu has over 30 years' experience in the Human Resources field, having worked for a number of organisations, both in the private and public sector. Bonginkos has operated at an executive level for many years as a Human Resources Director. He acted as a CEO of a R4 billion organisation for a period of seven months. He has a passion for transformation, leadership and community development. He also spent a number of years in the government service as a social worker and a director. He has handled human resources projects in Namibia and Ethiopia and has consulted for public and private organisations. Mr Mshengu is a past Regional President for the Black Management Forum. He currently serves as the first Deputy President of the Pietermaritzburg Chamber of Business. He also serves on the Board of PMB Community Chest. In 1997, he was voted 'Manager of the Year' by the Black Management Forum, in recognition of his successful implementation of the employment equity in one of the parastatals.



MUSA XULU

Chairperson of the Audit and Risk Committee and a Member of the HR/Remuneration Committee. Mr Xulu is an Associate General Accountant under the SA Institute of Chartered Accountants and a member of the SA Institute of Public Accountants. M Xulu also brings to the Committee and the Board auditing, financial, marketing and sales experiences gained over the past 14 years.



FREDERIK BOSMAN

Member of the Finance Committee and Member of the HR/Remuneration Committee. Mr Bosman is a registered Professional Engineer. He has worked for local government since 1973 and has been a member of the South African Institute of Civil Engineering since 1975 and a Fellow since 1986. He is an Honorary Fellow and past President of the Institute of Municipal Engineering of Southern Africa. He is a member of the KZN Planning and Development Appeals Tribunal, and elected Councillor for the City of uMhlathuze and the uThungulu District Municipal Council, respectively, since May 2011. Mr Bosman previously served on Mhlathuze Water's Board from 1980 till 1994.



SIMOSENKOSI CHAMANE

Member of the Finance Committee and Member of the HR/Remuneration Committee. Advocate Chamane is a legal expert and holds senior positions in the public and freight sector. He is a member and Associate of the Society of Advocates and the KwaZulu-Natal Durban Bar.



NONHLANHLA KHUMALO

Member of the Finance Committee and Member of the Service Delivery Committee. Ms Khumalo has experience in programme management and social infrastructure development and has worked in rural community development for the past 22 years. She is currently at the Independent Development Trust and contributes towards National and Provincial Development Programmes. Ms Khumalo is a Board member of the Project Planning Trust.



AMITA BADUL

Member of the Finance Committee and Member of the Service Delivery Committee. Ms Badul is experienced in Local Government Management and Adult Basic Education and Training. She is a member of the Executive Committee of the iLembe District Municipality and chairs its Finance Portfolio Committee. Ms Badul is also a member of iLembe District Municipality's Budget and Audit Committee. She is also a member of the Inter-Governmental Forum and a member of the Board of Stanger Provincial Hospital.



NICA GEVERS

Member of the Audit and Risk Committee. Mrs Gevers is a Chartered Accountant and has financial experience exceeding 30 years in the retail, engineering and public sectors, most of which have been in management and executive positions. Mrs Gevers input has assisted the Board to manage the organisation's financial risk and to drive the long-term funding strategy for the organisation.



BRIAN RAWLINS

Member of the Audit and Risk Committee and Member of the Service Committee. Mr Rawlins is a Hydrologist at the University of Zululand. His expertise in Environmental Impact Assessments, water resources management and hydrology add value to the Board.

BOARD COMMITTEES

The Board of Mhlathuze Water has instituted the following committees to assist in the performance of its functions as well as to assist and support management. All committees operate under a mandate from the Board and all decisions are recommended to the Board, which makes the final decision.

Audit and Risk Committee – The Committee assists the Board to discharge its responsibilities in terms of S51 of the Public Finance Management Act and the National Treasury Regulations. This committee is responsible for the integrity of integrated reporting to ensure that the internal financial controls in place are effective. The Audit and Risk Committee also oversees the risk management process, Internal and External Audit and performance monitoring and evaluation. The Committee meets at least four times a year.

Finance Committee – This Committee considers the financial performance and budgeting issues of Mhlathuze Water, and ensures compliance with the PFMA and Treasury Regulations. The Committee's specific responsibilities include, recommending policies that maintain and improve the financial health and integrity of the organization, reviewing and recommending a long-term financial plan for the organisation. The Committee is also responsible for monitoring the financial performance of the organisation as a whole against approved budgets, long-term trends and industry benchmarks.

Human Resources and Remuneration Committee

This Committee provides direction on matters affecting the human capital of the organisation, the organisational structure, remuneration and any other functions the prevailing standards of corporate governance require of such a Committee. The role of the Committee is to assist the Board in fulfilling its corporate governance responsibilities in regard to remuneration and strategic human resources matters; including establishing and implementing a human resources strategy to ensure that appropriately talented and trained people are retained and up skilled to achieve the business strategy. The Committee is also responsible for undertaking the appropriate performance management, succession planning and talent development activities and programs as well as providing effective remuneration policies having regard to the creation of value for shareholders and the external remuneration market.

Service Delivery Committee – This Committee gives direction on capital projects that impact service delivery, evaluation of large projects and assists in tracking performance of the organisation against the allocated budget. It is a technical committee that supports the Board in achieving its mandate to grow the business.

Nominations Committee – This ad-hoc Committee consists of the chairpersons of the various Board Committees and is used for the selection of the Chief Executive. It is chaired by the Chairperson of the Board.

Board and Committee Meeting Attendance – 01 July 2014 to 30 June 2015

Board Meeting	Board Training		Board Meetings		Board Nomination Committee	
	Training Held	Training Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended
D. Myeni	4	-	4	4	1	-
A. Badul	4	3	4	4	1	-
F. Bosman	4	2	4	4	1	1
C. Chamane	4	1	4	2	1	-
P. Dlamini	4	2	4	4	1	-
N Gevers	4	1	4	3	1	-
N. Khumalo	4	1	4	2	1	-
T. Madikane	4	2	4	4	1	1
B. Mshengu	4	-	4	3*	1	1
B. Rawlins	4	1	4	4	1	-
M. Xulu	4	1	4	3	1	1

* Mr. Mshengu was appointed to the Board on 1 October 2014.

Committee Meeting's Report

The Board is governed by a code of ethics and all sub-committees function in terms of the Charter approved by the Board. Continuous education and training is provided for Board members to improve and maintain the effectiveness of the Board. Board meetings have been attended and the details of activities are disclosed below.

	Finance Committee		Service Delivery Committee		Hr/Remuneration Committee		Audit Committee	
	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended
D.C. Myeni	4	-	4	-	4		4	-
A. Badul	4	4	4	4	4	-	4	-
F. Bosman	4	3	4	-	4	4	4	-
S. Chamame	4	3	4	-	4	4	4	-
P. Dlamini	4	-	4	2	4	3	4	-
N. Gevers	4	-	4	-	4	-	4	3
N. Khumalo	4	3	4	2	4	-	4	-
T.C. Madikane	4	-	4	4	4	4	4	-
B. Mshengu	4	2*	4	-	4	-	4	4
B. Rawlins	4	-	4	4	4	-	4	4
M. Xulu	4	-	4	-	4	4	4	3

*Mr. Mshengu was appointed as a Board Member and Chairperson of the Finance Committee on 1 October 2014.

GOVERNING BODIES

Mhlathuze Water actively embraces the King III Report, which provides a list of best practice principles to assist and guide directors. King III provides guidance on various governance related aspects, including:

- Ethical leadership and corporate citizenship;
- Boards and directors;
- Audit committees;
- The governance of risk;
- The governance of information technology (IT);
- Compliance with laws, rules, codes and standards;
- Internal audit;
- Governing stakeholder relationships; and
- Integrated reporting and disclosure.

DISCLOSURE OF INTEREST

Members declare any interests and commit to non-disclosure of information that could unfairly advantage or disadvantage a party on an annual basis and at every Board and Committee meeting. Disclosure and transparency are the partners of good governance; they demonstrate the quality and reliability of information, financial and non-financial provided by management to lenders, shareholders, and the public.

Conflict of Interests

Mhlathuze Water has a comprehensive code of conduct that applies to directors, management and employees in regulating conditions that constitute or could constitute a conflict.

Objectives of this policy, among other things are to:

- Promote transparency and avoid business-related conflicts of interest;
- Ensure fairness in dealing with the interests of all employees, other affected individuals and the company;
- Document the process for disclosure, approval and review of activities that may amount to actual, potential or perceived conflicts of interest; and
- Provide a mechanism for the objective review of personal outside interests.

By implementing the above, the organisation is in a position to:

- Allow individuals, where appropriate, to acquire and maintain personal outside interests, provided that these do not interfere with, or have the potential to interfere with, their duties to the company, or improperly influence the judgements expected of them when acting on behalf of the company;

- Protect individuals from misplaced charges of any conflict of interest by providing a mechanism for the objective review and approval (including conditional approval) of appropriate personal outside interests held by individuals.

ENTERPRISE-WIDE RISK MANAGEMENT

Mhlathuze Water Board ensures, on an annual basis that adequate and suitable internal controls are in place and appropriate to meet future needs. Mhlathuze Water’s approach is to focus on the organisational objectives at strategic and operational levels. Areas of non-compliance have been addressed and the organisation is striving to meet and exceed customers’ and stakeholders’ expectations.

Mhlathuze Water’s Board and its Executive Management are responsible for the governance of risk and continuous review of organisational risk profile. Annual risk assessments are performed for all departments with the assistance of risk champions who were appointed to represent departments.

Departmental risk registers were compiled and risks elevated and incorporated into a new risk table for the organisation. This was done to ensure that financial risks identified are being monitored and, mitigating controls put in place in order to manage risks that might affect the organization in meeting set objectives. Mhlathuze Water’s strategic risk profile, which comprises risks that could have a significant impact on the achievement of its strategic objectives, are continually reviewed and reported to the Board through the Audit and Risk Committee on a quarterly basis.

Strategic and operational risk assessments were performed:

Strategic Risks	Operational Risks
Strategic risks and opportunities that could significantly affect the organisation’s ability to implement strategy, many of which can be mitigated if they are well understood and proactively addressed.	Operational risks and opportunities that are managed proactively everyday by implementing policies and procedures.
Examples include market demand, increasing input costs not limited to chemicals and energy, skills and resource scarcity and availability of funds.	Examples include regulatory compliance, policy compliance and fraud prevention.

STRATEGIC RISKS

The main purpose of strategic risk assessments that are performed on an annual basis are to identify and assess, through a structured and facilitated process, the strategic risks that may prevent Mhlathuze Water from achieving its strategic goals.

Management controls to mitigate the risks are monitored and reported upon. There are a number of identified risks for the organisation and the Board places great emphasis on the top 10 strategic risks through its oversight and reporting mechanisms.

MHLATHUZE WATER’S TOP 10 STRATEGIC RISKS AS IDENTIFIED DURING 2014/2015 RISK WORKSHOPS

Risk No.	Description
1	Availability of water in terms of quality and quantity
2	Infrastructure failure
3	Increase in input cost (electricity/ fuel /raw water/ chemicals)
4	Failure of effluent disposal system
5	Inadequate document control management
6	Inadequate purified water storage capacity
7	Power failure
8	Environmental damage
9	Increased competition
10	Funding constraints

The Risk Manager, together with all Mhlathuze Water employees will continue evaluating and monitoring the risks on an ongoing basis. In addition, Risk Champions Forum was introduced to ensure that appropriate procedures are in place to identify, assess and manage risks as well as to monitor implementation of risk management procedures and reporting.

WHISTLE-BLOWER’S REPORT

The Board of Mhlathuze Water approved whistle-blower reporting and the appointed service provider reports to delegated officials on whistle blower activities on a monthly basis. Mhlathuze Water staff have been trained on whistle-blower procedure and reporting.

The Board’s objective in approving whistle-blower reporting was to create a positive whistle-blowing culture that is a critical element in the success of any risk management system. Promoting better risk management helps to prevent the need for more regulation and intervention by regulators and legislators.

Mhlathuze Water is committed to complying with the provisions of the Protected Disclosures Act (Act No. 26 of 2000) in ensuring that whistle-blowers who make disclosures are protected in terms of the Act and are not victimised and subjected to occupational detriment for blowing the whistle on improprieties.

Mhlathuze Water has a whistle-blower's hotline which has been an effective tool for the Board to help address all forms of corporate irregularities that have occurred. The contact number has been made available to all employees, stakeholders, and the public at large.

Matters that have been brought to the Board's attention have been investigated and resolved.

LEGAL FRAMEWORK

The Board and management of Mhlathuze Water have pledged and exercised their commitment to discharge their duty to be recognised as a good corporate citizen by ensuring compliance to good corporate governance principles that are inherent in sound business practice.

These are prescribed within a specific applicable legal and regulatory framework for public entities such as the Public Finance Management Act, the Water Services Act and the King III report, which are the cornerstones of these prerequisites.

Changes to the accounting standards that impacted on the financial reporting have been acknowledged and significantly adhered to, to ensure minimal deviations from the requirements. Mhlathuze Water realizes that compliance is an ongoing process and will therefore continue to seek sound and innovative ways to ensure full compliance in all the reporting obligations to both its customers and stakeholders to maintain transparency, effectiveness and accuracy.

MATERIALITY AND SIGNIFICANCE FRAMEWORK

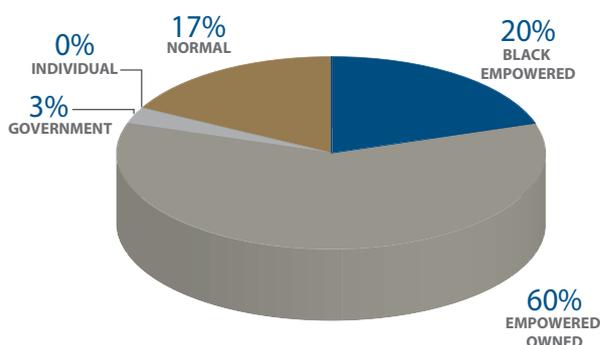
The Board approved a policy that defines both the levels of significance and materiality. The Delegations of Authority Policy was reviewed to align them to the framework.

SUPPLY CHAIN MANAGEMENT

The Supply Chain Management Policy was reviewed on 20 February 2015 to ensure alignment with the National Treasury regulations. In order to meet Mhlathuze Water

strategic objectives; deliberate efforts were made to increase expenditure on black-owned businesses. Total spend on goods and services for the 2014/2015 financial year was R682 million, of which R408 million (60%) was spent on companies that are more than 51% black-owned, and 20% (equivalent to R135 million) was spent on empowered companies. The target for 2014/2015 was 51% of discretionary spend and the actual achieved was 60% as per the graph below.

BEE Spend at at 30 June 2015



Mhlathuze Water held its third annual Supplier Day Indaba in May 2015. The event included presenters from the Department of Trade and Industry (DTI), Federated Employers Mutual Assurance (FEMA), South African Revenue Services (SARS), as well as the KZN Provincial Treasury to render presentations to the service providers. The event was a resounding success and will assist in the growth and development of SMMEs.

Through hard work, commitment and dedication, the organisation maintained and improved on its Level 2 B-BBEE rating.

CORPORATE SOCIAL INVESTMENT

Mhlathuze Water prides itself on the passion it has for the communities within its area of operation. It strives to motivate and encourage top performance at schools in such communities through efforts such as renovations of the school buildings, ablution facilities and also the provision of potable water.

Malobeni High School was renovated with the addition of four blocks including the Admin block and a Security Block.

Elangeni High School in the Empangeni region, was also renovated and a new science library room and books were donated as well.

Enqoleni Education Centre

This education centre supports both educators and students in the Empangeni region. We assisted the centre by building three seater toilets.

Cooperative Government and Traditional Affairs (COGTA) appointed Mhlathuze Water to implement a bucket eradication system at Kwa Sani in Harry Gwala District Municipality. This project entailed the construction of ablution facilities as well as the connection of a sewer systems to the waste water treatment works. We further assisted with emergency water supply during elections at voting stations in Nongoma, Hlabisa, Jozini Ward 4 and Abaqulusi. This was at COGTA's request.

The Department of Water and Sanitation (DWS) appointed Mhlathuze Water to assist with the drought situation in uMkhanyakude by supplying water using water tankers to Mtuba Local Municipality and Uthungulu District Municipality Ward 5 in Ntambanana Local Municipality. The Department has also requested Mhlathuze Water to supply, deliver and install 81 JoJo Tanks in the uMkhanyakude District Municipality under Hlabisa, Hluhluwe, Jozini and Mhlaba areas.

Mhlathuze Water was given a directive by DWS to complete the projects that were started by their Eastern Unit in Nongoma and Abaqulusi. These projects entailed the protection of springs, drilling of boreholes and reticulation to the communities.



MEET THE EXECUTIVE COMMITTEE



BACK: Swaswa Ntlhoro, Mandla Myeni and Brian Ndaba. FRONT: Sibusiso Makhanya, Simphiwe Xulu and Nokubonga Ndlovu.



SIBUSISO MAKHANYA

SIBUSISO MAKHANYA – CHIEF EXECUTIVE

Qualifications

Diploma in Civil Engineering
Higher Diploma in Civil Engineering
Bachelor of Commerce (Economics)
Postgraduate Diploma in Marketing Management
Master's in Business Administration

Area of Expertise

Engineering and Project Management

Years of Service at

Mhlathuze Water

As a Board Member – two years

Executive – six years

Position on other Boards

Industrial Development Zone Board Member



BRIAN NDABA

BRIAN NDABA – CHIEF FINANCIAL OFFICER

Qualifications

BCom (Accounting) Degree

Area of Expertise

Finance Management Auditing and Risk Management

Years of Service at

Mhlathuze Water

Two years, ten months

Position on other Boards

City of uMhlathuze, Mfolozi Municipality Audit Committee Member



SIMPHIWE XULU

SIMPHIWE XULU – CHIEF OPERATIONS OFFICER

Qualifications	Pr.Tech. National Diploma: Chemical Engineering B-Tech: Chemical Engineering Master of Business Leadership Degree
Area of Expertise	Production/Operations, Water & Waste Water Processes Management
Years of Service at Mhlathuze Water	Four years
Position on other Boards	None



SWASWA NTLHORO

SWASWA NTLHORO – GM SCIENTIFIC SERVICES

Qualifications	BSc (Hons) Degree Postgraduate Diploma in Management
Area of Expertise	Chemistry and Applied Chemistry
Years of Service at Mhlathuze Water	Seven years
Position on other Boards	None



MANDLA MYENI

MANDLA MYENI – HUMAN RESOURCES MANAGER

Qualifications	Bachelor of Technology Degree in Management BCom Degree (Industrial Psychology) Diploma in Personnel Management
Area of Expertise	Human Resources
Years of Service at Mhlathuze Water	20 years
Position on other Boards	None



NOKUBONGA NDLOVU

NOKUBONGA NDLOVU – COMPANY SECRETARY

Qualifications	LLB Degree (Admitted Attorney)
Area of Expertise	Corporate Governance and Commercial Litigation
Years of Service at Mhlathuze Water	One year, four months
Position on other Boards	Non-executive Director: Aids Foundation South Africa

CORPORATE PERFORMANCE SCORECARD

Performance Objective	Alignment		Outcomes/ Impact	Indicators	Measure	Estimate 2013/2014	Target 2014/2015	Actual 2014/2015	Comments/ Corrective Action
	Ministerial Outcomes	DWA Strategic Plan							
1. Water quality compliance	MO A, OP1, Ta) & c), MO B, OP2, Ta)	SG 3 (SO 3.1 & SO 3.2) SG 4 (SO 4.1)	Water quality standards met	Test results, SANS 241	% compliance	100%	Risk-defined health – ≥95%	100%	Target exceeded
						100%	Risk-defined operational – ≥93%	99.7%	Target exceeded
						100%	Accute Health - 1 Micro – ≥97%	100%	Target exceeded
						100%	Accute Health - 1 Chem – ≥97%	100%	Target exceeded
						100%	Chronic Health – ≥95%	100%	Target exceeded
						100%	Aesthetic – ≥93%	100%	Target exceeded
						1.83%	<5%	1.82%	Target met
2. Non-revenue water	MO A, OP1, T a) MO B, OP2, T a)	SG2 (SO 2.2, SO 2.3, SO 2.4)	Reduced levels of unaccounted for water (UAW)	Water lost as a % of total water produced	%	0%	<1%	0%	Target met
						0%	No unplanned interruptions to supply exceeding 24 hours	0%	Target met
3. Reliability of supply	MO A > G OP1, Ta), b) & c), OP2, Ta)	SG 1 (SO 1.6) SG 2 (SO 2.4)	No unplanned interruptions to supply exceeding 24 hours	Number of days supply disrupted divided by total number of possible supply days	%	0%	<1%	0%	Target met
						0%	Unplanned audit report	0%	Target met
4. Financial reporting compliance	MO A > G	SG 1 (SO 1.2) SG 3 (SO 3.1)	Unplanned audit report	Annual external audit	Qualified/ Unqualified	Unqualified Audit Opinion	Unqualified Audit Opinion	Unqualified Audit Opinion	Target met
5. Staff turnover	MO E	SG 1 (SO 1.1 & S O 1.3)	Optimal staff retention	% staff leaving	%	3.11%	8% (2% is the quarterly target)	5.26%	Target exceeded
6. Board Member attendance	MO A > G	SG 1 (SO 1.2) SG 2 (SO 2.3) SG 3 (SO 3.1)	Improved performance of fiduciary duties/ governance	Annual attendance	%	91.6%	80%	81.8%	Target met
7. Effective internal controls and risk management	MO B	SG 1 (SO 1.2) SG 3 (SO 3.1)	No repeat or unresolved findings	Internal Audit reports	Number of repeats	No repeat findings	No repeat findings	No repeat findings	Target met
						No unresolved findings	No unresolved findings	No unresolved findings	Target met

CORPORATE PERFORMANCE SCORECARD (cont.)

Performance Objective	Alignment		Outcomes/ Impact	Indicators	Measure	Estimate 2013/2014	Target 2014/2015	Actual 2014/2015	Comments/ Corrective Action
	Ministerial Outcomes	DWA Strategic Plan							
8. Bulk supply agreements concluded with Municipalities/ other customers	MO A, B & D OP1, Ta), b) & c), OP2, Ta)	SG 1 (SO 1.5) SG 2 (SO 2.3) SG 3 (SO 3.2)	Statutory and service level agreements in place	Municipalities/ other customers with bulk supply agreements	%	80%	100%	100%	Target met
9. Improve financial ratios	MO A, B & D OP1, Ta), b) & c), OP2, Ta)	SG 1 (SO 1.2) SG 3 (SO 3.1)	Improved viability and sustainability	Financial ratios	Liquidity Gross profit margin % (primary activities) Gross profit margin % (secondary activity) Net profit margin % (primary activity) Debt/equity ratio Return on assets % Debtors days #	2.42 87.1% 10.2% 22% 0.59 9.7% 38 days	1.60 84.5% 11.8% 14% 0.47 8.2% 45 days	1.88 84.29% 20.60% 21.6% 0.45 9.00% 34.98	Target exceeded On target. Target exceeded Target exceeded Target exceeded Target met Target exceeded Target exceeded
10. Increase BBEE spend	MO E	SG 1 (SO 1.3) SG 2 (SO 2.2)	Spend increased and increased new entrants	% of spend increased and # of increased new entrants	% increase	Maintain above 51% of discretionary spend	Maintain above 51% of discretionary spend	60%	Target exceeded Target exceeded
11. Manage costs within the approved budget	MO B OP2 Ta)	SG1 (SO 1.6)	No over expenditure/ losses	Financial reports	# new entrants % variance	20 new entrants 5% (over/ under budget)	20 new entrants 5% (over/ under budget)	98 2% over budget	Target exceeded Within target
12. Capital expenditure	MO E MO A, B & D	SG 1 (SO 1.2, 1.3 & SO 1.6) SG 2 (SO 2.1)	Infrastructure available to meet demands	Overall project expenditure within rand target Overall project completion dates within targets	% variance	60% spent	75% spent	84.79%	Target exceeded. Target exceeded.

CORPORATE PERFORMANCE SCORECARD (cont.)

Performance Objective	Alignment		Outcomes/ Impact	Indicators	Measure	Estimate 2013/2014	Target 2014/2015	Actual 2014/2015	Comments/ Corrective Action
	Ministerial Outcomes	DWA Strategic Plan							
13. Increased access to services	MO A, B&D OP1, Ta), b) & c). OP2, Ta)	SG 2 (SO 2.1) SG 3 (SO 3.2) SG 4 (SO 4.2)	Contribution to national objectives	No. of new projects	No. of new projects DOE & DBE	345	144 (based on the number of schools)	76 DOE	Target not met. 39 DOE projects were cancelled due to the fact that the budget was retracted by DOE
								79 DBE	Target not met. All projects complete. Commissioning to be concluded in July
					DWS	13	16	15	Target not met due to incorrect targets (ie 16 projects) being recorded
14. Engagement in secondary activities	MO A, D, E & G	SG 2 (SO 1.3) SG 3 (SO 3.2)	Extent of involvement	% of total turnover	DEA	3	3	4	Target met
					% of total turnover	54%	63%	61%	Target not met due to the external work that was suspended by DOE
15. Achieve statutory reporting compliance	MO A, B & D OP1, Ta), b) & c) OP2, Ta)	SG 1 (SO 1.2 & SO 1.6) SG 3 (SO 3.1)	Reporting compliance achieved	Statutory submissions made on time	Submission dates met/ missed	All reports were submitted in time	Submission dates met	3rd Quarterly Report submitted on 14 May 2015 (deadline 15 May 2015). Business Plan and Shareholder Compact submitted on 28 May 2015 (deadline 31 May 2015).	Target met
16. Jobs created	MO A, D, E & G	SG 1 (SO 1.1 & SO 1.3)	Permanent and contract (direct)	Total number of jobs created	Number	100	5	118	Target exceeded
	MO A>G	SG 1 (SO 1.1 & SO 1.3)	Temporary (indirect)	Total number	Number	663	500 (quarterly target is 125)	768	Target exceeded
17. Corporate social responsibility initiatives	MO E	SG 1 (SO 1.3) SG 2 (SO 2.1, 2.2 & 2.3)	Good corporate citizenship	Number of initiatives	Number and value	At least 8 initiatives R716 732 spent	At least 9 (target per quarter is 2.25) R1.2 m	14 to the value of R1 145 564	Target exceeded
18. Training and skills development	MO E	SG 1 (SO 1.1 & SO 1.3) SG 2 (2.3)	Skills and capacity building	Training courses, learnerships, bursaries	Total number of training, learnership and bursaries	108	108 (quarterly target is 27)	118	Target exceeded
19. Good governance	MO E, F & G	SG 1 (SO 1.2)	Improved controls and risk mitigation	Breaches of materiality and significance framework	Number of breaches	N/A (new objective)	<5	0	Target met



Certificate of Long Service
Mr. XW Ngwenya
15 Years

Certificate of Long Service
Mrs V Gwendolyn
15 Years

Certificate of Appreciation



Gold Award
Internal communication
Wake up with a new heart with Dr David Molepo
Mintaka



HUMAN RESOURCES

Over the past year Mhlathuze Water has continued to make progress towards achieving the following HR priorities and goals, which are aligned with the organisational strategy:

- Filled 30 positions during the reporting period. Of those who filled the positions, 63% were female;
 - Increased representation of coloured employees from 1% to 2%. This is in line with the race profile of Economically Active Population in KwaZulu-Natal;
 - Significantly increased representation of people with disabilities from 0.01 to 2.81, which was above our annual target of 2%;
 - 100% of the Workplace Skills Plan was implemented at a cost of R1.463 million. In total 1 570 man-days were spent on training and development;
 - Awarded internal bursaries to 22 employees to the value of R353 835 and 68% of them were females and people with disabilities;
 - Maintained a staff turnover rate of 5.26% (4.65% in 2013/2014) against a projected rate of 8% for the period under review;
 - Continued to host students from the institutions of higher learning for a period of approximately one month. The purpose of the programme is to give students practical experience and exposure to the work environment. Ten students participated in the programme during the year.
- Maintained the lowest Disabling Injury Frequency Rate of 0.44. (0.00 in 2013/2014);
 - Achieved the re-certification for the OHSAS 18001 System for a further period of three years;
 - Successfully implemented the 12-hour shift system, thereby ensuring maximum rest periods and improved quality of life for employees who work shifts;
 - Successfully concluded a one year salary increase agreement with the Union and the overall salary increase was within budget;
 - Mhlathuze Water again received an Excellence Award for Best Health and Safety Performance from Federated Employers Mutual Assurance and was ranked number two in KwaZulu-Natal in the category of Small and Medium Enterprises; and
 - Mhlathuze Water was a runner-up at the Zululand Chamber of Commerce and Industry Excellence Awards in the category of the Employer of Choice. This award acknowledges businesses that have a commitment to employee skills development, a training culture reaching all levels of their operations and a formal process for recognising and rewarding those who commit to professional and personal development.



Mr Mandla Myeni receiving the South African Human Resources Manager of the Year Award at the Careers24 Future of HR Awards.

EMPLOYEE PROFILE

The table below reflects the employee profile as at 30 June 2015. The actual total staff complement was 195 employees against an approved complement of 178. The total

complement was above the budgeted complement due to fixed-term contract employees who are employed on project-based contracts.

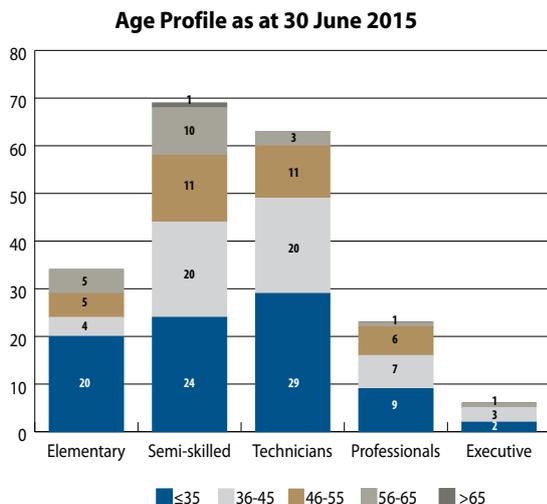
WORKFORCE PROFILE AS AT 30 JUNE 2015

Occupational Levels	Male				Female				Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Top management	1	-	-	-	-	-	-	-	1
Senior management	3	-	-	-	2	-	-	-	5
Professionals	8	-	1	2	10	-	1	1	23
Skilled technical & academically qualified workers	25	-	1	2	30	2	5	4	69
Semi-skilled	44	1	1	-	18	1	1	1	67
Unskilled & defined decision-making	15	-	-	-	15	-	-	-	30
TOTALS	96	1	3	4	75	3	7	6	195

A total of thirty positions were filled, and the majority were filled by females (63%).

AGE BREAKDOWN (AS AT 30 JUNE 2015)

The age distribution shows that youth (≤ 35 years) represents approximately 43% of our total workforce, and the majority of them occupy technical and professional jobs. Two of them are at the executive level.



STAFF MOVEMENTS FOR THE PERIOD JULY 2014 TO JUNE 2015

Staff Movement for the period 1 July 2014 to June 2015	No.
Total new vacancies filled	12
Total replacement vacancies filled	15
Total appointments	27
Number of internal appointments (promotions)	7
Number of designated appointments	26
Number of non-designated appointments	1
Number of resignations	2
Number of dismissals	4
Number of ill-health terminations	2
Number of retirements	1
Number of staff deaths	2
Total number withdrawals	10
Turnover for the year at 190 average complement (<i>unplanned separations</i>)	5.26%

STAFF RETENTION

Tabled hereunder are the actual average labour turnover rate for 2014/2015 and the projected labour turnover rate for the same period:

	Projected Full Year 2014/2015	Actual Financial Year 2014/15	Previous Year 2013/2014
Number of staff	178	195	182
Staff turnover rate	8%	5.26%	4.65%

This average annual turnover rate of 5.26% is lower than the projected staff turnover rate of 8%. One of the reasons for the slight increase in the staff turnover was dismissals due to misconduct.

The total cost to company package system is key to the success of the recruitment and retention strategies. Mhlathuze Water provides a mix of remuneration and benefits within a supportive environment. During this period, approximately 20 job evaluation reviews were completed and changes were implemented accordingly.

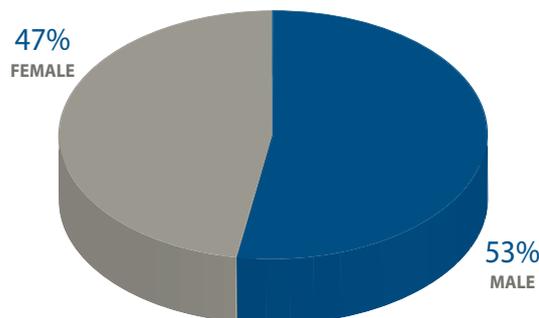
LONG SERVICE RECOGNITION PROGRAMME

Mhlathuze Water has always prided itself on being a good employer. The long service programme recognises employees who have reached employment milestones of 5, 10, 15, 20, etc. years with Mhlathuze Water. The table below shows the number of employees who celebrated the long service milestones. Together, the long service award recipients dedicated a total of 215 years of service to Mhlathuze Water.

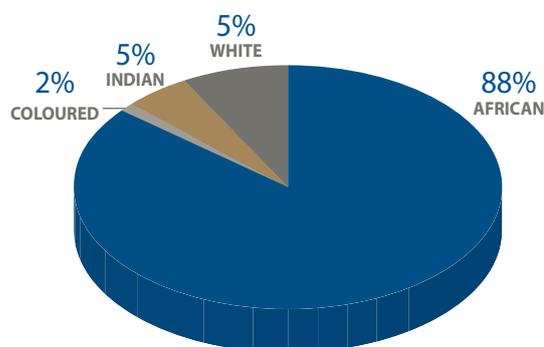
Years of Service	No. of Employees
5	10
10	3
15	4
20	1
25	1
30	1
Total	20

EMPLOYMENT EQUITY PROFILE AS AT 30 JUNE 2015

Gender Profile



Race Profile



Again this year, our recruitment and retention strategies have continued to focus on employment equity. The number of female employees has shown an increase on the previous year's 43% to 46% in 2014/2015. There are 2.81% of employees who have indicated that they have a disability; compared to 0.01% in the previous year. The complexion of our race profile has improved significantly with the increase of coloured employees to 2% as shown in the pie-chart above. More efforts are being made to improve on these statistics by refining our recruitment and retention strategies and tactics.

TRANSFER OF THE PROVIDENT TO AN UMBRELLA FUND

As of January 2015, Mhlathuze Water's Provident Fund was successfully transferred to the Sanlam Umbrella Fund. The move from a stand-alone fund to an umbrella fund was very compelling as it was becoming increasingly clear that the stand-alone fund was very costly to members. An umbrella fund pools the contributions of various employers and members in one fund and the greater number of participants allows for cost savings and delivers more value to members.

HR SERVICE SATISFACTION ANNUAL SURVEY

The annual HR Service Satisfaction Survey is conducted to better understand employees' perspectives and identify perceived service gaps and to facilitate continuous improvement in HR services and programmes. The overall satisfaction level is good, as it is at 78%, although we had set ourselves a target of 85%. Employees are most satisfied with the employee wellness, communication and general HR administration (80%). There are opportunities for improvement in handling of grievances and disciplinary matters, training and development as well as recruitment and selection (75%).

HUMAN RESOURCES DEVELOPMENT

Ensuring that our employees have the right skills and abilities is essential to our long-term success.

- **Staff Training**

The 2013/2014 Workplace Skills Plan was implemented successfully as approximately 100% of the planned training was completed at a cost of R1.4 million. Approximately 1 570 man-days were spent on training and this marked an improvement on previous year's 1 349 man-days. Further, an amount of R129 573 was received as a rebate from the Energy and Water SETA. This money will be used for further organisational development initiatives. Equitable distribution of training was done in terms of gender, race and disability.

- **Internal and External Bursaries**

Internal bursaries to the value of R353 835 were approved; 68% of this amount was awarded to female employees, including people with disabilities. Further, three bursaries to the value of R70 000 each were awarded to external students from needy communities within Mhlathuze Water's area of supply. One student has completed her degree in Civil Engineering and the other two are in their first and third year of studies respectively and are pursuing civil and mechanical engineering studies at the university.

- **Learnerships, Internships and Vacation Employment**

Thirteen vacation students from local schools were appointed for a period of approximately two weeks in order to furnish them with valuable practical experience which is complimentary to their fields of study. Preference was given to previously disadvantaged children. Five employees and two unemployed youth successfully completed the Learnership Programme on National

Certificate level – Water and Waste Water Process Control (NQF level 3). Eleven unemployed youth were appointed as interns in the various departments. A further, two graduate trainees were placed in the Finance Department.

EMPLOYEE RELATIONS

Our workforce contains a mix of unionised and non-unionised employees. Approximately 66% of our workforce are members of the union. We continue to dedicate our efforts to maintaining a healthy employee relations through active union-management engagements and through grievance and conflict resolution mechanisms. Four employees were dismissed for gross misconduct. Two grievances concerning unfair discrimination and unfair labour practice were lodged and one grievance was resolved at the Council for Conciliation, Mediation and Arbitration (CCMA). The other grievance is yet to be resolved.

EMPLOYEE WELLNESS PROGRAMME

Mhlathuze Water continues to look at ways to improve the health and well-being of all employees. Various wellness programmes were offered during the period under review and these included the following, among other things: sports day, HIV/Aids and wellness day, men's talk, ladies talk, conflict management, financial wellness and stress/depression and bipolar management. Eleven referrals for counselling were recorded during the period under review. One-hundred and twenty-eight employees were assessed for hypertension, diabetes, cholesterol and HIV/Aids. Two employees were medically boarded.

OCCUPATIONAL HEALTH AND SAFETY

Our vision is to make working for Mhlathuze Water a rewarding and productive experience by improving the health and safety of our employees and providing a healthy, safe and supportive environment in which to work. In the 2014/2015 financial year, Mhlathuze Water was re-certified for the OHSAS 18001:2007 Management System by the South African Bureau of Standards.

We have continued to maintain the lowest Disabling Injury Frequency Rate of 0.44 (compared to 0.00 in 2013/2014). Only one major disabling injury was recorded. Furthermore, we have successfully implemented the SANS 16001:2013 Standard known as the Employee Wellness and Disease Management System. As part of this system, we have successfully launched the Occupational Health and Wellness Clinic, where employees receive wellness screening, counselling and assistance for minor illnesses.

SCIENTIFIC SERVICES

ENSURE SAFE DRINKING WATER

In order to ensure that our domestic customers are supplied with water that is potable, treated water at Nsezi Water Treatment Plant is tested against SANS 241:2011 standards for drinking water. Water samples are taken and analysed regularly at Mhlathuze Water's ISO 17025 accredited Analytical Testing Facility based at the Head Office Complex in Richards Bay. In line with the requirements of the revised standard, a risk assessment is done on the entire system i.e. source to the consumer to identify and mitigate risks that could potentially impact the quality of water supplied. The results of this risk assessment forms part of the Water Safety Plan for the Nsezi system. A risk assessment of the monitoring programme is also done to ensure that the monitoring is structured such that it takes into account the inherent risks in the system. The current monitoring exceeds some of the requirements so as to cater for other operational requirements and contractual obligations with certain industrial consumers.

POTABLE WATER COMPLIANCE

Mhlathuze Water, from its installation at Nsezi, supplies potable water to the uMhlathuze Municipality in the town of Empangeni. There is also an emergency connection into the Richards Bay system. Treated water at Nsezi Water Treatment Works continues to be of the highest quality, and in line with the new SANS 241:2011 compliance for the final treated water is tabled below.

Tier 1: Compliance with SANS 241: 2011 Parameters (July 2014 to June 2015)

Risk Category	Compliance %	Water Quality
Acute Health 1: Microbiological	100	Excellent
Acute Health 1: Chemical	98	Excellent
Chronic Health	100	Excellent
Aesthetic	100	Excellent
Operational	99.7	Excellent
Physical	99.7	Excellent



**Tier 2: Risk associated with Acute Health 2
Parameters (July 2014 to June 2015)**

	Total Number of Tests	Total Number Complying
Cytopathogenic viruses	1	100%
Cryptosporidium	1	100%

EFFLUENT COMPLIANCE

Mhlathuze Water owns and operates the biggest offshore waste water disposal system in South Africa. Two pipelines (buoyant A-Line and dense B/C-Line) extending four and five kilometres out to sea, discharge industrial waste water from the big industries in Richards Bay and surroundings, sludge from Nsezi Water Treatment Plant and macerated sewage from the uMhlathuze Municipality. The organisation has a license to dispose industrial waste water in terms of Section 21 (h) of the National Water Act, 36 of 1998. In line with the license, samples are taken daily from the contributors and also from the combined effluent at the pump station before it is mixed with seawater and pumped into the sea. Overall compliance for the A-Line (discharging the buoyant effluent) was 82%. C-Line's (discharging the dense gypsum from Foskor) compliance was 69%.

The current disposal license was issued by the then Department of Water Affairs & Forestry in terms of chapter 4 of the National Water Act of 1998. With the promulgation of the Integrated Coastal Management Act of 2008, Mhlathuze Water submitted an application to the Department of Environmental Affairs for the new Coastal Waters Discharge Permit. The new permit is still pending.

Effluent Pipeline Forum meetings are held quarterly to discuss compliance and other relevant operational issues relating to the pipelines. Representatives from companies discharging into the pipelines, Departments of Water and Environmental Affairs, media and other stakeholders also attended the meeting.

Mhlathuze Water has implemented a system to impose financial penalties on non-conforming effluent from contributors in the hope that this will result in improved compliance. Of the six contributors to the effluent pipelines,

agreements to implement the system have been signed with five. Negotiations with the outstanding contributor are at an advanced stage.

ENVIRONMENTAL MANAGEMENT SYSTEM (EMS)

Mhlathuze Water has been ISO 14001 certified since February 2006. This certification is a voluntary process that involves an external certification body performing audits to confirm compliance to an international standard. This strategic initiative indicates the organisation's commitment to comply with environmental legislation and to conduct its operations in an environmentally friendly manner.

The last surveillance and re-certification audits were conducted in November and December 2014 respectively. During the audit, eight minor and one major non-conformances were raised and these were successfully cleared. The current certificate is valid for a period of three-years, effective from 1 April 2015 to 24 March 2018.

Mhlathuze Water has an Environmental Policy that provides strategic framework for the company's EMS which translates in identification of potential environmental impacts and setting of environmental objectives and targets. These objectives and targets address areas such as pollution prevention, waste minimisation and recycling as well as conservation of energy. This Environmental Policy is supported by organisational systems, procedures and practices that govern the company's operations that are basic to its environmental management program; which are: waste management, environmental sustainability policy, carbon footprint, incident prevention and reporting and environmental impact assessment for construction of pipelines, reservoirs and other infrastructure.

Environmental Incidents

An incident is an unplanned or undesired event that adversely affects the organisation's operations. Environmental incidents include property damage, spills, or near miss events that could have resulted in any of these. On the following page is a table with the number of incidents the organisation had during the reporting period:

Table: Environmental Incidents for 2014/2015

Number of incidents	Incident Type	Jul 2014	Aug 2014	Sep 2014	Oct 2014	Nov 2014	Dec 2014	Jan 2015	Feb 2015	Mar 2015	Apr 2015	May 2015	Jun 2015
		Diesel spillages	-	-	-	1	-	-	-	-	-	-	-
	Chemical spillages	-	-	1	-	-	-	-	-	-	1	1	-
	Effluent spillages	-	1	1	-	1	-	-	-	-	-	-	-
	Unauthorised waste management	-	-	-	1	-	-	-	-	-	-	-	-

WASTE MANAGEMENT

Mhlathuze Water has developed a Waste Management Plan with the intention of managing all waste (general or hazardous) generated by the organisation’s activities. The process involves waste identification, classification, storage and disposal where necessary. The concepts of 3Rs (reduce, reuse & recycle) will be implemented during the process. Stringent procedures are adhered to when collecting, transporting and disposing the hazardous waste. The process also included the classification and development of Safety Data Sheets for hazardous waste.

CARBON FOOTPRINT AND EMISSIONS REDUCTION INITIATIVES

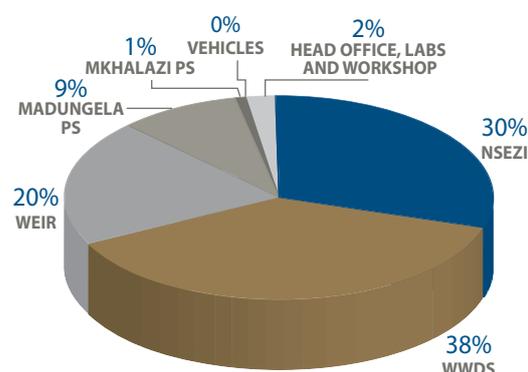
The organisation calculated its Carbon Footprint and developed a Carbon Management Plan. The exercise provided an improved understanding of the organisation’s carbon footprint with a view to transition to a more environmentally sustainable entity in the face of global climate change risk. Mhlathuze Water’s direct carbon emissions (scope 1) arise from fuel usage for vehicles and generators, while indirect carbon emissions (scope 2) are primarily due to electricity usage, and to a minor extent, flights.

The overall footprint results for period under review (the ‘Baseline Year’ of the assessment) are shown above. The majority of emissions emanate from the Waste Water Disposal System (WWDS), Nsezi Water Treatment Plant and the Weir Pump Station. Major efforts to reduce emissions in those areas are currently being prioritised.

Overall MW Carbon Footprint for 2014/2015 Period

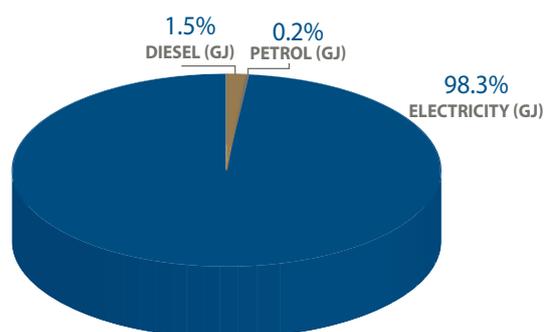
FY 2014/2015 Total	
Total annual energy use (GJ)	150 000
Scope 1 (tonnes CO ₂ -e)	177
Scope 2 (tonnes CO ₂ -e)	39 197
Total Scope 1 & Scope 2 (tonnes CO₂-e)	39 374

FY 2014/2015 Carbon Emissions by Area



The energy consumption per energy type is shown in the figure below. The majority of energy consumed (98.3%) is due to electricity consumption. Petrol and diesel consumption from vehicles is insignificant in comparison.

Energy Consumption by Type



There are current initiatives to reduce the organisation’s carbon footprint and these are aligned to the Energy Management System’s objectives and targets.

ENVIRONMENTAL AUTHORISATIONS AND COMPLIANCE MONITORING

Environmental Impact Assessments (EIAs) are conducted for all relevant projects so that likely environmental impacts can be managed. Where environmental impacts are identified,

Environmental Management Plans are developed to mitigate the risk. Projects involving a change of land use, construction or upgrading of infrastructure and storage/handling of hazardous substances are among a number of listed activities that are required to follow the Environmental Impacts Assessment process. Mhlathuze Water outsources these services to external service providers but monitors and audits these to ensure compliance with the Environmental Management Plans during project implementation.

The organisation has applied for Basic Assessments in line with the EIA requirements of the National Management Act and Water Use Licences (WUL) in line with Section 21 (C & I) of the National Water Act.

Status of Environmental Authorisations in 2014/ 2015

Project Name	Date of Authorisation – EA (RoD)	Date of Authorisation – WUL
Ingwavuma/Jozini Bulk Water Supply	June 2014 (Phase 1)	WUL still awaited
	February 2015 (Phase 2)	
Dukuduku Bulk Water Supply	August 2014	April 2015
Re-routing of the Effluent pipes at Grindrod Terminal	July 2014	WUL still awaited

QUALITY MANAGEMENT SYSTEMS

Mhlathuze Water has been ISO 9001 certified since February 2011. The first re-certification audit was done in October 2014 by the SABS. Only four minor non-conformances were raised and these were successfully cleared. The current certificate is valid for three years until 2017.

The Scientific Services Laboratory has been ISO 17025:2005 accredited since May 2002. The last surveillance audit was done in April 2014 by SANAS to check continual compliance to the requirements of the standard. The next surveillance audit will be conducted on the 21st of September 2015. The current certificate is valid for five years up to 2017.

BLUE DROP SYSTEM (BDS)

The Department of Water and Sanitation has established BDS, which enables the Department to monitor performance of every Water Services institution. Mhlathuze Water has participated in BDS assessments since 2010. In the 2011/2012 assessment, the Nsezi system received Blue Drop certification with a final score of 98.39%. A minimum score of 95% is required to achieve Blue

Drop Certification and formal assessments are conducted every two years. The last assessment results for 2012/2013 have not been released to date.

Blue Drop scores are determined based on assessments conducted by a panel of drinking water professionals on five key areas. These are: water safety planning; drinking water quality process management and control; drinking water quality compliance; and management accountability and local regulation and asset management. Compliance in all these areas ensures that not only drinking water quality compliance is taken into account, as it was traditionally the case, but also the overall management of the drinking water supply chain and control of risks to water quality is considered.

CATCHMENT MANAGEMENT FORUMS (CMF)

Mhlathuze Water participates in the Catchment Management Forums established by the Department of Water and Sanitation, as mandated by the National Water Act. The organisation has been an active participant in the Mhlathuze CMF, which is one of the five forums in the uSuthu to Mhlathuze Water Management Area.

WORKING FOR WATER PROGRAMME

Mhlathuze Water has been implementing the Working for Water Programme for the then Department of Water Affairs (DWA) since 2003.

The programme has since moved to the Department of Environmental Affairs (DEA) with the same mandate. A three-year Memorandum of Agreement has been signed between MW and the DEA in 2014.

This is an Expanded Public Works Extended Programme aimed at alleviating poverty through job creation for rural communities while assisting them in terms of skills development. It aims to conserve water resources through the removal of alien invasive plants. Approximately 600 people have benefited from this project, including: 60% women, 38% youth, and 2% people with disabilities. A number of projects were implemented in Mfule River, Goedetrouw Dam and Mhlathuze River (Waterweeds).

COMMEMORATION OF ENVIRONMENTAL DAYS AND GENERAL AWARENESS AND EDUCATION

Mhlathuze Water through the Environmental & Water Quality Section embarked on awareness and education campaigns on environmental protection and water conservation. Some of these initiatives were done as part of a Forum consisting of different stakeholders (government, private sector and

NGOs) within the uThungulu District Municipality and uses a calendar of special days throughout the year. The table below outlines activities undertaken internally and externally during the reporting period.

List of Environmental Awareness Campaigns and Events

Event	Date	Activities
Wetlands Day	February 2015	Posters were displayed on the importance of protecting wetlands as part of raising awareness.
National Water Week	March 2015	The organisation participated in the Robot Drive on the Water Conservation Awareness
		The section further published water saving tips as part of raising awareness on water conservation
Environment Week	June 2015	Mhlathuze Water partnered with other stakeholders to commemorate Sanitation/ Environment Week in Nkandla and Mbonambi municipalities
		On 4 June, Mhlathuze Water celebrated Environmental Day with Silethukukhanya High School in the Dukuduku area of the uMkhanyakude District Municipality
World Oceans Day	June 2015	Mhlathuze Water celebrated World Oceans Day on 8 June 2015 under the theme 'Healthy Oceans, Healthy Planet'. Invitations were extended to the effluent contributors, SABS as well Government departments involved in environmental matters.





OPERATIONAL PERFORMANCE

THUKELA TRANSFER SCHEME

Mhlathuze Water operates and maintains this transfer scheme on behalf of the Department of Water & Sanitation. The operation of the scheme in the current financial year differed from previous years, mainly due to the need to operate the scheme continuously because the drought caused the dam water levels to start dropping below 70% in August 2014. After the first six months of operating the full pumping system technical challenges were experienced that led to the replacement of certain components of the pumps. In March 2015 the pumps were re-commissioned and were still operating satisfactorily by the end of the financial year. The community pumps were switched off during the operating period and the Middledrift 10MI Water Treatment Plant was supplied from the main transfer pumping line.

When the Thukela Transfer Scheme is in operation, the community pumping system cannot be operated because both systems take suction from a common suction pipeline. The total capacity of the Tugela Transfer scheme is about 1200l/s, which well exceeds the capacity of raw water required at the water treatment plant. However, due to the pressure requirements at Mkhazazi Pump Station the delivery valve to a

water treatment plant is throttle to provide sufficient suction pressure for the second booster pumping system.

In the 2014/2015 financial year, the energy (electricity) cost was almost four times the previous financial year's energy costs due to the operation of the pumping scheme in response to drought conditions. The 2014/2015 energy cost was R36 496 979 compared to 2013/2014 energy costs of R8 353 997.

Thukela Transfer Scheme 2014/2015 financial year energy costs

Madungela Pump Station	Mkhazazi Pump Station
R 21 806 144	R 14 687 835

MHLATHUZE TRANSFER SCHEME

The implementation of the short-term remedial measures for the structural integrity of Mhlathuze Weir commenced in the 2014/2015 financial year and is in progress. The construction of the new Mhlathuze Weir is included in the five-year capital plan. Construction is anticipated to commence in 2016/2017 financial year.

The onset of the drought was evident from the beginning



of the financial year. Mhlathuze Water started supplying raw water from this transfer scheme to the City of uMhlathuze Local Municipality in September 2014. At the end of the financial year Mhlathuze Water was supplying the City of uMhlathuze with 30MI/d, which is twice the maximum demand contracted to the municipality. After consulting with the municipality, Mhlathuze Water Board approved the request to not charge the municipality a surcharge for the water volumes exceeding the contracted amounts. This was done in order to assist the municipality in dealing with the costs they were incurring by using the transfer scheme instead of Lake Chubu. Lake Chubu was at its lowest level of 18%. Mhlathuze Water was able to supply the municipality with more water during this period because Tronox was using minimum raw water while they were migrating from Hillindale Mine to Fairbreeze Mine.

Mhlathuze Water worked very closely with the Department of Water and Sanitation to control the level of Mhlathuze Weir so as to minimise overflows (i.e. water loss) during the current drought crisis.

A total of 71 138 084m³ of raw water was pumped from the scheme this financial year. Nsezi Lake received 9 430 042m³. This was done in order to augment Lake Nsezi during the drought.

NSEZI WATER TREATMENT PLANT

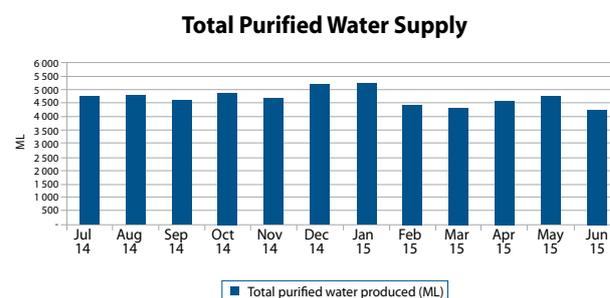
Mhlathuze Water has maintained its Blue Drop certification for the Nsezi Water Treatment Works. The 2013/2014 assessments outcomes have not been received from the Department of Water and Sanitation. There was a planned plant shutdown during March 2014, which coincided with the Mondi annual shut. All the activities that were planned were executed successfully. This included completing some of the critical project work that was not completed in the previous financial year for the Mondi pump station as well as completing the critical sections for the new City of uMhlathuze pump station. A total of 56 689 409 m³ was abstracted by the Nsezi WTW, 54 510 504 m³ from Mhlathuze River and 2 178 905 m³ from Lake Nsezi. There was a 37% increase in raw water abstracted. This was due to the drought in the region and the low lake level which had to be supplemented from Mhlathuze River. During this drought, Mhlathuze Water supplied the City of uMhlathuze with more than 50MI/d since the City of uMhlathuze Mzingazi WTW was out of operation due to the low Mzingazi Lake level. In order to achieve this 50MI/d, portable diesel pumps were connected to the system. The CoU was not charged a surcharge for the additional potable water supplied to the Richards Bay system in order to minimise the

costs for the City of uMhlathuze during the drought.

The Department of Water and Sanitation declared drought for the most part of KwaZulu-Natal and as a result, 'Level 3' restrictions were implemented. Mhlathuze Water's industrial client complied with the restriction by reducing their water usage by at least 10%.

The WTW production water losses for the financial year were 1.2%, which exceeded the <5% target.

The profile below outlines the total purified water quantities supplied to the consumers.



Total Water Purified Water Produced (MI)

Water supply or demand generally increases during the summer months because the municipality requested that their Richards Bay system be supplemented from Nsezi WTP. More water was supplied to the City of uMhlathuze in Richards Bay due to Lake Mzingazi reaching a critically low level in September 2014.

Chemical usage in the purification process increased due to the substantial increase in the volume of raw water that was purified.

EXTERNAL O&M PROJECTS

Richards Bay Minerals

Mhlathuze Water continued with the operation of the WTW and WWTWs at the different mining ponds and commenced with the operation of two additional plants, i.e. Final Product WTW and Main WWTW on 1 February, which is a contract for three-years.

City of uMhlathuze

Mhlathuze Water commenced with the operation and maintenance of the City of uMhlathuze Water and Waste Water Treatment plants and associated bulk distribution infrastructure from 1 June 2014, on an interim month-to-month arrangement. There were challenges experienced with the maintenance of the City of uMhlathuze plants due

to ageing infrastructure. Challenges were mainly due to pipe bursts and leaks, resulting in water losses. Measures have been put in place to be proactive in conducting thorough plant inspections and improving on planned maintenance.

EFFLUENT SCHEME

The content buoyant and dense effluent systems are of a corrosive nature, hence critical spares for both of these systems are always available for repairs. During the financial year under review, the effluent scheme operated under close monitoring to prevent any downtime to the system. No major breakdowns were experienced.

A-line intensive maintenance was conducted on the A-line offshore pipeline, which included the following activities:

- Pipeline inspections, checking on the condition of the overall pipeline, including flanges, bolts, over-clamps, saddles and anodes;
- Pipeline survey, full annual pipeline survey from the onshore to offshore including the survey over sea sand build up over pipeline; and
- No major defects were identified in the offshore pipeline except a leak on the stuffing box, which is currently being repaired and depleted anodes, which have been replaced.

The B-line Pump Station is available as a standby to C-line Pump Station. Minimal maintenance to keep the plant available was conducted on the B-line. The following activities were conducted on the B-line:

- A bathymetric survey to quantify the gypsum build-up over the diffuser section, which was found to have completely dissolved and only sand build-up, which is due to sea bed natural movements was witnessed; and
- A pipeline survey was conducted, a full annual pipeline survey from the onshore to offshore including the survey over sea sand build-up over pipeline.

The C-line Pump Station is available with two pumps in operation and one pump on standby. The following activities were conducted on the line:

- A bathymetric survey to quantify the gypsum build-up over the diffuser section;
- A pipeline survey was conducted, a full annual pipeline survey from the onshore to offshore, including the survey over sea sand build up over pipeline; and
- The dredging operation was successfully completed with all diffusers completely exposed and operational.

MAINTENANCE, PLANT EFFICIENCY AND AVAILABILITY

Plant availability for the financial year under review was 100% (target – not more than 1% unplanned supply interruption). The experienced downtime was a result of minor breakdowns, which only rendered part of the plant unavailable without affecting the total availability of the plant. The shutdown process was procedurally communicated with the client as per the existing contractual agreement.

A Preventative Predictive Maintenance Strategy is applied to Mhlathuze Water plant equipment when conducting maintenance activities. The maintenance performance level achieved for 2014/2015 is stipulated below:

Average annual Performance	Actual	Target
Planned maintenance activities	97.1%	95%
Unplanned maintenance activities	2.81%	5%

Mhlathuze Water successfully implemented and commissioned an 11kV emergency power supply from Mondi to Nsezi Water Treatment Plant. The emergency power supply has been in operation several times when there were power supply interruptions from the City of uMhlathuze.

Mhlathuze Water adopted a strategy to improve on automation of the plant in order to optimise its operation. A Supervisory Control and Data Acquisition (SCADA) project (phase 1) was implemented and commissioned over the financial year under review. SCADA phase 2 project is planned to be implemented over the 2016/2017 financial year and the 2015/2016 financial year will be used to develop the project specifications and scope of work for phase 2 and to assess and monitor the performance of phase 1.

Mhlathuze Water is in a process of implementing an Energy Management System (ISO 50 001). The implementation of the system is aimed at providing clear and well thought out objectives and guidelines for Mhlathuze Water to become more energy efficient in conducting its business. The certification is expected in the 2016/2017 financial year.

PLANNING

Regional Bulk Master Plans

The future planning in the region is ongoing, with Mhlathuze Water engaging with all Water Service Authorities in the region

to ensure that new projects for implementation are identified. Possible funding mechanisms for some of the major schemes have been identified with the aim of growing and expanding Mhlathuze Water's consumer base and providing high quality services to the community and industry.

Mhlathuze Water has recently signed a new implementing agreement with UMkhanyakude District Municipality. The agreement entails the implementation of bulk water infrastructure for new projects and the completion of existing projects.

The Department of Water and Sanitation (DWS) is concluding the Reconciliation Study for Richards Bay and surrounding towns. The study acknowledges that the current water resources available from the Mhlathuze River catchment are sufficient to cater for the existing water requirements. This assessment is proven under normal water requirement conditions. A separate study will have to be conducted to look at how Richards Bay can be provided with water in emergencies (drought conditions).

The main objective of the Richards Bay reconciliation study is to develop a strategy to ensure adequate and sustainable reconciliation of future water supply within the Mhlathuze River catchment up to 2040. The recommendations from the study will determine whether any augmentation or expansions are required for the Mhlathuze catchment schemes. The professional service provider currently conducting the strategy has indicated practical completion by the end of 2015; however, the DWS is expected to publish the final strategy by mid-2016.

uMkhanyakude Water Services Master Plan

During previous meetings with uMkhanyakude officials, the need for Water Services Master Planning was expressed, which in turn is a key component of the municipality's Water Services Development Plan. Mhlathuze Water undertook to pursue this initiative which includes the compilation of the Project Execution Plan (PEP). The Master Plan is in progress and expected to be completed by December 2015.

Projects in Design Stage

Upgrade of Tronox (Hillendale) Pump Station

The project involves detailed design and construction monitoring of the Tronox pump station upgrade in order to supply Tronox for Fairbreeze Mine with additional water supply 48ML/day as requested. This upgrade will also accommodate the increasing demand of the City of uMhlathuze to supply

Esikhaleni WTW with an estimated 30ML/day. The study is being concluded with the recommended upgrades such as; Impellor upgrade to full size, motor and MCC upgrade to 500KW, 300m long of a 700mm pipeline inside Hillendale mine, and the installation of a Variable Speed Drive inside the pump station.

Access Road to Nsezi Water Treatment Works

The project involves construction of an alternative route to Nsezi WTW. Access to Nsezi WTW is currently possible from the Western Arterial (Alton) via a gravel road. The gravel road section is generally always in poor conditions and particularly bad during the rainy season. Mhlathuze Water operations and maintenance staff use this access on a daily basis and this also includes other service providers and contractors employed by Mhlathuze Water.

Three alternative routes were identified, the proposed feasible route traverse City of uMhlathuze property and also crosses the railway line. The servitude application has been submitted to the council and awaiting a response. Further discussions are ongoing with Transnet and Ezemvelo KZN Wildlife.

Following numerous discussions with different stakeholders (Transnet, City of uMhlathuze, Ezemvelo KZN Wildlife, Mondi and DOT) regarding the new access road to Nsezi WTW, different concerns were received and attended to. Mondi Richards Bay mill has, in principle, agreed to provide Mhlathuze Water with a portion of their forestry land in order to have a more direct, short and technically viable access road to Nsezi WTW. This will assist Mhlathuze Water to have a dedicated surfaced road, where Mhlathuze Water employees, contractors/service providers will be able to access the plant with or without 4X4 vehicles. The detailed design of the project is expected to be complete in December 2015.

Augmentation of Nsezi Water Treatment Plant

During 2010/2011, Mhlathuze Water undertook an operational efficiency study to:

- Determine ways and means of increasing capacity through improved operational and maintenance efficiencies; and
- Identify bottleneck within the system with a view to increasing the capacity in line with current demand projections.

The purpose of this study is to develop a decision matrix to align phased augmentation options with alternative growth projections. Current and future water requirements

have been confirmed with existing users and the study was completed in February 2015. Currently, the recommended augmentation of the Nsezi Water Treatment Works includes a 48m diameter clarifier, four filters, floatation drainage system, sludge handling facility, 16 offices and multipurpose hall facility (± 200 seats). Part of this project is the construction of a 1 200/1 500mm diameter raw water supply pipeline from Mhlathuze Weir to Nsezi WTW.

Refurbishments of Waste Water Treatment Works

Mhlathuze Water received a letter from DWS requesting assistance to uMkhanyakude regarding the refurbishments of waste water treatment works. The letter refers to three waste water treatment works i.e. Manguzi, Ngwavuma and Hluhluwe. The service provider was appointed to compile a business plan for the refurbishments required. The business plan is due for submission to DWS by the end of September 2015.

Projects Planned for Further Investigation in 2015/2016

	Study Title	Purpose/Goals
1	Madungela Pump Station	Investigate refurbishment/replacement/upgrade
2	Esikhaleni potable supply	Investigate feasibility of a direct supply of potable water to Esikhaleni from the Nsezi WTW
3	New weir	Investigate positioning and impact of a new weir to replace the existing Mhlathuze Weir
4	Foskor dedicated clarified water supply	Determine feasibility and cost implications for all parties
5	Mzingazi WTW – Nsezi link	Investigate ways of maximising the benefit of raw water available from the Mzingazi Lake – potentially into the Nsezi WTW
5	UThungulu direct supply	Investigate options available and feasibility of supplying water directly to the Upper Nseleni water supply area
6	Desalination and water reuse	Long-term study into ways and means to supplement current sources and reduce water lost to waste
7	Mhlathuze Estuary environmental health	Linked to (3) above. Any actions at the weir have potential impacts on the estuary and these need to be responsibly investigated
8	Sluice gate system at seawater intake	Investigate cause of siltation at sea intake and feasibility of solutions
9	HV transmission at Mhlathuze weir	Investigate options to reduce the vulnerability of the Mhlathuze Weir pump stations to being on a single spur connection
10	City bulk supply pipeline augmentation	Determine cost implications of upgrading the portions of the City of uMhlathuze industrial ring main, which is a weak point in the supply of water from the Nsezi WTW to the city's Mandlazini reservoirs
11	Clarified water reservoir	Linked to (4) above. Increased requests from industries to receive clarified water have highlighted the need to determine the feasibility of constructing a dedicated bulk clarified water reservoir
12	Operation automation and energy rationalisation	Investigate detail options for reducing carbon footprint
13	Update/Review all municipalities Water Services Master Plans	Ongoing planning service to the national DWS, DCoGTA, District and local municipalities
14	Update/Review all municipalities Waste Water Services Master Plans	Ongoing planning service to the national DWS, DCoGTA, district and Local municipalities

Water Applications Received

Pending water / effluent applications to date are as follows:

	Customer	Volumes (m ³ /d)	Volumes (m ³ /annum)
1.	Tongaat Hullet	2 739.7	1 000 000
2.	Nyaza Light Metals – Water	3 762.7	1 373 400
	Nyaza Light Metals – Effluent (brine)	11 556.9	4 218 300
	Nyaza Light Metals – Effluent (chloride)	34.9	12 753
3.	SANRAL - N2 Upgrade	66	24 090
4.	Zulti South Mine – Richards Bay Minerals	40 000	14 600 000
5.	Tronox – Fair Breeze Mine	31 460	11 482 900
6.	Pulp United/Ferrostaal	5 000	1 825 000
7.	City of uMhlathuze – Esikhaleni	25 000	9 125 000
8.	City of uMhlathuze – Foskor	30 000	10 950 000

ENGINEERING PROJECTS AT IMPLEMENTATION STAGE

City of uMhlathuze New Pump Station

The Highlift Pump Station will be supplying the City of uMhlathuze. Nsezi waterworks water demands have increased. Nsezi WTP now supplies domestic water to the City of uMhlathuze, Empangeni, Richards Bay, and supplies clarified water to Foskor. The source of the water is from the Mhlathuze River and it is pumped to the WTW from the weir. The raw water is treated at the treatment works, thereafter supplies polished water to two adjacent balancing reservoirs. The Nsezi WTW has a capacity of 204ML/d of purified water. The Nsezi potable water pump station contains eight axial flow pumps, all operating from a common 1200mm diameter suction manifold. The current arrangement allows for four pumps to supply Mondi, two pumps to supply the City of uMhlathuze, and two small pumps to supply the elevated concrete reservoir at the Water Treatment Works.

- The works include the construction of a new pump station building of 750m² and 6m deep below existing ground level;
- Installation of new pumps capable of 757 litres per second supply of potable water to existing 800mm diameter pipeline including associated electrical and mechanical equipment within the new pump station building;
- Installation of new 1 200mm, 900mm, 800mm and 600mm diameter pipelines totaling 50m in length to supply potable water from existing 6 000m³ reservoir to existing 800mm diameter pipeline;

- Refurbishment of valve chambers along the existing 800mm diameter pipeline within the existing pipeline servitude for maintenance purposes; and
- Installation of a 250mm diameter drainage pipe 300m in length to return groundwater beneath the proposed building to existing detention dam at the Nsezi WTW. The project is practically complete.

2 x 20 ML Reservoir at Nsezi Water Treatment Works

The project involves the construction of an additional 40ML on site storage for potable water to ensure uninterrupted supply to Mhlathuze Water customers. The two new reservoirs will be located within the fenced area of Nsezi WTW. The first reservoir is under construction and the second reservoir is currently at tender/procurement stage and the construction is scheduled to commence toward the end of 2015.

Implementing Agent Projects Hlabisa Bulk Water Supply

The funder of this project is the Department of Water Affairs (DWA). Mhlathuze Water was appointed by uMkhanyakude District Municipality (UKDM) as an implementing agent.

The objective of this project is to construct bulk water pipelines, reservoirs and pump stations in the Hlabisa area. The project was sub-divided into four sections.

The total amount approved for the project to date is R208 million.

Over R175 million has been spent since 2008, and the following is completed:

- 101 km of 106.12 km pipes;
- 14 of 14 reservoirs;
- 40 of 42 reservoir chambers;
- 160 of 197 air valve chambers; and
- 40 of 42 control chambers.

The project is complete but no commissioning has been done due to the water source not being adequate from Mandlakazi.

Dukuduku Water Supply Project

The objective of this project is to provide solutions to the water supply challenges of Mtubatuba and surrounding areas. The project will also ensure that there is an equitable distribution of water to all the users, including the communities of Dukuduku, Khula, and EZwenelisha. This project started in 2011 and the targeted date for completion is March 2015. The total approved funds by DWA is R143 million.

Over R113 million has been spent to date and the following had been completed:

- Khula Village Reticulation uPVC and HDPE pipes with a total length of 37 140m.
- Dukuduku Reticulation of uPVC and HDPE pipes, with a total length of 86 560m.
- Dukuduku Reservoir comprises a 5Mℓ concrete reservoir that will provide storage for the Dukuduku villages, St Lucia and Isimangaliso World Heritage Site.
- Dukuduku-Khula Distribution 600mm diameter steel pipeline will convey water from the Dukuduku Reservoir to Khula and Dukuduku villages, a 5km long with associated air and scour valves.
- Mtubatuba Pipeline upgrades of the existing 300 AC pipeline from the Mtubatuba reservoirs towards Mtubatuba town. It will be an 800mm diameter steel pipeline and 3km long. This last leg of the project is being implemented and is due for completion in February 2016.

Jozini/Ingwavuma Bulk Water Supply

The objective of this project is to implement a bulk water supply in the rural area between Jozini and Ingwavuma towns, thereby providing these communities with access to purified water. The project covers the construction of a pump station, reservoirs, a water treatment plant and laying of pipes. The total funding transferred to Mhlathuze Water by the Department of Cooperative Governance and Traditional Affairs to date is R74 million (the funds were used to install the reticulation). DWS committed to transfer the balance of the budget for this project which is now R2.1 billion. This project started in 2010. Phase 1 was completed on 31 October 2011. The targeted date for Phase 2 of this project is end of December 2020. DWS is funding the bulk supply portion and Department of Cooperative Governance and Traditional Affairs is funding the reticulation portion of the project. The Regional Water Treatment Plant with a capacity of 40Mℓ/day is 60% complete and is due for completion in March 2016. This plant will also provide water as far as Mbazwana town and surroundings. Six out of twelve reservoirs are also complete and three more reservoirs are under construction.

KwaSani Bucket Eradication System Project

Mhlathuze Water was appointed by COGTA to assist in the removal of the bucket system in the Harry Gwala District Municipality at KwaSani Local Municipality for two villages; Himeville and Underberg. The project entails:

- Constructing new toilets at each household for both villages;

- Installation of sewer reticulation;
- Building a proposed package plant; and
- Building a waste water treatment plant.

The construction of toilets and installation of sewer reticulation is underway.

Completion of Water Projects previously implemented by DWS for Nongoma Local Municipality and Abaqulusi Municipality

Mhlathuze Water was appointed by the DWS to assist in completing the two projects that were previously implemented by DWS at Nongoma and Abaqulusi municipalities. The project was to investigate ways to complete the two projects in order to supply water to these two areas. Consultants have been appointed to do investigations and then prepare the business plans.

Schools Ablution Facilities Project

Mhlathuze Water was appointed by the National Department of Education for a three-year period from 2010/2011 to provide sanitation and water to schools on the priority list in five district municipalities namely; Amajuba, Umzinyathi, Uthungulu, Zululand and UMkhanyakude. The first phase of the project, with a budget of R29 million earmarked for 137 schools, commenced in November 2010 and was completed in June 2011.

A further R50 million was made available for 2011/2012. The KwaZulu-Natal Department of Education appointed Mhlathuze Water as an implementing agent for a further three years, starting from the financial year under review.

The appointment was extended further to the 2013/2014 financial year to complete 71 schools for Accelerated Schools Infrastructure Development Initiative (ASIDI) with the budget of R51 million including the latest scope extension of fencing the tank stands. The projects have been completed.

The National Department of Education has entrusted Mhlathuze Water with completing another ten projects under the same water and Sanitation project for the 2015/2016 financial year. The estimated budget is R58 million. Projects have been assessed procurement of professional service providers is in progress.

Further to this appointment, Mhlathuze Water was also appointed by the Provincial Department of Education to

provide a similar service with the approved budget for 2013/2014 which was R214 million earmarked for 174 schools:

Schools that are 100% completed	165
Cancelled projects	9

The expenditure was achieved and the new budget for 2014/2015 of R140 million to implement approximately 100 schools was suspended.

A further allocation of R36,4 million has been allocated for the 2015/2016 financial year. An amount of R28,7 million was accrued from the previous financial year, this therefore means that Mhlathuze Water effectively has R7,7 million for the current financial year.

Education in Schools

Health and hygiene education is conducted in Schools where Water and Sanitation project is being implemented. For people to benefit from sanitation improvements, they must understand the link between their own health, good hygiene and toilet facilities. It aims at increasing an individual's knowledge about issues related to personal habits and practices that affects one's health; this is done to break the cycle of communicable diseases and ensure sustainable sanitation structures. During the year 2013/2014, health and hygiene education was conducted in 174 schools.



FINANCIAL OVERVIEW

1. INTRODUCTION

The financial overview is an analysis of the financial results and financial position of Mhlathuze Water for the year under review and must be read in conjunction with the Annual Financial Statements.

The positive financial performance in the current financial year is as a result of higher revenue generated from better than expected bulk water volume sales. This resulted from the drought situation in KwaZulu-Natal, whereby Mhlathuze Water

was in a position to supply the City of uMhlathuze with water from the Mhlathuze River and Nsezi Water Treatment Plant.

2. OPERATING PERFORMANCE

2.1. Year-on-year Analysis of Operating Performance

Mhlathuze Water has maintained strong operating surpluses. Overall, the surplus for the year of R89,9 million reflects an increase of 14% from the previous year.

	2011	2012	2013	2014	2015	%
	kI'000	kI'000	kI'000	kI'000	kI'000	change
Volume sold	123 183	118 375	108 927	112 340	136 222	21%
	R'000	R'000	R'000	R'000	R'000	
Revenue	265 021	297 518	314 971	346 047	498 765	44%
Bulk water	168 765	191 113	193 304	208 228	346 376	66%
Waste water	88 716	95 077	102 107	110 030	119 124	8%
Section 30 activities - implementing agent fees	7 540	11 328	19 560	27 789	33 265	20%
Cost of sales	(45 495)	(43 443)	(37 999)	(38 466)	(59 045)	53%
Gross profit	219 526	254 075	276 972	307 581	439 720	43%
GP%	83%	85%	88%	89%	88%	
Other operating income	4 930	11 502	15 450	3 526	682	(81%)
Other operating and administration expenses	(160 240)	(198 428)	(213 171)	(225 873)	(349 563)	55%
Results from operating activities	64 216	67 149	79 251	85 234	90 839	7%
Net finance income (costs)	2 845	(15 219)	(11 181)	(6 036)	(841)	(86%)
Surplus for the year	67 061	51 930	68 070	79 198	89 998	14%
Net profit %	25%	17%	22%	23%	18%	

2.2. Volume Sold

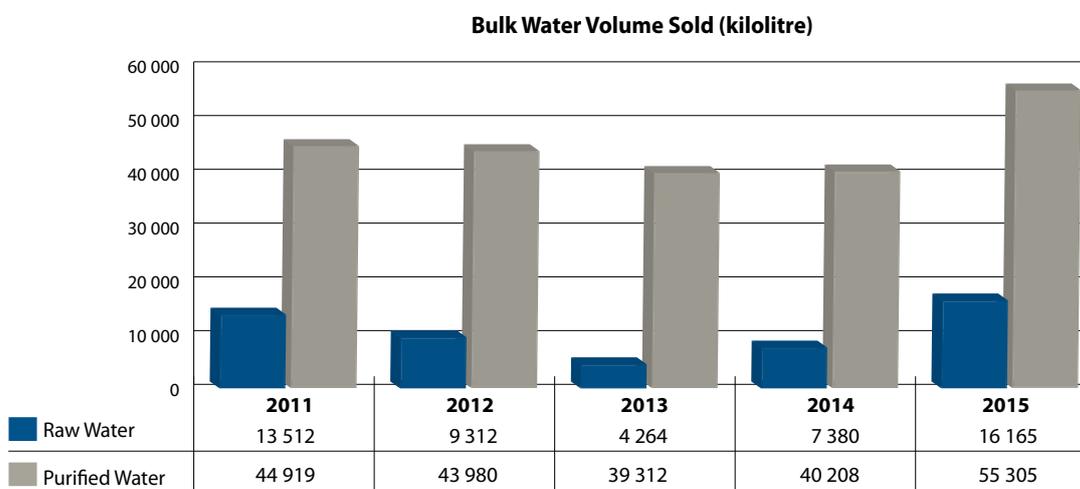
Bulk Water

The positive growth of 50% on total water volume sales are mainly due to the increase in raw water volumes sold to Richards Bay Titanium and Esikhaleni, and the increase in potable water supply to the City of uMhlatuze, Richards Bay.

Bulk Water Volumes - by customer and % increase (decrease)

Customer	2011	2012	2013	2014	2015	%
	kl'000	kl'000	kl'000	kl'000	kl'000	
Raw Water	13 512	9 312	4 264	7 380	16 165	119%
Richards Bay Titanium	8 728	4 570	1 406	2 394	8 972	275%
Tronox Hillendale*	4 351	4 742	2 858	4 453	1 257	(72%)
CoU – Esikhaleni	433	-	-	534	5 936	100%
Purified water	44 919	43 980	39 912	40 208	55 305	38%
Mondi Kraft R/Bay	24 082	26 515	23 957	23 703	23 475	(1%)
CoU – Foskor	6 173	4 951	3 823	4 810	5 488	14%
CoU – Empangeni	7 905	8 378	9 508	9 243	9 579	4%
CoU – Richards Bay	6 759	4 136	2 624	2 452	16 763	584%
Total Bulk Water Volume Sales	58 431	53 292	44 176	47 588	71 470	50%

*The Tronox Hillendale mine abstracted less water due to the mine relocating to Tronox Fairbreeze near Mtunzini.



Waste Water

Waste water volumes remained constant for the years and are based on contracted demands.

Bulk waste water volumes - by customer and % increase (decrease)

Customer	2011	2012	2013	2014	2015
	kl'000	kl'000	kl'000	kl'000	kl'000
Buoyant waste water	53 802	53 802	53 802	53 802	53 802
Bayside (Isizinda)	548	548	548	548	548
Hillside (South32)	548	548	548	548	548
Mondi Limited	40 150	40 150	40 150	40 150	40 150
Tronox	876	876	876	876	876
MPACT	2 920	2 920	2 920	2 920	2 920
Foskor	730	730	730	730	730
CoU - Richards Bay	7 300	7 300	7 300	7 300	7 300
Nsezi WTP	730	730	730	730	730
Dense waste water	10 950	10 950	10 950	10 950	10 950
Foskor	10 950	10 950	10 950	10 950	10 950
Total waste water volume sales	64 752				

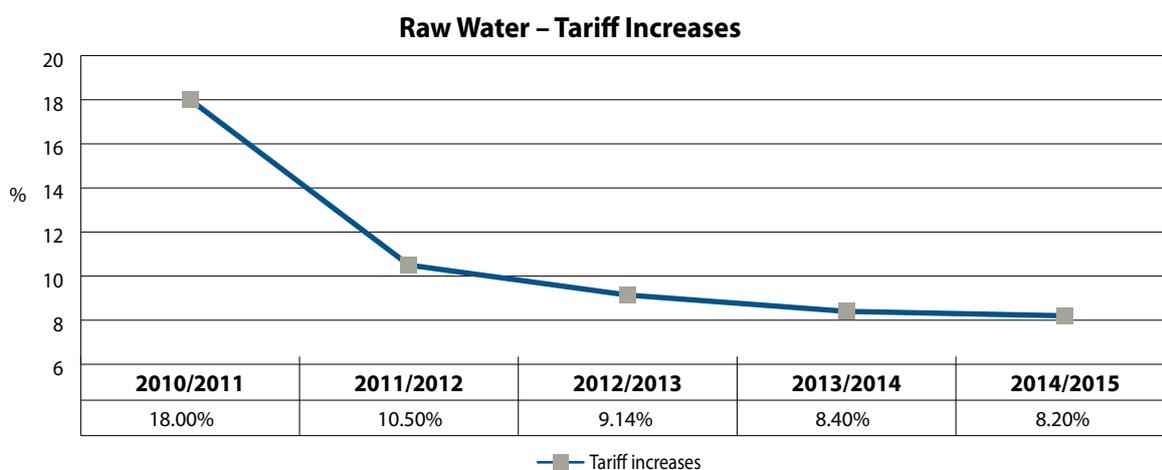
2.3. Tariffs

The tariff structure for Mhlathuze Water is reviewed annually and is based on compliance to MFMA regulations. Tariff increases are reported to SALGA and National Treasury for comments and recommended to Department of Water and Sanitation for parliament presentation and approval based on the stipulated timeframes and deadlines.

2.3.1. Raw Water Tariffs

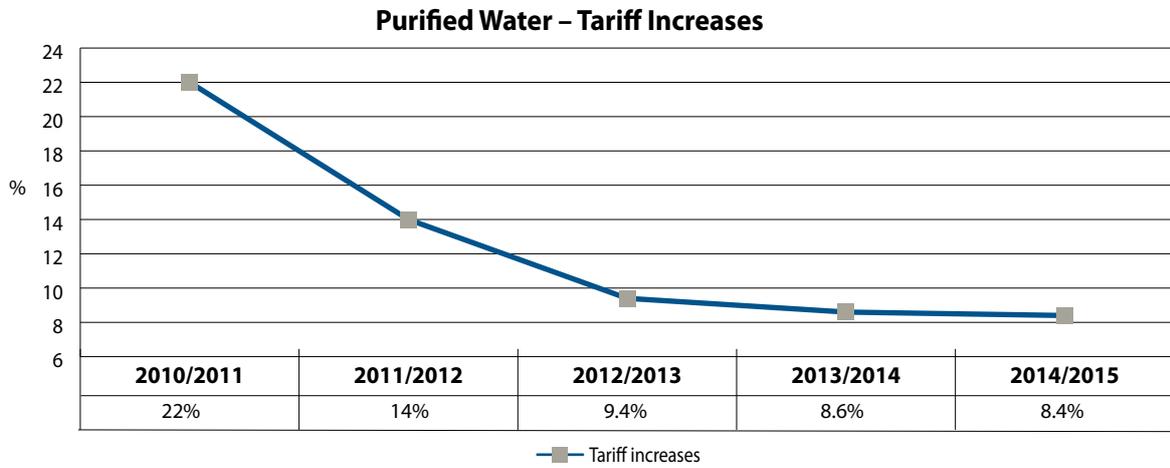
The percentage increase in tariffs for raw water was 8.4% in the prior year and 8.2% for the current year.

The graph on raw tariffs shows a downward trend for the past five years.



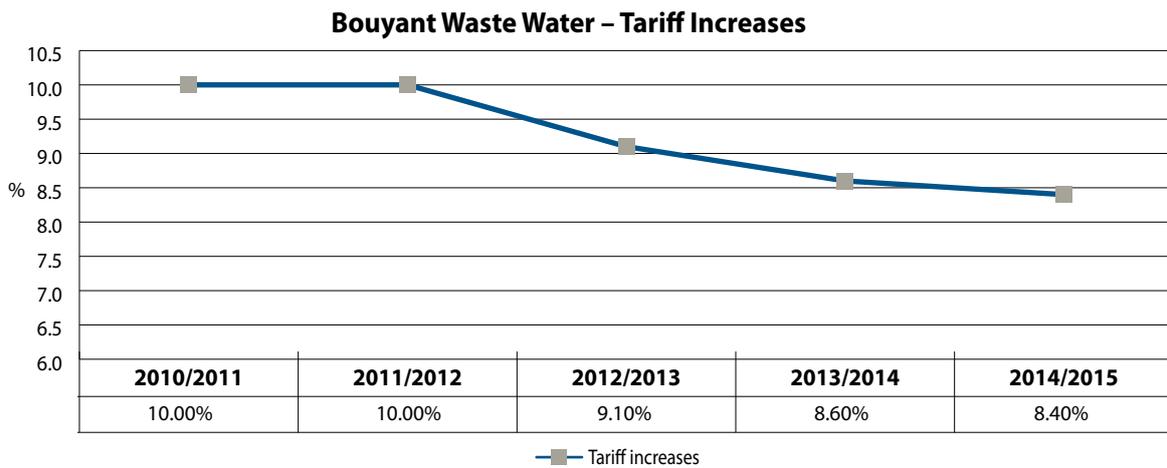
2.3.2. Purified Water Tariffs

The percentage increase in tariffs for purified water was 8.6% in the prior year and 8.4% for the current year. The graph on purified tariffs shows a downward trend for the past five years.



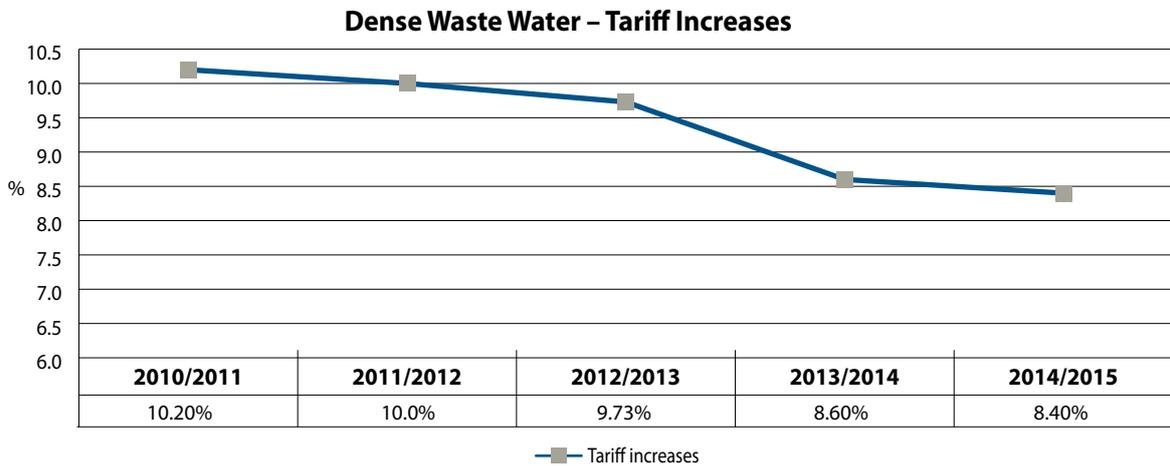
2.3.3. Buoyant Waste Water Tariffs

The percentage increase in tariffs for buoyant waste water was 8.6% in the prior year and 8.4% for the current year. The graph on buoyant waste water tariffs shows a downward trend for the past five years.



2.3.4. Dense Waste Water Tariffs

The percentage increase in tariffs for dense waste water was 8.6% in the prior year and 8.4% for the current year. The graph on dense waste water tariffs shows a downward trend for the past five years.

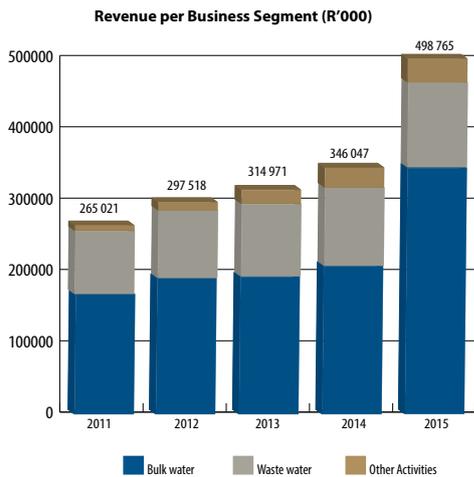


2.4. Revenue

Revenue growth was better than expected at 44% mainly due to-

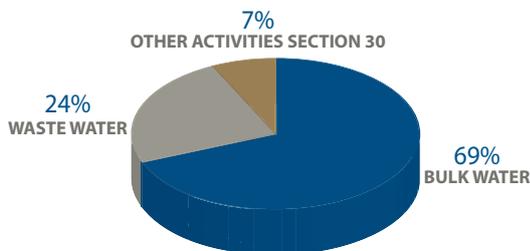
- 66% increase in bulk water due to extra volumes sold (the Thukela Goedertrouw and the City of uMhlatuze revenue are included under bulk water);
- 8% increase in waste water; and
- 20% increase in other activities, due to an increase in lab analysis and Implementing agency fees.

Revenue per Business Segment Information

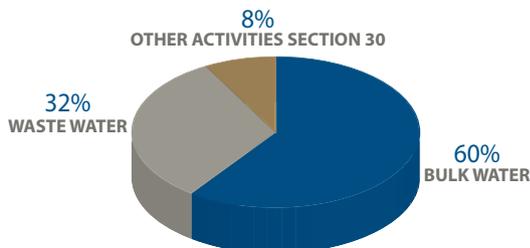


2.4.1. Primary Activities

Actual Revenue Segment Information as at 30 June 2015 (%)



Actual Revenue Segment Information as at 30 June 2014 (%)



Bulk Water

The bulk water segment forms 69% (2014: 60%) of total revenue. This is due to the increase in bulk water volumes sold. (The Thukela Goedertrouw and the City of uMhlatuze revenue are included under bulk water).

Waste Water

Waste water is 24% (2014: 32%) of total revenue.

2.4.2. Other Activities (Section 30)

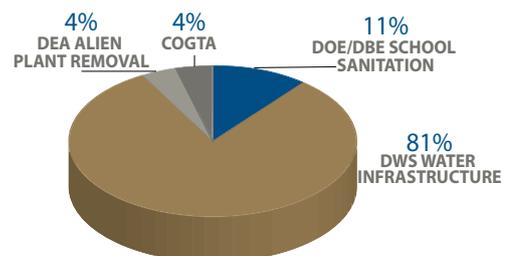
Secondary activities in terms of the Water Services Act No. 108 of 1997 are any services provided by water boards other than primary activities.

2.4.3. External Projects (not reflected in the Statement of Comprehensive Income)

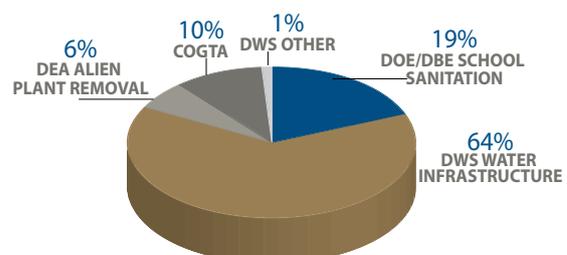
Apart from its primary activities Mhlathuze Water administers external projects (Section 30 activities) for different government institutions to the value of R473 million (2014: R458 million) an overall increase of 3%. The Department of Water and Sanitation increased by 31% where as the Department of Education decreased by 43% due to external work that was suspended.

These project costs are fully recovered from these departments. The graphs below gives an overview of Mhlathuze Water's involvement in these projects.

External Project Activities Administered by Mhlathuze Water as at 30 June 2015 (R'000)



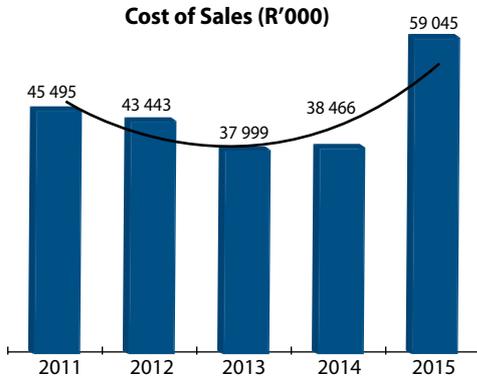
External Project Activities Administered by Mhlathuze Water as at 30 June 2014 (R'000)



2.5. Main Cost Drivers

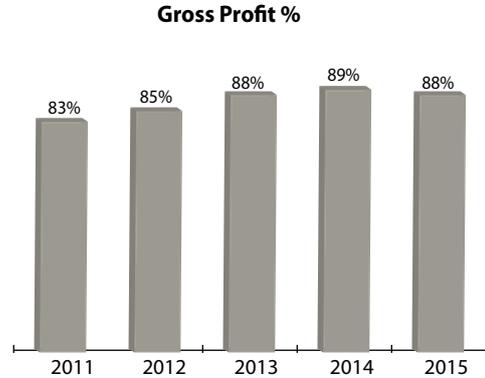
2.5.1. Cost of Sales

Cost of sales increased by 53% from the prior year due to the increase in bulk water volumes.



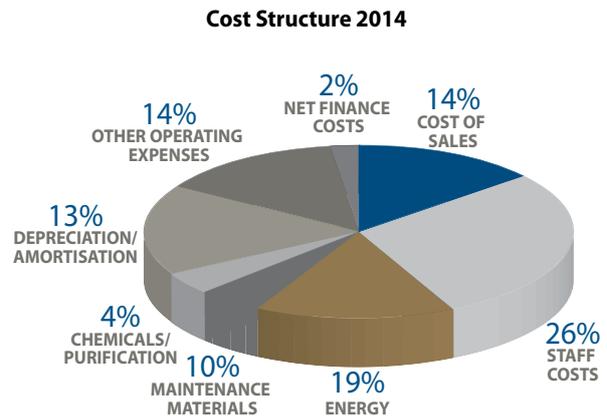
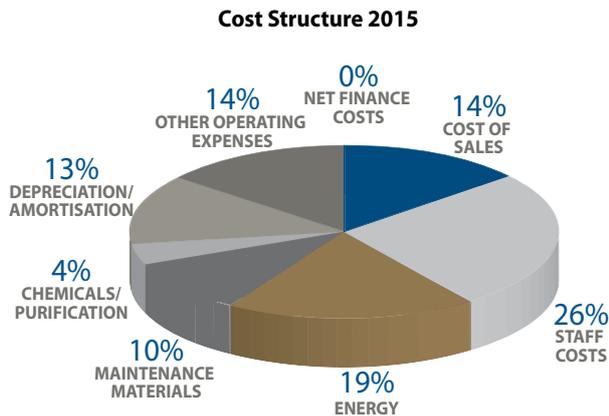
2.5.2. Gross Profit

Gross profit decreased from 89% to 88%.



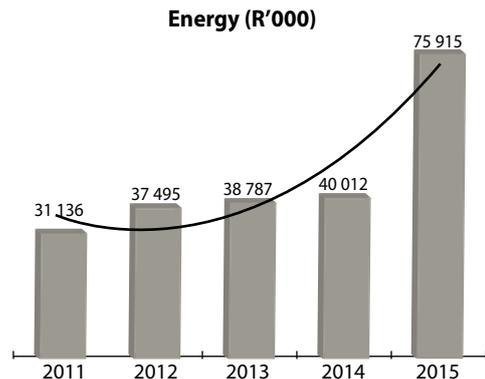
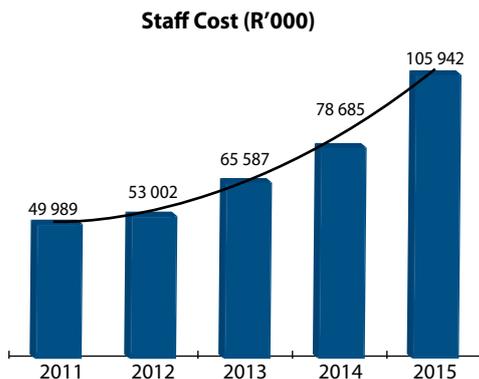
2.5.3. Operating, General and Administrative Expenses

Cost structure breakdown year on year



Staff cost increased by 35% from the previous year mainly due to the approved Board increase of 8% and the staff complement that increased from 182 to 195. The 111 employees of the City of uMhlatuze are also included in the costs, but are fully recovered from the City. (Refer to note 3 of the Annual Financial Statements).

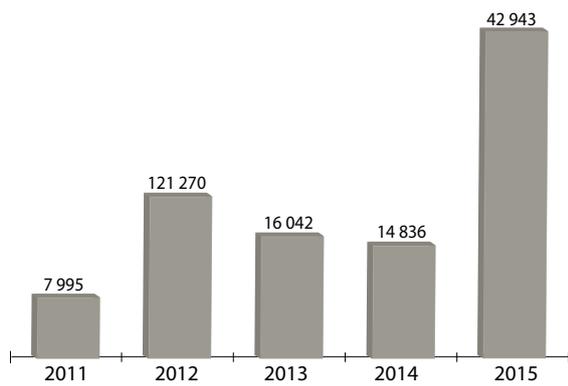
Energy cost increased by 90% from prior year due to more energy usage for additional volume sold. The increase from Eskom that was imposed by NERSA, as well as the increase from the City of uMhlatuze were also implemented. The Thukela Goedertrouw Scheme is running to its full capacity to transfer water to the Goedertrouw Dam due to the drought situation in the KwaZulu-Natal area.



Maintenance increased by 189% from the previous year. Maintenance work was done at all Mhlathuze Water plants and Central services buildings as well as all the City plants and work on the C-Line overlapped from last year to this financial year and also include the current year scope.

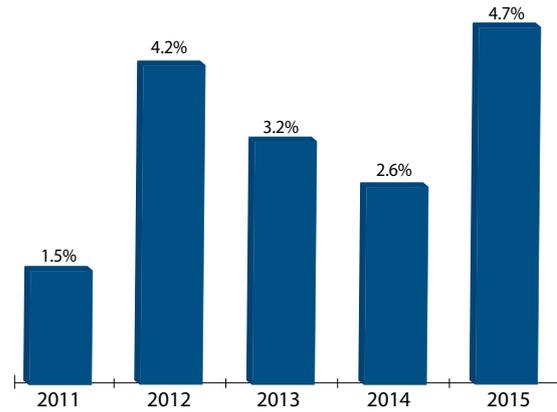
- Mhlathuze Water maintenance R31,2 million – 73% (2014: R14,7 million – 99%); and
- City maintenance R11,7 million – 27% (2014: R0,1 million – 1%)

Maintenance (R'000)



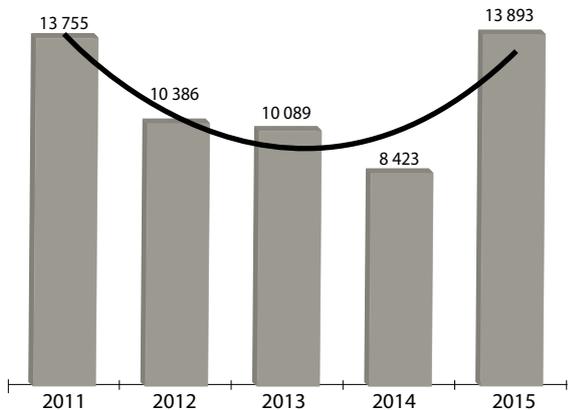
Repairs and maintenance for Mhlathuze Water is 4.7% (2014: 2.6%) of Property Plant and Equipment. Only Mhlathuze's portion of the maintenance value was used due to the fact that the City assets does not reflect in Mhlathuze Water's Statement of Financial Position. It should be noted that all City of uMhlathuze maintenance is fully recovered.

Repairs & Maintenance as % of PPE



Chemicals increased by 65% mainly due to the increase in water demand therefore more chemicals were used.

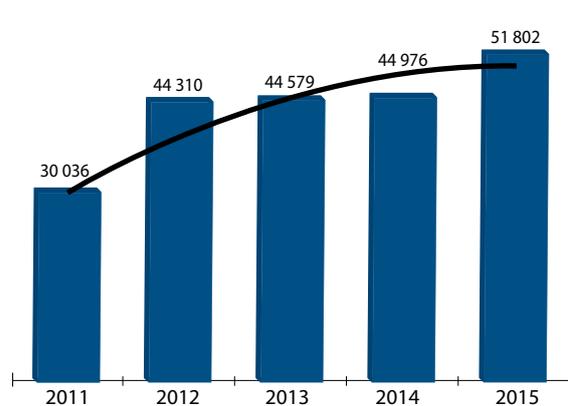
Chemicals (R'000)



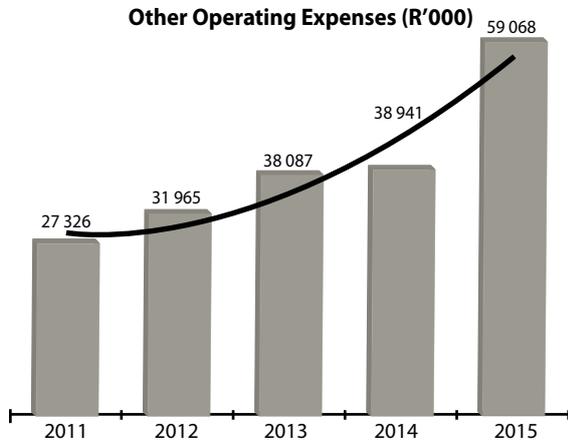
Depreciation increased by 15% against the previous year. Projects that were commissioned during the current financial year were:-

- Reroute B-Line;
- Upgrade Intake Pump Station and band screens;
- Refurbish Head Office and new Supply Chain Offices; and
- Telemetry system, etc.

Depreciation (R'000)

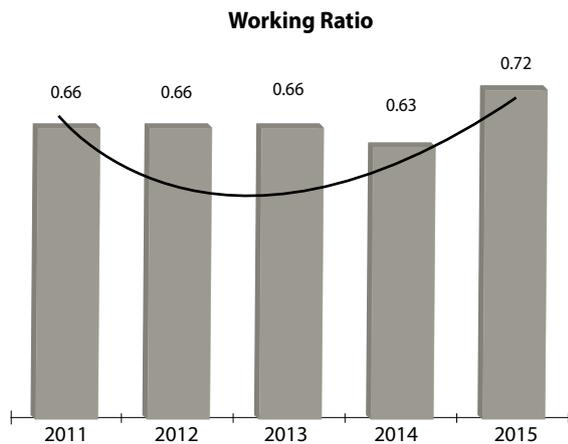


Other operating expenses increased by 52% against the previous year. R4,5 million included in this category is for diesel to pump extra water for the City of uMhlathuze which were recovered.

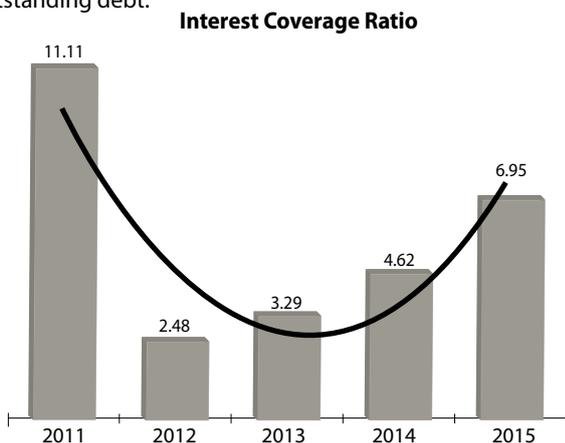


2.6. Operating Indicators

Working ratio: (Annual expenses excluding depreciation/annual revenue). The working ratio measures efficiency. The ratio of 0.72 (2014: 0.63) indicates Mhlathuze Water's ability to recover operating costs from annual revenue.

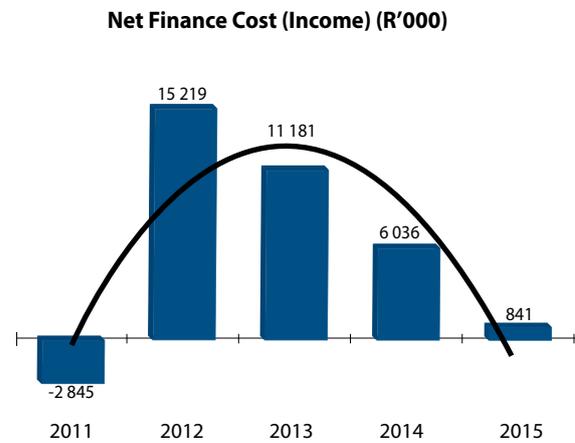


Interest coverage ratio: (EBIT/interest expense) The interest cover ratio measures long-term solvency. The interest cover ratio increase to 6.95 times (2014: 4.62) and determines how easily Mhlathuze Water can pay interest on outstanding debt.

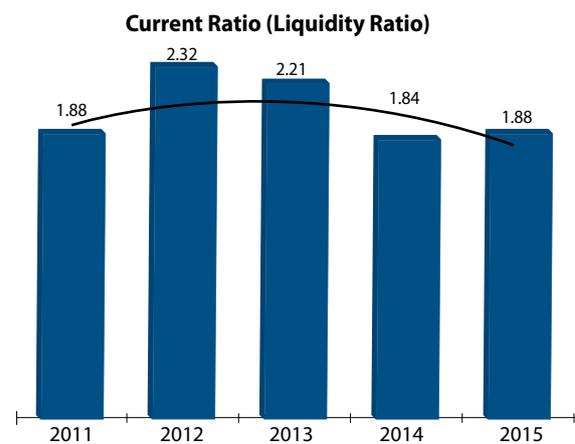


2.5.4. Finance Costs

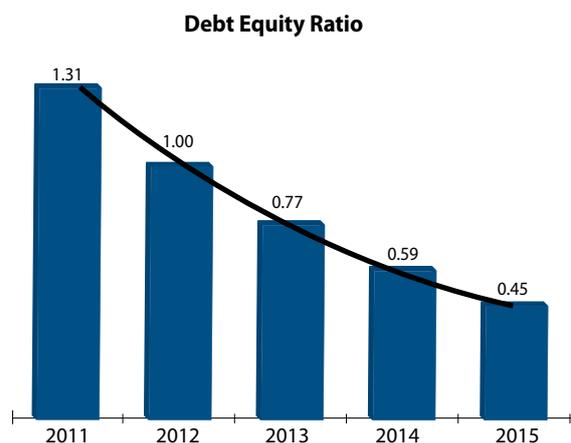
Net finance costs decreased by 86% due to increased investments and interest income thereon.



Current ratio: (Current assets/current liabilities) The current ratio measures liquidity. The ratio of 1.88 (2014: 1.84) indicates that Mhlathuze Water will have the ability to meet its short-term obligations.

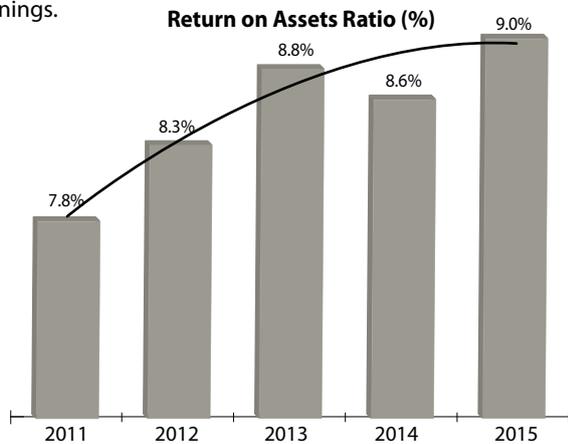


Debt equity ratio: (Total debt liabilities/total reserves) The debt equity ratio measures long-term solvency. The ratio decrease to 0.45 (2014: 0.59) primarily as a result of the decrease in long-term debt.

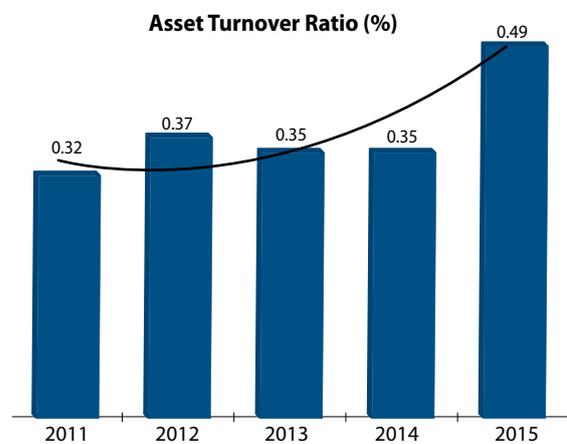


Operating indicators (continued)

Return on assets ratio: (Net income/total assets) The return on assets ratio measures profitability. The return on assets ratio increase to 9.0 (2014: 8.6). The ROA shows how efficient management is at using Mhlathuze’s assets to generate earnings.



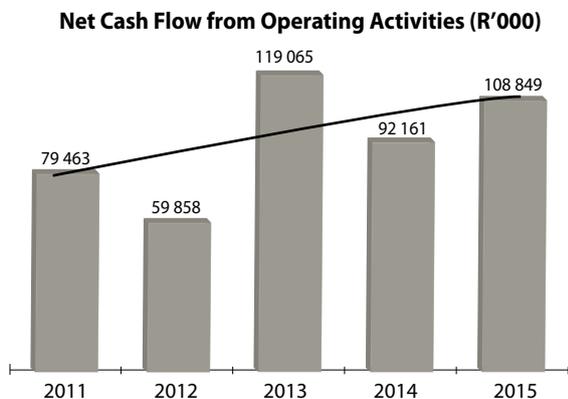
Asset turnover ratio: (Revenue/total assets) The asset turnover ratio measures profitability. The ratio increased to 0.49 (2014: 0.35).



2.7. Cash Flow Analysis

2.7.1. Cash Flows from Operating Activities

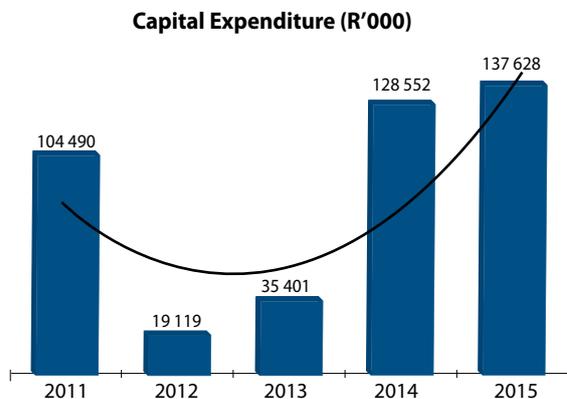
Net cash generated from operating activities increased by 18% compared to the prior year. Mhlathuze Water continues to maintain strong operating cash flows which has allowed for the repayment of debt and funding of capital expenditure. The graph below illustrates the net cash flows from operating activities for the past five years.



2.7.2. Cash Flow Utilised in Investing Activities

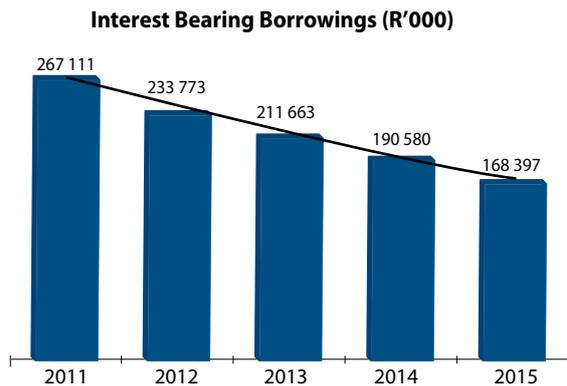
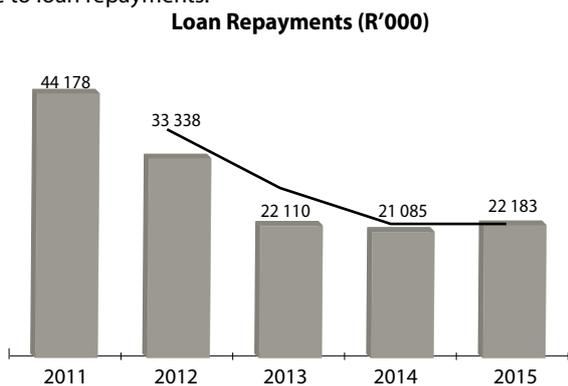
Net cash utilised in investing activities increased by 3% from the previous year due to the acquisition of assets. The three major projects that contributed to the increase are:

- Nsezi Balancing Reservoir (20ML) - R17 million
- City of uMhlathuze pump upgrade - R56 million
- Re-route B-line to C-line - R12 million



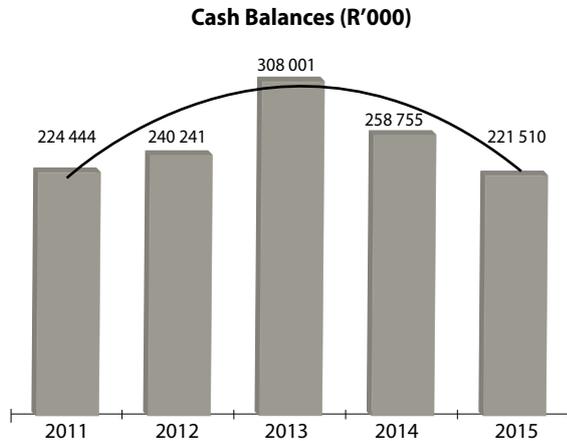
2.7.3. Cash Flow from Financing Activities

Net cash utilised in financing activities increased by 3% mainly due to loan repayments.



2.7.4. Cash Balances

Sufficient short term investments are held to fund capital commitments that are set out in Note 17 of the annual Financial Statements.



2.7.5. Funding Requirements

The Business Plan for 2016 shows that the requirement for new funding is not needed for the next financial year and the liquidity is seen as adequate.

2.7.6. Borrowing Limits

The borrowing limits for the period 2013 to 2015 have been approved by National Treasury in concurrence with the Minister of Water and Sanitation and published in the Government Gazette as follows:

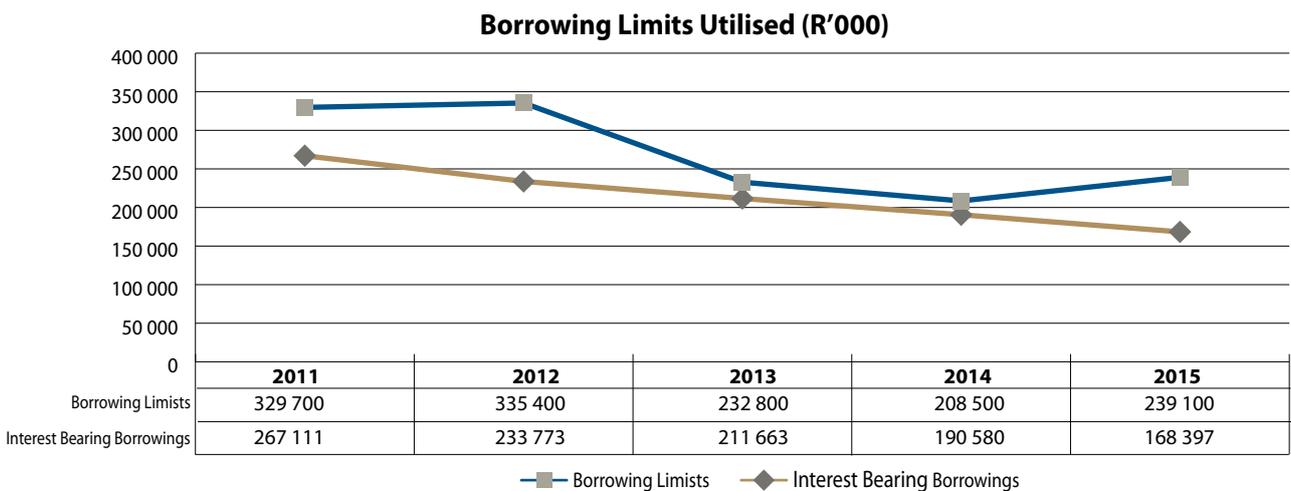
- 2013: R232,8 million;
- 2014: R208,5 million; and
- 2015: R239,1 million.

The borrowing limit is based on Mhlathuze Water is borrowing requirements and the funding needed to ensure that the demands from consumers can be met. Limits are reviewed on an annual basis, and where there are indicators for limit changes, alterations are undertaken with National Treasury accordingly.

Borrowing limits	2014	2015
Limit	R208,5 million	R239,1 million
Actual	R190,5 million	R168,4 million
Unutilised	R18 million	R70,7 million

Based on the new business plan that was submitted to Department of Water and Sanitation and National Treasury, Mhlathuze Water existing borrowings for 2016 will be sufficient to cover all liquidity requirements.

Mhlathuze Water will submit a new proposal to the Board for approval and to the Minister of Water and Sanitation to submit to National Treasury for the new periods 2016, 2017 and 2018.



DIRECTOR'S REPORT

The Board of Mhlathuze Water has pleasure in presenting their report of the entity for the year ended 30 June 2015.

The report is presented in terms of the Public Finance Management Act No. 1 of 1999, and designates the Board as the accounting authority.

Nature of Business

Mhlathuze Water conducts its activities in accordance with sections 29 & 30 of the Water Services Act No. 108 of 1997.

Mhlathuze Water also engages in other services as outlined in section 30 of the Water Services Act that complement bulk water service delivery such as water quality monitoring and environmental management, laboratory services and acting as an implementing agent for any sphere of government for projects related to water service delivery.

Compliance with Legislation

The Annual Financial Statements are prepared in accordance with South African Generally Accepted Accounting Standards (SA GAAP) and the following relevant Acts:

- Water Services Act No: 108 of 1997;
- Public Finance Management Act (PFMA as amended) No: 1 of 1999; and
- Public Audit Act No: 25 of 2004

Going Concern

The Department of Water and Sanitation (DWS) is currently in the consultative process of considering establishing a single Water Board in KwaZulu-Natal. The proposed roadmap was presented at a meeting between the Minister and the representatives of Umgeni Water and Mhlathuze Water, and extensive consultations are underway. However, Mhlathuze Water has no reason to believe that this process will negatively impact the going concern assumption of Mhlathuze Water for the foreseeable future.

The Annual Financial Statements have been prepared on the going concern basis. The Board of Mhlathuze Water has reasonable grounds to believe that the business has adequate resources to continue as a going concern in the foreseeable future. The going concern assessment took the following consideration:

- Mhlathuze Water has adequate committed credit facilities from its lenders to fund its operations and meet its financial obligations in the normal course of business for the foreseeable future;
- A funding strategy and plan has been developed to ensure that Mhlathuze Water is able to successfully fund its capital expenditure programme without breaching the set financial parameters;
- The operational and financial risks have been reviewed to determine their impact on the business under various conditions, and mitigating initiatives, strategies and controls are in place as reflected in the business and risk management plans;
- The accumulated reserves have improved by 18% compared to the previous year;
- The interest cover and cash interest cover are significantly better than previous year and it's covering over 6.95 times (2014: 4,62); and
- Based on the new business plan for 2016 to 2020 the cash flow forecasts reflect that there will be sufficient funds to cover liquidity requirements for the year 2016, thereafter Mhlathuze Water will source funding by way of tender on the open market.

Corporate Governance and Risk Management

The Board supports and complies with the principles of Corporate Practises and Conduct as set out in the King III Report, which was adopted in the financial year. The Board is responsible for monitoring the risk management process.

Share Capital and Director's Interests

Mhlathuze Water has no share capital and therefore no Director has any equity interest in the organisation.

The Board is currently made up as follows:

Chairperson	Independent Non-executive Director	1
Members of the Board	Independent Non-executives Directors	10
Chief Executive	Executive Director (ex officio)	1

Members of the Board and Executive Committee's emoluments

are disclosed in the remuneration report on page 60 in terms of regulation 28.1 of the PFMA.

Business Address

Corner of Battery Bank and South Central Arterial
Alton Industrial Area
Richards Bay, 3900

Postal Address

Private Bag x1047
Richards Bay, 3900

Auditors

Internal Auditors

SizweNtsalubaGobodo
Appointed: 11 October 2012
Three-year term

External Auditors

KPMG INC.
Appointed: 27 May 2013
Three-year term

Tariff Policy

Mhlathuze Water charges a tariff for services rendered, which ensures that it remains viable and sustainable over the long term. To achieve this, Mhlathuze Water applies a scheme-specific tariff for bulk services and/or time and material type charges for other services.

The policy takes account of the stipulations contained in section 10 of the Water Services Act.

The annual tariff review process is in terms of the requirements of section 42 of the Municipal Finance Management Act and Circular 23 issued by National Treasury.

Financial Performance

The overall performance against financial targets was positive as outlined in more detail under the financial overview on pages 48-96 of the report.

Capital Expenditure and Commitments

Commitments for the acquisition of property, plant and equipment will be financed from borrowings and internal resources. The capital commitments are set out in note 17 of the financial statements.

Events After Reporting Period

There were no post Balance Sheet events requiring adjustment to or disclosure in the financial statements.

Information Required by the Public Finance Management Act No. 1 of 1999, as Amended

In assessing the materiality framework account the criteria for measurement is as follows:

In terms of section 28.3.1 of the regulations of the PFMA, for the purposes of materiality and significance, the Accounting Authority has developed and agreed to a framework of acceptable levels of materiality and significance established at 1% of gross revenue which equates to R4,9 million (2014: R3,4 million). Management also apply a qualitative aspect to all errors found.

Fruitless and Wasteful Expenditure

There were no fruitless and wasteful expenditure during the current financial year.

Irregular Expenditure

Irregular expenditure totalling R943 000 (2014: Nil) arose primarily as a result of non-compliance to the supply chain management policy and was subsequently condoned as valid expenditure incurred in support of the business requirements. Further details are set out in Note 19 of the financial statements.

Unauthorised Expenditure

There were no incidents or reports of any unauthorised expenditure during the current financial year.

Financial Misconduct

There were no incidents or reports of any financial misconduct during the current financial year.

Disclosure in Terms of Directives Received

There were no directives received during the current financial year.

Remuneration Report

Human Resources and Remuneration Committee

The Human Resources and Remuneration Committee assists the Board in applying policies approved by the Board for remunerating executives.

The Board's remuneration is determined and approved by the Department of Water Affairs on an annual basis.

Remuneration Report

Service contract period of executives

Executive	Designation	Date of employment	Date of appointment in current position	Term of employment
Sibusiso Makhanya	Chief Executive	19 June 2008	01 September 2014	5 Year contract
Simpiwe Xulu	Chief Operations Officer	03 January 2011	01 March 2015	5 Year contract
Brian Ndaba	Chief Financial Officer	01 November 2012	01 November 2012	5 Year contract
Mandla Myeni	Human Resources Manager	07 August 1995	01 July 2010	Permanent
Swaswa Nthloro	General Manager Scientific Services	07 April 2008	01 December 2008	Permanent
Nokubonga Ndlovu	Company Secretary	02 December 2013	02 December 2013	Permanent

Board Members and Executives' Emoluments

	Fees for services as board member	Package earnings	Travel & re-location allowances	Performance incentive bonus	Other services & acting allowances	Total 2015	Total 2014
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Non-executive board members							
D.C. Myeni (Chairperson)	538	-	-	-	-	538	290
T.M. Zuma*	-	-	-	-	-	-	9
B.V. Mshengu	246	-	-	-	117	363	117
N.N. Khumalo	189	-	-	-	12	201	101
P.S. Dlamini	207	-	-	-	9	216	243
N. Gevers	182	-	-	-	5	187	136
A. Badul	244	-	-	-	19	263	209
M.M. Xulu	179	-	-	-	2	181	73
E.M. Mzimela*	63	-	-	-	4	67	58
B.K. Rawlins	196	-	-	-	5	201	75
ADV S. Chamane	185	-	-	-	67	252	70
T.C. Madikane	253	-	-	-	19	272	249
F.G. Bosman	221	-	-	-	2	223	137
Total Non-executive Board Members	2 703	-	-	-	261	2 964	1 767
Executive Board Member							
A.S. Makhanya – Chief Executive*	-	800	75	-	82	957	-
A.S. Makhanya – Acting Chief Executive	-	-	-	-	102	102	476
V. Botes – Chief Executive*	-	-	-	-	-	-	1 200
Total Executive Board Member	-	800	75	-	184	1 059	1 676
Executive staff members							
A.S. Makhanya – Chief Operations Officer	-	901	105	147	46	1 199	1 846
S.G. Xulu – Chief Operations Officer*	-	467	-	-	23	490	-
B.S. Ndaba – Chief Financial Officer	-	1 328	163	116	194	1 801	1 580
M. Myeni – Human Resources Manager	-	1 130	-	97	75	1 302	1 186
M. Myeni – Acting Chief Executive	-	-	-	-	63	63	42
B.S. Nthloro – General Manager Scientific Services	-	966	81	81	85	1 213	992
N. Ndlovu - Company Secretary	-	944	43	-	11	998	-
Total Executive Staff Members	-	5 736	392	441	497	7 066	5 646
Total Executive Board Member and Executive Staff Members	-	6 536	467	441	681	8 125	7 322
Total Board Members and Executive emoluments	2 703	6 536	467	441	942	11 089	9 089

* T.M. Zuma – resigned 1 March 2014

* E.M. Mzimela – resigned 1 October 2014

* A.S. Makhanya was appointed as Chief Executive on 3 September 2014

* V. Botes – retired end November 2013

* S.G. Xulu was appointed as Chief Operations Officer on the 1 March 2015

RESPONSIBILITY OF ACCOUNTING AUTHORITY

The Board of Mhlathuze Water, as the Accounting Authority, is responsible for the preparation and fair presentation of the annual financial statements of Mhlathuze Water, comprising the Statement of Financial Position at 30 June 2015, and the statements of comprehensive income, changes in equity and cash flows 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 (SA GAAP), and the requirements of the Water Services Act (Act No. 108 of 1997) and sub-section 55 (i)(b) of the Public Finance Management Act (Act No. 1 of 1999) of South Africa.

The Board is also responsible for such internal control as they deem necessary to enable the preparation of financial statements that are free from material misstatement, whether

due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The Board has made an assessment of the ability of the entity to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead. The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The Annual Financial Statements of Mhlathuze Water, as identified in the first paragraph, were approved by the Board of Directors and signed on its behalf by:



Ms Dudu Myeni

Chairperson of the Board

15 September 2015



Mr Sibusiso Makhanya

Chief Executive Officer

15 September 2015

INDEPENDENT AUDITOR'S REPORT

To Parliament and the Executive Authority, the Minister of the Department of Water and Sanitation on Mhlathuze Water

Report on the financial statements

We have audited the financial statements of Mhlathuze Water as set out on pages 64 to 95, which comprise the statement of financial position at 30 June 2015, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory information.

Accounting Authority's responsibility for the financial statements

The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Statements of Generally Accepted Accounting Practice (SA GAAP) and the requirements by the Public Finance Management Act 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 Mhlathuze Water at 30 June 2015, 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 (PAA), and the *General Notice* issued in terms thereof, we report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations as well as internal control. We performed tests to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, we do not express an opinion or conclusion on these matters.

Predetermined objectives

We performed procedures to obtain evidence about the usefulness and reliability of the information in the Corporate Performance Scorecard as set out on pages 26 to 28 of the annual report, and reported thereon to the Accounting Authority. The procedures performed were limited to the

INDEPENDENT AUDITORS REPORT (CONTINUED)

following selected objectives:

- Water quality compliance
- Non-revenue water
- Effective internal controls and risk management
- Bulk supply agreements concluded with municipalities/ other customers
- Improve financial ratios
- Increase BBBEE spend
- Capital expenditure
- Achieve statutory reporting compliance
- Jobs created

The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability.

The usefulness of information in the Corporate Performance Scorecard 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 well defined, verifiable, specific, measurable, time bound and relevant as required by the *National Treasury Framework for managing programme performance information*.

The reliability of the information in the reported performance against predetermined objectives is assessed to determine whether it is valid, accurate and complete.

We report that there were no material findings on the Corporate Performance Scorecard concerning the usefulness and reliability of the information.

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.

We did not identify any instances of 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.

Internal control

We considered internal control relevant to our audit of the financial statements, Corporate Performance Scorecard and compliance with laws and regulations, but not for the purpose of expressing an opinion on the effectiveness of internal control.

We did not identify any deficiencies in internal control that we considered sufficiently significant for inclusion in this report.

KPMG Inc.
Registered Auditor



Per N Bhoola
Chartered Accountant (SA)
Registered Auditor
Director

30 September 2015

KPMG House
5 Arundel Close
Kingsmead Office Park
Durban
4000

ANNUAL FINANCIAL STATEMENTS

ACCOUNTING POLICIES

1. Basis of Preparation

Statement of Compliance

The financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice (SA GAAP), the Public Finance Management Act, 1999 (Act No. 1 of 1999), and the Water Services Act, 1997 (Act No. 108 of 1997) of South Africa.

The financial statements were approved by the Board of Mhlathuze Water on the 16 September 2015.

Basis of Measurement

The financial statements have been prepared on the historic cost basis, unless specified otherwise. The financial statements are prepared on the going concern basis.

Functional and Presentation Currency

The financial statements are presented in South African Rand, which is the entity's functional currency. All information presented has been rounded to the nearest thousand rand, unless otherwise indicated.

Use of Estimates and Judgements

The preparation of financial statements in conformity with SA GAAP requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis, including making assumptions concerning future events that are believed to be reasonable under the circumstances. The actual results may differ from these estimates. Revisions to accounting estimates are accounted for prospectively.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 18 - Accounting for an arrangement containing a lease
- Note 18 - Lease classification



Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 14 – Provisions and liabilities
- Note 6 – Property, plant and equipment
- Note 9 – Trade and other receivables

2. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

2.1 Foreign Currency Transactions

Transactions in foreign currencies are translated to the functional currency of the entity at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in a foreign currency at the statement of financial position date are translated to the functional currency at the rates of exchange ruling at the statement of financial position date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Gains and losses arising on translation are recognised in profit or loss.

2.2 Financial Instruments

Non-derivative financial assets

The entity initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date at which the entity becomes a party to the contractual provisions of the instrument.

The entity derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the entity is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the entity has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The entity has the following non-derivative financial assets:

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade, staff and other receivables and cash and cash equivalents.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, short term cash investments and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Non-derivative financial liabilities

The entity initially recognises debt securities issued on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the entity becomes a party to the contractual provisions of the instrument.

The entity derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the entity has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The entity has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

2.3 Property, Plant and Equipment

Recognition and measurement

Owned assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

ACCOUNTING POLICIES (CONTINUED)

2. Significant Accounting Policies

2.3 Property, Plant and Equipment (cont.)

Recognition and measurement (cont.)

Owned assets (cont.)

Cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing assets to a location, and the condition necessary for it to be capable of operating in the manner intended by management. The costs include dismantling and removing the items and restoring the site on which they are located.

When property, plant and equipment comprises major components with different useful lives, these major components are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within 'other income' in profit or loss.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the entity and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Leased assets are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably certain that the entity will obtain ownership by the end of the lease term.

Depreciation

Items of property, plant and equipment are depreciated from the date they are made available for use, or in respect of self-constructed assets, from the date that the asset is completed and ready for use.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is generally recognised in profit or

loss, unless the amount is included in the carrying amount of another asset.

The depreciation methods, estimated remaining useful lives and residual values, are reviewed at least annually.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale, in accordance with AC 142 and the date that the asset is derecognised.

Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Water and effluent scheme property, plant and equipment:

• Civil works and Buildings	20 – 45 years
• Electrical installations	15 – 20 years
• Pipelines	20 – 40 years
• Plant and equipment	10 – 20 years

Movable property, plant and equipment:

• Vehicles	5 – 10 years
• Laboratory equipment	4 – 10 years
• Office equipment	5 – 10 years
• Furniture	3 – 10 years
• Fire equipment	5 years
• Safety equipment	5 years
• Electronic equipment	5 years
• Tools	5 years
• Radio and communication	5 years
• IT equipment	3 years

Capital work in progress

Capital work in progress is non-current assets under construction and is stated at cost. Depreciation is not provided on capital work in progress.

Borrowing costs directly attributable to the acquisition or construction of qualifying assets are capitalised on qualifying assets in accordance with the requirements of AC114 Borrowing Costs.

2.4. Intangible Assets

An intangible asset is recognised when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

2.4. Intangible assets (cont.)**Software**

Software is carried at cost less accumulated amortisation and impairment. Internally developed and packaged software and the direct costs associated with the development and installation thereof, are capitalised and recognised as intangible assets.

Costs relating to the acquisition of licences are treated as an expense in the period in which the licence is acquired.

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development expenditure is recognised as an expense, unless it is probable that it will give rise to a product that will generate future benefits for the entity, in which case it is capitalised.

Development costs are recognised as assets if all the following are demonstrated:

- The technical feasibility of completing the project so that it will be available for use or sale.
- The entity's intention to complete the project and use or sell it.
- The entity's ability to use or sell the project.
- How the project will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the project.
- The entity's ability to reliably measure the expenditure attributable to the project during its development.

Capitalised development expenditure is measured at cost less accumulated depreciation and accumulated impairment losses.

Subsequent expenditure**Amortisation**

Amortisation is charged to the Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with indefinite useful lives are systematically tested for impairment at each reporting date. Other intangible assets are amortised from the date they are available for use.

The estimated useful lives for the current and comparative periods are as follows:

- | | |
|-----------------------|---------|
| • Customised software | 3 years |
| • Shelf software | 3 years |

2.5. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is determined using the weighted average cost method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Inventories held by the entity comprise water, maintenance spares, consumables and chemicals.

2.6. Impairment**Financial assets (including receivables)**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events has had a negative effect on the estimated future cash flows of that asset.

Objective evidence that financial assets are impaired can include: default or delinquency by a debtor; restructuring of an amount due to the entity on terms that the entity would not consider otherwise; indications that a debtor or issuer will enter bankruptcy; and the disappearance of an active market for a security.

The entity considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the entity uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

ACCOUNTING POLICIES (CONTINUED)

2. Significant Accounting Policies

2.6. Impairment (cont.)

Financial assets (including receivables) (cont.)

Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the entity's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets' recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a risk free discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use and are largely independent of the cash flows of other assets or groups of assets (the 'cash-generating unit').

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation if no impairment loss has been recognised.

2.7. Employee Benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due. Prepaid

contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

Other long-term employee benefits

The entity's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any related assets is deducted.

The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the entity's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognised in profit or loss in the period in which they arise.

Termination benefits

Termination benefits are recognised as an expense when the entity is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the entity has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus if the entity has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2.8. Provisions

A provision is recognised if, as a result of a past event, the entity has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are reviewed at the reporting date and adjusted to reflect the current best estimate.

2.9. Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Mhlathuze Water's activities. Revenue is shown, exclusive of value added tax, rebates and discounts. Revenue is recognised as follows:

Goods sold and services rendered

Revenue from the sale of water is recognised in the statement of comprehensive income when the significant risks and rewards of ownership have been transferred to the buyer. Revenue comprises primarily the net invoiced value of water sales, exclusive of value-added tax, at declared tariffs arising from normal trading activities.

Income from services rendered is recognised in the Statement of Comprehensive income in proportion to the stage of completion of the transaction at the reporting period.

Management services

Management services is recognised in the period in which the services are rendered in terms of the agreements with external water services entities.

Implementing agency revenue

Implementing agency revenue is recognised by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total service to be provided.

Operation and maintenance services (O & M)

Operation and maintenance services is recognised in the period in which the services are rendered. O & M revenue relates to bulk water and bulk waste water services operated on behalf of water service authorities.

Operating lease income

Operating lease income is recognised in the statement of comprehensive income on a straight-line basis over the term of the relevant lease. Initial direct costs incurred by lessors in negotiating and arranging an operating lease shall be added

to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

2.10. Other Operating Income

Other operating income is recognised when the significant risks and rewards of ownership are transferred to the purchaser and the amount of revenue can be measured reliably.

2.11. Cost of Sales

This represents the cost of raw water purchased from the Thukela/Goedertrouw/Mhlathuze River System scheme. Other costs to provide services are reflected in the statement of comprehensive income under operating, general and administrative expenses.

2.12. Government Grants

Government grants (if any should be received) are recognised initially as deferred income when there is reasonable assurance that they will be received and that the entity will comply with the conditions associated with the grant. Grants that compensate the entity for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised.

Grants that compensate the entity for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

2.13. Leases

Leases in terms of which the entity assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to its fair value and if lower, the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. If there is no reasonable certainty that the entity will obtain ownership by the end of the finance lease term, the assets are fully depreciated over the shorter of the finance lease term and its estimated useful life.

Other leases are operating leases and are not recognised on the entity's Statement of Financial Position. Payments made under operating leases are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease. In case of early termination, penalties are recognised as an expense in the period in which termination occurred.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

ACCOUNTING POLICIES (CONTINUED)

2. Significant Accounting Policies

2.13. Leases (cont.)

Lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability.

The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Determining whether an arrangement contains a lease

At inception of an arrangement, the entity determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the entity the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the entity separates payments and other considerations required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the entity concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the entity's incremental borrowing rate.

2.14. Finance Income and Costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method.

2.15. Segment Reporting

A segment is a distinguishable component of the entity that is engaged either in providing related products or services (business segment), which is subject to risks and returns

that are different from those of other segments. Segment information is presented in respect of the entity's business segments. The business segments are determined based on the entity's management and internal reporting structure.

Segment results that are reported to the entity's Chief Executive (the chief operating decision-maker) include assets and liabilities and items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment.

2.16. Related Parties

- a. A person or a close member of that person's family is related to a reporting entity if that person:
 - (i) Has control or joint control of the reporting entity;
 - (ii) Has significant influence over the reporting entity; or
 - (iii) Is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b. An entity is related to a reporting entity if any of the following conditions apply:
 - (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) Both entities are joint ventures of the same third party;
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;
 - (vi) The entity is controlled or jointly controlled by a person identified in (a); and

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

2.17. Fruitless and Wasteful Expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Comprehensive Income and where recovered, it is subsequently accounted for as revenue in the statement of comprehensive income.

2.18. Irregular Expenditure

Irregular expenditure is expenditure that is contrary to the Public Finance Management Act (PFMA) and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the entity's supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Comprehensive Income and where recovered, it is subsequently accounted for as revenue in the Statement of Comprehensive Income.

2.19. New Standards and Interpretations not yet Adopted

The following new standards, amendments to standards and interpretations applicable to the entity are not yet effective for the year ended 30 June 2015, and have not been applied in preparing these Annual Financial Statements:

Standard/Interpretation		Date issued by IASB	Effective date periods beginning on or after
IFRS 14	Regulatory Deferral Accounts	January 2014	1 January 2016
AC123 & AC129 (IAS 16 and IAS 38)	Clarification of acceptable methods of depreciation and amortisation	May 2014	1 January 2016
AC 101 (IAS 1)	Disclosure initiative	December 2014	1 January 2016
IFRS 15	Revenue from contracts with customers	May 2014	1 January 2018
AC 146 (IFRS 9)	Financial instruments	July 2014	1 January 2018

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

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for the year ended 30 June 2015

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2015

	Note	2015 R'000	2014 R'000
Revenue	2	498 765	346 047
Cost of sales		(59 045)	(38 466)
Gross profit		439 720	307 581
Other operating income	2.2	682	3 526
Operating, general and administrative expenses		(349 563)	(225 873)
Staff costs		(105 942)	(78 685)
Energy		(75 915)	(40 012)
Maintenance materials		(42 943)	(14 836)
Chemicals/purification		(13 893)	(8 423)
Depreciation/amortisation		(51 802)	(44 976)
Other operating expenses		(59 068)	(38 941)
Results from operating activities	3	90 839	85 234
Net finance costs		(841)	(6 036)
Finance income	4	12 228	12 417
Finance costs	5	(13 069)	(18 453)
Surplus for the year		89 998	79 198
Other comprehensive income		-	-
Total comprehensive income for the year		89 998	79 198

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2015

	Note	2015 R'000	2014 R'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	659 965	577 260
Intangible assets	7	704	724
Total non-current assets		660 669	577 984
Current assets			
Inventories	8	7 301	5 227
Trade and other receivables	9	120 295	143 624
Cash and cash equivalents - Implementing agent projects	10	25 187	46 411
Cash and cash equivalents	11	196 323	212 344
Total current assets		349 106	407 606
Total assets		1 009 775	985 590
RESERVES AND LIABILITIES			
Reserves			
Retained income		349 128	265 606
Capital replacement reserve		216 114	211 152
Business development reserve		13 936	13 109
Maintenance reserve		7 534	7 087
Insurance reserve		4 056	3 816
Total reserves		590 768	500 770
Non-current liabilities			
Long-term interest-bearing borrowings	12	146 287	168 470
Income received in advance	13	87 084	95 112
Provisions and liabilities	14	258	258
Total non-current liabilities		233 629	263 840
Current liabilities			
Trade and other payables	15	149 922	185 975
Short-term interest-bearing borrowings	12	22 110	22 110
Income received in advance	13	7 965	8 065
Provisions and liabilities	14	5 381	4 830
Total current liabilities		185 378	220 980
Total reserves and liabilities		1 009 775	985 590

ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2015

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2015

	Retained income	Capital replacement reserve	Business development reserve	Maintenance reserve	Insurance reserve	Total
	R'000	R'000	R'000	R'000	R'000	R'000
Balance at 1 July 2013	194 413	207 094	9 768	6 695	3 602	421 572
Total comprehensive income for the year	79 198	-	-	-	-	79 198
Transfers to reserves	(8 005)	4 058	3 341	392	214	-
Balance as at 30 June 2014	265 606	211 152	13 109	7 087	3 816	500 770
Total comprehensive income for the year	89 998	-	-	-	-	89 998
Transfers to reserves	(6 476)	4 962	827	447	240	-
Balance as at 30 June 2015	349 128	216 114	13 936	7 534	4 056	590 768

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2015

	Notes	2015 R'000	2014 R'000
Cash flows from operating activities			
Cash generated from operations	23.1	142 641	130 210
Changes in working capital	23.2	(14 247)	(16 241)
– finance costs	5	(13 069)	(18 453)
– finance costs capitalised	5	(6 476)	(3 355)
Net cash generated from operating activities		108 849	92 161
Cash flows from investing activities			
– proceeds on disposal of property, plant and equipment		3 141	692
– acquisition of property, plant and equipment and intangible assets	6 & 7	(137 628)	(128 552)
– adjustment for borrowing costs capitalised	5	6 476	3 355
– finance income	4	12 228	12 417
Net cash utilised in investing activities		(115 783)	(112 088)
Cash flows from financing activities			
– decrease in interest bearing borrowings	12	(22 183)	(21 083)
– decrease in income received in advance	13	(8 128)	(8 236)
Net cash utilised in financing activities		(30 311)	(29 319)
Net decrease in cash and cash equivalents			
Cash and cash equivalents at beginning of year		258 755	308 001
Cash and cash equivalents at end of year	11	221 510	258 755

NOTES TO THE FINANCIAL STATEMENTS

1. BUSINESS SEGMENTS

Mhlathuze Water has two reportable segments:

(i) The primary activities segment as defined by section 29 of the Water Services Act No. 108 of 1997, which is made up of:

(a) Bulk water

This activity covers the bulk supplies and other related water services made under contract in the Richards Bay/Empangeni area from plants owned by Mhlathuze Water.

It also covers bulk supplies made and other related water services under contract to district municipalities, water services institutions and the Department of Water and Sanitation from plants owned by these bodies.

Revenue generated based on water usage has been reflected under this segment.

(b) Waste water

This activity covers buoyant and dense effluent disposals under contract to industries and municipalities in the Richards Bay area from plants owned by Mhlathuze Water.

(ii) The other segment activities, as defined by section 30 of the Water Services Act No. 108 of 1997. This business segment consists of non-regulated activities, which are mainly defined as services that complement bulk water service provision such as water quality monitoring, environmental management, laboratory services and where Mhlathuze Water acts as an implementing agent for any sphere of government for projects related to water service delivery.

	Primary activities		Other activities	Total
	Bulk water	Waste water		
	kl'000	kl'000	kl'000	kl'000
For the year ended 2015				
Volume sold	71 470	64 752	-	136 222
	R'000	R'000	R'000	R'000
Revenue	346 376	119 124	33 265	498 765
Cost of sales	(59 045)	-	-	(59 045)
Gross profit	287 331	119 124	33 265	439 720
Other operating income	522	160	-	682
Operating, general and administrative expenses	(255 907)	(93 656)	-	(349 563)
Other administrative expenses	(225 211)	(72 550)	-	(297 761)
Depreciation and amortisation	(30 696)	(21 106)	-	(51 802)
Operating income before finance costs	31 946	25 628	33 265	90 839
Net finance costs	1 313	(2 154)	-	(841)
Surplus for the year	33 259	23 474	33 265	89 998
Capital expenditure	101 875	16 614	-	118 489
Centralised services				19 139
				137 628
Segment assets	452 970	198 696	72 928	724 594
Centralised services				285 181
Consolidated total assets				1 009 775
Segment liabilities	23 145	105 118	72 928	201 191
Centralised services				217 816
Consolidated total liabilities				419 007

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. BUSINESS SEGMENTS (continued)

	Primary activities		Other activities	Total
	Bulk water	Waste water		
	kl'000	kl'000		
For the year ended 2014				
Volume sold	47 588	64 752	-	112 340
	R'000	R'000	R'000	R'000
Revenue	208 228	110 030	27 789	346 047
Cost of sales	(38 466)	-	-	(38 466)
Gross profit	169 762	110 030	27 789	307 581
Other operating income	2 234	1 292	-	3 526
Operating, general and administrative expenses	(146 586)	(79 287)	-	(225 873)
Other administrative expenses	(120 437)	(60 461)	-	(180 898)
Depreciation and amortisation	(26 149)	(18 826)	-	(44 975)
Operating income before finance costs	25 410	32 035	27 789	85 234
Net finance costs	(2 825)	(3 211)	-	(6 036)
Surplus for the year	22 585	28 824	27 789	79 198
Capital expenditure	81 890	30 225	-	112 115
Centralised services				16 437
				128 552
Segment assets	369 738	197 663	140 177	707 578
Centralised services				278 012
Consolidated total assets				985 590
Segment liabilities	9 894	111 167	140 177	261 238
Centralised services				223 582
Consolidated total liabilities				484 820

	2015	2014
	kl'000	kl'000
VOLUME SOLD		
Volume of bulk water - raw	16 165	7 380
Volume of bulk water - purified	55 305	40 208
Volume of waste water	64 752	64 752
Total volume sold	136 222	112 340

ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2015

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		2015	2014
		R'000	R'000
2.	REVENUE		
	Tariff income		
	An analysis of tariff income is as follows:		
	<i>Primary activities (Section 29)</i>		
	– bulk water	285 526	156 799
	– waste water	76 191	69 618
	<i>Other activities (Section 30)</i>		
	– management services	74	-
	– laboratory services	6 678	5 717
	– implementing agency fees	26 513	22 074
	Total tariff income	394 982	254 208
	Operating lease income		
	An analysis of operating lease income is as follows:		
	<i>Primary activities (Section 29)</i>		
	– bulk water	60 849	51 429
	– waste water	42 932	40 412
	Total operating lease income	103 781	91 841
	Total revenue		
	An analysis of total revenue is as follows:		
	<i>Primary activities (Section 29)</i>		
	– bulk water	346 376	208 228
	– waste water	119 124	110 030
	<i>Other activities (Section 30)</i>		
	– management services	74	-
	– laboratory services	6 678	5 717
	– implementing agency fees	26 513	22 072
	Total revenue	498 765	346 047
	2.1 EXTERNAL PROJECTS (SECTION 30 ACTIVITIES)		
	Mhlathuze Water, apart from its primary activities administers External Projects (Section 30 activities) for the Department of Water and Sanitation, Department of Education, Department of Environmental Affairs and the Department of Co-operative Governance and Traditional Affairs on their behalf. Total expenditure for these projects are fully recovered from these departments.		
	These amounts below are not reflected in the Statement of Comprehensive Income as it is deemed that Mhlathuze Water is an agent in these transactions. Accordingly, the implementing agency fees has been recognised as revenue in the Statement of Comprehensive Income.		
	The following projects activities took place during the year:		
		473 852	458 274
	– Department of Education/Department of Basic Education – school sanitation	49 421	86 238
	– Department of Water and Sanitation – water infrastructure	384 898	294 517
	– Department of Environmental Affairs – Alien plant removal	19 533	27 849
	– Department of Co-operative Governance and Traditional Affairs – water infrastructure	20 000	46 000
	– Department of Water and Sanitation – other	-	3 670
	The above amounts have been incurred on behalf of the respective departments and are recoverable from them.		

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		2015	2014
		R'000	R'000
2.	REVENUE (cont.)		
	2.2 OTHER OPERATING INCOME		
	Included in other operating income:		
	- Income from DWS in relation to disputed amounts	-	2 759
	- Sundry income	682	767
	Total other operating income	682	3 526
3.	RESULTS FROM OPERATING ACTIVITIES		
	Results from operating activities is stated after taking the following discloseable items into account:		
	Included in other operating expenses:		
	External audit fees current year	(845)	(907)
	Internal audit fees	(886)	(840)
	Operating lease charges	(2 410)	(2 252)
	Provision for impairment of receivables		
	Raising of provision for impairment of trade receivables	(219)	(78)
	Release of provision for impairment of trade receivables	78	359
	Provision for impairment of staff receivables	(3)	-
	Total of provision for impairment of receivables	(144)	281
	3.1 Staff Costs		
	Salaries and wages	(81 976)	(58 362)
	Provision for bonus	(5 132)	(4 267)
	Defined contribution plan expense	(10 657)	(8 515)
	Medical aid contributions	(52)	(219)
	Executive members	(8 125)	(7 322)
	Total staff costs	(105 942)	(78 685)
	3.2 Employees	No.	No.
	Number of employees at 30 June		
	Permanent	256	165
	Contractors against vacant posts	14	8
	Contractors other	22	3
	Trainees	14	6
	Total number of employees	306	182
	Included in the above are 111(2014: Nil) employees working under the City of uMhlatuze's contract.		

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for the year ended 30 June 2015

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2015 R'000	2014 R'000
4. FINANCE INCOME		
– call accounts/investments	12 070	12 303
– recovery from customers	32	93
– bank account	126	21
Total finance income	12 228	12 417
5. FINANCE COSTS		
Loans	(19 543)	(21 807)
Bank overdraft	(2)	(1)
Less: borrowing cost capitalised	6 476	3 355
Total finance costs	(13 069)	(18 453)
Finance costs were capitalised to work-in-progress at the average gross weighted cost of debt of 10.66% p.a. (2014: 10.67%).		

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. PROPERTY, PLANT AND EQUIPMENT	Land	Buildings & Infrastructure	Furniture & Equipment	Plant & Machinery	Vehicles	Work in Progress	Temporary Assets	Total 2015
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Year ended 30 June 2015								
Carrying amount 1 July 2014	1 829	127 590	9 588	300 473	3 122	134 658	-	577 260
Cost	1 829	241 477	24 277	564 811	6 045	134 658	33 295	1 006 392
Accumulated depreciation	-	(113 887)	(14 689)	(263 967)	(2 923)	-	(33 295)	(428 761)
Accumulated impairments	-	-	-	(371)	-	-	-	(371)
Additions	-	16 092	20 725	77 461	4 386	130 648	-	249 312
Borrowing costs capitalised	-	-	-	-	-	6 476	-	6 476
Commissioning	-	-	-	-	-	(118 664)	-	(118 664)
Disposals/asset write-offs	-	(26)	(133)	(2 982)	-	-	-	(3 141)
Cost	-	(188)	(1 307)	(3 997)	(113)	-	-	(5 605)
Accumulated depreciation	-	162	1 174	1 015	113	-	-	2 464
Depreciation charge	-	(12 035)	(4 610)	(33 035)	(1 598)	-	-	(51 278)
Total property, plant and equipment	1 829	131 621	25 570	341 917	5 910	153 118	-	659 965
Cost	1 829	257 381	43 695	638 275	10 319	153 118	33 295	1 137 912
Accumulated depreciation	-	(125 760)	(18 125)	(295 987)	(4 409)	-	(33 295)	(477 576)
Accumulated impairments	-	-	-	(371)	-	-	-	(371)
Total property, plant and equipment	1 829	131 621	25 570	341 917	5 910	153 118	-	659 965
Year ended 30 June 2014								
Carrying amount 1 July 2013	1 829	137 565	8 548	316 933	2 897	26 235	-	494 007
Cost	1 829	240 251	20 793	554 065	5 247	26 235	33 295	881 715
Accumulated depreciation	-	(102 686)	(12 245)	(236 761)	(2 350)	-	(33 295)	(387 337)
Accumulated impairments	-	-	-	(371)	-	-	-	(371)
Additions	-	1 694	3 682	13 550	911	124 991	-	144 828
Borrowing costs capitalised	-	-	-	-	-	3 270	-	3 270
Commissioning	-	-	-	-	-	(19 838)	-	(19 838)
Disposals/asset write-offs	-	(114)	(58)	(517)	(3)	-	-	(692)
Cost	-	(468)	(198)	(2 804)	(114)	-	-	(3 584)
Accumulated depreciation	-	354	140	2 287	111	-	-	2 892
Depreciation charge	-	(11 555)	(2 584)	(29 493)	(683)	-	-	(44 315)
Total property, plant and equipment	1 829	127 590	9 588	300 473	3 122	134 658	-	577 260
Cost	1 829	241 477	24 277	564 811	6 045	134 658	33 295	1 006 392
Accumulated depreciation	-	(113 887)	(14 689)	(263 967)	(2 923)	-	(33 295)	(428 761)
Accumulated impairments	-	-	-	(371)	-	-	-	(371)
Total property, plant and equipment	1 829	127 590	9 588	300 473	3 122	134 658	-	577 260

ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2015

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2015 R'000	2014 R'000
7. INTANGIBLE ASSETS		
Software		
Year ended 30 June 2015		
Carrying amount 1 July 2014	724	1 093
Cost	13 851	13 559
Accumulated amortisation	(13 127)	(12 466)
Additions	504	292
Amortisation	(524)	(661)
Carrying amount at year end	704	724
Cost	14 355	13 851
Accumulated amortisation	(13 651)	(13 127)
Total intangible assets	704	724
8. INVENTORIES		
8.1 Stores	7 130	5 095
Consumables and maintenance spares	4 570	3 777
Chemicals	2 560	1 318
8.2 Water Inventory		
Water inventory consists of closing value of raw and treated water	171	132
Total inventories	7 301	5 227
9. TRADE AND OTHER RECEIVABLES		
Trade receivables – bulk and waste water	68 345	43 302
Trade receivables – project activities	47 740	93 766
Provision for impairment	(219)	(78)
Sundry receivables	241	493
Staff receivables	87	45
South African Revenue Services VAT receivable	2 235	3 039
Prepayments and deposits	1 866	3 057
Total trade and other receivables	120 295	143 624

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2015 R'000	2014 R'000
10. CASH AND CASH EQUIVALENTS – IMPLEMENTING AGENT PROJECTS		
Mhlathuze Water has entered into agreements with the Department of Water and Sanitation, Department of Education, Department of Environmental Affairs and Department of Co-operative Governance Traditional affairs to administer approved budgets per annum against which Mhlathuze Water is allowed to incur expenses for bulk water and sanitation funded projects as well as the Working for Water Programme.		
For this purpose, the Department of Water and Sanitation, Department of Education, Department of Environmental Affairs and Department of Co-operative Governance Traditional affairs advances cash amounts to Mhlathuze Water in some instances and reimburses Mhlathuze Water in other instances as and when costs are incurred on these projects.		
On completion, the projects are handed to the district or local authorities.		
Advances received in respect of implementing agent projects	25 187	46 411
Total cash and cash equivalents	25 187	46 411
11. CASH AND CASH EQUIVALENTS		
Cash and cash equivalents comprise cash and short-term, highly liquid investments that are held with registered banking institutions with maturities of six months or less and that are subject to insignificant interest rate risk. The carrying amount of these assets approximates their fair values.		
Bank overdrafts and cash equivalents		
Cash and cash equivalents	196 323	212 344
Cash and cash equivalents	196 323	212 344
For the purposes of the Cash Flow Statement, the cash and cash equivalents comprise the following:		
Cash and cash equivalents	196 323	212 344
Cash and cash equivalents Departments of Water and Sanitation, Environmental Affairs, Education and Cogta	25 187	46 411
Net cash and cash equivalents	221 510	258 755

ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2015

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Financial Institution	Redeemable Date	Fixed Interest	Balance 30 June 2014	Redeemed	Balance 30 June 2015
			Rate (%)	R'000	R'000	R'000
12. INTEREST-BEARING BORROWINGS						
Capital market loans						
Fixed-term loan	Nedbank	30/06/2020	10.89	70 589	(11 765)	58 824
Fixed-term loan	RMB	28/11/2025	10.54	119 991	(10 418)	109 573
Total capital market loans				190 580	(22 183)	168 397
Short-term portion of loans				22 110		22 110
Long-term portion of loans				168 470		146 287
Total loans				190 580		168 397

The fixed term loan from Nedbank is repayable in bi-annual capital repayments that commenced on 30 June 2012 and matures on 30 June 2020.

The fixed-term loan from Rand Merchant Bank is repayable in bi-annual capital repayments that commenced on 30 November 2011 and matures on 28 November 2025.

Debt consists of interest-bearing liabilities held at amortised cost and are unsecured.

13. INCOME RECEIVED IN ADVANCE

– Short-term portion of advances

– Long-term portion of advances

Total income received in advance

Income received in advance from Foskor relates to the construction of the B-Line Diffuser Replacement Project, which was commissioned at the end of September 2008.

	2015 R'000	2014 R'000
– Short-term portion of advances	7 965	8 065
– Long-term portion of advances	87 084	95 112
Total income received in advance	95 049	103 177

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2015 R'000	2014 R'000
14. PROVISIONS AND LIABILITIES		
Post-retirement medical aid liability		
This provision is in respect of the one long-standing pensioner.		
This pensioner was already retired when Mhlathuze Water made the decision to pre-fund their liability towards medical aid costs when employees retire. For the purpose of calculating the post-retirement medical aid liability a discount rate of 9% (2014: 9%) was applied and a medical inflation rate of 7.5% (2014: 7.5%) was applied.		
Balance at beginning of the year	314	314
Provided during the year	34	34
Utilised during the year	(34)	(34)
Balance at end of the year	314	314
Provision for staff bonus		
The provision for bonus is raised to recognise the performance of employees, which is payable at the Board's discretion in line with the performance management policy.		
Balance at beginning of the year	4 774	4 036
Provided during the year	5 325	4 774
Utilised during the year	(4 774)	(4 036)
Balance at end of the year	5 325	4 774
These provisions reflect managements' best estimate.		
Total provisions and liabilities	5 639	5 088
Short- and long-term portion of the provision and liabilities		
Short-term portion of post retirement medical aid	56	56
Short-term portion of provision for staff bonuses	5 325	4 774
Short-term portion of the provision and liabilities	5 381	4 830
Long-term portion of the provision and liabilities	258	258
	5 639	5 088
15. TRADE AND OTHER PAYABLES		
Trade payables	25 460	12 514
Trade payables - section 30 activities	20 341	61 338
Accruals	46 274	29 609
Accruals – section 30 activities	23 092	21 262
Retention monies	3 230	2 430
Retention monies – section 30 activities	4 307	11 166
South African Revenue Services – PAYE, UIF, SDL and VAT	1 389	1 100
Sundry creditors	642	145
Section 30 customer advances (refer to Note 16)	25 187	46 411
Total trade and other payables	149 922	185 975

ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2015

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2015 R'000	2014 R'000
16. ADVANCES – PROJECT ACTIVITIES		
The Department of Water Affairs, Department of Education and Department of Environmental Affairs approves a budget per annum against which Mhlathuze Water is allowed to incur expenses for the externally funded projects as well as the Working for Water Programme. For this purpose the Department of Water Affairs, Department of Education and Department of Environmental Affairs advances cash amounts to Mhlathuze Water and reimburse them as and when cash is expended on these projects. These projects are completed on behalf of the Department of Water Affairs, Department of Education and Department of Environmental Affairs. The unutilised advances are listed below:-		
Advances received from the Department of Water Affairs	8	(272)
Eight projects are currently being managed.		
Advances received from the Department of Educ/Dept of Basic Education (DOE/DBE)	59	24 077
Two projects are currently being managed.		
Advances received from the Department of Environmental Affairs (DEA)	794	2 244
Fifteen projects are currently being managed.		
Advances received from the Department of Co-operative Governance and Traditional Affairs (CoGTA)	24 326	20 362
Two projects are currently being managed.		
Funds on hand (included in cash balances and trade and other payables - refer note 10 and 15)	25 187	46 411
17. CAPITAL COMMITMENTS		
Commitments for the acquisition of property, plant and equipment		
– contracted and authorised	36 354	46 199
– authorised but not contracted	6 994	6 511
Total future capital commitments	43 348	52 710
These capital commitments will be financed from borrowings and internal resources.		
18. OPERATING LEASE ARRANGEMENTS		
18.1 Operating Lease Commitments		
At the statement of financial position date Mhlathuze Water had outstanding commitments under non-cancellable operating leases, which fall due as follows:		
Up to 1 year	2 226	2 238
1 to 5 years	8 156	8 380
Thereafter	10 349	12 352
Total operating lease commitments	20 731	22 970
Mhlathuze Water leases equipment and a pipeline from various institutions for periods of 1 to 20 years.		
18.2 Operating lease receivable		
Up to 1 year	109 028	91 539
1 to 5 years	638 805	427 092
Thereafter	2 949 690	1 776 295
Total operating lease receivable	3 697 523	2 294 926
Arrangements with the customers that contained deemed leases and qualify as operating leases are recognised in terms of AC 117. The above indicates the future lease rentals receivable.		

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		2015	2014
		R'000	R'000
19.	STATUTORY INFORMATION IN TERMS OF THE PUBLIC FINANCE MANAGEMENT ACT NO. 1 OF 1999 AS AMENDED		
	19.1 Irregular Expenditure		
	Opening balance 1 July	-	-
	Add: irregular expenditure relating to current year	943	-
	Less: amounts condoned by appropriate authority	(943)	-
	Closing balance 30 June	-	-
	Details of irregular expenditure - current year		
	Incidents relate to expenditure which arose as a result of non compliance to the supply chain management policy. Expenditure was subsequently condoned as valid expenditure incurred in support of the business requirements. Condoned by (condoning authority): Chief Executive and Chairperson of the Board		
	19.2 Losses Recovered or Written-off		
	Bad debts provided for	219	78
	Bad debts recovered (reversal of provision)	(75)	(359)
	Totals	144	(281)
20.	ACCOUNTING FRAMEWORKS		
	As from 1 December 2012 the South African Generally Accepted Accounting Practice (SA GAAP) framework was withdrawn for year ends beginning after 1 December 2012. The Accounting Standards Board (ASB) approved the Directive on "The Selection of an Appropriate Reporting Framework by Public Entities (Directive 12)" in July 2015. The Directive is effective for financial years commencing on or after 1 April 2018 so as to provide entities sufficient time to prepare for any change in reporting framework, with earlier application permitted. Therefore, until the effective date, entities are allowed to retain the current reporting frameworks applied in preparing their financial statements. Based on this, these financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice (SA GAAP).		
21.	FINANCIAL ASSISTANCE FROM THE STATE		
	None.		

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for the year ended 30 June 2015

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Notes	2015 R'000	2014 R'000
22. RETIREMENT BENEFIT OBLIGATIONS			
Mhlathuze Water has made provision for a provident scheme covering all employees on permanent employment contracts. The fund is governed by the Pension Funds Act, 1956 (Act No. 24 of 1956).			
Mhlathuze Water pension fund – defined contribution plan			
The Mhlathuze Water Pension Fund was closed during the financial year and is now in the process of being deregistered. The members belong to the provident fund and the member shares from the pension fund will be transferred to the provident fund.			
Mhlathuze Water provident fund – defined contribution plan			
The provident fund is in the nature of a defined contribution plan. The risk benefits are registered as Group Income Insurance and Group Life Insurance Schemes. Funeral benefits are covered through a separate funeral policy. Retirement benefits are determined with reference to the contributions to the fund. Mhlathuze Water has no commitment to meet unfunded benefits of the provident fund.			
23. NOTES TO THE CASH FLOW STATEMENT			
23.1 Cash Generated from Operations			
Total comprehensive income for the year		89 998	79 198
Adjusted for:			
– depreciation/amortisation	6, 7	51 802	44 976
– finance costs	5	13 069	18 453
– finance income	4	(12 228)	(12 417)
		142 641	130 210
23.2 Changes in Working Capital			
– increase in inventories	8	(2 074)	(52)
– decrease/(increase) in trade and other receivables	9	23 329	(55 443)
– (decrease)/increase in trade and other payables	15	(36 053)	38 516
– increase in provisions and liabilities	14	551	738
Net changes in working capital		(14 247)	(16 241)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. RELATED PARTY TRANSACTIONS

Related party relationships exist between the organisation, associated organisations, key management personnel, Board Members and all spheres of government organisations. The nature and value of transactions concluded during the year and balances at year end are detailed below.

Organisation	Nature of transaction	Revenue		Expenditure	
		2015 R'000	2014 R'000	2015 R'000	2014 R'000
Department of Water and Sanitation	Implementing/laboratory	19 875	23 447	(56 753)	(37 767)
Department of Water and Sanitation	TG Scheme	39 559	12 518	(39 559)	(12 518)
Department of Environmental Affairs	Implementing/laboratory	1 479	-	-	-
Department of Basic Education	Implementing/laboratory	1 684	-	-	-
Department of Education	Implementing/laboratory	2 865	-	-	-
Department of Co-operative Governance and Traditional Affairs (COGTA)	Implementing/laboratory	1 775	-	-	-
Foskor Limited	Effluent disposal & income in advances	52 323	45 783	(951)	(880)
City of uMhlathuze	Electricity	-	-	(36 285)	(27 590)
City of uMhlathuze	Water & effluent	145 230	84 496	-	-
City of uMhlathuze	Lab/sundry	121	115	-	-
City of uMhlathuze	Operations and maintenance	44 429	3 048	-	-
South African Association of Water Utilities	Members fees	-	-	(167)	(167)
Transnet	Laboratory analysis	3	-	-	-
Related party transactions – organisations		309 343	169 407	(133 715)	(78 922)
Related party transactions – key management personnel and board members (see remuneration report)		-	-	(11 089)	(9 089)
		Amounts owing by:		Amounts owing to:	
		2015 R'000	2014 R'000	2015 R'000	2014 R'000
Department of Water and Sanitation	Water services TG Scheme	13 322	2 514	6 524	-
Department of Water and Sanitation	External /implementing/laboratory services	35 921	63 218	5 766	3 772
Department of Basic Education	External /implementing	3 173	18 212	-	-
Department of Education	External /implementing	4 533	-	-	-
Department of Co-operative Governance and Traditional Affairs (COGTA)	External /implementing	376	-	-	-
Foskor Limited	Effluent/laboratory/advances	4 205	3 937	95	99
City of uMhlathuze	Laboratory services/sundry	26	26	-	-
City of uMhlathuze	Water and effluent	12 640	9 622	2 748	2 520
City of uMhlathuze	Operations and maintenance	9 999	3 475	-	-
Related party balances - organisations		84 195	101 004	15 133	6 391

Certain members of the Board of Mhlathuze Water hold positions with entities, having a relationship with Mhlathuze Water. The relationship between the Board Member and the entity concerned, and the nature of the transactions involved with such entities are listed below.

Board Member	Entity	Position held	Services rendered or received
D.C. Myeni	South African Airways;	Chairperson	Transportation services
	South African Association of Water Utilities	Chairperson	Water services
E.M. Mzimela	uMkhanyakude Municipality	Municipal Manager	Municipal water and waste water services
M.M. Xulu	Foskor Limited	General Manager: Marketing and Sales	Bulk effluent disposal
F.G. Bosman	City of Mhlathuze	Councillor	Municipal water and waste water services
Adv. S. Chamane	Department of Transport	General Manager: Public Transport	Transportation services
N.N. Khumalo	Independent Development Trust	Regional General Manager	Infrastructure and social development

The Remuneration report on page 60 reflects Board members and senior management remuneration earned in their capacity as Mhlathuze Water representatives.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. FINANCIAL INSTRUMENTS

Financial risk management

The entity has exposure to the following risks from its use of financial instruments

- credit risk
- liquidity risk
- market risk

This note presents information about Mhlathuze Water's exposure to each of the above risks, objectives, policies and processes for measuring and managing risk. The methods used to measure risk have been consistently applied in the years presented, unless otherwise stated.

Further quantitative disclosures are included throughout the Annual Financial Statements.

The Board has overall responsibility for the establishment and oversight of the entity's risk management framework. Risk management policies are established to identify and analyse the risks that are faced by Mhlathuze Water, to set appropriate risk limits and controls, and to monitor risks and adherence to these limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the entity's activities.

Presently all risks identified are attended to at departmental level and by a risk management committee. Reports are presented to the Audit and Risk Committee, the Boards delegated structure tasked with the responsibility of reviewing the risk management process.

The Board reviews its enterprise-wide risk profile to ensure that critical risks are addressed adequately and to identify and capitalise on opportunities that may be created from these risks. This provides the Board with the opportunity to re-assess the entity's strengths and weaknesses to determine a strategic alignment to the objectives.

Credit risk

Credit risk is the risk of financial loss to Mhlathuze Water if a customer or a counter party to the financial instrument fails to meet its contractual obligations. Potential areas of credit risk are cash and cash equivalents, investments, trade receivables and other receivables. Mhlathuze Water limits its exposure in relation to cash balances and investments by only dealing with well established financial institutions of high quality credit rating approved by Department of Water Affairs and National Treasury.

Trade and other receivables

The entity's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Board has established a credit policy under which each new customer is analysed individually for creditworthiness before the entity's facilities are offered.

Consideration is given to the external credit ratings, tax clearance certificates and the latest audited Annual Financial Statements of entities not listed on the Johannesburg Stock Exchange.

Credit limits are established for non-contractual customers and these limits are reviewed bi-annually.

The average credit period allowed is 30 days from invoice date. Interest is charged at prime rate +2.5% p.a. on overdue debt.

Mhlathuze Water reviews outstanding balances on trade and other receivables on a monthly basis, via a debtors age analysis report.

A provision is raised in full for long overdue accounts. The provisions raised are tabled together with the Annual Financial Statements to the Audit and Risk Committee and the Board.

Partnership/Water schemes with external parties

External parties are required to submit guarantees to Mhlathuze Water for all expenses incurred on their behalf. Any amounts outstanding after a period of 30 days will attract interest at the prime interest rate as announced by the Minister of Finance.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		2015	2014
		R'000	R'000
25.	FINANCIAL INSTRUMENTS (cont.)		
	Exposure to credit risk		
	The carrying amount of financial assets that represent the maximum credit exposure at reporting date.		
	Trade and other receivables	116 611	139 125
	Cash and cash equivalents	221 510	258 755
		338 121	397 880
	The maximum exposure to credit risk for trade and other receivables per business segment at reporting date was:		
	Water supply	41 692	22 199
	Effluent disposal	10 739	9 549
	Thukela Transfer Scheme	13 476	2 526
	Project activities	50 704	104 851
		116 611	139 125

Provision for impairment

The ageing of trade receivables and other receivables at the reporting date was:

	Gross	Impairment	Gross	Impairment
	2015	2015	2014	2014
	R'000	R'000	R'000	R'000
Not past due	98 282	-	131 191	-
Past due 0-30 days	12 034	-	3 606	-
Past due 30-60 days	3 980	-	257	-
Past due 60-90 days	2 162	(143)	599	-
Past due >90 days	153	(76)	3 472	(78)
	116 611	(219)	139 125	(78)

The movement in the provision for impairment in respect of trade receivables and other receivables:

	2015	2014
Balance at 1 July 2014	78	397
Movement	141	(319)
Balance at 30 June 2015	219	78

In assessing the provision for impairment, Mhlathuze Water considered the likelihood of receiving payments from its debtors irrespective of the length of time the debt was outstanding.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. FINANCIAL INSTRUMENTS (cont.)

Liquidity risk

Liquidity risk is the risk that Mhlathuze Water will not be able to meet its financial obligations as they fall due. Mhlathuze Water is a self-funding entity and does not receive funding in the form of government subsidies. All funding of income generating and operational assets are obtained by way of loan agreements.

The entity's approach to managing liquidity is to ensure as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the reputation of Mhlathuze Water by managing the monthly cash flow throughout the year.

Mhlathuze Water operates a consolidated loan pool and utilises the positive inflows to redeem external borrowings.

Finance charges are recovered via tariffs levied against consumers. For the purpose of treasury management, all long-term loans relating to the core business activities are pooled and an average rate of interest calculated and applied to the schemes for tariff purposes. This achieves better control and ensures a fair and flexible recovery of finance charges, which assist in planning the cash flow requirements.

Bank short-term funding

Mhlathuze Water's main credit facility is with ABSA Bank and include the following:

Type of facility	Amounts (Rands)
– Overdraft facility	6 000 000
– ACB Credit facility	400 000
– Credit Card facility	50 000

Mhlathuze Water also has a National Treasury approved borrowing limit of R239,1 million to ensure business continuity.

Foreign currency borrowings

Any loan agreements entered into with foreign financial institutions must be approved by the Board and National Treasury.

Foreign currency forward rate agreements must be used to hedge all foreign currency borrowings.

Foreign currency forward rate agreements must be used to hedge all foreign material imported where not covered by contractors.

Exposure to liquidity risk

Financial liabilities	Weighted Average Rate (%)	Carrying Amount R'000	Contractual Amount R'000	<1 year R'000	2 - 5 years R'000	> 5 years R'000
Year ended 30 June 2015						
– interest-bearing borrowings	10.66	(168 397)	(247 169)	(39 415)	(133 688)	(74 066)
– trade and other payables	-	(149 922)	(149 922)	(149 922)	-	-
Total		(318 319)	(397 091)	(189 337)	(133 688)	(74 066)
Year ended 30 June 2014						
– interest-bearing borrowings	10.67	(190 580)	(288 902)	(40 690)	(143 410)	(104 802)
– trade and other payables	-	(185 975)	(185 975)	(185 975)	-	-
Total		(376 555)	(474 877)	(226 665)	(143 410)	(104 802)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. FINANCIAL INSTRUMENTS (cont.)

Fair values

The carrying values of financial assets and liabilities are presented by class in the tables below, and approximate to the fair values.

	Loans and receivables	Cash and bank balances	Other financial liabilities and liabilities at amortised cost	Total
	R'000	R'000	R'000	R'000
30 June 2015				
Financial assets				
Trade and other receivables	116 611	-	-	116 611
Bank and cash implementing agent projects	-	25 187	-	25 187
Bank and cash	-	196 323	-	196 323
Financial liabilities				
Interest-bearing borrowing	-	-	(168 397)	(168 397)
Trade and other payables	-	-	(149 922)	(149 922)
	116 611	221 510	(318 319)	19 802
30 June 2014				
Financial assets				
Trade and other receivables	139 125	-	-	139 125
Bank and cash implementing agent projects	-	46 411	-	46 411
Bank and cash	-	212 344	-	212 344
Financial liabilities				
Interest-bearing borrowing	-	-	(190 580)	(190 580)
Trade and other payables	-	-	(185 975)	(185 975)
	139 125	258 755	(376 555)	21 325

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. FINANCIAL INSTRUMENTS (cont.)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risks comprises three types of risk: currency risk, interest rate risk and other price risk. The objective is to manage and control market risk within acceptable parameters, while optimising the return on risk. The entity does not have any exposure to currency risk (that is fluctuation in foreign exchange currency) or any equity price risk, and Mhlathuze Water does not hold any equity investments.

Foreign exchange transaction exposure

Foreign exchange risk is the risk that the entity will suffer a decrease in stakeholder wealth due to fluctuations in foreign exchange rates.

Due to the current nature of Mhlathuze Water's business, it is unlikely to hold assets exposed to foreign exchange fluctuations. Mhlathuze Water's foreign exchange risk exposure is therefore limited.

Should Mhlathuze Water enter into foreign transactions, it is the responsibility of the Chief Financial Officer to obtain a fixed Rand price.

If this is not possible, all foreign exchange risk exposure will be covered by forward exchange contracts.

Interest rate risk

Mhlathuze Water adopted a policy of limiting exposure to interest rate fluctuations by arranging borrowings on a fixed rate basis.

Cash and short-term investments are invested at variable and fixed interest rates with registered banking institutions.

At the reporting date, the interest rate profile for Mhlathuze's interest-bearing financial instruments was:

Fixed rate instruments

Carrying amount

Financial assets

Trade and other receivables – variable interest rate

116 611 139 125

Bank and cash – variable interest rate

73 224 69 460

Bank and cash – fixed interest rate

148 286 189 295

Financial liabilities

Interest bearing borrowing – fixed interest rate

(168 397) (190 580)

169 724 207 300

Mhlathuze Water account for fixed and variable interest rate financial assets and liabilities at fair value through the profit and loss, and the entity does not designate derivatives as hedging instruments under a fair value hedge accounting model.

Notes in the Annual Financial Statements relating to Financial Instruments already disclosed:

Finance income and costs – Note 4 & 5

Trade and other receivables – Note 9

Cash and cash equivalents – Note 10 & 11

Interest bearing borrowings – Note 12

Trade and other payables – Note 15

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**26. TAXATION**

Mhlathuze Water is exempt from taxation in terms of section 10(1)(t) (ix) read with the definition of Water Services Provider in Section 1 of the Income Tax Act, 1962 (Act No. 58 of 1962).

27. CAPITAL REPLACEMENT RESERVE

This non-distributable reserve was created to fund upgrades and refurbishments of replacement of the ageing infrastructure and plant modernisation.

The balance of the capital replacement reserve at 30 June 2015 was R216,1 million.

In accordance with SA GAAP, transfers to the reserve are made from retained income in the statements of changes in equity, and not via the statement of comprehensive income.

28. BUSINESS DEVELOPMENT RESERVE

This non-distributable reserve was created to make provision to enable the creation of a proactive business relationship with other entities.

The balance of the business development reserve at 30 June 2015 was R13,9 million.

In accordance with SA GAAP, transfers to the reserve are made from retained income in the statements of changes in equity, and not via the statement of comprehensive income.

29. MAINTENANCE RESERVE

This non-distributable reserve was created to fund future significant unexpected maintenance costs.

The balance of the maintenance reserve at 30 June 2015 was R7,5 million.

In accordance with SA GAAP, transfers to the reserve are made from retained income in the statements of changes in equity, and not via the statement of comprehensive income.

30. INSURANCE RESERVE

This non-distributable reserve was created to fund large deductibles for insurance claims.

The balance of the insurance reserve at 30 June 2015 was R4,1 million.

In accordance with SA GAAP, transfers to the reserve are made from retained income in the statements of changes in equity, and not via the statement of comprehensive income.

31. SUBSEQUENT EVENTS

No subsequent events have occurred between the period end and the date of the financial statements that would require adjustment to the amounts reported or disclosures in the financial statements.

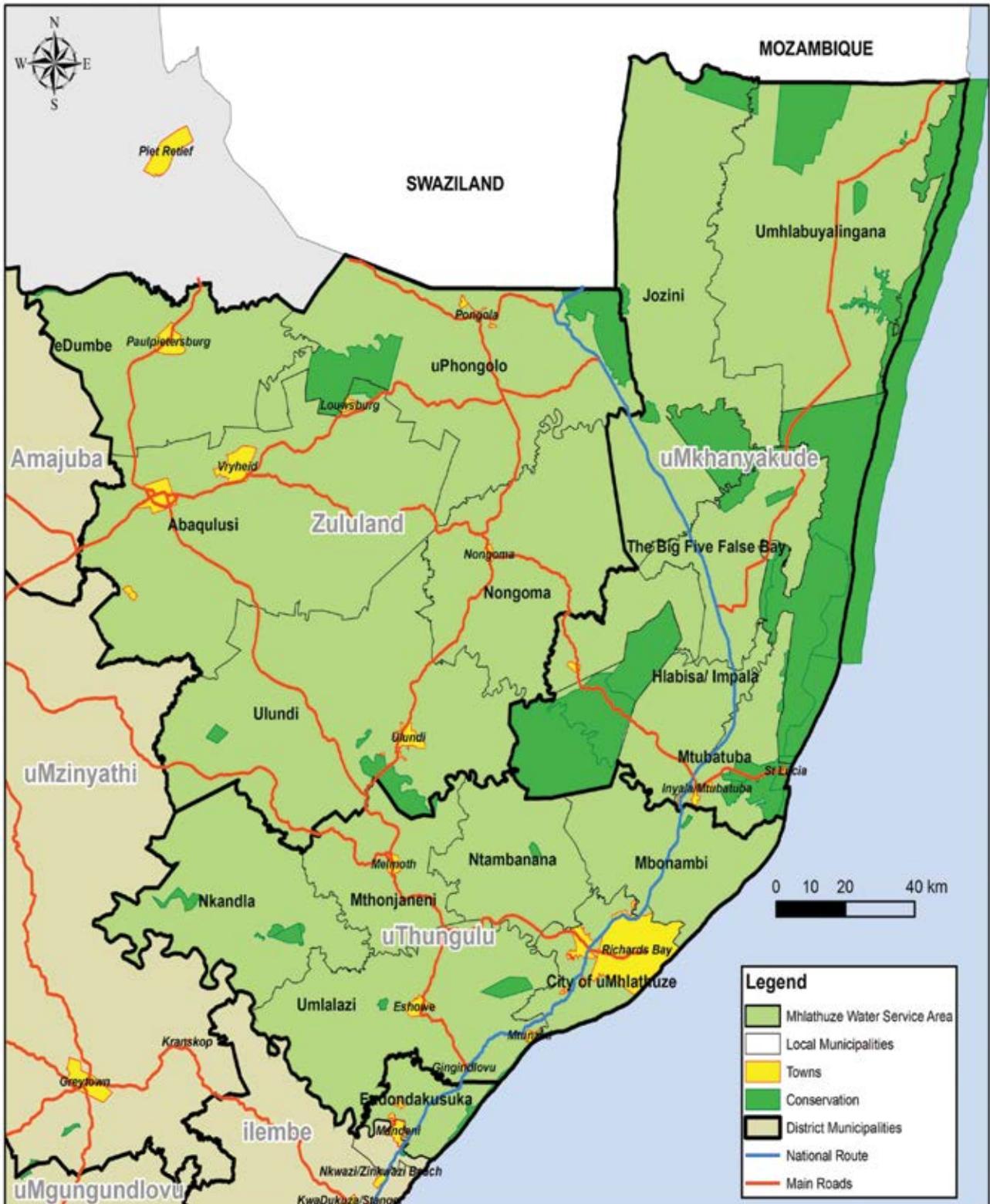
32. GOING CONCERN

The Department of Water and Sanitation (DWS) is currently in the consultative process of considering establishing a single Water Board in KwaZulu-Natal. The proposed roadmap was presented at a meeting between the Minister and the representatives of Umgeni Water and Mhlathuze Water, and extensive consultations are underway.

However, Mhlathuze Water has no reason to believe that this process will negatively impact the going concern assumption of Mhlathuze Water for the foreseeable future.

Therefore the annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

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