

Annual Report 2014/15



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VISION

A leading bulk water services provider supporting economic, social and environmental development.

MISSION

To provide, cost effective, sustainable and quality water services to our customers.

VALUES

LNW upholds the values underpinned by the eight Batho Pele principles in the management of its operations and the manner in which it conducts its business.

The values guiding our business are:

- Excellence
- Integrity
- Loyalty
- Team Spirit
- Respect



WATER WORKS

Water works Intervention at some of the projects within the Greater Giyani Local Municipality.



SANITATION

Sanitation Intervention at some households within the Waterberg Municipality and Khogonyani Primary School in the Vhembe District Municipality.



1. ORGANISATIONAL PROFILE

1.1 LEGISLATIVE MANDATE

Lepelle Northern Water is a public water utility, wholly owned by the state, established in terms of the Water Services Act, Act No. 108 of 1997. Our mandate is to provide bulk water services (i.e. water and sanitation services) to other water institutions. It is regulated by, among others, the Water Services Act, Act No. 108 of 1997, and Public Finance Management Act No. 1 of 1999 and to some extent by the Municipal Finance Management Act No. 56 of 2003. Lepelle Northern Water reports directly to the Department of Water and Sanitation through the Accounting Authority and the Chief Executive of the Board. The Executive Authority of the water board is the Minister of Water and Sanitation.

1.2 KEY ACTIVITIES

Section 29 of the Water Services Act, stipulates that the primary activity of a water board is to provide water services (i.e. water and sanitation) to other water services institutions within its service area.

Furthermore, Section 30 of the Water Services Act enables Lepelle Northern Water to perform an activity other than its primary activity only if it is not likely to limit the water board's capacity to perform its primary activity, it is not likely to be to the financial prejudice of itself, any water services institution, existing consumers and other users serviced by it within its service area; it is in accordance with the entity's policy statement; and it is provided for in a business plan. Such activities include amongst others:

- providing management services, training and other support services to water services institutions, in order to promote co-operation in the provision of water services;
- supplying untreated or non-potable water to end users who do not use the water for household purposes;
- providing catchment management services to or on behalf of the responsible authorities;
- with the approval of the water services authority having jurisdiction in the area—
 - supplying water directly for industrial use;
 - accepting industrial effluent; and
 - acting as a water services provider to consumers;
- providing water services in a joint venture with water services authorities; and
- performing water conservation functions.

Area of Supply

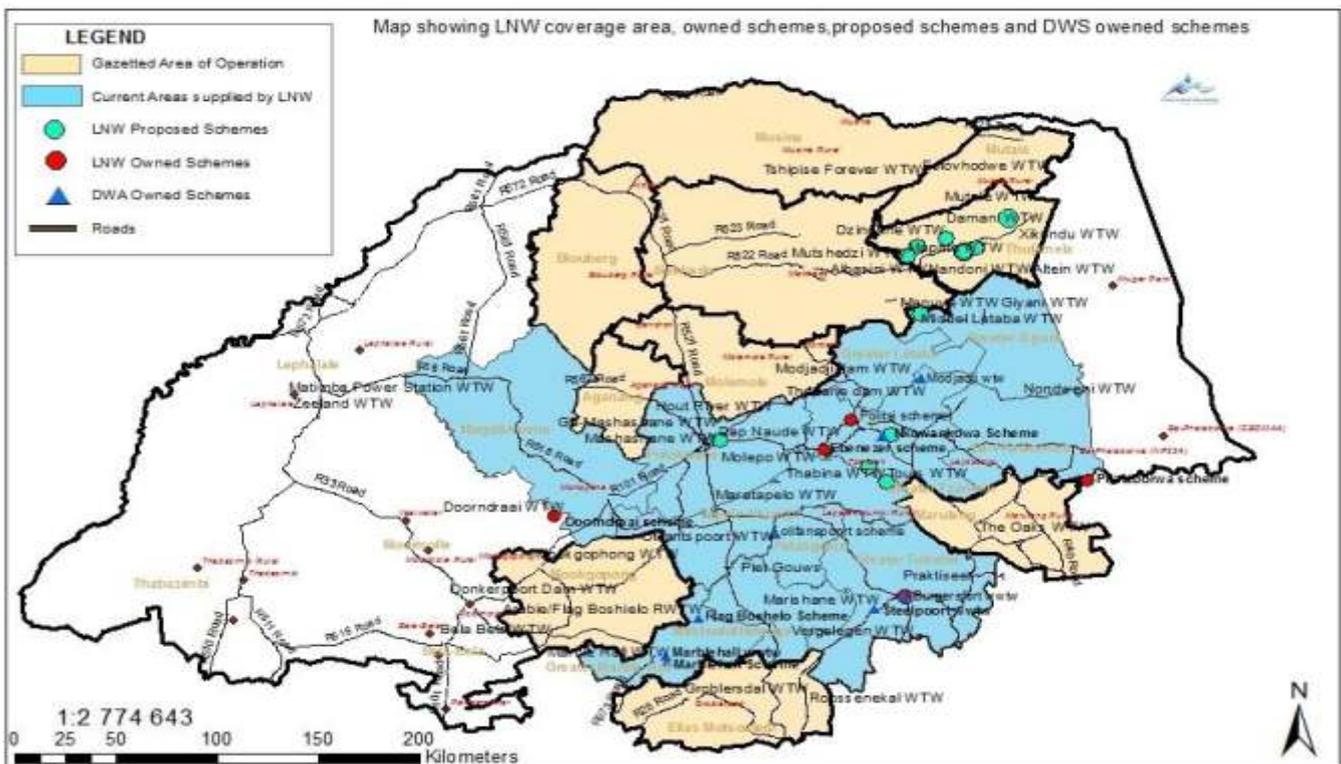


Figure - : LNW Coverage

LNW is currently providing bulk water to 42% of its mandated 80,000 square kilometres which is equivalent to 55.53% (3 001 323 population) of Limpopo being served. It is however envisaged that LNW will increase its service area to cover the remaining percentage in the Province particularly in Vhembe as it is the remaining area that has not ventured into as well as the over R100 million schemes that are within the province. Lepelle Northern Water is currently operating in four (4) of five (5) District Municipalities in the Limpopo Province. The municipalities are:

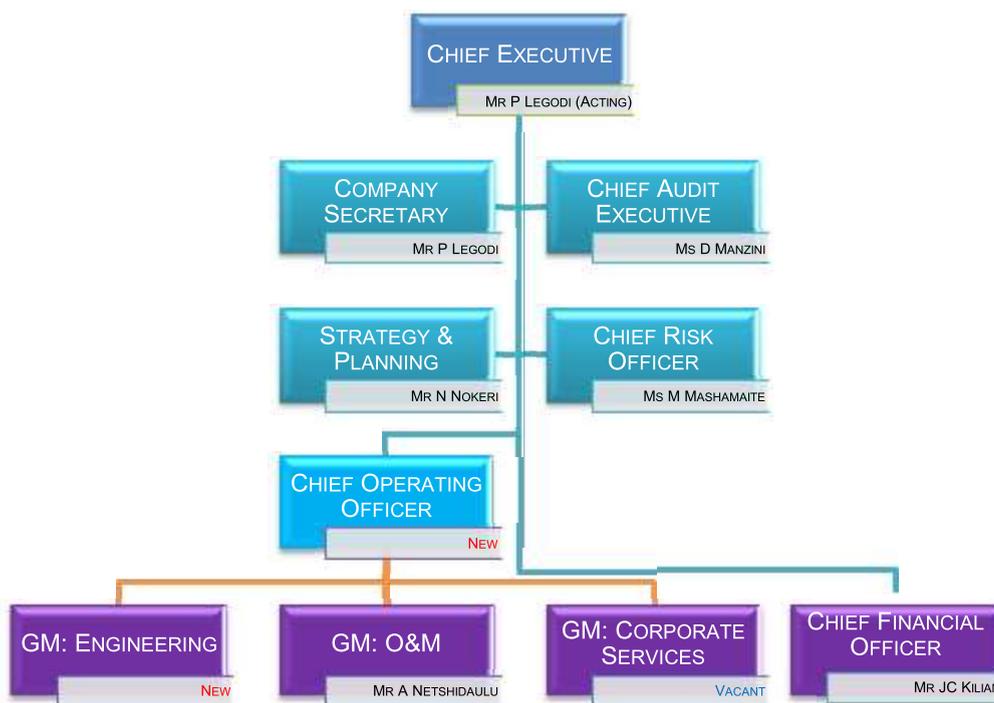
- Capricorn District;
- Sekhukhune District;
- Waterberg District and;
- Mopani District

1.3 INFRASTRUCTURAL RESOURCES

LNW operates about 20 bulk water schemes ranging from 1.0 to 175 Ml/day. These are composed of conventional, package and borehole systems. Of the 20 bulk water schemes, 5 are owned by Lepelle Northern Water and the rest are operated on behalf of the municipalities. The organisation further operate and maintain about six (6) small wastewater schemes on behalf of the Sekhukhune District municipality.

1.4 EXECUTIVE SUMMARY

Figure -: Revised management structure



The Executive structure has been revised to best position the organisation and further strengthen its capacity to respond best to the institutional realignment scope. Lepelle Northern Water is currently operating assets valued at about R1 billion. When the organisation is ultimately converted to a Regional Water Utility, it will operate and oversee assets worth about R30 billion. With these developments it was necessary that new functions be introduced into the Executive Management. These positions include General Manager: Engineering, required to primarily focus on infrastructure planning, development and optimisation. The position of Chief Operating Officer was necessary to oversee balanced implementation of the organisation's mandate from the strategic and operational perspectives. Lepelle Northern Water has a total staff compliment of 324 as at end of June 2015 both permanent and contract.



Acting Chief Executive: PK Legodi

ACCOUNTING AUTHORITY'S REPORT



2. ACCOUNTING AUTHORITY'S REPORT

State of affairs

I am profoundly elated to present the Annual Report for the year 2014/15 to the Honourable Minister Nomvula Mokonyane MP and all our stakeholders on behalf of the entity of Lepelle Northern Water. I do this in my capacity as the Accounting Authority of the institution as duly appointed by the honourable Minister in her capacity as the Representative of a sole shareholder and Executive Authority of the Water Boards in the Republic of South Africa.

Before and during the year under review, the entity introduced a number of changes that have a direct impact on both the strategic and operational direction of the institution. Such changes continue to yield satisfactory dividends in terms of organisational stability, greater focus and determination for total attainment of our organisational goals. This does not suggest that ours is an environment that is free from challenges. There are quite too many and stubborn yet we rise against odds. Among these I count incapacity of some municipalities to pay for bulk water services and ageing infrastructure.

Our primary mandate is to provide bulk water services to other water institutions in the gazetted area of supply which is greater part of the Limpopo Province. We adamantly hold a view that the main reason why we exist is to complement the capacity of the government to deliver on its mandate in a manner that is better, faster and of good quality. We pride ourselves in the fact that we have contributed to the delivery of water that is of high quality and safe to drink to our communities. Lepelle Northern Water continues to provide clean water, despite challenges from pollution in the rivers and dams, and droughts. Currently, the potable water quality of the water produced by our plants remains consistently at 96% compliance to SANS 241:2011.

A special unit for water and effluent quality monitoring has been established within Lepelle Northern Water and the laboratory has been accredited by the South African National Accreditation System (SANAS). It currently renders provincial services to all water services authorities.

Supplying water is done efficiently as we are able to sustainably grow our revenue in line with the growing number of communities being served. We have had a steady growth in total water supply volumes, and have also had a dramatic and sustained annual growth across the entity's business. Additional villages have been connected to our bulk supply area in the Capricorn and Sekhukhune district municipalities.

The year 2014/15 was the year in which Lepelle Northern Water refocused and accentuated its vision and purpose. We have strived to ensure that Lepelle Northern Water is positioned to implement the strategic objectives that support its vision, which is to

be a leading bulk water services provider supporting economic, social, and environmental development. To this end we have ensured that we engage a balanced and experienced staff component with sufficient competencies to service the requirements of bulk water services. These requirements would not be best served without the prompt support from departments such as finance and corporate services.

Our employment equity programme underlines the value Lepelle Northern Water places on having a diverse workforce providing equal opportunities and engendering an inclusive working environment. In valuing, cultivating and enabling cultural diversity within the organisation, the talents of all our employees are leveraged for individual, team and organisational performance.

It is important to support the government's poverty alleviation programmes. To this end, the entity has continued to do the best it can to keep the tariff in line with the Consumer Price Index (CPIX), thereby passing on the benefit of this low tariff to the end consumers. I am happy to report that the average bulk potable water tariff increase for the year under review was 10.71% for potable water, despite high energy costs in our business.

This has been made possible by the fact that a greater portion of our surplus is reinvested in the subsidisation and equalisation of the tariff in support of the poverty alleviation programme of government. Lepelle Northern Water has supported the vision of water services authorities in terms of participating in their integrated development planning (IDP) processes.



This provided an opportunity for Lepelle Northern Water to develop strategies to reinforce the achievement of priorities in the IDPs and the Limpopo Employment Growth and Development Plan (LEGDP).

It is also key in ensuring that as state organs and government entities, we achieve integrated approach to planning and delivery of water and related services. Although differently in terms of the nature, size and scale, responsibility to deliver these services rests upon all spheres of government and its relevant entities such as Water Boards.

Lepelle Northern Water is poised to face challenges ahead. This includes the refurbishment and/or rehabilitation of the ageing infrastructure and, in some instances, overall replacement. The challenges include the state of the infrastructure, attraction and retention of scarce skilled personnel, extension into areas where it did not conduct any business before, and the collection of all outstanding debts from municipalities. Related to this is the speed with which we have gear ourselves up to ensure that we expand and align our strategies to cater for the mandate of the new Department of Water and Sanitation which in short is to restore life and dignity of the people of South Africa in a manner that conforms and give effect to the injunctions of chapter 02 of the Constitution of the Republic of South Africa.

Water security

Water security stands at the centre of our most pressing national challenges, including hunger, poverty, infectious diseases, energy, the environment and climate change. As our provincial population continues to grow and our economies continue to expand, the need for water increases. There are indications that the human demand for water is expected to exceed our planet's supply if the current trend of water consumption is not changed. For this purpose, LNW has actively participated in the development of the National Water Resource Strategy, with the understanding that equity in the allocation and utilisation of water resources will soon become a reality in South Africa.

Climate change is adding to this problem and placing our natural water resources under greater strain. Extreme weather events, such as floods and droughts, are making management of water resources more difficult and costly. There are credible predictions that if we do not manage our water carefully, future conflicts will be about water rather than any other commodity. We continue to witness and experience a spate of community uprisings and protests in our country due to a lack of water services and, with the demand for water growing and supply diminishing, we can expect such conflicts to happen more frequently with greater intensity in the future. Despite the lack of any codified laws on water rights and sharing, delegates at various water summits realised that security is a common challenge that requires a common approach. Therefore, joint management of water

resources is more efficient, less costly and – quite simply – necessary.

There are ways to address the above issues related to water security. First, we need to engage in a concerted effort for water management. Dealing with the growing water scarcity must be a priority for us all; from governments, businesses, public institutions, civil society organisations and individuals. Secondly, we need to manage both the demand and supply of water better, reducing waste and increasing efficiency. We must master the art of doing more with less.

Our business

Lepelle Northern Water extracts raw water from various river basins and dams with the permits granted by the Department of Water and Sanitation when performing its legislated primary activities. LNW treats stores and transports raw water in order to deliver bulk potable water to municipalities, mines, industries and consumers. By agreement, industrial, semi-treated water is also delivered to certain mines, and limited raw water is supplied to the agricultural sector when the need arises. In limited areas, ground water is used as a source for supplying bulk water to communities.

Besides the potable water, Lepelle Northern Water also collects and treats bulk waste water from municipalities and effluent from industries. Special care is given in the treatment of industrial waste water due to its toxic nature and effect on the environment. Lepelle Northern Water also supports water service authorities in the water sector with operations and maintenance, cost recovery, project initiation and implementation. These activities are done as secondary activities and are ring-fenced from the entity's primary function. All measures are taken to ensure that the bulk water services are provided cost-effectively, within an acceptable risk framework. For the benefit of water consumers, the water is provided in an efficient and sustainable manner.

The following key strategic objectives have been adopted for the next five years:

- Infrastructure Development and Optimisation
- Financial Viability and Sustainability
- Human Capital Management
- Effective Corporate Governance
- Positioning the organisation for institutional reform

The strategic objectives mentioned above informed the performance agreements of all staff and further informed the programmes to be pursued by Lepelle Northern Water.

To this end, I am pleased to indicate that our performance management system has been radically improved in order to be more and clearly output-driven. The process of aligning and improving the workforce planning strategies is bearing fruit and will ensure that we continue to achieve the organisation's business objectives with the available resources. The organisation's performance management system is also aligned to its strategic goals with a clear link between the individual staff goals and the organisation's goals.

Human resources

It gives me pleasure to report that we remain committed to employment equity and have developed a clear plan for achieving this in the next five years. The current plan is to be reviewed and, with the target female to male ratio of 39:61, we have managed to achieve a ratio of 32:68 in the past year. We acknowledge that employees are key stakeholders in developing the success of the business. Our objective is to attract, develop and reward employees who subscribe to and uphold our values. Due to resilient and aggressive retention and the organisation's succession strategy, we maintained an acceptably low staff turnover of 0.46%. There are, however, still difficulties and challenges in maintaining critical and specialised skills within the sector.

PFMA compliance

As the Accounting Authority, I have submitted quarterly performance reports to the Department towards the accomplishment of the objectives stated in the business plan and the Shareholder's Compact. Section 51 (1)(a) of the Public Finance Management Act of 1999, as amended, states that a public entity's accounting authority must ensure that the entity has and maintains effective, efficient and transparent systems of financial and risk management, and internal control.

I am pleased with the level of responsibility and endeavour displayed by the Executive Management and our treasured staff when addressing the above and many other legal and policy compliance areas as required by the laws governing and or impacting on our business. I will remain both instrumental and supportive to such processes in anticipation of total compliance in all material respects.

Corporate governance

We support the highest standards of corporate governance and, to this end, the organisation subscribes to the King III report on Corporate Governance. Complying with the letter of the law and keeping it, remains a priority and all efforts are put in place to ensure that we meet this priority.

The review of the policies and procedures of Lepelle Northern Water is an on-going process. The purpose of the review is to ensure that our policies are always aligned with the letter, spirit and purport of the law. We have necessary management units such as internal audit, risk management and legal compliance.

The three are in the main units that always marshal us into compliance by raising red flags against likelihoods and possibilities of non-compliance and consequently fashion remedial actions. There is a sufficient measure of autonomy given to these units so that they can perform their work without fear or favour.

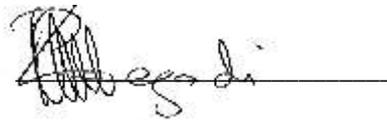
Financial commitments

The external auditors have expressed an unqualified audit opinion on the 2014/15 annual financial statements and performance information. While we welcome the external auditors' opinion, we remain mindful of the matters emphasised as requiring additional focus in the coming year in order for the organisation to maintain an unqualified audit opinion.

Acknowledgements

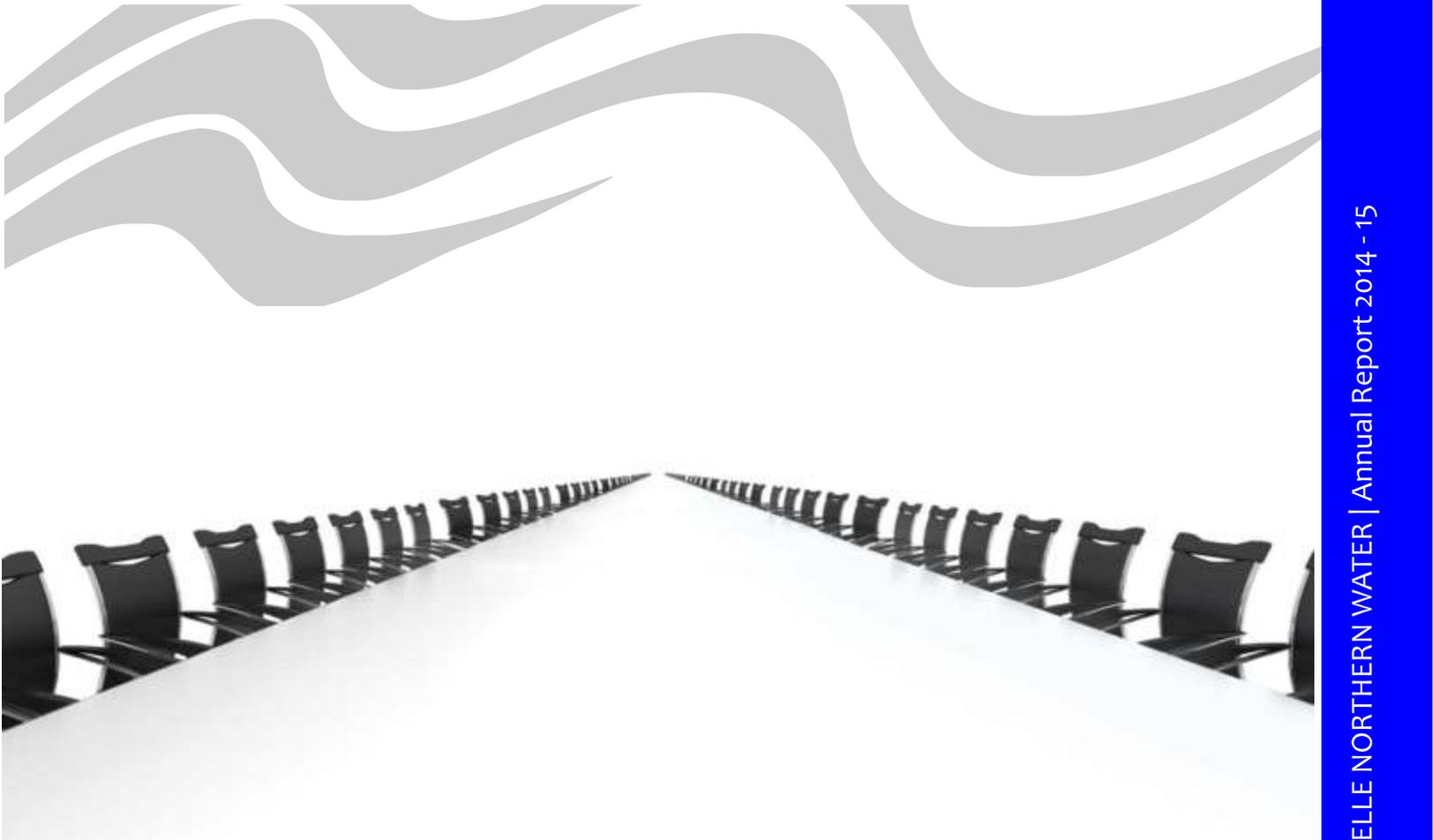
I wish to thank the management and staff of Lepelle Northern Water for their contribution and tireless work to ensure the achievement of our mandate, the results for the year under review, and their dedication and commitment to the agenda of sustainable and affordable water services delivery.

A special thank you goes to our stakeholders and customers for their support during the financial year. Lastly, I wish to unreservedly thank the Minister of Water and Sanitation the Honourable Nomvula Mokonyane MP for her courageous leadership, seasoned guidance, and reliable support during the year under review.



Accounting Authority
Mr PK Legodi





CORPORATE GOVERNANCE

Senior Management

Senior Management



Acting Chief Executive: PK Legodi



Chief Audit Executive: DG Manzini



GM: Operations & Maintenance -
AE Netshidaulu



Chief Risk Officer: MM Mashamaite



Manager: Strategy & Planning -
N Nokeri



Chief Financial Officer - JC Killian



Acting GM: Corporate Services -
RJ Mathebula

3. CORPORATE GOVERNANCE

3.1 THE BOARD

The organisation has been operating without the Board since the term of the previous board members expired in April 2014. The Minister of Water and Sanitation formally appointed the acting Chief Executive as an Accounting Authority of the organisation until the new Accounting Authority is appointed.

3.2 EXECUTIVE MANAGEMENT

Mr PK Legodi (Acting Chief Executive)

He brings invaluable knowledge, skills and experience in legal practice, administration and corporate governance with him. After his admission as an attorney of the High Court of the Republic of South Africa, he joined and served several State organisations as a legal advisor and executive manager. He is currently responsible for the strategic leadership of the organisation. He holds the LL B, LL M, and Postgraduate Diploma in Corporate law.

Mr JC Kilian (Chief Financial Officer)

He was appointed as Financial Manager in 1994 and Chief Financial Officer in 2009. Mr Kilian has 37 years' experience in financial discipline. He is responsible for the financial management aspects of the business. Before joining LNW, he held the position of management accountant with Foskor Ltd. He holds B.Com (Commerce) degree with University of Pretoria, B.Com (Honours) and Master's Degree in Business Leadership (MBL).

Mr Ahuiwi Netshidaulu (GM: Operations & Maintenance)

He has experience in business strategic planning and execution in the water sector. His experience in research and development has contributed into new knowledge, technology and management systems in the sector significantly. Being in the water sector for 19 years has afforded Mr Netshidaulu vast experience in the optimisation, operation and maintenance of water and waste water infrastructure, treatment process and distribution system, water quality management, project planning and implementation, and management in general. He holds a Master of Science in Civil Engineering (Water) and Master of Business Administration. He is also trained in the areas of project management, health and safety, supply chain and financial management.

Mr RJ Mathebula (Human Resources Manager)

He brings into the organisation an extensive knowledge and experience in labour relations and human resources management. He was appointed in the following positions since joining Lepelle Northern Water between the years 2000 and 2007 i.e. Human Resources Officer, Labour Relations Officer and Human Resources Manager. He has completed an Industrial Relations Development Programme with Stellenbosch School of Business Management. Mr Mathebula is currently the acting head of Corporate Services.

Ms DG Manzini (Chief Audit Executive)

She has enormous experience in internal auditing, financial management, risk management and corporate governance. Her experience of 13 years is in provincial and local government, parastatals, tertiary institution and banking. She is a member of the Institute of Internal Auditors South Africa (IIASA) and also served as the Deputy Regional Governor for Limpopo Committee. She is qualified as a Certified Government Audit Professional (CGAP) and completed the Chief Audit Executive Leadership and the Senior Management Development courses. She also holds a National Diploma in Internal Auditing, a B Tech in Internal Auditing and a Post Graduate Diploma in Internal Auditing.

Mr N Nokeri (Strategy and Planning Manager)

He has experience in business development management, development of policies, corporate plans and strategies in the water sector. Rigorous engagements with various municipalities have contributed a lot into his understanding of the local government. Being in the water sector for 25 years has afforded Mr Nokeri experience in the operation and maintenance of water and waste water systems, water quality monitoring, project monitoring and evaluation, and management in general. He holds a National Diploma in Water Care, Master's Degree in Sanitary Engineering and M. Tech in Water Care and a Certificate of Programme in Project Management.

Ms MM Mashamaite (Chief Risk Officer)

She has vast experience in risk management, auditing, corporate governance and finance. She is also a dedicated and enthusiastic professional with over ten years' work experience, acquired across both the public and private sectors. She is a full member of the Institute of Risk Management South Africa and possess the following formal qualifications: B Com, B Com Honours and Post Graduate Diploma in Accounting Sciences from the University of Limpopo and UNISA respectively.

4. STAKEHOLDER RELATIONS

Positive stakeholders relations and continued engagements are vital for the achievement and sustainability of LNW's mandate as highlighted in the figure below:



Figure 4-1: LNW Stakeholders

Stakeholders are indeed a key component of Lepelle Northern Water's existence. To this end various platforms and tools are used in the organisation to create and strengthen relations. Some of the platforms include planned and ad hoc meetings, technical meetings with WSA's, district planning forums, performance reviews on contractual agreements, outreach activities, sector events, scheduled media interviews, publications and workshops. All these efforts are geared towards fortifying LNW's business and mandate. Positive and sound relationships with water services authorities and other water sector partners were built and strengthened during the reporting period. In addition to the scheduled performance review meetings with the water services authorities and other stakeholders, the following are some of the highlight activities and discussions in the year under review:

Bulk Water Services

Engagements with water services authorities with a view of maintaining business relations with customers were held in the period under review. The following are some of the outcomes of the engagements:

- Agreement in principle with Mogalakwena Local Municipality to operate and maintain all their boreholeschemes.
- Agreement in principle with Sekhukhune District Municipality to extend the three (3) year contract to fifteen (15) year contract in order to cater for some of the major capital projects that has been long outstanding.
- Agreement in principle with Vhembe District Municipality to operate and maintain schemes like Nandoni and its distribution system once the Department of Water and Sanitation has endorsed the proposal.

- Resuscitation plans for the boreholes in Polokwane municipality in order to augment the bulk water supply within the municipality to sustain the local economy.

Supply Augmentation

- The following water use licenses were authorised from the Department of Water and Sanitation:

1. Ebenezer Scheme – 44 MI/day
2. Olifantspoort Scheme - 89 MI/day
3. Politsi Scheme – 9.8 MI/day

- Upgrading of the Giyani Water Works:

Industry accreditations and events

- South African National Accreditation System (SANAS) Accreditation of LNW's laboratory based at the Ebenezer Plant
- LNW is ISO 14001: 2004 certification. The following have been certified: Head Office, five (5) wastewater treatments works, five (5) potable water package plants, twelve (12) conventional water treatment works and one (1) borehole scheme.
- LNW, together with other water entities joined the Ministry of Water and Sanitation in attending and participating at the 7th World Water Forum, the largest international water event in the world, held in South Korea in April 2015.

4.1 CORPORATE SOCIAL INVESTMENT

4.1.1 Approach

Lepelle Northern Water remains dedicated to improving the quality of life of the communities within the Limpopo province.

2014/15 was a year of consolidation for LNW's social investment strategy, the CSI strategy and plans were reviewed to strengthen focus on interventions related to LNW's mandate. For long term value creation it is important that the CSI activities complement both LNW and the municipalities' mandates to bring out impactful change to the lives of communities within the service area. To this end the following projects were undertaken and completed:

- Construction of 10 Enviroloo toilet facilities for Khogonyane Junior Primary School, Vhembe district
- Contribution to Polokwane Municipality Executive Mayor's Annual Charity Golf Day where proceeds are distributed among charity organisations around

the surrounding villages of the city

- Contribution to Sekhukhune District Municipality Mayoral's Annual Charity Golf Day where proceeds went to construction of Tubatse Creche
- Donation and installation of 5 Jojo tanks (1 per school to the following schools from a competition we ran at the SA Principal's Association hosted by Limpopo:

- Mmaphotla Primary School in Mankweng
- Hwelereng Primary School, Lebowakgomo,
- Phulane Primary School, Lebowakgomo
- Mankopane Pre-school in Bakenburg
- Mafenya Primary School, Khuvi, Thohoyandou

Construction of borehole structure and refurbishing of the office and kitchen facilities at the Mphephu Orphanage Centre in Ndzhelele.



5. PERFORMANCE REVIEW

The review is against the Shareholder's Compact as well as 2014/15 LNW's Business Plan and overall organisational performance. Figure 5.1 below depicts the overall organisational performance at a glance.

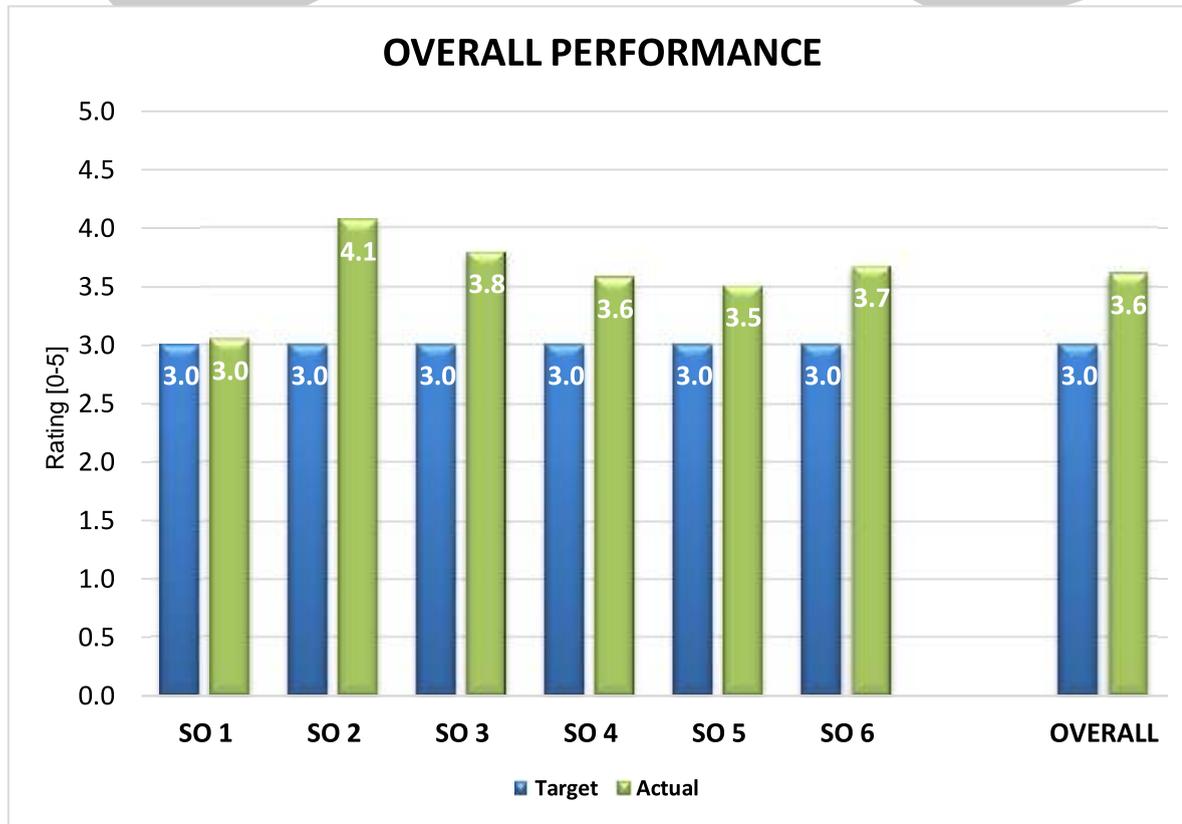


Figure 5.1:- Overall organisational Performance 2014/15

5.1 PERFORMANCE AGAINST 2014/15 BUSINESS PLAN

Legend		
>3		Target exceeded
3		Target Met
<3		Target partially met
<2		Target not met

PERFORMANCE ON PREDETERMINED OBJECTIVES 2014/15					
KPA	KEY PERFORMANCE INDICATORS	TARGET	ACTUAL	RATING [1-5]	PERFORMANCE RESULTS
1. SO 1: INFRASTRUCTURE DEVELOPMENT AND OPTIMISATION					
1.1. Scheme Infrastructure Utilisation	1.1.1. % infrastructure utilisation	95% Actual sales versus budgeted	102%	4	
	1.1.2. % Water Losses	≤ 4% Plant	2%	5	
		≤ 5 % Bulk line	1%	5	
		≤ 20 % distribution	N/A	The municipality took over the reticulation function.	
1.1.3. Operationalisation of schemes	13 Schemes in SDM	9 out of 13 schemes are operationalised and included on LNW maintenance planning system	2		
1.2. Water and Effluent Quality Compliance ¹	1.2.1. Blue Drop certification	100% of LNW owned plants BD certified.	No certificates issued by DWS	2	
		25% of plants operated by LNW BD certified.	No certificates issued by DWS	2	
	1.2.2. Green drop compliance and certification	100% Micro compliance 50 % Physical Compliance 25% Chemical Compliance	No certificates issued by DWS	2	
1.3. Compliance to NEMA	1.3.1. ISO 14001 Certification	14 sites certified	24 sites are recommended for certification	5	
1.4. Asset compliance	1.4.1. ISO 55001 Compliance	Implement ISO 55001 at LNW owned plants.	Gap analysis completed Planning Engineer and TSM external training on ISO 55001 done. Closing of gap findings is underway for first audit readiness by	3	

¹ Although complied with SANS 241 and General Standards of DWS the rating is 2 because the intended output was Blue/Green certificates.

PERFORMANCE ON PREDETERMINED OBJECTIVES 2014/15					
KPA	KEY PERFORMANCE INDICATORS	TARGET	ACTUAL	RATING [1-5]	PERFORMANCE RESULTS
			end December 2015.		
1.5. OSH Act Compliance	1.5.1. NOSA Rating	4 star rating for all LNW owned plants and 3 star rating for plants operated by LNW	5 star for 50% of LNW owned plants 4 stars for plants operated on behalf of WSAs.	4	
1.6. Reduce electricity consumption	1.6.1. Installed hydro-generator	1 installed hydro generator as pilot project	Service provider appointed and the recommended turbine is in procurement process	1	
	1.6.2. Installed Photo Voltaic Cells	Have solar panels with a capacity of 5kW within organisation	30kW solar panel capacity obtained.	5	
1.7. Replacement and refurbishment of infrastructure	1.7.1. % plant availability	95% availability of production related infrastructure.	96% plant availability.	3	
	1.7.2. Increased lifespan of major infrastructure	95% of refurbishment budget expended within the year.	83%	2	
1.8. Expansion of infrastructure	1.8.1. Expanded schemes	Phase 1 of Politsi upgrade	Procurement stage	3	
		Phase 1 of Flag Boshielo upgrade	In construction	3	
		Completed feasibility studies for Olifantspoort and Ebenezer schemes and start of Phase 1 of outcome.	Procurement stage	2	
2. SO 2: FINANCIAL VIABILITY AND SUSTAINABILITY					
2.1. Sound Financial management	2.1.1. Increased sales volume	Increase sales by 10Mℓ/day compared with previous year sales.	10.70 Mℓ/day	4	
	2.1.2. Control cost with acceptable limit	Sales volume/input cost below CPI	28.0%	2	
	2.1.3. % Debt Recovered	100% recovery (Current)	64%	2	
		30% of long outstanding debt	29%	3	
	2.1.4. % BEE spent	70% expenses on BEE	75.42%	4	

PERFORMANCE ON PREDETERMINED OBJECTIVES 2014/15					
KPA	KEY PERFORMANCE INDICATORS	TARGET	ACTUAL	RATING [1-5]	PERFORMANCE RESULTS
	2.1.5. External audit opinion	Unqualified audit	Unqualified audit	3	
2.2. Diversification of revenue	2.2.1. Increased sundry income	5% increase of the previous sundry income	26%	5	
3. STRATEGIC OBJECTIVE 3: HUMAN CAPITAL MANAGEMENT					
3.1. Workforce planning	3.1.1. % Competent staff recruited	100%	100%	3	
	3.1.2. Staff retention	Staff turnover of 2%	0.46%	5	
3.2. Talent management	3.2.1. % spent of wage bill on training and development	2% of wage bill spent on Training and development	4.14%	5	
	3.2.2. % Staff trained	50% of employees' undergone training and development.	286%	5	
3.3. Employment relations management	3.3.1. Healthy work environment	Zero work disruptions	0	3	
3.4. Performance management	3.4.1. Improved organisational performance	80% employees who meet the required performance criteria of 3 and above	99.9%	5	
3.5. Employee Wellness	3.5.1. Reduced Absenteeism	Absenteeism reduced by 50%	190%	5	
3.6. Rewards Management	3.6.1. Market Related remuneration and benefits	Competitive remuneration and benefit structure.	0	2	
3.7. Organisation development	3.7.1. Trained Leaders	100% Training of managers on competency models	100%	3	
	3.7.2. Transformed organisation	Achieved EE plan	32%	2	
4. STRATEGIC OBJECTIVE 4: EFFECTIVE CORPORATE GOVERNANCE					
4.1. Effective Corporate Governance	4.1.1. Number of incidents of non-compliance to statutory and policy requirements	0	5	2	
	4.1.2. All management committee	100% of all the meetings	80%	2	

PERFORMANCE ON PREDETERMINED OBJECTIVES 2014/15						
KPA	KEY PERFORMANCE INDICATORS	TARGET	ACTUAL	RATING [1-5]	PERFORMANCE RESULTS	
	meeting held and report within specified timeframes (100%)					
	4.1.3. Internal audit opinion/ conclusion	Effective internal controls	10 Repeats 50 Unresolved	0 Repeat Findings 42 Unresolved Findings	4	
	4.1.4. Tolerable organisational residual risk	Approved risk appetite levels (7)		8.6	1	
	4.1.5. Contingencies on legal cases	0		0	3	
	4.1.6. IT systems Availability.	95% systems availability.		98.68%	5	
	4.1.7. Engaged stakeholders	Timely communication as per the communication strategy		80%	3	
4.2. Support to government and other stakeholders	4.2.1. Number of CSI initiatives as percentage of surplus	2%		11%	5	
	4.2.2. % Section 30 projects completed within budget and timeframes	100% Completion of identified projects		5 projects completed (including Mphephu Orphanage Centre)	3	
5. SO 5: POSITIONING THE ORGANISATION FOR INSTITUTIONAL REFORM						
5.1. Coverage of operational area.	5.1.1. Number of schemes obtained to O&M	3 in Mopani DM		Meetings held with MDM did not yield expected results	2	
		2 in Vhembe DM		Proposal submitted. No significant material feedback. Follow up's ongoing.	2	
	5.1.2. Number of signed contracts with mines and industries	1		Mines engaged expressed preference of effluent from sewage works. LNW does not operate big WWTW to cater for this.	2	
5.2. Special Projects	5.2.1. Number of projects implemented	5 Implemented DWS Projects		10 projects completed	5	

PERFORMANCE ON PREDETERMINED OBJECTIVES 2014/15					
KPA	KEY PERFORMANCE INDICATORS	TARGET	ACTUAL	RATING [1–5]	PERFORMANCE RESULTS
6. SO 6: ENSURE SECURITY OF SUPPLY OF WATER RESOURCES					
6.1. Developed Ground Water	6.1.1. Abstracting groundwater	Developed groundwater sources at LNW owned plants. Completed study for development of groundwater sources at non-LNW plants.	Scoping reports for Polokwane are completed with Ebenezer Borehole now functional. Doorndraai, Flag Boshielo boreholes completed. Service provider appointed for drilling of Politsi Boreholes. Feasibility study for non-LNW plant completed	3	
6.2. Reclamation of wastewater	6.2.1. Convey wastewater effluent for further treatment.	Completed research on feasibility and acceptability of wastewater reclamation.	Research completed. Procurement stage	4	
6.3. Rain water harvesting	6.3.1. Installation of storage tanks for rainwater harvesting	Installation of 50 x 5kl storage tanks	All tanks for Vhembe, Capricorn and Mopani have been completed and commissioned. 100% installation completed for Sekhukhune DM.	4	

PERFORMANCE REVIEW AGAINST SHAREHOLDERS COMPACT

PERFORMANCE OBJECTIVE	OUTCOMES /IMPACT	INDICATORS	MEASURE	ACTUAL 2013/14	ACTUAL 2014/15
1. Water Quality Compliance	Water quality standards met	Test results, SANS 241	% compliance	99.1%	96.1%
2. Non-Revenue Water	Reduced levels of unaccounted for water (UAW)	Water lost as a % of total water produced	%	4.67%	3%
3. Reliability of supply	No unplanned interruptions to supply exceeding 24 hours	% number of days supply disrupted divided by total number of possible supply days	%	<1%	0.2%

PERFORMANCE OBJECTIVE	OUTCOMES /IMPACT	INDICATORS	MEASURE	ACTUAL 2013/14	ACTUAL 2014/15
4. Financial Reporting Compliance	unqualified audit report	Annual external audit	Qualified / Unqualified	Unqualified audit	Unqualified audit
5. Staff Turnover	Optimal staff retention	% staff leaving	%	1.23%	0.46%
6. Board Member Attendance	Improved performance of fiduciary duties/ governance	Actual Attendance	All member attended (8)	N/A	N/A
7. Effective Internal Controls And Risk Management	Internal audit findings dealt with	Internal audit reports	No. Repeats	0	0
			No. unresolved	80	42
8. Bulk Supply Agreements Concluded With Municipalities/ Other Customers	Statutory and service level agreements in place	Municipalities/ other customers with bulk supply agreements	%	100%	100%
9. Improve Financial Ratios	Improved viability and sustainability	Financial ratios	Liquidity	3.88	1.3
			Gross profit margin % (primary activity)	53%	52%
			Gross profit margin % (Secondary activity)	86%	60%
			Net profit margin % (primary activity)	5%	16%
			Net profit margin % (secondary activity)	14%	40%
			Debt Equity%	2%	21%
			Return on assets %	20%	10%
			Debtors days #	422	423
10. Increase BBBEE expenditure in relation to operational projects	Spend increased and increased new entrants	% spend	% increase	71%	75%
			No. of new entrants	13	46
11. Manage Costs Within The Approved Budget	No over expenditure/ losses	Financial reports	% variance	1%	28%
12. Capital Expenditure	Infrastructure available to meet demands	Overall project expenditure within R target	% variance	5%	23%
		Overall project completion dates within targets	% variance	<10%	<10%

PERFORMANCE OBJECTIVE	OUTCOMES /IMPACT	INDICATORS	MEASURE	ACTUAL 2013/14	ACTUAL 2014/15
13. Increased Access to Services	Contribution to national objectives	CAPEX spend /projects	CAPEX spend or number of expansion projects (R Million)	73.3	92.2
14. Engagement in Secondary Activities	Extent of involvement		% of total turnover	20%	13%
15. Achieve Statutory Reporting Compliance	Reporting compliance achieved	Statutory submissions made on time	Submission dates met/missed	100%	100%
16. Jobs Created	Permanent and contract (direct)	Total Number	Number	20	63
	Temporary (indirect)	Total Number	Number	163	139
17. Corporate Social Responsibility Initiatives	Good corporate citizenship	Number of initiatives	Number	6	5
18. Training and Skills Development	Skills and capacity building	Learnerships	Total Number	30	35
		Bursaries employees		14	71
		Graduate Programmes		32	17
19. Good Governance	Improved controls and risk mitigation	Breaches of materiality and significance framework	Number	0	0
20. Other					

6. OPERATING ENVIRONMENT

6.1 PRODUCT STATUS

6.1.1 Overall Water Quality Performance

Average water quality compliance graph is depicted in Figure 6-1. The minimum requirement is 95% for microbiological, physical, chemical and operational compliance, the achieved water quality compliance exceeded the minimum requirement.

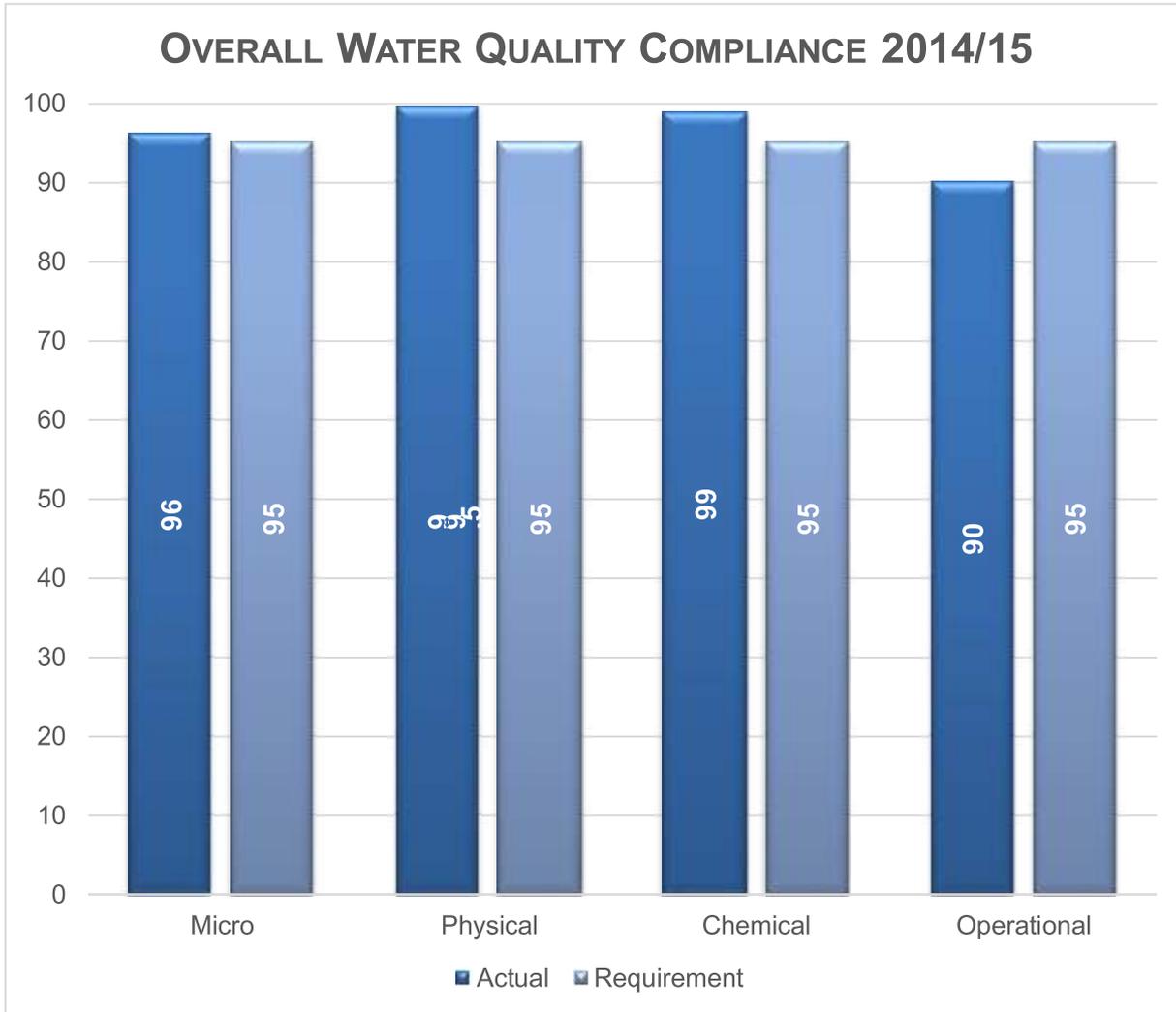


Figure 6-1 -: Overall water quality compliance

The bar charts below depict the water quality performance for microbiological, physical, chemical and operational compliance in each of the plants registered as part of the Blue Drop System.

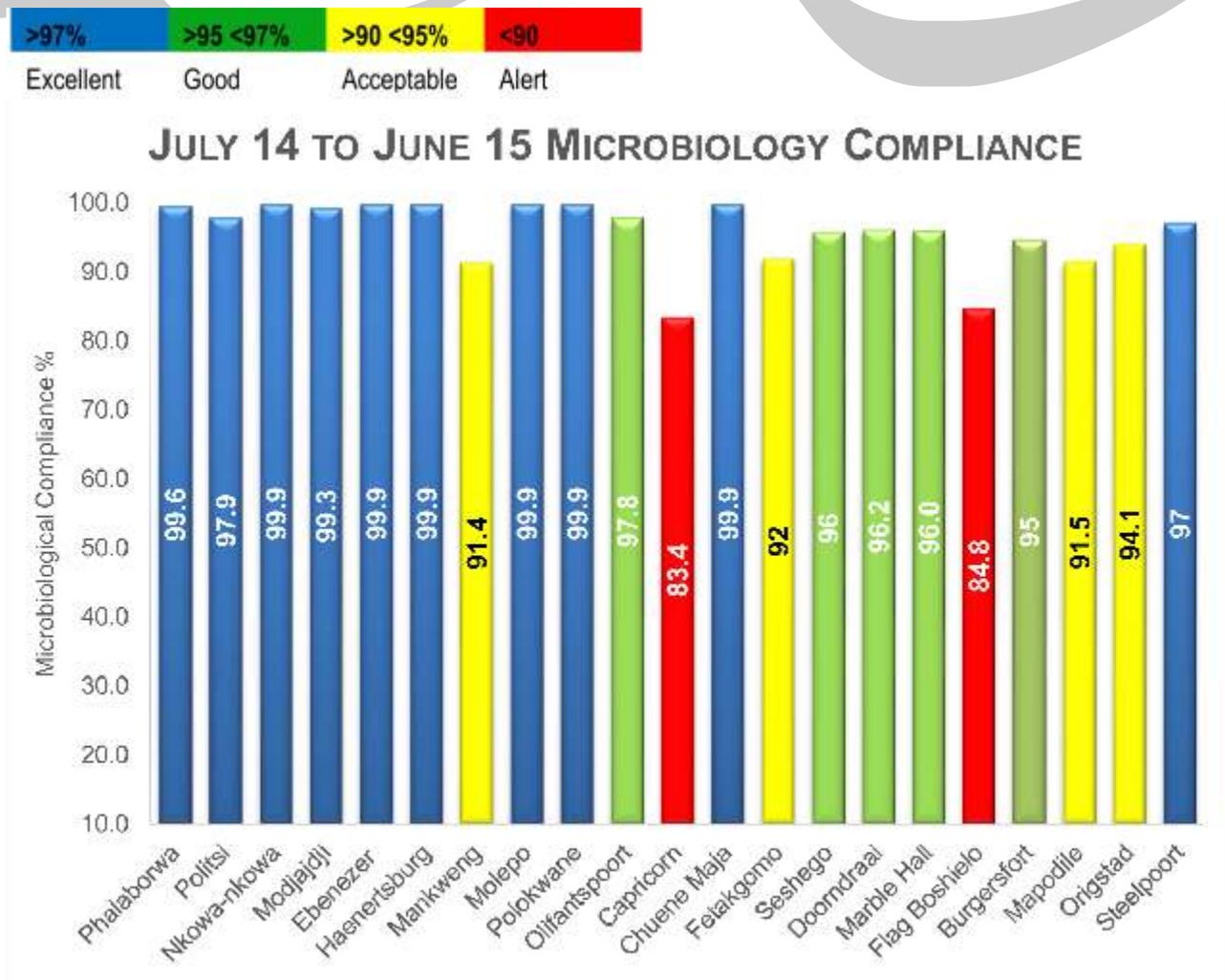


Figure: 6-2: Microbiology compliance

Challenges and plans towards full Microbiological compliance

At the Olifantspoort Scheme and sub scheme (Fetakgomo, Capricorn) the plant is operating above its design capacity giving rise to operational problems. LNW has been granted additional abstraction volumes from the Olifants River and plant will be upgraded to 120 MI/day.

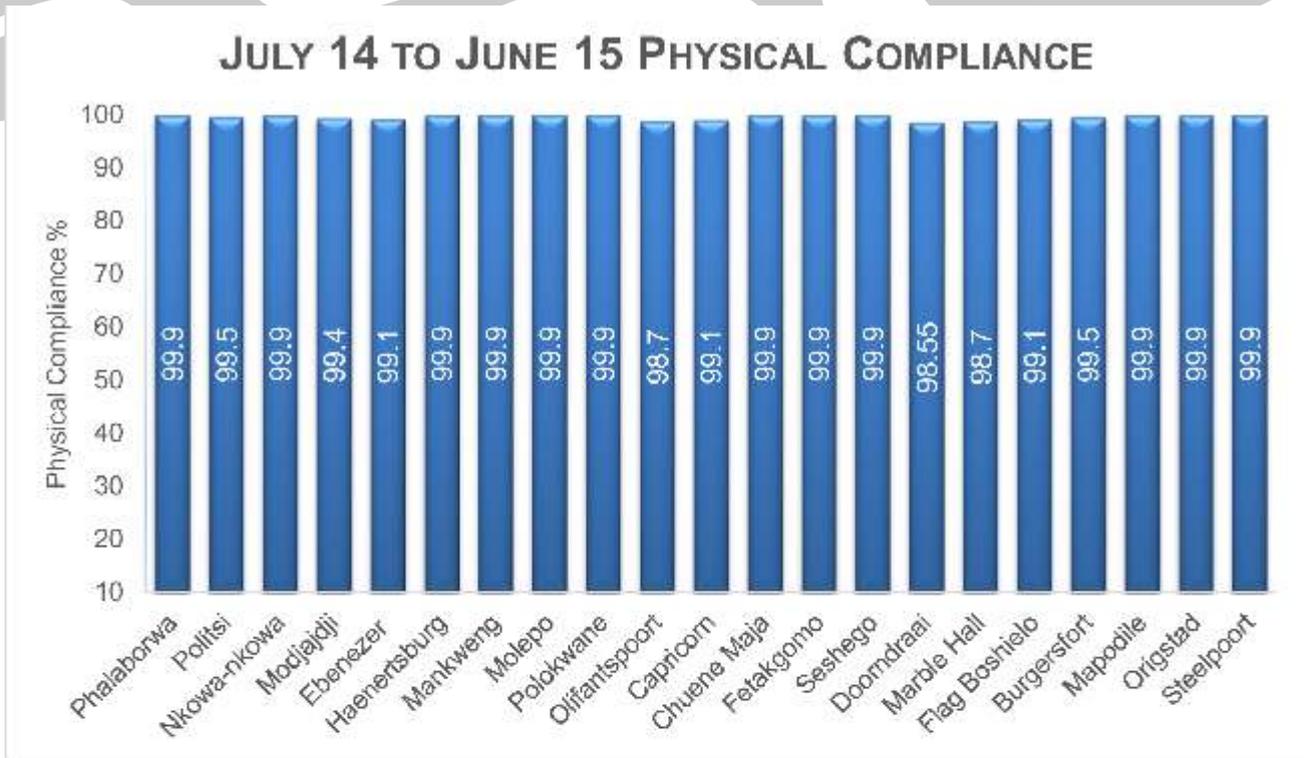


Figure 6-3 : Physical Compliance

The overall physical properties of water provided by LNw are in an excellent condition.

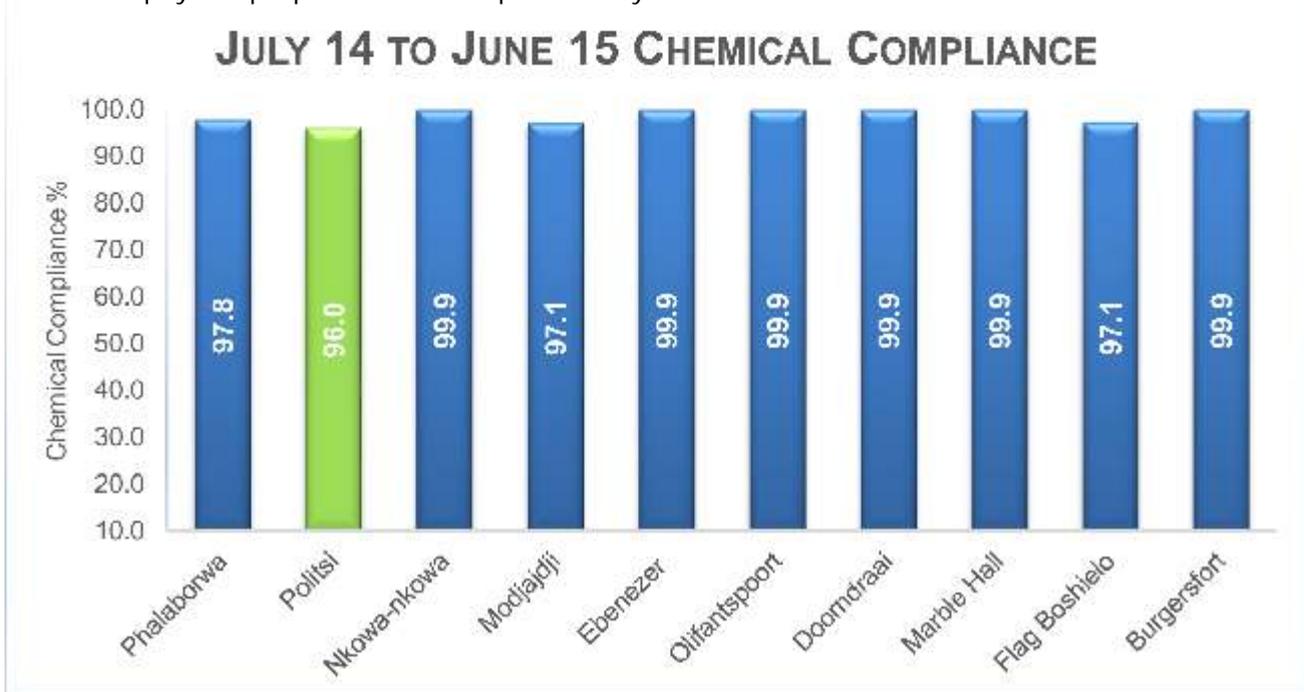


Figure 6-4: Chemical Compliance

Challenges and plans towards full Chemical compliance

At the Politsi Scheme, the plant is operating above its design capacity experiencing seasonal variations of chemical determinands. LNw has been granted additional abstraction volumes from the Magoebaskloof Dam and plant will be upgraded to 9.8 Ml/day. The plant upgrade will be designed to mitigate the seasonal variations of these determinands.



Figure 6.5.: Operational Compliance

Challenges and plans towards full operational compliance

LNW target is to supply water with operational compliance of >95%. Turbidity and residual chlorine contributed to compliance values >95%.

The Flag Boshielo WTW is operating 150% above its design capacity, resulting in the scheme to experience the most variance with operational compliance at 68%. Partial commission of the 4MI/day package plant and plant upgrade to 16MI/day will contribute to massive operational compliance improvements.

Reservoir cleaning schedules have been compiled and adhered to in order to mitigate the high turbidity within the network. To remedy the fluctuating residual Chlorine, limits have been set per each scheme.

6.1.2 Product Risk and Quality

The water quality testing, carried out in the SANAS-accredited laboratory by the Risk and Quality Unit, is divided into four categories, namely physical, chemical, microbiological and operational as per SANS 241: 2015 requirements.

Physical elements such as clay particles in water can affect the aesthetic quality of the water, and the removal of the particles is important to ensure a final product of high quality. The testing parameters include pH levels, turbidity and conductivity. Chemistry Laboratory is divided into two sections, organic and inorganic chemistry. Organic chemistry involves testing for compounds that contain carbon-hydrogen, while inorganic chemistry involves testing for compounds that do not contain carbon. Inorganic compounds include metals, such as mercury, lead, etc. Chemical quality affects the stability of water and is another essential aspect that must be monitored and controlled. Unstable, corrosive water may negatively affect the life span of pipelines and pumps due to corrosion, while water with a high alkalinity may cause reduction of flow through scaling.

Vigorous microbiological tests are also performed to ensure that the final water supplied is free from microorganisms such as E.coli Heterotrophic bacteria and other harmful pathogens. Water quality monitoring was conducted at more than 4038 sample points spread over the entire bulk and distribution networks of schemes operated by LNW. More than 20 540 tests were conducted on samples collected from these sample points as part of LNW's compliance monitoring programme.

The results are reported monthly and electronically on DWS's Blue and Green Drop System.

6.1.3 Overall Water and Wastewater Quality

Blue Drop progress assessments were conducted at the beginning of 2014. LNW strives to supply water that complies with SANS 241: 2011 drinking water specifications and is currently improving its quality systems to comply with the new 2015 revision of SANS 241: 2015. The SANAS-accredited laboratory performs compliance analysis to ensure that the water supplied is of an acceptable quality that will not negatively affect consumer health over a lifetime of consumption.

In the 2014/15 financial year, LNW has embarked on a major drive to work hand in hand with the various water services authorities to improve water quality at consumer taps. The overall water quality supplied by plants operated by LNW is depicted in the graphs under "Water schemes statistical information" in this report.

The three waste water treatment works LNW is operating on behalf of the Sekhukhune District Municipality are:

- Burgersfort Waste Water Treatment Works
- Marble Hall Waste Water Treatment Works
- Steelpoort Waste Water Treatment Works

The compliance of the effluent from the waste water treatment works is based on tests that are prescribed

The 2014/15 average effluent quality compliance for the waste water treatment works is as follows:

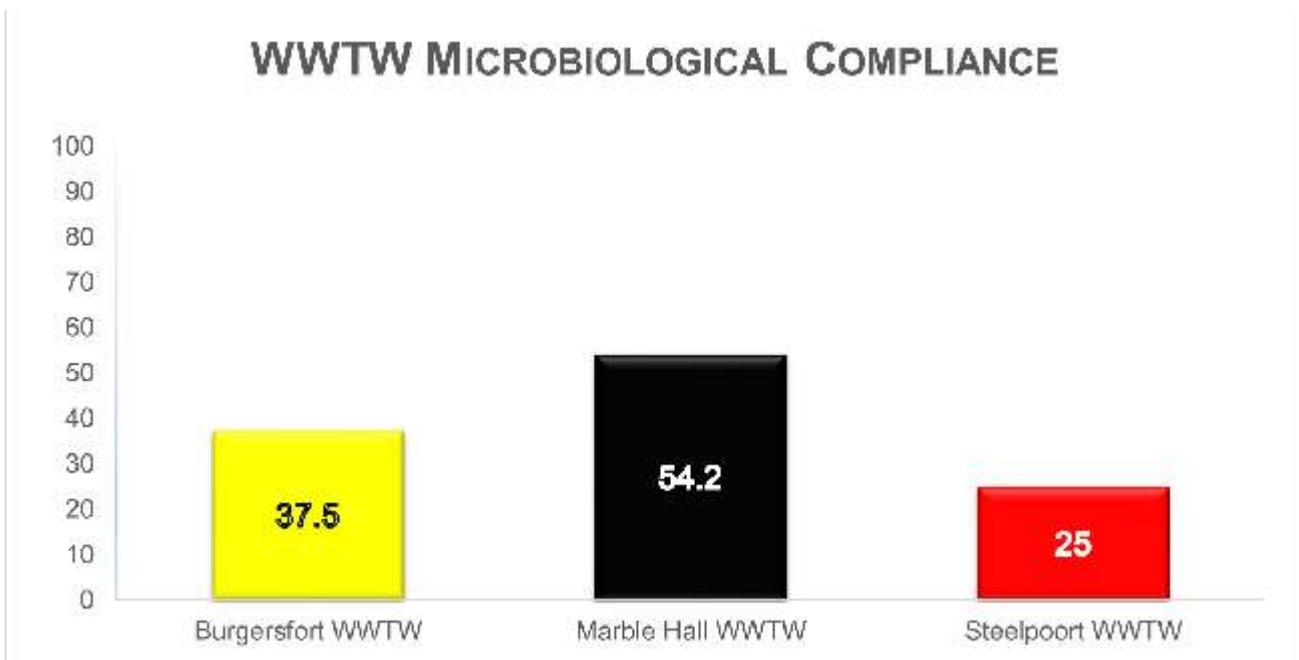


Figure 6.6: Microbiological Compliance

The Burgersfort Wastewater Treatment Works, is operating 200% above its design capacity resulting to process failures. A service provider has been appointed for the Burgersfort WWTW upgrade to 10MI/day, the upgrade is envisaged to be completed February 2016.

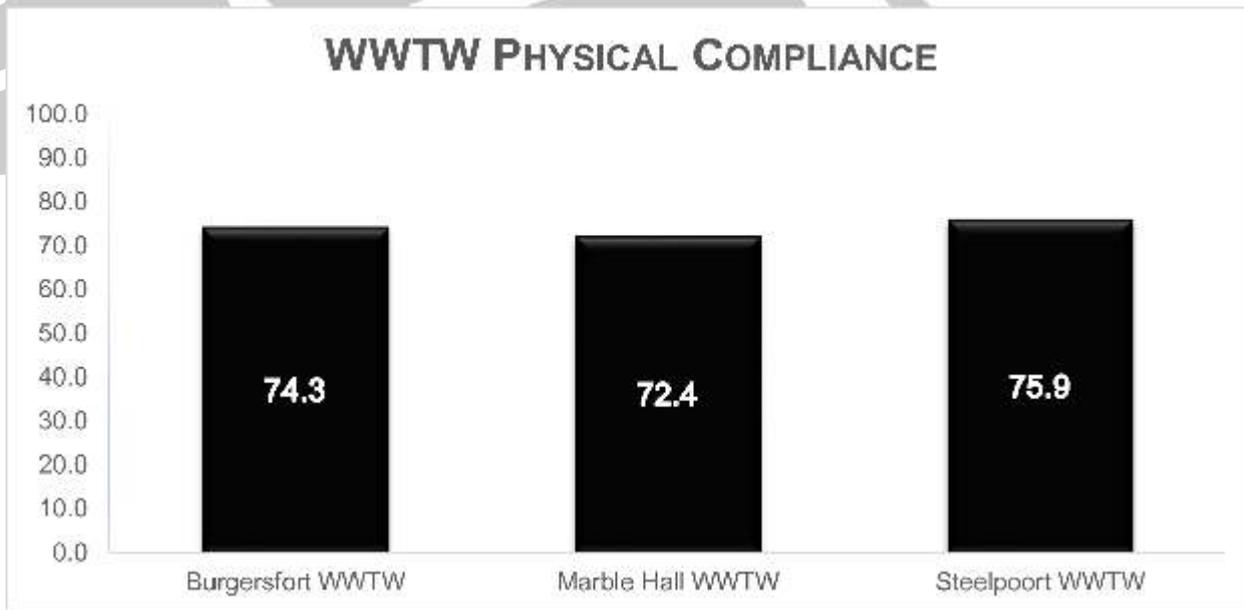


Figure 6.7 : Physical Compliance

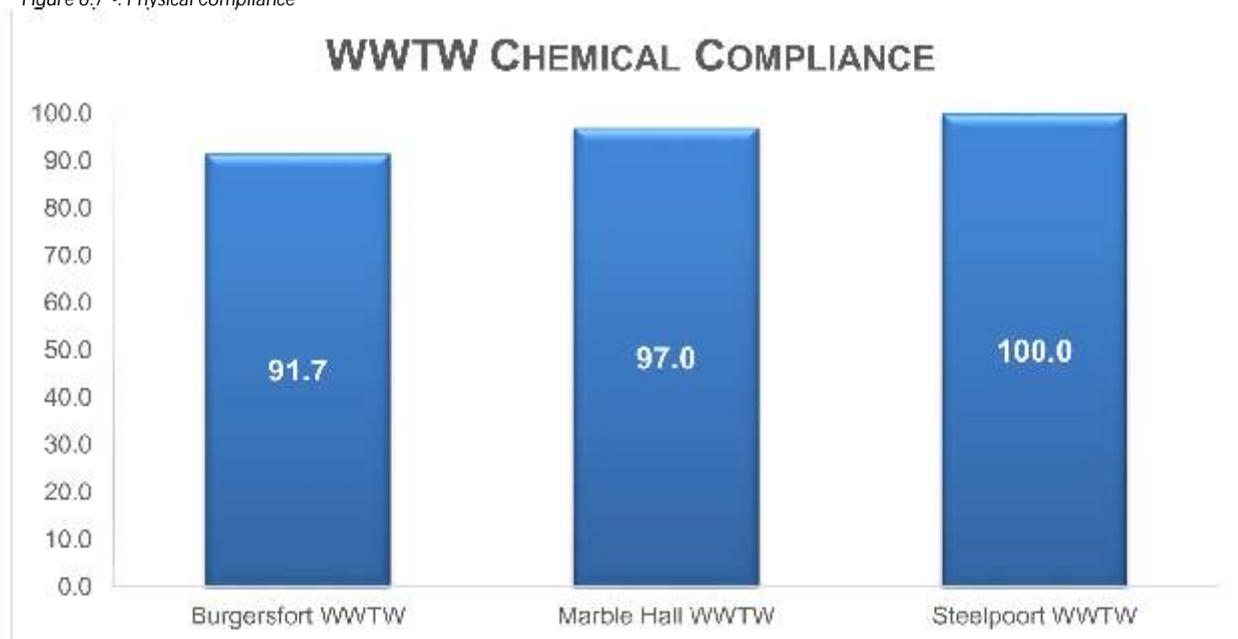


Figure 6-8 : Chemical Compliance

A turnaround strategy is being implemented to improve compliance at Marble Hall and Steelpoort WWTW with use of Wastewater Risk Abatement Plans and the WSA to start monitoring of industrial discharges into the sewer and enforcing of by-laws.

6.1.4 Accreditation: ISO17025

During the financial year 2014/15 the Risk and Quality Laboratory has undergone surveillance audits by the accreditation body, SANAS and was recommended for continued accreditation.

The organisation has invested in the most technologically advanced laboratory equipment with the aim of satisfying the water testing needs within the Province. The chemistry laboratory comprises organic and inorganic laboratories, while the microbiology laboratory envisages conducting analysis for somatic Coliphages, pathogens and viruses in the near future, in order to supplement what it can currently do.

The scope of analyses for the laboratories includes analyses of potable, borehole, river and effluent water for chemical and physical parameters. Chemical constituents include metals (such as iron, zinc, aluminium and calcium), ions (such as fluoride, nitrate and phosphate) and physical properties of water, which include the pH level, turbidity and electrical conductivity. Advanced technologies are used by the laboratory to analyse water samples.

6.2 RESEARCH AND DEVELOPMENT

6.2.1 Water supply augmentation/Water availability

Water scarcity continues to present the greatest challenge in our country. Exploration of ground water sources continued during the period under review. LNW research on the quantity and status of boreholes within its area of supply is ongoing, with the intention of mitigating the water quality outliers present.

6.2.2 Energy-Efficiency Improvement and Consumption Reduction

Due to soaring energy tariffs, as well as in an effort to reduce its carbon footprint, LNW has resolved to implement the following projects:

- Installation of Photovoltaic cells on the parking bays of its corporate head office. The unit feed directly into the electrical grid and has the ability to generate up to 30 kW under full sun conditions. The generated electricity is sufficient to provide all the energy required for the lights in the head office.
- Three schemes, namely Ebenezer, Flag Boshielo and Doorndraai, were identified as potential sites to generate electricity for plant consumption via hydroelectric power. As a start a 100kW unit will be installed at the Ebenezer plant and piloted for twelve months. Thereafter the other two schemes will be considered further.

6.2.3 Automated Bulk Water Meter-Reading System

A pilot was successfully conducted over a six-month period in order to read bulk consumer meters via GSM technology. LNW plans to roll the project out in the coming financial year, in order to replace manual meter reading, although monitoring and evaluating of the system will be ongoing.

6.3 ENVIRONMENTAL SUSTAINABILITY

6.3.1 ISO 14001 Certification

LNW is implementing the ISO 14001: 2004 Environmental Management System to manage, oversee and deal with possible environmental impacts. These impacts might have adverse negative effects on the environment, emanating from the LNW's supply of bulk potable water and other operations.

LNW was able to maintain ISO 14001 certification and certify additional 11 sites, bringing the total number of sites to 24 (including Head Office)

Table 6-1: ISO 14001 Certified schemes

PLANTS THAT MAINTAINED ISO 14001 CERTIFICATION 2014/15	NEWLY ISO 14001 CERTIFIED PLANTS 2014/15
1. Head Office- Polokwane	Hlogotlou Package Plant
2. Ebenezer Dam, Haenertsburg, Mopani District	Kutullo Package Plant
3. Doorndraai Dam, Waterberg District	Mahloakwena Package Plant
4. Flag Boshielo, Sekhukhune District	Malekana Water Treatment Works
5. Phalaborwa Mopani District	Mapodile Package Plant and Doting Boreholes
6. Olifantspoort, Capricorn District	Nkadimeng Package Plant
7. Modjadji -Mopani District	Orighstad Boreholes
8. Politsi – Mopani District	Tsakane Package Plant
9. Nkowankowa – Mopani District	Groblersdal Waste Water Treatment Works
10. Marble Hall Water Treatment Works	Roosenekal WWTW
11. Marble Hall Wastewater Treatment Works	Steelpoort WWTW
12. Burgersfort Wastewater Treatment Work	
13. Burgersfort Water Treatment Work	

6.3.2 Waste Management

LNW has implemented solid waste management in the organisation. Segregation stations have been set up at all plants to develop the practice of waste separation and recycling. Biological and Chemical hazardous waste is segregated and collected by a competent service provider, who further provides a disposal certificate.

Sludge management is another aspect on which LNW focuses during waste water treatment. Dry and wet sludge is sampled and analysed to record the quality in terms of the helminth ova parasite and other toxicants found in the sample. The laboratory tests also include classification analysis, from which further use or disposal methods are recommended.

Artificial wetlands have been planted at Steelpoort WWTW to absorb nutrients such as phosphorus and nitrate. The impact of vetiver grass in improving water quality is currently a school project for one of the National Treasury Learner-graduate currently undergoing training in the organisation with the aim of presenting the findings at WISA conference in May 2015.

6.3.3 Carbon Footprint

The organisation's carbon footprint is being monitored. A study is being undertaken to identify and monitor the extent of elements that might have a significant impact and contribute to the organisation's carbon footprint. These aspects among others, include raw water pumped, treated water pumped, electricity usage, fuel usage, waste bags generated and chlorine/flocculant usage.

6.3.4 Monitoring of Raw Water

Raw water monitoring has been improved by introducing toxicological analysis. Bio-monitoring, sampling and laboratory tests were performed. The aim of these studies is to utilise available bio-monitoring protocols to determine the accumulation level of potential toxicants in biota, as well as to describe the biotic (biological) integrity or status of water sources. This study will serve as a baseline for the bio-monitoring survey and will be utilised as stipulated in the water license.

6.3.5 Water Use License

The following water use licenses have been authorised from the Department of Water and Sanitation:

1. Ebenezer Scheme – 44 Ml/day
2. Olifantspoort Scheme - 89 Ml/day
3. Politsi Scheme – 9.8 Ml/day

6.3.6 Occupational Health and Safety

LNW took its occupational health and safety to a new level during the year. LNW is continuously applying the NOSA SHE Management System and incidents and accidents that occur at plants are reported on a monthly basis for corrective actions to be taken. Most of the plants have achieved the five star and others are at four stars grading, this show tremendous improvement as compared to the past years.

The policies of the National Occupational Health and Safety Association (NOSA) are firmly entrenched in the organisation and are bearing fruit to ensure that the organisation complies with the Occupational Health and Safety Act. The 2014/15 NOSA audit took place in June 2015 and the table below depicts the outcome, as well as that of previous years.

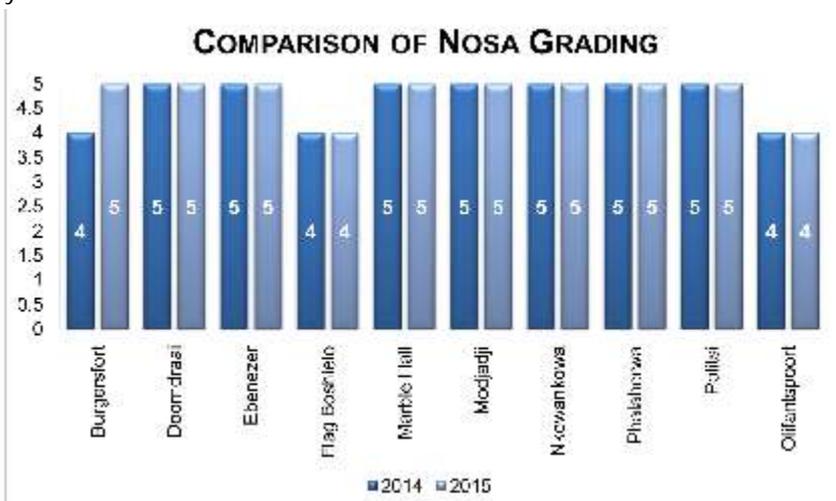


Figure 6-9 : Safety performance comparison between 2013/14 and 2014/15 NOSA grading

6.4 WATER RESOURCES AND INFRASTRUCTURE STABILITY

The graph below indicates the levels of the dams shared by residents of Limpopo and Mpumalanga as at the end of June 2015.

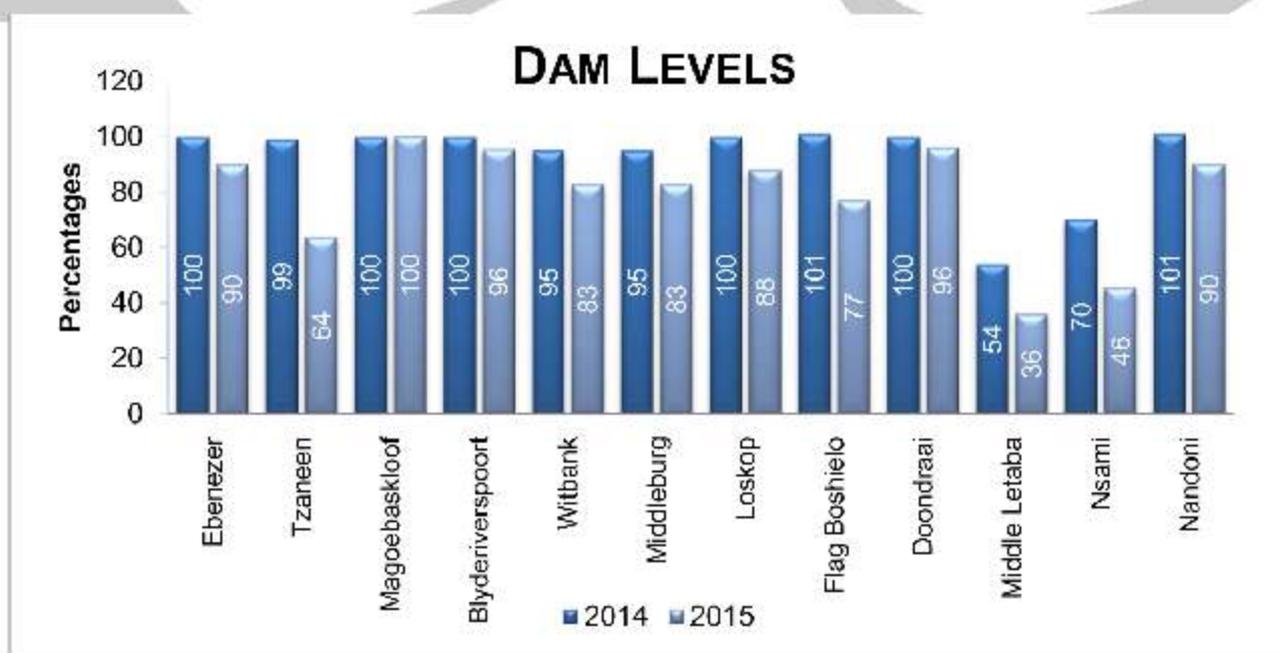


Figure 6.10 : Dam levels

The decreasing dam levels are the result of the adverse effects of climate change. The levels of the dams that supply LNW with raw water posed a water shortage threat during the course of the year, as depicted in the table above.

6.4.1 Surety of Supply

LNW plans to increase the capacity of the Ebenezer and Olifantspoort schemes in the foreseeable future to improve the surety of supply and the volumes of water available within the Capricorn District, especially to Polokwane. Similar plans are in place for the Politsi and Nkowankowa schemes located in the Mopani District. The project to increase the capacity of Flag Boshielo scheme from 8-16 Ml/day has commenced.

Parallel to extending schemes; major refurbishments are also undertaken in schemes such as Phalaborwa, Politsi in order to maintain surety of supply to the industrial complex, as well as to potable consumers.

6.4.2 Capital and Refurbishment Programme (2014/15)

During the course of the year, LNW undertook a number of major capital and refurbishment projects. Apart from upgrading and extending its own infrastructure, LNW also acted as a project implementing agent for the Department of Water and Sanitation.

Table 6.2 below depicts the capital and major refurbishment expenditure of LNW over the past three years, and Table 6.3 shows the detail of the expenditure in 2014/15. It is evident that there has been a steady increase in the level of expenditure.

Table 6.2: Capital and major refurbishment

2012/13 (ACTUAL)	2013/14 (ACTUAL)	2014/15 (ACTUAL)
R'000	R'000	R'000
67 650	73 264	92 236

NB: The expenditure excludes the capital spent on behalf of DWS.

The table below indicates the major projects being implemented at different stages and their values.

Table 6.3 : Some of the major projects implemented

PROJECT	VALUE 'R'
Doomdraai Water Treatment Scheme	
Feta-Kgomo PS(NS7)	2 000 000
Refurbishment of two Sludge Lagoons	6 500 000
Cathodic protection for old line	2 000 000
Ebenezer Water Treatment Scheme	0
Pipeline Hydropower generation plant	2 200 000
Studies and Planning for Ebenezer scheme upgrade	4 000 000
Switch gear replacement	2 500 000
Flag Boshielo Water Treatment Scheme	0
Study and Upgrade of Flag Plant	24 600 000
Upgrading of main lines	2 000 000
Marble Hall Scheme	0
Refurbishment of plant, sedimentation tanks	3 000 000
Burgersfort Scheme	0
Pre-Sedimentation Tanks for Burgersfort Potable Plant	2 000 000
Phalaborwa Water Treatment Scheme	0
New 700mm pipe from linking main line to pipeline supplying town	7 000 000
Increase Filter Capacity	4 700 000
Filter galleries automation	2 000 000
Politsi Water Treatment Scheme	0
Planning for Upgrading of plant, abstraction line and line to Ga-Kgapane	4 000 000
OVERALL	68 500 000

6.4.3 Extent of Operations

A total of 20 water treatment works and four waste water treatment works, spread across the Waterberg, Sekhukhune, Capricorn and Mopani district municipalities, are operated and maintained by LNW.

7. PEOPLE EMPOWERMENT

7.1 HUMAN CAPITAL MANAGEMENT

7.1.1 Vacancies

In the period under review, 26 vacant positions were filled, of which 12 were females, representing 46% of the staff compliment. However, meeting of set numerical target remains a challenge. To this end LNW has embarked on targeted talent acquisition process and application of fair discrimination.

7.1.2 Job Creation

In the period under review 139 jobs were created both permanent and through infrastructure projects by means of participation in the Expanded Public Works Projects (EPWP). Of the 139 jobs 39 employees were appointed on a permanent positions including replacements of those who resigned. Quarterly reports on this effort were sent to the Ministry of Water and Sanitation.

7.1.3 Staff turnover

The accumulative staff turnover as at the end of the period under review was relatively stable at 0.46%, which was well below the target of 2.00%. The implementation of the retention and succession planning strategies, as well as the promotion of specific target groups identified in the Employment Equity Plan, is assisting in keeping staff turnover at acceptably low levels. Although it is generally accepted that a high staff turnover is healthy, because new employees can bring new innovative ways of conducting business, a staff turnover of less than the norm of 2.00% bodes well for LNW as a water utility. The retention of specialist, scarce and mission critical skills is a strategy that ensures an uninterrupted water supply.

7.1.4 Employee Wellness Programme

LNW is committed to promoting the wellbeing of the employees to ensure a conducive organisational climate for maximum productivity. The Employee Wellness Programme - has thus embarked in the following:

Disease Management

Health promotion campaigns including HIV Counselling and Testing, medical screening and health education on major lifestyle diseases.

Psychological Wellbeing

Wellness interventions in the form of counselling, critical incident stress debriefing and trauma management services were provided to the employees in need. Consultations on wellness issues were conducted with frontline supervisory staff.

Physical Wellbeing

LNW has a sports and recreation policies that provides and encourage sporting and recreational activities internally and externally to promote physical fitness, stress management and teambuilding with LNW stakeholders.

Incapacity and sick absenteeism management

Four cases of incapacity were administered in terms of ill-health policy. the implementation of wellness intervention strategies contributed towards LNW achieving a low sick-absenteeism rate of less than 2.5% per month.

7.1.5 Occupational Health and Safety

With the use of wellness, health and safety programmes, LNW has been able to maintain a very low incident rate during the period under review. As a matter of policy, all employees undergo pre-, periodical and post-medical examinations. The results are analysed and professional advice on the types of wellness, health or safety measures or interventions to be implemented is given. In instances where an occupational health practitioner diagnoses an employee to be temporarily or permanently unfit for normal duty due to ill-health, LNW implements the Incapacity and/or Termination Policies and Procedures.

7.4 SKILLS DEVELOPMENT

LNW continues to upskill and develop its human capital and contributes to the country's skills shortage, demand and supply through its training and development framework policy. These training programmes are implemented for the benefit of both employees (18.1 learners and non-employees (18.2 learners) in need of particular skills within water and energy sector to address skills gaps, improve organisational performance or to increase their chances of getting employment.

During the period under review LNW benefited from the National Skills Strategic Projects funded by National Treasury as prescribed by Division of Revenue Act 2015, Schedule 5 to develop and avail engineers and scientists within the water sector. Most vacant positions were filled from a trained pool of talent supplied by the programmes.

7.2.1 Graduate Programme

LNW continued to offer graduates and other diplomats and students the opportunity to participate in graduate development programmes during the period under review.

Table 7-1 below reflects the intake and the academic fields the interns were exposed to:

Table 7.1: Internship programme for 2014/15

INTERNSHIP PROGRAMME	DEPARTMENT / UNIT	MALE	FEMALE	TOTAL	STATUS
Supply Chain Management	Supply Chain	3	3	3	In progress
Internal Audit	Internal Audit	1	1	2	In Progress
Public Relations and Communication	Business Development	1	0	1	In Progress.
Marketing	Marketing	0	1	1	In Progress
Water and Waste Water Treatment	Operations and Maintenance	4	10	14	Progress
Electrical Engineering Apprenticeship	Operations and Maintenance	2	8	10	In Progress.
Mechanical Engineering Apprenticeship	Operations and Maintenance	3	2	5	In Progress
Information Technology	Corporate Services	1	1	2	In Progress
Risk Management	Risk	0	1	1	In Progress
Legal and Compliance	Corporate Secretary	1	1	2	In Progress
Total		16	28		
Percentage female/male		36%	64%	100%	

National Infrastructure Skills Programme

LNW continued to implement the National Infrastructure Skills Programme as appointed by the Department of Higher Education and Training to lead a national training campaign with a strong focus on the diverse skills needed by the water sector, which includes local government. In total, 1 036 learners and graduates registered from district municipalities across Limpopo benefited from the programme, which commenced from 1 September 2011 and 1 April 2012, respectively.

Table 7-2 and Table 7-3 below reflect the numbers and the skills categories that students were registered for:

Table 7-2: National Infrastructure Skills Programme for 2014//15 (Department of Higher Education and Training)

INTERNSHIP PROGRAMME	NUMBER OF STUDENTS	MALE	FEMALE	STATUS
Water Treatment and Water Care	156	60	96	Completed
Water Reticulation	60	25	35	Completed
Community Health and Hygiene	44	19	25	Completed
Electrical Engineering	30	12	18	Completed
Internships (various)	39	15	24	Completed
Mechanical Engineering	30	14	16	26 In Progress
Total	359	145	214	
Percentage female/male	100%	40%	60%	

Table 7.3: Infrastructure Skills Development Grant for 2014//15

INTERNSHIP PROGRAMME	NUMBER OF STUDENTS	MALE	FEMALE	STATUS
Urban, Town and Regional Planning Candidate	2	1	1	In progress
Civil Engineering Candidate	2	1	1	In Progress and one absorbed.
		0	0	In progress
Electrical Engineering Candidate	2	1	1	In progress
Environmental Science Candidate	2	0	2	In progress and one completed
Quantity Surveying Candidate	2	1	1	In progress and appointed externally
Laboratory Scientist Analyses	4	2	2	In progress and one Completed
Biochemistry and Microbiology Scientist	1	0	1	In progress
Total	15	6	9	
Percentage female/male	100%	40%	60%	

Bursary Scheme

LNW offers employees bursaries to register with various Further Education and Training (FET) and Higher Education and Training (HET) institutions. Seventy-one (71) employees were awarded bursaries to study for diplomas, degrees and certificates. Of the seventy-one loans granted, twenty nine were converted to study grants upon successful completion of the training programmes.

Capacity Building

During the period under review, a significant number of LNW employees attended various workshops, seminars and conference in line with their Personal Development Plans (PDPs) to enhance their work performance.

Apprenticeships

Six (6) apprentices enrolled for electrical, mechanical and instrumentation engineering training (Table 7.4). Of the six, five apprentices completed their trade tests and were placed internally as artisans.

Table 7-4: Apprenticeship Programme 2014/15

PROGRAMME	TOTAL NUMBER		GENDER		STATE OF READINESS
	EMPLOYEES	NON-EMPLOYEES	MALE	FEMALE	
Electrical Engineering	3	0	10	2	Completed
Mechanical Engineering	2		2		In Progress0
Instrument Technicians	1	0	1	0	Completed1
TOTAL	6	0	4	2	

7.4.6 Adult Basic Education Programme

The drive to have all employees complete ABET Level 1 paid off. To date, LNW had less than 2% of employees without ABET Level 1.

7.4.7 Employment Equity

As a transformation management strategy, LNW develops a long-term Employment Equity Plan that guides the organisation in fulfilling its obligation to ensure employment equity in the workplace. A five-year Employment Equity Plan has been approved by the Department of Labour for implementation. Currently, LNW boasts a male/female ratio of 68:32%. The objective is to achieve at least 41% female representation in the whole organisation within the next five years.

Table 7.5: Employment Equity Plan

OCCUPATIONAL LEVEL	2012/13			2013/14			2014/15			2015/2016			2016/2017		
	Male	Female	TOTAL												
Top Management	1	0	1	1	0	1	1	0	1	1	0	1	1	0	1
Senior managers	2	1	3	2	1	3	1	2	3	1	2	3	1	2	3
Professionals middle management	21	16	37	21	16	38	21	17	39	21	17	39	21	19	41
Skilled/qualified technicians	98	60	158	100	62	162	102	67	169	104	67	171	112	67	179
Semiskilled	95	38	133	96	41	140	96	45	144	96	49	148	98	55	153
Unskilled	14	12	26	16	14	30	16	18	34	16	22	38	18	27	45
Total number	231	127	358	235	135	370	237	149	386	239	157	396	251	170	421
Percentage	65%	35%	100%	63%	37%	100%	61%	39%	100%	60%	40%	100%	59%	41%	100%
Percentage increase		5%			6%			9%			10%			11%	41%

Actual percentages = 70% male vs. 30% female. Target = 95% designated groups (both male and female), 11% female and 2% people with disabilities

WORKFORCE PROFILE

Table 7.6 : Workforce profile as per occupational levels

Occupational Levels	African Male	Coloured Male	Indian Male	White Male	Total Male	African Female	Coloured Female	Indian Female	White Female	Total Female	Total
Top Management	0	0	0	0	0	0	0	0	0	0	0
	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Senior Management	0	0	0	1	1	0	0	0	0	0	1
	0.0%	0.00%	0.00%	100%	100%	0%	0%	0%	0%	0.00%	100%
Prof. qualified & experienced	17	0	00	6	23	11	0	0	0	11	34
	50.0%	0.00%	0.00%	17.35%	67.7%	32.4%	0.0%	0.00%	0.00%	32.35%	100%
Skilled tech. & academically	77	0	1	13	91	48	0	0	2	50	141
	54.61%	0.00%	0.71%	9.22%	64.5%	34.0%	0.0%	0.00%	1.42%	35.46%	100%
Semi-skilled and discretionary	92	0	0	1	93	33	0	0	1	34	127
	72.44%	0.00%	0.00%	0.79%	73.2%	25.98%	0.0%	0.00%	0.79%	26.77%	100%
Unskilled and defined	13	0	0	0	13	8	0	0	0	8	21
	61.42%	0.00%	0.31%	6.48%	68.2%	30.86%	0.0%	0.00%	0.93%	31.79%	100%
Total Permanent	199	0	1	21	221	100	0	0	3	103	324
Total %	61.42%	0.00%	0.31%	6.48%	68.2%	30.86%	0.0%	0.00%	0.93%	31.79%	100%

7.5 LABOUR RELATIONS

Relations between LNW and the union SAMWU remain normal for the 2014/15 financial year. This was attributed to the fact that all cases against the three shop stewards were finalised.

The term of the previous shop stewards has ended, we have started a new term which will end in 2016 and new shop stewards have been appointed. The office of Labour Relations intends to start the new term with a Relationship Building Exercise to ensure a proper start to new labour relations in order to avoid the skirmishes of the previous year because the employees suffered the brunt of the broken relationship.

A second trade union in Municipal Education State Health and Allied Workers Union (MESHAWU) has entered the folds. This after meeting the criteria for recognition in terms of the Labour Relations Act as amended. The South African Municipal Workers Union remained the majority union during the period under review. Negotiations and consultations on procedural issues and matters interest were conducted at plant level due to the absence of a functional central bargaining structure.

7.5.1 General Misconduct

During the period under review, LNW experienced several cases of misconduct summarised as follows:

Table 7.7 Status of disciplinary cases

NATURE OF OFFENCE	SANCTION GIVEN
3 cases of misconduct due to unethical behaviour	Dismissal

Grievances Status

LNW enjoyed a relatively strife free working environment. No grievances were lodged during the period under review.

Suspension Statistics

The cases of the three employees suspended for various misconduct offences were finalised and all were dismissed.

Medical Aid Membership

In line with LNW's Medical Aid Membership Policy, membership of a medical aid scheme is compulsory to ensure that employees and their families are medically covered. The organisation covers 70% of monthly premiums, whilst the employee covers only 30%, thus making medical aid cover accessible to all employees. The total number of employees not on medical aid schemes for personal and religious reasons represents 2.47% of the workforce.

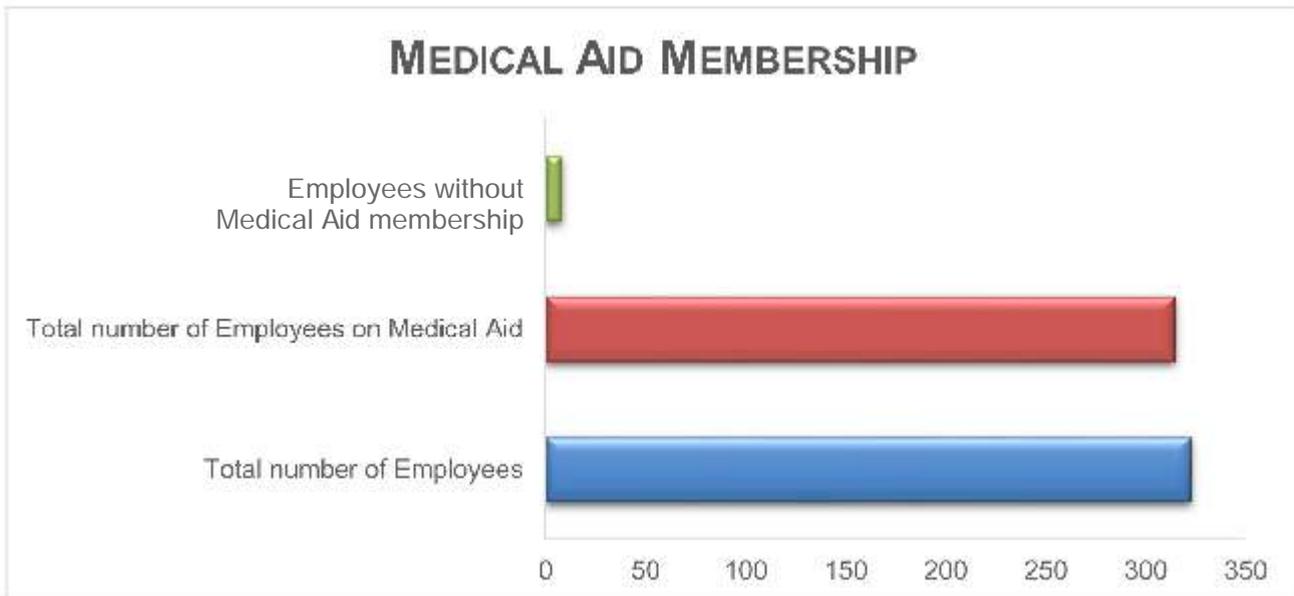


Figure 7-1: Medical Aid Membership

8. FINANCIAL SUSTAINABILITY

The entity has streamlined its financial and supply chain management processes to ensure that it remains in the current reporting frameworks and supply chain frameworks. It is guided by the following legislative prescripts in the execution of its duties:

- Public Finance Management Act, Act No.1 of 1999 (PFMA)
- Water Services Act, Act No.108 of 1997
- Supply Chain Management Framework
- Preferential Procurement Policy Framework Act
- Municipal Finance Management Act
-

8.1 FINANCIAL MANAGEMENT

This section focuses on maintaining and implementing sound financial processes and controls, and on ensuring compliance with relevant legislation. Key performance areas include financial administration, accounting, treasury management and reporting.

The implementation of an advanced Enterprise Resource Planning (ERP) system during the past period was a success. The system assists in recording and reporting financial transactions in real time, thereby enhancing available information to enable economic decisions.

8.2 PFMA COMPLIANCE

The PFMA focuses on financial management with related outputs and responsibilities. The entity has established an ongoing process of awareness, education and advice with regard to the PFMA within the business. This also involved developing the entity's financial policy and procedure manual to ensure effective internal control processes.

The entity complies with their fiduciary duties as the accounting authority, as set out in the PFMA. The entity responsibilities, in terms of the PFMA, include taking appropriate action to ensure:

- economic, efficient, effective and transparent systems of financial and risk management, and internal control are in place;
- a system for properly evaluating all major capital projects, prior to a final decision on each project, is maintained;
- the implementation of appropriate and effective measures to prevent unauthorised, irregular or fruitless and wasteful expenditure, expenditure not complying with legislation, or losses from criminal conduct;
- that all revenue due to is collected;
- the economic and efficient management of available working capital; and
- the definition of objectives and the allocation of resources in an economic, efficient, effective and transparent manner.

8.3 OVERVIEW OF FINANCIAL STATEMENTS

8.3.1 Solid financial performance

The financial results as in June 2015 demonstrate the entity's efforts to ensure financial sustainability and viability to allow the entity to accelerate its service delivery mandate by re-investing its earnings to critical water infrastructure to ensure constant supply and increase in production that enable the entity to continuously delivery such critical services.

The entity reported a net surplus of R69.4 million (2014: R17.7 million) for the year, as a result of increase in water tariff, a gross margin of 52% despite the high increase on our water cost, as well as electricity. Revenue increased to R441.5 million from R398.4 million (10.8%) for the year under review, with no increase in volume sold.

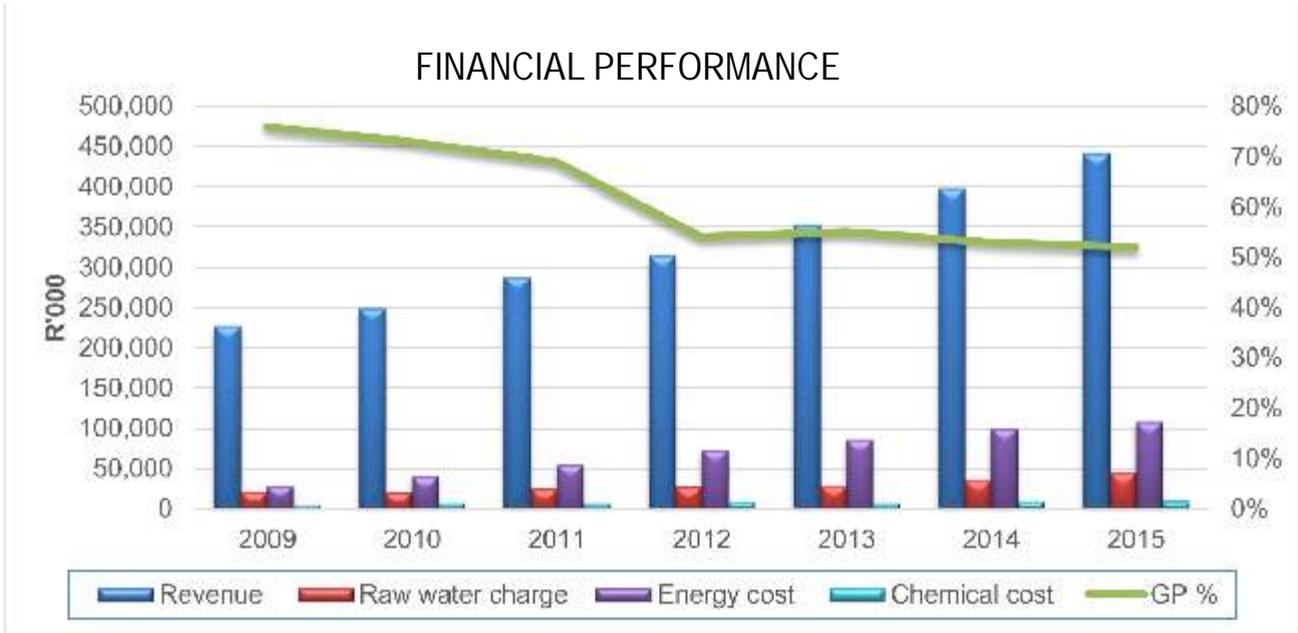


Figure 8-1 Seven year financial performance

8.3.2 Supply of good quality water at affordable rates

The entity has kept its annual tariff increase at below 10% for the past 4 years considering the socio economic factors within the province. This was despite the 15% increase in electricity tariff and 12.5% on the raw water charges. The entity's average tariff is R4.36 for the year under review moving from R4.08 in the previous financial year.

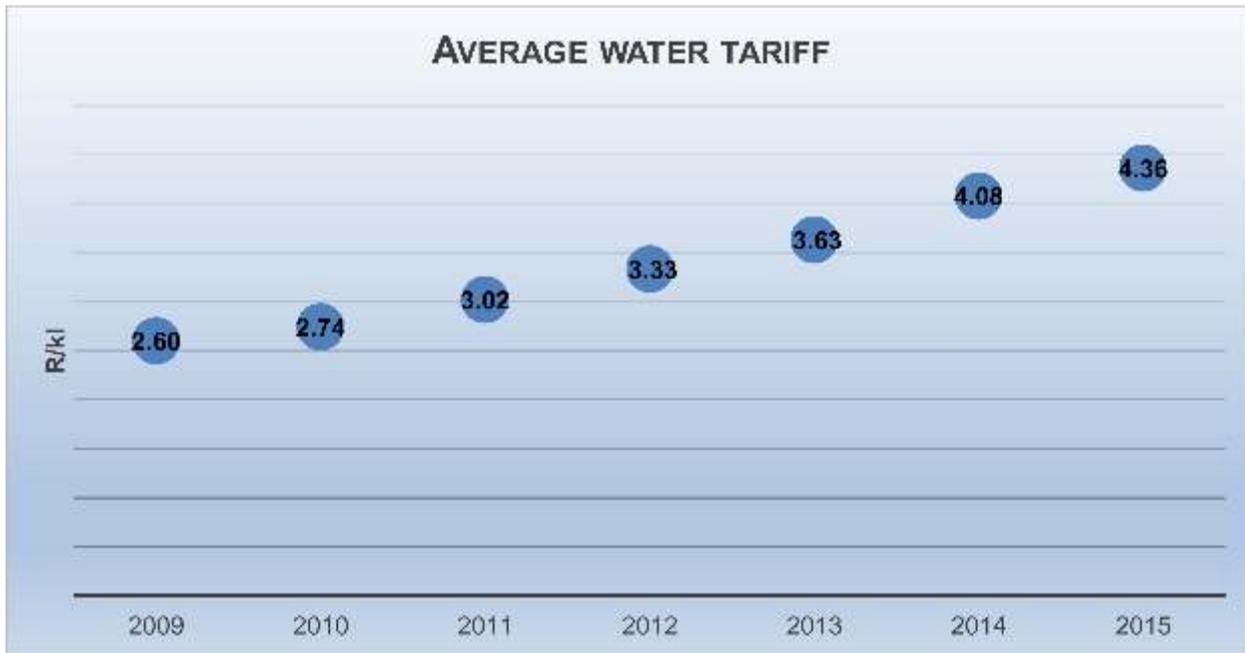


Figure 8-2: Average tariff for the past seven years

8.3.3 Other income

Other income was received from rental of properties within the entity to the employees, situated at some of the plants owned by LNW. The fee charge to the employees is for the purpose of maintenance of the houses.

The income received on cost recovery from municipalities for plants operated on behalf of the municipalities as well as Management fee amounts to R97,3 million from R79,9 million in 2014. This is mainly due to increase in number of projects implemented on behalf of other institutions.

8.4 INPUT AND OPERATIONAL COST

The main cost drivers have been the electricity and salaries. The entity's variable cost increased by 11% which include the electricity, chemicals, raw water and direct labour cost. The entity decrease the gross profit percentage from 53% to 52% in the current year due to increase variable cost.

The cost of raw water is determined by the DWS pricing strategy which is link to the producer price inflation. In 2015, the cost of raw water increase by 12%. The entity recorded a decrease on maintenance cost in the year 2015, the decrease was expected after most of our major refurbishment of the systems was carried out in the previous financial years.

8.4.1 Cost of Energy

Electricity increased by 8% to R108,6 m (2014: R99,9m), notwithstanding the organisations's growth energy-

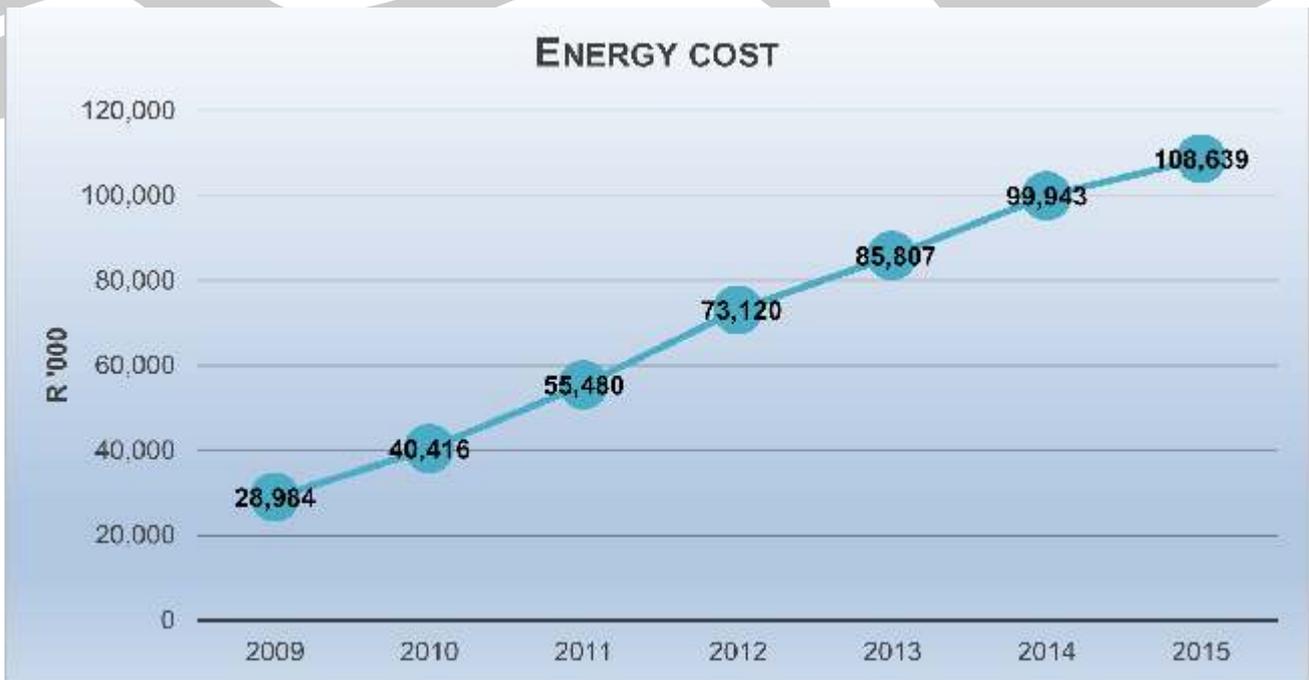


Figure 8.3: Energy cost for the past seven years

8.4.2 Chemical Cost

Chemical costs increased by 7% mainly due to change in the type of chemicals used to comply with, the requirements in terms of the blue drop. We benefited from improved water turbidity levels during the year as well as the discontinued utilisation of Ammonia resulting in less chemicals needed for treatment purposes

8.4.3 Depreciation

Depreciation and amortisation of assets increased by 8% R28, 0 million (2013:R26,1m) mainly due to assets capitalised during the year under review. The trend is expected to grow significantly in the following year due to anticipated growth in capital expenditure and finalisation of the major capital investments.

8.4.4 Salary mix

Remuneration cost increased to R169 million as employee's numbers increased by 0.04% to 324. In the year under review, salaries increased by 13% due to new appointments.

Remuneration

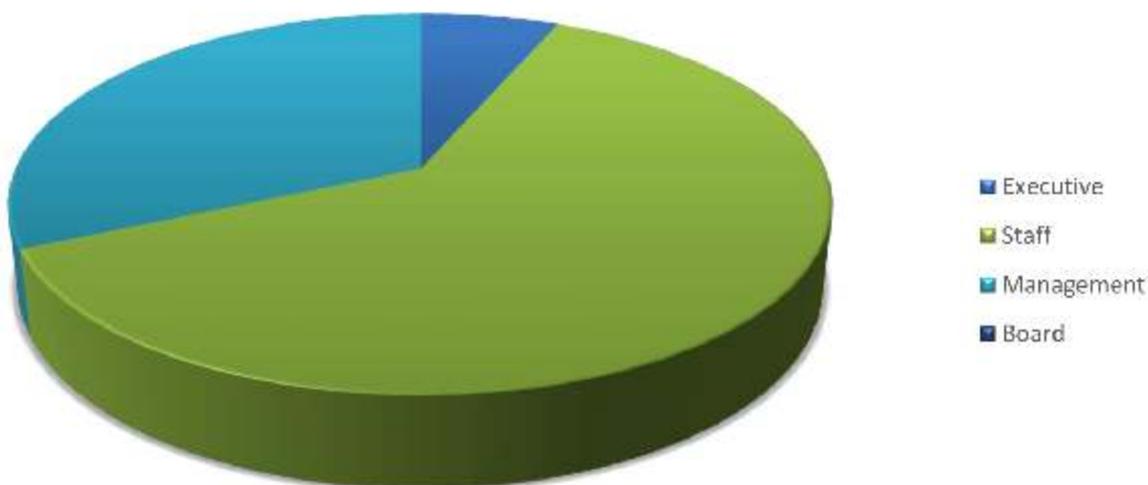


Figure 8.4: Remuneration at various categories

8.4.5 Other operational cost

Other operating expenses has insignificantly increased from R55.83 million to R55.86 million. The entity's initiative to reduce operating expenses has yielded some result though the decrease is not as desired.

Table 8.4: Financial Performance at glance

	2009	2010	2011	2012	2013	2014	2015
	ACTUAL						
	R'000						
Revenue	226 900	249 638	287 994	314 847	353 303	398 418	441 549
Raw water charge	21 233	20 417	25 455	27 550	29 295	36 108	46 840
GP %	76%	73%	69%	54%	55%	53%	52%
Operating expenditure	258 671	305 305	297 264	262 521	345 757	429 051	481 547
Surplus for the year	40 283	-10 439	44 307	110 718	69 121	17 798	69 490
Surplus %	18%	10%	15%	35%	20%	5%	16%
Net interest paid	26 925	2 213	14 571	12 707	16 290	18 052	11 959
Accumulated reserves (deficit)	160 624	159 056	198 624	304 769	352 026	368 533	438 023
Cash and cash equivalents	357 391	316 080	279 328	303 390	362 460	310 530	217 796
Long-term loans	31 270	26 612	22 315	17 469	-	0	0
Energy cost	28 984	40 416	55 480	73 120	85 807	99 943	108 639
Average water tariff	2,60	2,74	3,02	3,33	3,63	4,08	4,36

8.5 FINANCIAL POSITION

8.5.1 Infrastructure

Capital expenditure realised at R92.2m during the year under review. The entity undertook to advance in the capital projects to meet the demand for water services within our area of operations as well as to replace old infrastructure. One of the major projects included the construction of a pipeline from Phalaborwa plant. Amongst other projects, the entity also constructed a reservoir to increase constant water supply to the Polokwane municipality. Capital expenditure will increase in the coming five years to R1.3bn as a result of extensive infrastructure refurbishment plans.

8.5.2 Current Liabilities

Current liabilities for the year decreased by 52% to R166m (2013/14:R221m).

8.5.3 Increasing cash generated from operations

Net cash from operating activities decreased to R4m. The amount of net cash utilised in investing activities increased in the year, mainly due to acquisition of property, plant and equipment. The net effect was cash reserves of R217,7m.

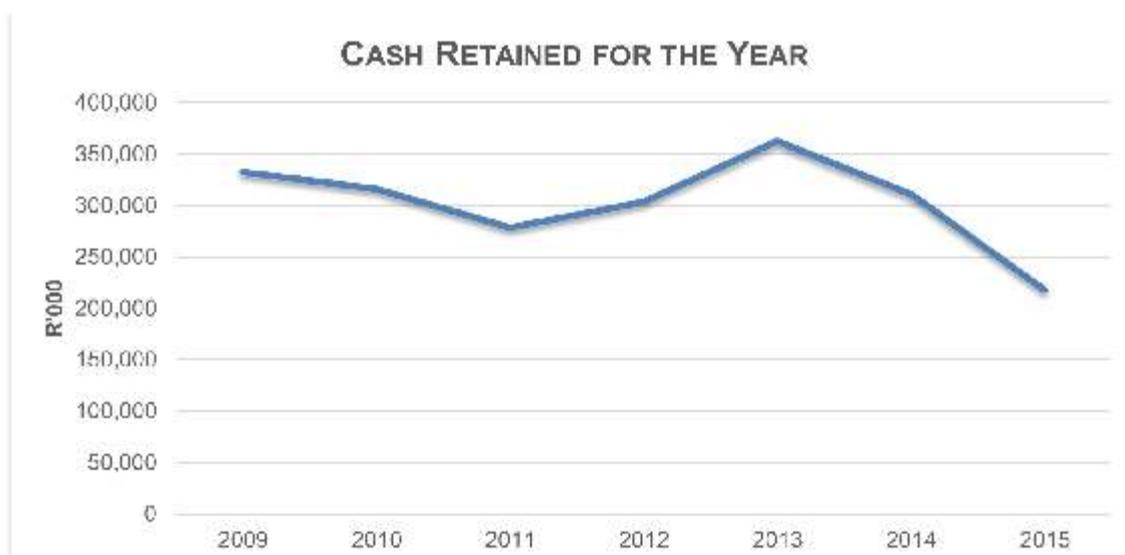


Figure 8-4: Cash and cash equivalents trends for the past seven years

The entity debt to equity level at year end was 21%, and indicating the significant capacity is still available to fund future expenditure.

8.6 SUPPLY CHAIN MANAGEMENT

The entity continues to subscribe to the best practises of procurement and it further continues to comply with relevant prevailing legislations. This includes ensuring that procurement processes are aligned to with the following key components:

- Detailing of procedures
- Allocation of roles and responsibility
- Delegations of authority
- Monitoring of procurement performance

8.6.1 BBBEE

Enterprise development is important to LNW, to this end 75% of procurement was with historically disadvantaged entities.

8.6.2 Best practise of supply chain

The entity ensures that it contributes to encouraging the stakeholders to comply with legislative requirements that effect the economy of the country. It is a requirement that all service providers be compliant with tax and applicable professional bodies. We also allow fair market competition in ensuring that awarding of contracts is not found to be contravening or defeating principles within supply chain management guideline and legislation.

9. ENTERPRISE RISK MANAGEMENT

LNW has adopted the Enterprise Risk Management (ERM) approach, which seeks to identify, evaluate, monitor and report all actual and potential risks at the earliest possible time. This exercise remains inherent throughout the organisation via the risk assessments conducted periodically within the organisation as well as monitoring of the mitigation measures as outlined in the risk register.

LNW has put measures in place to:

- identify and prioritise key risks
- determine appropriate levels of risk tolerance and risk appetite
- implement a risk management strategy in accordance with the risk management policy
- measure, report, monitor and refine risks as needed

Risk tolerance levels were established for each of the organisation's strategic objectives and are considered for all decision-making within the organisation. The Accounting Authority contributed significantly to the process of risk management by consistently overseeing its implementation, monitoring and integration into the daily activities of the organisation.

During the year under review, the organisation conducted an enterprise-wide risk assessment and the following nine (9) were identified as LNW's key strategic risks for the financial year ending 30 June 2015:

Table 9-1: Key Strategic Risks

KEY STRATEGIC RISK	STRATEGIC OBJECTIVE
1. Negative effects and Consequences of Climate Change	SO1: Infrastructure development and optimisation
2. Ageing infrastructure	
3. Deteriorating raw water quality	
4. Non-payment by the Water Service Authorities for Bulk Water Services	SO2: Financial Viability and Sustainability
5. High Operational cost	
6. Skills shortage	SO3: Human Capital Management
7. Changes in Municipal leadership (administratively and politically)	SO4: Effective Corporate Governance
8. Poor organisational performance resulting in LNW being integrated into other water utilities	SO5: Positioning the organisation for institutional realignment
9. Water demands that exceed the available raw water allocation (Over abstraction)	SO6: Ensure security of supply of water resources

The risk mitigation plans and controls are continuously monitored for implementation. Assurance functions such as Internal Audit constitute the line of defence, by evaluating the adequacy and effectiveness of the risk management processes, thus contributing to the risk management process within LNW. Management is accountable to the Accounting Authority for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities of LNW.

The risk management implementation plan was prepared to implement risk management policy and strategy. It sets out all risk management activities planned for the coming financial year.

9.1 RISK MANAGEMENT COMMITTEE (RMC)

A Risk Management Committee established to ensure the effective management of risks throughout the organisation by coordinating and supporting the overall risk management, business continuity, and fraud and corruption prevention processes, is in place.

This Committee sits on a quarterly basis and reports to the Accounting Authority, risks facing LNW and mitigating measures for each risk as determined by management.

9.2 BUSINESS CONTINUITY

LNW adopted a business continuity policy, which ensures that its regions, plants and head office are able to continue providing an acceptable level of service to its customers, following a disaster that may disrupt normal business activities.

Furthermore, LNW has a responsibility to its stakeholders to maintain its operations at optimum performance levels as far as possible, ensuring continuity. It also has a social responsibility to the public at large to foster confidence in its ability to contribute to the provision of water services, and an obligation to employees to provide reasonable job security.

9.3 ETHICS AND PREVENTION OF FRAUD AND CORRUPTION

It is the duty of the management of LNW to create an environment and culture in which employees know and believe that dishonest acts will be detected and prevented. To this end, they perform the following:

- Participate in the in-house training programme, which covers fraud and corruption detection and prevention, and training on the code of ethics

- Ensure that staff understand that the internal controls are designed and intended to prevent and detect fraud and corruption or any other dishonest activities of a similar nature
- Encourage staff to report suspected fraud and corruption directly to those responsible for investigation without fear of disclosure or retribution
- Require vendors and contractors to agree with LNW's policies and procedures in writing as a part of the contract process, and thereby avoid any conflict of interest.

The Protected Disclosures Act came into effect on 16 February 2001. In order to remain in compliance with the Act,

LNW does the following:

- Strives to create a culture that will facilitate the disclosure of information by employees relating to criminal and other irregular conduct in the workplace in a responsible manner by providing clear guidelines for the disclosure of such information and protection against reprisals as a result of such disclosure
- Promotes the eradication of criminal and other irregular conduct in LNW

In the year under review, twelve cases were reported to the tip-off anonymous hotline, which is administered by Deloitte & Touché. Disciplinary actions were implemented in cases of corrupt conduct.

9.4 OPERATIONAL RISK

In the year under review, management has put in place a continuous, systematic process of identifying and controlling risks in all activities according to a set of preconceived parameters by applying appropriate management policies and procedures. This process includes detecting hazards, assessing risks, and implementing and monitoring risk controls to support effective, risk-based decision-making.

LNW has established procedures that manage the uncertainty of its operations. These procedures are applied to day-to-day activities that may be a threat to environmental wellbeing, as well as overall infrastructure assessment, to lower or eliminate damage to the environment caused by the organisation.

9.5 FINANCIAL RISKS

The following three main sources of financial risk were identified:

- Financial risks arising because of the organisation's exposure to changes in market prices, such as interest rates, exchange rates and commodity prices
- Financial risks arising from the actions of, and transactions with, other organisations, such as vendors, customers and counterparties in derivative transactions
- Financial risks resulting from internal actions or failures of the organisation, particularly people, processes and systems

10. INTERNAL AUDIT

10.1 MISSION

The mission of Internal Audit is to provide independent, objective assurance and consulting services designed to add value and improve LNW's operations. Internal Audit helps LNW to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

10.2 SCOPE OF WORK

The scope of work of Internal Audit is to determine whether LNW's network of risk management, control and governance processes, as designed and represented by management, are adequate and functioning in a manner to do the following:

- Ensure that risks are appropriately identified, prioritised and managed
- Ensure that controls, which encompass the organisation's governance, operations and information systems, are adequate and effective.

This includes the following:

- Reliability and integrity of financial and operational information
- Effectiveness (programmes, plans and objectives are achieved) and efficiency of operations and the economic acquisition of resources
- Safeguarding of assets
- Compliance with laws, regulations, policies, standards, procedures and contracts
- Ensure that values, ethics and goals are established and communicated
- Ensure effective organisational performance management and accountability
- Ensure effective communication of risk and control within the organisation
- Ensure the effective coordination and communication of information among members of the entity, management, external auditors and internal auditors (interaction with the various governance groups within the organisation occurs as appropriate).

10.3 ROLE/RESPONSIBILITY

Internal Audit plays the following role:

Develops a flexible Internal Audit Plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submits that plan to the Audit Committee for review and approval. Any deviation from the formally approved Internal Audit Plan shall be approved by the Audit Committee.

The plan will include the following:

- Internal Audit Three-year Rolling Plan
 - Internal Audit Annual Plan
 - Staffing Plan
 - Annual Budget
- Implements the Annual Audit Plan, as approved, including as appropriate any special tasks or projects requested by management and the Audit Committee, including reporting on its implementation
 - Maintains a professional internal audit staff (this includes the co-sourced staff from service providers) with sufficient knowledge, skills, experience and professional certifications to meet the requirements of this Charter
 - Evaluates and assesses significant emerging and newly consolidated functions, and new or changing services, processes, operations and control processes, and ensures that Internal Audit is appropriately developed and expanded where necessary, and that relevant changes are implemented in the activities of Internal Audit to match the changes in the business's operations
 - Keeps the Audit Committee informed of emerging trends and successful practices in internal auditing.
 - Assists in the investigation of significant suspected fraudulent activities in the organisation, and notifies management and the Audit Committee of the results
 - Considers the scope of work of the external auditors and other assurance providers, as appropriate, for the purpose of providing optimal audit coverage to the organisation at a reasonable overall cost.
 - Advice management and the entity on matters pertaining to the governance, risk management and control processes.

10.4 EFFECTIVENESS OF INTERNAL CONTROLS

The PFMA and King III require Internal Audit to provide the Audit Committee and Management with reasonable assurance that the internal controls are adequate and effective.

During the period under review, there has not been any material breakdown in the risk management and the control environment in general. However, from the various internal audit reports, a number of areas were highlighted that required control improvements. Management undertook to implement the audit recommendations and action plans in order to mitigate against the control weaknesses identified and thus improving the effectiveness of risk management.

Internal Audit also contributed to improvements in governance, risk management and controls processes by playing the advisory roles on compliance matters, during the policies and procedures reviews and during other organisational meetings.



Accounting Authority's Responsibilities & Approval

Accounting Authority's Responsibilities and Approval

The Accounting Authority is required in terms of the Public Finance Management Act No 1, of 1999, to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the Accounting Authority's responsibility to ensure that the annual financial statements fairly present the state of affairs of the Board as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with South African standards of Generally Accepted Accounting Practice. The external auditors are engaged to express an independent opinion on the annual financial statements.

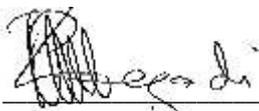
The annual financial statements are prepared in accordance with South African standards of Generally Accepted Accounting Practice and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Accounting Authority acknowledges that it is ultimately responsible for the system of internal financial control established by the Board and places considerable importance on maintaining a strong control environment. To enable the Accounting Authority to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner.

The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Board and all employees are required to maintain the highest ethical standards in ensuring the Board's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Board is on identifying, assessing, managing and monitoring all known forms of risk across the Board. While operating risk cannot be fully eliminated, the Board endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Authority is of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Accounting Authority has reviewed the Board's cash flow forecast for the year to 30 June, 2015 and, in the light of this review and the current financial position, The Accounting Authority is satisfied that the Board has or has access to adequate resources to continue in operational existence for the foreseeable future.



Accounting Authority

INDEPENDENT AUDITORS REPORT



11. INDEPENDENT AUDITORS REPORT

INDEPENDENT AUDITORS' REPORT TO PARLIAMENT ON LEPELLE NORTHERN WATER REPORT ON THE FINANCIAL STATEMENTS

Introduction

We have audited the financial statements of the Lepelle Northern Water as set out on pages 53 to 75 which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in equity and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the financial statements

The Board of directors, who constitute the accounting authority for the Lepelle Northern Water is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Accepted Accounting Practice and the requirements of the Public Finance Management Act (No. 1 of 1999) of South Africa and the Water Services Act, 1997 (Act 108 of 1997) 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 the financial statements present fairly, in all material respects, the financial position of the Lepelle Northern Water as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with South African Standards of Generally Accepted Accounting Practice and the requirements of the Public Finance Management Act of South Africa and the Water Services Act, 1997 (Act 108 of 1997) of South Africa.

Emphasis of matter

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

Material impairments

As disclosed in note 9 to the financial statements, material impairments to the amount of R279 million were made as a result of long outstanding receivables.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENT

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

Predetermined objectives

We performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the entity for the year ended 30 June 2015:

- Infrastructure Development and Optimisation;
- Financial Viability and Sustainability;
- Human Capital Management;
- Effective Corporate Governance;
- Positioning the Organisation for institutional reform; and
- Ensure Security of Supply of Water Resources.

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

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

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

We did not raise any material findings on the usefulness and reliability of the reported performance information for the selected objectives.

Additional matter

Although we raised no material findings on the usefulness and reliability of the reported performance information for the selected objectives, we draw attention to the following matter:

Achievement of planned targets

Of the total number of planned targets of 44, the company achieved 29 during the year under review. This represents 34% of targets not achieved. Refer to the annual performance report in the annual report for information on the achievement of the planned targets for the year.

Compliance with laws and regulations

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

Revenue management

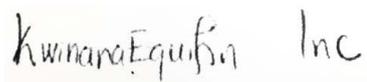
The accounting authority did not take effective steps to collect all money due to the Lepelle Northern Water, as required in terms of section 51(1)(b)(i) of the PFMA, as 74% of total accounts receivable was provided as doubtful debt.

Internal control

We considered internal control relevant to our audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Financial and performance management

Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored.



Kwinana Equifin Incorporated
Chartered Accountants (SA)
Registered Auditors

Per: Tendai Mapenda
Registered Auditor
Chartered Accountant (SA)
Director

30 September 2015

6A Pierre Street | Suite 2 Croniel Park Bendor
Polokwane



REPORT ON THE FINANCIAL STATEMENTS



Lepelle Northern Water

Financial Statements for the year ended 30 June 2015

Statement of Financial Position

	Notes	2015 R '000	2014 R' 000
Assets			
Non-current assets			
Property, plant and equipment	4	559 886	495 223
Intangible assets	5	4 240	4 110
Investments	6	59 310	51 724
		<u>623 436</u>	<u>551 057</u>
Current assets			
Inventories	8	5 371	4 721
Trade and other receivables	9	233 427	198 114
Cash and cash equivalents	10	217 796	310 530
		<u>456 594</u>	<u>513 365</u>
Total assets		<u>1 080 030</u>	<u>1 064 422</u>
Equity and liabilities			
Equity			
Reserves		458 156	458 156
Retained income		438 023	368 533
		<u>896 179</u>	<u>826 689</u>
Liabilities			
Non-current liabilities			
Retirement benefit obligation	7	17 584	16 439
Current liabilities			
Trade and other payables	11	166 267	221 294
Total liabilities		<u>183 851</u>	<u>237 733</u>
Total equity and liabilities		<u>1 080 030</u>	<u>1 064 422</u>

Lepelle Northern Water

Financial Statements for the year ended 30 June 2015

Statement of Comprehensive Income

	Notes	2015 R' 000	2014 R' 000
Revenue	12	441 549	398 416
Cost of sales	13	(210 193)	(189 245)
Raw water purchased		(46 840)	(36 108)
Chemicals		(10 104)	(9 435)
Electricity		(108 639)	(99 943)
Direct labour costs		(44 610)	(43 759)
Gross profit		231 356	209 171
Employee costs		(124 850)	(106 039)
Repairs and maintenance		(49 590)	(51 822)
Bad debts impairments		(16 565)	(51 714)
Fair value adjustments		3 639	2 726
Depreciation and amortisation		(28 096)	(26 117)
Operating expenses		(55 862)	(55 828)
Operating surplus		(39 968)	(79 623)
Investment revenue		11 959	18 052
Interest received		13 375	18 071
Finance costs		(1 416)	(19)
Other income	24	97 330	79 976
Surplus for the year		69 321	18 405
Other comprehensive income			
Actuarial gains and losses on defined benefit plans		169	(606)
Total comprehensive surplus for the year		69 490	17 799

Lepelle Northern Water

Financial Statements for the year ended 30 June 2015

Statement of Changes in Equity

	General Reserve R '000	Retained Income R '000	Total equity R' 000
Balance at 01 July 2013	458 156	350 734	808 890
Changes in equity			
Total comprehensive income for the year	-	17 799	17 799
Total changes	-	17 799	17 799
Balance at 01 July 2014	458 156	368 533	826 689
Changes in equity			
Total comprehensive income for the year	-	69 490	69 490
Total changes	-	69 490	69 490
Balance at 30 June 2015	458 156	438 023	896 179

Lepelle Northern Water

Financial Statements for the year ended 30 June 2015

Statement of Cash Flows

	Notes	2015 R '000	2014 R '000
Cash generated from operations			
Cash (used in) /generated from operations	17	(7 860)	6 994
Interest income		13 375	18 071
Finance costs		(1 416)	(19)
Net cash from operating activities		4 099	25 046
Cash flow from investing activities			
Purchase of property, plant and equipment	4	(92 236)	(73 264)
Sale of property, plant and equipment	4	275	101
Purchase of other intangible assets	5	(925)	(179)
Purchase of financial assets (investments)		(3 947)	(3 634)
Net cash from investing activities		(96 833)	(76 976)
Total cash movement for the year		(92 734)	(51 930)
Cash at the beginning of the year		310 530	362 460
Total cash at the end of the year	10	217 796	310 530

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with South African standards of Generally Accepted Accounting Practice, and the Water Services Act no. 108 of 1997 and the Public Finance Management Act no. 1 of 1999. The annual financial statements have been prepared on the historical cost basis, except for certain financial instruments at fair value, and incorporate the principal accounting policies set out below. They are presented in South African Rand.

These accounting policies are consistent with the previous period.

1.1. Significant judgements and sources of estimation uncertainty

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

Trade receivables, investments and loans

The entity assesses its trade receivables, investments and loans for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in financial performance or not, the entity makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset. The impairment for trade receivables, investments and loans is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio.

Allowance for slow moving, damaged and obsolete inventory

An allowance is created for inventory to write inventory down to the lower of cost or net realisable value. Management estimates of the selling price and direct cost to sell on certain inventory items.

Impairment testing

IAS 36, Impairment of Assets, states that an entity shall assess at each reporting date whether there is any indicator that an asset (or cash-generating unit) may be impaired. If such indication exists, the entity is required to estimate the recoverable amount of assets (cash-generating unit). Management considers internal and external sources for indicators of impairment these include income generating capacity of an asset and physical condition of assets amongst others.

Taxation

LNW is exempt from tax in terms of section 10(1) (ca) of the Income Tax Act. LNW is subject to VAT. Judgement is required in determining the VAT payable or recoverable by the entity and involves interpretation of the tax laws, assessment of the interpretations and guidelines issued by the tax authority in South Africa, as well as advice received from the Advisors.

Useful lives and residual value of property, plant and equipment

Property, plant and equipment is depreciated over its useful life taking into account residual values where appropriate. The actual useful lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing assets useful lives, factors such as technological innovations, product life and maintenance programmes are taken into account. Residual values estimates consider such issues as future market conditions, the remaining life of the asset and projected disposal values.

Accounting Policies

1.2. Property, plant and equipment

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

Property, plant and equipment is stated at capitalised initial and subsequent costs (i.e. gross carrying amount) less subsequent accumulated depreciation and impairment losses and is measured and recognised on the historical cost basis.

The gross carrying amount of purchased and self-constructed assets includes all initial and subsequent costs necessary to place the asset in a condition necessary to meet its intended use. Directly attributable costs are recognised. Capitalisation of costs for self-constructed assets continues during the commissioning period in which it is impossible to operate at normal levels. Capitalisation costs cease once the asset is put into operation and subsequently recognised costs are componentised in order to substantially reflect the useful lives of the significant asset components.

Assets are depreciated on the straight-line basis at rates that will reduce the historical costs to estimated residual values over the estimated useful lives of the assets. Residual values and useful lives of assets are reviewed and adjusted, if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the greater of the asset's value in use or the estimated net selling price of the asset.

Gains and losses on disposal of an item of property, plant and equipment is determined by comparing the net proceeds to the carrying amount. These are included in the Statement of Financial Performance. Repairs and maintenance, not materially adding to the value of the assets, are charged to the Statement of Financial Performance during the period in which they are incurred.

Land is not depreciated and is stated at historical cost less accumulated impairment losses. All other plant and equipment are depreciated. A register is kept at the entity's head office of all land and servitudes.

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

ITEM	AVERAGE USEFUL LIFE
Buildings	9 – 32 years
Machinery and equipment	3 – 12 years
Furniture	3 – 10 years
Motor vehicles	2 – 10 years
Water works	3 – 52 years
Telemetry	3 – 5 years

The above guidelines are reassessed on an annual basis, and revised as appropriate.

The residual value of each asset is reviewed at each financial period-end.

1.3. 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.

Intangible assets are initially recognised at cost.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- It is technically feasible to complete the asset so that it will be available for use or sale.

Accounting Policies

1.3. Intangible assets (continued)

- There is an ability to use or sell it.
- It will generate probable future economic benefits.
- There are available technical, financial and other resources to complete the development and to use or sell the asset.
- The expenditure attributable to the asset during its development can be measured reliably.

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

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows.

Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets, amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

1.4. Financial instruments

Classification

The entity classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through financial performance or;
- Held-to-maturity investment;
- Loans and receivables;
- Cash and cash equivalents;

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

Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the entity has the positive intent and ability to hold to maturity. If the entity were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the entity intends to sell in the future. They arise when the entity provides money, goods or services directly to a debtor with no intention of trading the receivables.

Cash and cash equivalents

For purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, and investments in money market instruments and bank overdrafts, all of which are available for use by the entity unless otherwise stated. Cash and cash equivalents are carried at fair value in the statement of financial position.

Accounting Policies

Initial recognition and measurement

1.4 Financial instruments (continued)

Transaction costs on financial instruments at fair value through financial performance or are recognised in profit or loss.

Purchases and sales of financial assets at fair value through profit and loss and held to maturity are recognised on trade date-the date on which the entity commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets are derecognised when the contractual right to receive cash flows from the financial assets have expired or where the entity has transferred substantially all the risks and rewards of ownership, without retaining control. Any interest in the transferred financial assets that is created or retained by the entity is recognised as a separate asset or liability.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each reporting date.

Financial assets are impaired where there is objective evidence of impairment. This could be as a result of one or more events that occurred after the initial recognition of the financial assets, where future cash flows of the financial assets have been impacted.

The carrying amount of all financial assets is reduced directly by the impairment loss with the exception of trade and other receivables where the carrying value is reduced through the use of an allowance for doubtful debts account.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment.

An allowance for impairment of trade and other receivables is established when there is an objective evidence that the entity will not be able to collect all amounts due according to the original terms of the receivables. Significant difficulties of the debtor, probability that the debtors will enter bankruptcy or financial re-organisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate, where the effect of discounting is significant.

The carrying amount of trade and other receivables is reduced through the use of an allowance for doubtful debts account. When a trade receivable is uncollectible it is written off against this allowance account. Subsequent recoveries of amounts previously written off are recognised in the statement of financial performance. Changes in the carrying amount of the allowance account are recognised through statement of financial performance. Increases or decreases in trade and other receivable allowance that affect statement of financial performance are reflected in the statement of comprehensive income.

Trade and other payables

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

Financial liabilities

The financial liabilities of the entity are all classified as 'other financial liabilities' and consist of borrowings which are initially measured at fair value plus any directly transaction costs. These liabilities are subsequently measured at amortised cost using the effective interest rate method.

Accounting Policies

1.4 Financial instruments (continued)

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

Offsetting of Financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from similar transactions.

1.5 Leases

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

Operating leases - lessor

Leases in which a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the Statement of Financial Performance on a straight-line basis over the period of the lease, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset is consumed. Contingent rentals arising under operating leases are recognised in the period they are earned.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. This liability/assets is not discounted. Contingent rentals arising under operating leases are recognised in the period they are incurred.

1.6 Inventories

Inventories are stated at the lower of cost and net realisable value on the weighted average cost basis. Cost of inventories includes cost of freight, shipping and handling. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

1.7 Impairment of assets

The entity assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity estimates the recoverable amount of the asset.

Accounting Policies

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in the statement of financial performance. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.8. Equity

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

1.9. Employee benefits

Short-term employee benefits

The entity has a Performance Bonus Scheme for all staff members whereby the performance of each employee is annually assessed or evaluated and an incentive bonus is payable on the basis of such assessments. The benefits are recognised in the Statement of Financial Performance in the year that the benefits are awarded.

The accruals for employee entitlement to wages, salaries, annual and sick leave represents the amount that the entity has a present obligation to pay as a result of the employees' services provided up to the reporting date. The accruals have been calculated at undiscounted amounts based on current wage and salary rates.

The cost of short term employee benefits are recognised in the period in which the service is rendered. The expected cost of compensated absences is recognised as an expense as the employees render the related service.

Defined benefit retirement plans

The present value of defined benefit retirement plan obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost /income for pensions include a discount rate. Any changes in these assumptions will impact the carrying amount of defined benefit obligations. Significant assumptions are disclosed in note 7 to the financial statements.

Accounting Policies

1.9. Employee benefits (continued)

Post-Retirement Medical Care benefits

The entity provides post-retirement medical care benefits to its employees. Their entitlement to the benefit is dependent on the employee remaining in service until retirement and is subject to periodic review. The projected unit credit method is used to determine the present value of the post-retirement medical care plan and is related to current service cost. Actuarial gains or losses in respect of post-retirement medical care benefits are recognised against income in the year in which they occur. This post retirement liability is partially backed-up by a separate insurance investment.

Post-retirement employee benefits

The entity provides pension benefits for all employees by way of contributions to two retirement funds, a pension fund as well as a provident fund. Employees are obliged to choose between one of these two retirement funds:

- The Lepelle Northern Water Pension Fund is a defined benefit fund which is governed by the Pension Fund Act, 1956. The assets of the fund are held separately from the assets of the entity funds under control of the trustees of the fund. Actuarial valuations are carried out at each reporting date. The fund is funded by payments from employees as well as the entity.

This defined benefit fund consist of pensioner members and employee members. The benefit costs and contributions are assessed using the unit credit method. Under this method, the solvency of the fund is assessed by comparing the present value of benefits to the value of the fund assets at the date of assessment.

No actuarial surplus is recognised, but actuarial losses are immediately recognised as an expense as the entity is obliged to fund such losses in terms of the fund rules.

- The Meshawu National Local Government Retirement Fund is a Provident Retirement Fund which was established as a result of a collective agreement and is a defined contribution fund and there are no unfunded liabilities. The fund is funded by contributions made by both the entity and employee members.
- The entity's contributions are charged to the Statement of Financial Performance as they fall due. Once the contributions have been paid, the entity has no further payment obligations.

Contributions to both these funds are recognised as an expense as and when employees have rendered service entitling them to contributions.

1.10. Provisions and contingencies

Provisions

Provisions are recognised when the entity has a present obligation legal or constructive as a result of past events, from which it is probable that an outflow of economic benefits will be required to settle the obligation and the obligation can be estimated reliably. Provisions are provided for by assessing all legal claims to determine if a present obligation exists and if it can be reliably measured. In this process management applies its judgment to all the facts and by taking into account the advice from legal and other advisors.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as accretion expenses within finance charges.

Contingent liabilities

Management applies its judgement to the facts and advice it receives from its attorneys, advocates and other advisors in assessing if a loss outcome is probable, reasonably possible or remote. Such judgements are used to determine if the obligation is recognised as a contingent liability in terms of IAS 37, Provisions, Contingent, Liabilities and Contingent Assets. Contingent liabilities are not recognised in the statement of financial position of the entity.

Accounting Policies

1.10. Provisions and contingencies (continued)

Contingent assets

Contingent assets are not recognised, but are disclosed when an inflow of economic benefit is probable.

Commitments

Items are classified as commitments where the entity has committed itself to future transactions.

1.11. Revenue

Sale of water

Revenue comprises the fair value of the consideration received or receivable for the sale of water in the ordinary course of business. Revenue is shown net of VAT, rebates and discounts. All amounts invoiced to a customer in a sales transaction related to distribution and handling costs are classified as revenue, with the costs related to distribution shown as distribution costs within sales. Turnover comprises the invoiced value of sales excluding Value Added Tax.

Revenue is recognised when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow to the entity and the recognition criteria have been met. Revenue is recognised on the relevant terms of delivery at which point the risk of loss has been transferred to the customer and the customer has accepted the product in accordance with the supply contract.

Interest received

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the carrying amount is reduced to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

1.12. Fruitless, wasteful and irregular expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of the Public Finance Management Act, the State Tender Board Act (Act 86 of 1968), or any regulations made in terms of that Act, or any provided legislation providing for procurement procedures in that provincial government. Fruitless and wasteful expenditure means expenditure that was made in vain and would have been avoided had reasonable care been exercised. All irregular, fruitless and wasteful expenditure is charged against the statement of financial performance in the period it was incurred.

1.13. General reserve fund

Any surplus funds which have not been set aside for a specific purpose or particular fund, are at the discretion of the entity, be transferred to the General Reserve Fund. The funds are applied by the entity at its discretion for any purpose for which it is permitted in terms of the Water Services Act.

Notes to the Annual Financial Statements

	2015 R '000	2014 R '000
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2. Changes in accounting policy

The annual financial statements have been prepared in accordance with South African standards of Generally Accepted Accounting Practice on a basis consistent with the prior year.

3. New Standards and Interpretations**3.1. Standards and interpretations effective and adopted in the current year**

The entity has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after July 01, 2015 or later periods:

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendment clarifies that a depreciation or amortisation method that is based on revenue that is generated by an activity that includes the use of the asset is not an appropriate method. This requirement can be rebutted for intangible assets in very specific circumstances as set out in the amendments to IAS 38.

The effective date of the amendment is for years beginning on or after January 01, 2016.

The entity does not envisage the adoption of the amendment until such time as it becomes applicable to the entity's operations.

It is unlikely that the amendment will have a material impact on the entity's annual financial statements.

3. New Standards and Interpretations**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 supersedes IAS 11 Construction contracts; IAS 18 Revenue; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the construction of Real Estate; IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue - Barter Transactions Involving Advertising Services.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation

Notes to the Annual Financial Statements

2015
R '000

2014
R '000

3.2. Standards and interpretations not yet effective

IFRS 15 also includes extensive new disclosure requirements.

The effective date of the standard is for years beginning on or after January 01, 2017.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the standard will have a material impact on the company's annual financial statements.

4. Property, plant and equipment

	2015			2014		
	COST	ACCUMULATED DEPRECIATION	CARRYING VALUE	COST	ACCUMULATED DEPRECIATION	CARRYING VALUE
Buildings	60 903	(5 759)	55 144	59 379	(4 014)	55 365
Plant and machinery	32 552	(15 272)	17 280	28 964	(11 954)	17 010
Furniture and fixtures	6 977	(4 656)	2 321	6 629	(3 616)	3 013
Motor vehicles	28 872	(18 792)	10 080	22 291	(16 332)	5 959
IT equipment	8 067	(6 468)	1 599	7 916	(5 527)	2 389
Water works	532 858	(237 010)	295 848	495 583	(220 365)	275 218
Assets under construction	175 737	-	175 737	134 511	-	134 511
Telemetry	4 782	(2 905)	1 877	4 143	(2 385)	1 758
Total	850 748	(290 862)	559 886	759 416	(264 193)	495 223

Reconciliation of property, plant and equipment - 2015

	OPENING BALANCE	ADDITIONS	DISPOSALS	TRANSFERS	DEPRECIATION	TOTAL
Buildings	55 365	1 524	-	-	(1 744)	55 144
Plant and machinery	17 010	3 632	(22)	-	(3 341)	17 280
Furniture and fixtures	3 013	383	(2)	-	(1 073)	2 321
Motor vehicles	5 959	7 392	(249)	-	(3 023)	10 080
IT equipment	2 389	166	(2)	-	(955)	1 599
Water works	295 848	13 927	-	23 347	(16 645)	275 848
Assets under construction	134 511	64 573	-	(23 347)	-	175 737
Telemetry	1 758	639	-	-	(520)	1 877
Total	495 223	92 236	(275)	-	(27 301)	559 886

Reconciliation of property, plant and equipment - 2014

	OPENING BALANCE	ADDITIONS	DISPOSALS	TRANSFERS	DEPRECIATION	TOTAL
Buildings	50 500	2 974	-	3 542	(1 651)	55 365
Plant and machinery	10 131	5 393	(68)	4 409	(2 855)	17 010
Furniture and fixtures	3 451	514	(1)	-	(951)	3 013
Motor vehicles	7 715	519	(13)	-	(2 262)	5 959
IT equipment	3 119	367	(19)	-	(1 078)	2 389
Water works	254 738	7 649	-	28 941	(16 110)	275 218
Assets under construction	117 082	55 848	-	(38 419)	-	134 511
Telemetry	685	-	-	1 527	(454)	1 758
Total	447 421	73 264	(101)	-	(25 361)	495 223

Notes to the Annual Financial Statements

	2015 R'000	2014 R'000
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5. Intangible assets

	2015			2014		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Computer software	8 199	(4 740)	3 459	7 274	(3 945)	3 329
Servitudes	781	-	781	781	-	781
Total	8 980	(4 740)	4 240	8 055	(3 945)	4 110

Reconciliation of intangible assets - 2015

	OPENING BALANCE	ADDITIONS	AMORTISATION	TOTAL
Computer software	3 329	925	(795)	3 459
Servitudes	781	-	-	781
Total	4 110	925	(795)	4 240

Reconciliation of intangible assets - 2014

	OPENING BALANCE	ADDITIONS	AMORTISATION	TOTAL
Computer software	3 905	179	(755)	3 329
Servitudes	781	-	-	781
Total	4 686	179	(755)	4 110

6. Investments

At fair value through profit or loss – designated

Investment	59 310	51 724
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Non-current assets

At maturity value through profit or loss - designated	59 310	51 724
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7. Pension fund and post-retirement medical aid obligation

Pension Fund obligation

The entity provides for pension for all the employees by payments to two pens on funds:

The entity's Pension Fund is a defined benefit fund which is governed by the Pension Fund Act 1956. The defined benefit fund requires actuarial valuation at intervals not exceeding three years. An actuarial valuation was performed as at 30 June 2015 and the valuator reported that the Fund was in a sound financial position, and that the present rates of contribution were adequate to enable the fund to provide the benefits to which members are entitled. The next statutory valuation will be carried out on 30 June 2016. At year end the active employees' membership were 24 and continuation members 14. The status of the fund at year-end are as follows:

Change in Liability

Opening balance	54 630	47 739
Service Cost	2 172	4 439
Interest Cost	5 172	1 723
Actuarial (Gain)/Loss	4 274	3 959
Benefits Paid	(2 725)	(3 230)
Closing Balance	63 523	54 630

Change in Plan Assets

Opening balance	58 736	58 012
Actual return	(4 946)	1 768
Expected return	5 628	5 368
Actuarial gain/(Loss)	(10 574)	(3 600)
Contribution by participants	3 058	2 186
Employee	920	656
Employer	2 138	1 530

Lepelle Northern Water

Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

	2015 R '000	2014 R '000
Benefits paid settlement	(2 725)	(3 230)
Closing Balance	54 123	58 736
Opening A/L %	8.9%	9.5%
Funding Level		
Projected benefit obligation	(63 523)	(54 630)
Plan Assets	54 124	58 736
(Liability) /Assets	(9 399)	4 106
Statement of comprehensive income		
Service Cost	594	459
Interest Cost	1 408	1 215
Actuarial loss/(gain) recognised	169	606
Settlement cost recognised	-	-
	2 171	2 280
Reconciliation of balance sheet item		
Opening value	16 439	14 767
Benefit paid	(689)	(608)
Amount recognised in Income Statement	1 834	2 280
Closing value	17 584	16 439
Key Valuation Assumptions		
Discount rate	8.90%	9.60%
Salary inflation	7.40%	7.30%
Pension increase rate	5.10%	5.00%
General inflation rate	6.40%	6.30%
Post retirement interest rate	3.60%	4.30%
8. Inventories		
Chemicals	1 520	1 138
Maintenance inventory	2 011	1 741
Water inventory	461	461
Assurance inventory	1 379	1 381
	5 371	4 721
9. Trade and other receivables		
Customers: Water Sales	375 420	328 477
Movement for impairment	(278 762)	(262 198)
Advance payments	925	925
Loans to employees	883	1 178
VAT	23 493	-
Purification and sewerage plants operated on behalf of municipalities	76 842	63 995
Customers: Sundries	(2 842)	(2 642)
DWS projects	37 468	68 379
	233 427	198 114

None of the financial assets that are fully performing have been renegotiated in the last year.

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Notes to the Annual Financial Statements

	2015 R '000	2014 R '000
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9. Trade and other receivables (continued)

Trade and other receivables impaired

Trade and other receivables which are less than three months past due are not considered to be impaired. At 30 June 2015, R 32 424 (2014: R 28 808) were past due but not impaired. The ageing of amounts past due but not impaired is as follows:

Current		
30 Days	18 433	16 384
60 Days	13 991	12 424
Total	32 424	28 808

Reconciliation of provision for impairment of trade and other receivables

Opening Balance	262 198	210 484
Allowance for impairment	16 565	51 714
Total	278 763	262 198

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	29	71
Bank balances	13 783	1 265
Short-term deposits	203 984	309 194
Total	217 796	310 530

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings or historical information about counterparty default rates:

Credit rating

BBB+	217 796	310 530
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11. Trade and other payables

Amounts received in advance	45 926	88 474
VAT	-	26 214
Suppliers	88 912	81 465
Accruals	31 429	25 141
Total	166 267	221 294

12. Revenue

Sales of goods	441 549	398 416
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The amount included in revenue arising from exchanges of goods or services included in revenue are as follows:

Water sales – Potable	400 454	353 922
Water Sales – Industrial	41 095	44 494
Total	441 549	398 416

13. Cost of sales

Sale of goods

Raw water purchased	46 840	36 108
Chemicals	10 104	9 435
Direct labour	108 639	43 759
Electricity	44 610	99 943

Total	210 193	189 245
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14. Fair value adjustments

Fair Value Adjustments	3 639	2 726
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15. Finance costs

Non-current borrowings	1 416	19
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16. Auditors' remuneration

Fees	1 122	1 123
Expenses	665	74
	<u>1 787</u>	<u>1 197</u>

17. Cash used in operations

Profit before taxation	69 321	18 405
Adjustments for:		
Depreciation and amortisation	28 096	26 117
Interest received - investment	(13 375)	(18 071)
Finance costs	1 416	19
Fair value adjustments	(3 639)	(2 726)
Movements in retirement benefit assets and liabilities	1 314	1 066
Other non-cash items	(3)	(1 014)
Change in working capital:		
Inventories	(650)	(155)
Trade and other receivables	(35 313)	(121 571)
Trade and other payables	(55 027)	104 924
	<u>(7 860)</u>	<u>6 994</u>

18. Operating lease**LNW leases photocopy, facsimile machines and other offices under operating leases which expire 2015**

Payable within a year	585	526
Between two to five years	425	-
	<u>1 010</u>	<u>526</u>

Operating lease payments represent rentals payable by the company for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

Lepelle Northern Water

Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand Thousand

19. Remuneration of board members and senior management

Remuneration of non-executive board members

Board members' fees	2015	2014
Back pay	-	909
Travel and accommodation	-	64
Other expenses	-	133
TOTAL	-	1 825
	-	2 931

Executive

	BASIC REMUNERATION R'000	OTHER CASH BENEFITS R'000	INCENTIVE BONUS R'000	TRAVEL & SUBSISTENCE R'000	TOTAL FOR 2015 R'000
Legodi PK	727	524	147	81	1 479
Manzini GD	506	407	93	4	1 010
Netshidaulu AE	547	398	113	85	1 143
Schmahl C	633	404	131	77	1 245
Killian JC	746	417	140	3	1 306
Mathebula RJ	534	471	105	4	1 114
Nokeri N	463	492	88	61	1 104
Mashamaite MM	492	420	52	6	970
Masipa MM	403	183	-	-	586
Total for senior management	5 051	3 716	869	321	9 957

19. Remuneration of board members and senior management (continued)
Bonuses Accrued

		BASIC REMUNERATION R'000	OTHER CASH BENEFITS R'000	INCENTIVE BONUS R'000	TRAVEL & SUBSISTENCE R'000	TOTAL FOR 2015 R'000
Legodi	PK			192		192
Manzini	GD			125		126
Netshidaulu	AE			144		144
Schmahl	C			125		125
Kilian	JC			178		179
Mathebula	RJ			134		135
Nokeri	N			134		134
Mashamaite	MM			83		83
Total for senior management				1 118		1 118
Remuneration of senior management 2014						
		BASIC REMUNERATION R'000	OTHER CASH BENEFITS R'000	INCENTIVE BONUS R'000	CONTRIBUTION RET. MEDICAL R'000	TOTAL FOR 2014 R'000
Leballo	LA	298	202	140	54	694
Mushwana	MM	100	70	94	1	265
Manzini	GD	456	481	85	10	1 032
Schmahl	C	595	426	121	13	1 155
Kilian	JC	633	450	128	21	1 232
Legodi	PK	788	415	86	12	1 301
Nokeri	N	469	420	81	28	998
Mashamaite	MM	374	326	48	9	757
Masipa	MM	431	174	-	-	605
Total for senior management		4 144	2 964	783	148	8 039

Notes to the Annual Financial Statements

Notes	2015 R '000	2014 R '000
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20. Financial risk management

LNW has exposure to the following risks from its use of financial instruments:-

- Credit risk
- Liquidity risk; and
- Market risk

The entity's objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout these financial statements. The entity has overall responsibility for the establishment and oversight of the risk management framework. The entity has established a Risk Management Committee, which is responsible for developing and monitoring the entity's risk management policies. The committee reports regularly to the Accounting Authority on its activities.

Risk management policies are established to identify and analyse the risks faced by the entity, to set up appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and entity's activities. The entity, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Executive committee oversees how management monitors compliance with the risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the entity. The Executive Committee is assisted in its oversight by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the result of which are reported to the executive Committee.

Credit risk

Credit risk is the risk of financial loss to the entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from entity's receivables from customers and investments securities.

Trade and other receivables

Entity's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The customer base of entity, with the main customers being municipal authorities, has a definite influence on the credit risk. Approximately 70% of the entity's revenue is attributable to sales to municipal authorities with a measure of credit risk due to the financial position of these authorities.

As the entity sells water, which is a basic commodity, it is not possible to select its clients to whom sales are made and to determine their credit worthiness before sales are made. This fact increases the risk of customer default.

Entity's customers have been transacting with the entity for over 10 Years, and losses have incurred infrequently. The problems experienced with repayment by some of the Local Authorities are instances of debt collections and faulty meters. The recoverability of debt from local authorities are also assisted by Provincial and Central Government.

The entity establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main component of the allowance is a specific loss component that relates to individually significant exposures.

Liquidity risk

Liquidity risk is the risk that the entity will not be able to meet its financial obligations as they fall due. The approach to manage liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the entity's reputation.

Notes to the Annual Financial Statements

Notes	2015 R '000	2014 R '000
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20. Financial risk management (continued)

The entity built up ample reserves over the years to ensure that the cash flow needed to fund its operations is available. The entity ensures that it has sufficient cash on demand to meet operational expenses for a period of 60 days, including the servicing of financial obligations.

Market risk

Market price risk is the risk that changes in market prices of raw water will affect entity's income. The entity mainly buys raw water, purifies it and sells the end-product. All such transactions are carried out within the guidelines set by the Risk Management Committee. The entity client base is well known existing organisations and the risk involved are also clear and controllable.

Interest rate risk

The entity policy is to manage risk so that fluctuations in variable rates do not have a material impact on the statement of financial performance. Interest on financial instruments, classified as floating rate, is reassessed at intervals of less than one year. Interest on financial instruments classified as fixed rate, is fixed until maturity of the instrument.

21. Contingent Assets

21.1. Interest on Outstanding Debt

Interest of R 268 (2014: R 927) has been billed to clients. However the amount has not been recognised in the financial statements as it does not meet recognition criteria of revenue.

21.2. Legal Claim

Security Company was ordered to pay R3.5m plus interest with legal costs to LNW in respect of lost assets within the organization. The entity is of the opinion that this claim is probable to be met in full in the near future.

22. Commitments

Capital commitments authorised by the entity

Contracted for	116 453	120 223
Not yet contracted for	146 426	137 050
	<u>262 879</u>	<u>257 273</u>

23. Related party information

Related party transactions-Other income

Management fee income	41 700	17 735
Cost transfer to DWS	51 229	45 192
	<u>92 929</u>	<u>62 927</u>

Related party balances

Trade receivables	9 171	65 659
Trade payables	(63 780)	(89 003)
	<u>(54 609)</u>	<u>(23 344)</u>

Identified related parties

The entity reports to the Department of Water and Sanitation. The entity is implementing infrastructure projects on behalf of DWS in two fold. Firstly it receives funds in advance from DWS or in some instances incur expenditure on behalf of DWS and claim the cost incurred and charge management fee in both instances.

Lepelle Northern Water

Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

	Notes	2015 R '000	2014 R '000
24. Other income			
Management fee		41 700	20 221
Cost transfer to DWS		51 259	46 609
Rental Income		1 148	1 023
Sundries		3 223	12 123
		<u>97 330</u>	<u>79 976</u>

Seven Year Review

EXPENDITURE TRENDS

	2015	2014	2013	2012	2011	2010	2009
Water Sales (in Mega litres)	97 596	97 637	97 031	94 565	95 254	91 275	87 376
Potable water	72 615	72 615	74 922	73 541	72 553	66 693	62 433
Industrial water	25 022	25 022	22 109	21 024	22 701	24 582	24 943

INCOME STATEMENT

	R'000						
Turnover	441 549	398 416	353 303	314 847	287 994	249 639	226 900
Portable water sales	400 454	353 922	311 449	281 454	258 123	222 486	203 502
Industrial water sales	41 095	44 494	41 854	33 393	29 871	27 153	23 398
Sundry income	97 330	79976	28 992	45 685	39 336	24 011	45 144
Total Revenue	538 879	478 392	382 295	360 532	327 330	273 650	272 044
Expenditure							
Operating expenditure	481 547	478 099	329 277	262 743	297 264	268 702	258 671
Net operating expenditure	406 611	415 814	273 825	210 625	250 781	228 080	218 739
Raw water charge	46 840	36 108	29 295	27 500	25 455	20 417	21 233
Depreciation	28 096	26 177	26 157	24 618	21 028	20 205	18 699
Operating income	57 332	293	53 018	97 789	30 066	4 948	13 373
Net Financing costs	11 959	18 052	16 290	12 707	14 241	21 216	26 925
Interest paid	1 416	19	2 581	2 357	3 318	4 377	16 757
Interest received	13 375	1807	18 871	15 064	17 559	25 593	43 682
Profit for the year	69 490	17 799	69 121	110 718	44 307	26 164	40 298

Seven Year Review

CASH FLOW STATEMENT

	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Cash generated from trading	-7 860	6994	135 122	74 230	17 182	58 890	99 319
Change in net working capital						(78 944)	(47 156)
Cash generated from operations	-7860	6994	135 122	74 230	17 182	(20 054)	52 163
Net interest paid	-11 959	-18052	-16 290	-12 707	-14 571	(33 296)	(26 925)
Cash flow from operations	4 099	25 046	151 412	86 937	31 753	13 242	79 088
Net cash outflow from investing	-96 833	-76 976	-70 296	-57 564	-64 558	(25 379)	(23 390)
net cash inflow from financing	0	0	-22 046	-4 572	-4 687	(4 040)	(3 136)
Net cash and cash equivalent	-92 734	-51 930	59 070	24 801	-37 492	(16 177)	52 562
Cash at beginning of year	310 530	362460	303 390	278 589	316 081	332 255	279 693
Cash retained for the year	217 796	310530	362 460	303 390	278 589	316 078	332 255

BALANCE SHEET

	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Capital and reserves	896 179	826 689	809 902	740 782	630 064	575 023	582 660
Long-term liabilities	17 584	16 439	14 767	31 183	35 679	38 742	42 782
short-term liabilities	166 267	221 294	115 887	103 854	121 540	157 836	177 495
Equity and liabilities	1 080 030	1 064 422	940 550	875 819	787 283	771 601	802 937
Property, plant and equipment	564 126	499 333	452 107	410 838	364 349	344 750	343 490
Investments	59 310	51 724	45 364	38 486	29 808	26 922	23 009
Current assets	456 594	513 365	443 079	426 495	373 126	399 929	436 438
Total assets	1 080 030	1 064 422	940 550	875 819	787 283	771 601	802 937

Seven Year Review

TARIFF STATISTICS

	2 015	2014	2 013	2 012	2 011	2010	2009
	c/kl	c/kl	c/kl	c/kl	c/kl	c/kl	c/kl
Potable tariff							
Phalaborwa	334,94	310,42	284,00	263,69	243,03	228,20	219,84
Doomdraai	533,28	491,51	453,00	420,99	388,01	364,33	350,99
Politsi	548,03	491,06	374,00	344,00	258,65	242,86	233,97
Ebenezer	552,88	524,06	483,00	458,09	426,13	400,12	385,47
Olfantspoot	552,88	519,50	500,00	472,08	443,27	416,21	400,98
Flag Boshielo	601,07	553,99	505,00	467,76	346,49	325,34	313,43
Marble Hall	589,06	453,12	414,00	379			
Tubatse	521,97	481,08	414,00	379			
Industrial tariff							
Industry - Foskor	274,86	233,79	191,00	159,71	133,65	112,78	95,17
Industry - PMC	274,86	233,79	191,00	156,31	126,57	106,81	90,13
Industry - Bosveld	274,86	233,79	191,00	156,19	127,51	107,60	90,80
Financial statistics per megaliters							
Average tariff (Industrial)	274	233,79	191,0	158,86	1,32	1,10	0,94
Average tariff (potable)	4,36	3,91	3,71	404,44	3,57	3,34	3,26
Average tariff (consolidated)	4,52	4,08	3,64	3,33	3,02	2,74	2,60
Operating expenditure per megaliter							
Total cost per megaliter	3,57	3,57	3,46	2,78	3,12	2,94	2,96
Cost of raw water (per kl)	3,96	3,96	3,64	2,91	3,27	3,18	3,27
Finance cost (per kl)	0,48	0,37	0,30	0,29	0,27	0,22	0,24
	0,12	0,18	0,17	0,13	0,15	0,23	0,31
Operating efficiency							
Personnel costs (Rand)	169 460	149 798	115 621	105 365	97 736	85 032	67 719
Number of employees	324	310	307	308	300	296	280
Turnover per employee (Rand)	1 362 806	1 285 213	1 150 824	1 022 231	959 980	843 375	810 367
Salaries as % of turnover	38%	38%	33%	33%	34%	34%	30%
Total costs as % of turnover	112%	125%	98%	87%	108%	116%	126%
Interest paid as % of turnover	0%	0%	1%	1%	1%	2%	7%
Financial Ratios							
Gross margin %	52%	53%	55%	54%	69%	73%	76%
Current ratio	2,7	2,3	3,8	4,1	3,1	2,5	2,5
Acid test ratio (Liquidity ratio)	1,3	1,4	3,1	2,9	2,3	2,0	1,9
Asset turnover	41%	37%	38%	36%	37%	32%	28%
Debt-equity ratio	21%	29%	16%	18%	25%	34%	38%
Gearing ratio	2%	2%	2%	4%	5%	5%	5%
Net profit margin	16%	4%	20%	35%	15%	10%	18%
Debtors days	423	422	298	411	370	378	446
Interest cover (times)	76,39	4 343,79	22,84	30,08	26,69	16,49	3,30
Return on assets	10%	8%	6%	8%	11%	9%	7%

