



“Sustaining the Source and flow of life forever”

ANNUAL REPORT 2006/2007

PRESENTATION TO THE PORTFOLIO COMMITTEE

7 MAY 2008

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Introduction

- The performance of the organisation is aligned with strategies as outlined in the Shareholder's Compact
- The presentation is based on performance reviews and audited financial statements
- Strategic reviews are linked to the performance management system

Area of Supply and Operation



Governance

Committees

- Board:
 - Executive
 - Remuneration
 - Audit

- Management:
 - Executive management
 - Management, Divisional
 - Procurement
 - Bursary
 - Trustee
 - Risk management

Governance (Cont.)

- **Service Level Agreements signed with WSA**

- Free State:

- Matjhabeng LM

- Nala LM

- Maquassi-Hills LM

- North West

- Bophirima DM

- Phokwane LM

- Ga-Segonyane LM

- Moshaweng LM

Existing infrastructure

Free State Region

- Plant capacity 480 MI /day
- 640 km pipelines
- 44 reservoirs with a storage capacity of 673 MI
- Asset value R405,42 million

Northern Cape Region

- 420 km pipelines
- 10 reservoirs with a storage capacity of 52 MI
- Asset value R 100 million

North West Region

- 60% source of water underground (boreholes)
- 40% from Vaalharts Irrigation Scheme

State of Water Quality

Free State and North West Regions (water treatment plants)

Health

- All plants complied with Class 1 standards for bacteriology(*E.coli*)
- Non- compliance was due to high aluminium concentration in the raw water from the Vaal river.
- Turbidity did not meet the requirements for Class 1 at Pampierstad and Bogosing but met Class 2 requirements

Aesthetic

- High iron concentrations affected the water quality aesthetic in all the plants except within the Pudimoe network.

Vaal Gamagara Water Scheme

- Started operating the plant in July 2007
- Water quality complies with specifications for Class 1

State of Water Quality

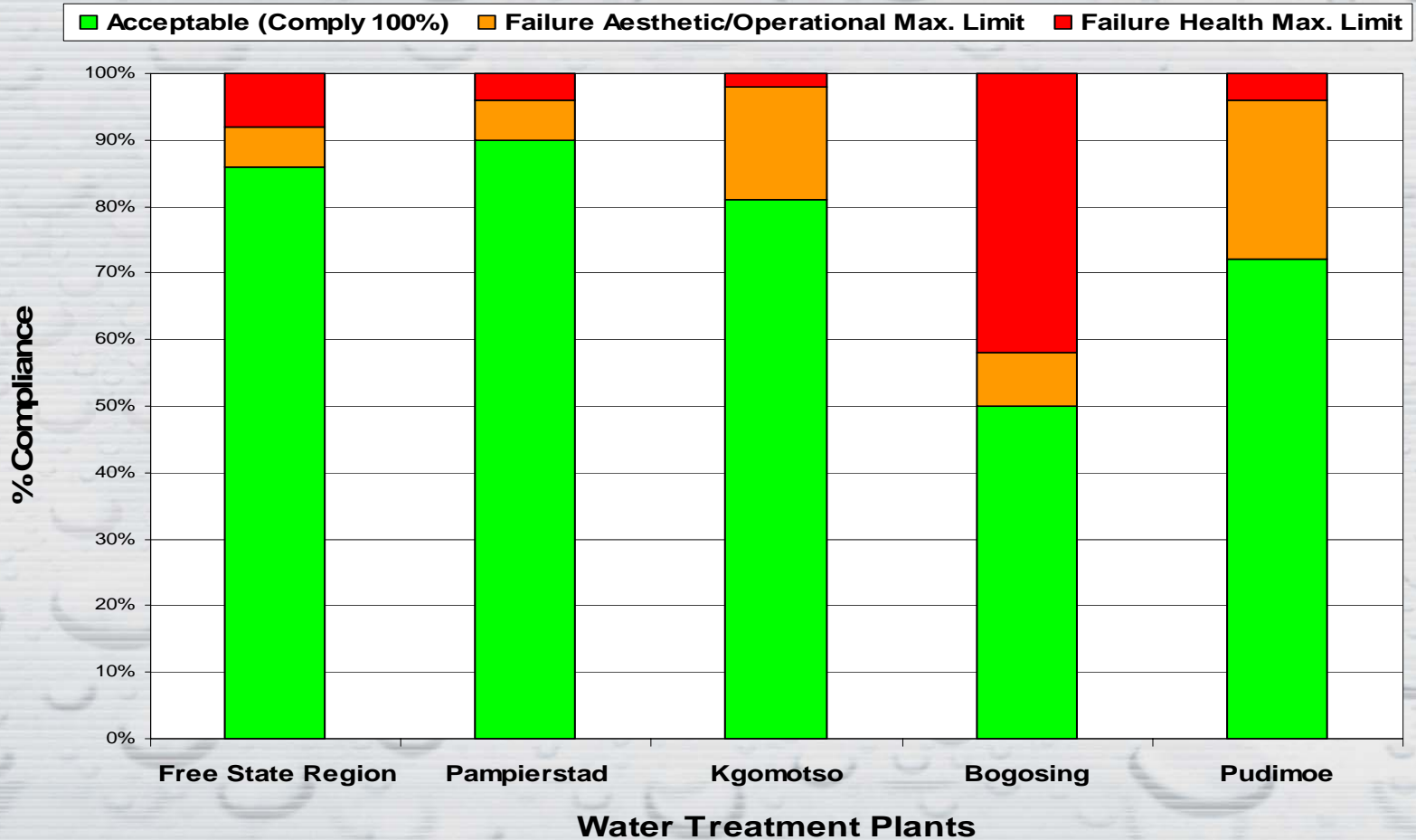
North West Region (Boreholes)

- Microbiological standard was met in 91.6% of samples analysed
- An inherent high nitrate concentration was determined on 44% of samples analysed

Waste Water Effluent (Balkfontein and Pampierstad Plants)

- Except for nitrates the effluent discharged from the sewage plants complied with the general waste water limits in terms of DWAF General Authorisation.

State of Water Quality (water treatment plants)



Future Infrastructure Roll Out Plan

The infrastructure roll out plan is informed by the following :

- State of water quality
- Water demand and capacity needs
- Cost reduction
- Improvement in process equipment efficiency

The infrastructure roll out plan covers

- Five year planning phase
- In the North West Region Sedibeng Water is a WSP on behalf of the WSA (municipalities). The assets belong to the WSA. The infrastructure roll out plan is recommended to the WSA's for approval and then implementation.

Future Infrastructure Roll Out Plan

| <i>REGION</i> | <i>2008/ 2009</i> | <i>2009/ 2010</i> | <i>2010/ 2011</i> | <i>2011/ 2012</i> | <i>2012/ 2013</i> | <i>TOTAL</i> |
|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|----------------|
| <i>R' 000</i> | | | | | | |
| Free State | 26,258 | 15,500 | 17,250 | 21,200 | 17,800 | 97,008 |
| North West | 19,045 | 38,000 | 12,000 | 5,000 | 5,000 | 79,045 |
| <i>Northern Cape</i> | 4,250 | 3,200 | 3,350 | 1,770 | 6,300 | 18,870 |
| <i>SUBTOTAL</i> | 48,553 | 58,700 | 32,600 | 27,970 | 29,100 | 194,923 |

Infrastructure Maintenance Plan

| <i>REGION</i> | <i>2008/ 2009</i> | <i>2009/ 2010</i> | <i>2010/ 2011</i> | <i>2011/ 2012</i> | <i>2012/ 2013</i> | <i>TOTAL</i> |
|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|----------------|
| <i>R' 000</i> | | | | | | |
| Free State | 13,901 | 14,812 | 15,782 | 16,729 | 18,569 | 79,793 |
| North West | 5,023 | 5,324 | 5,643 | 5,982 | 6,341 | 28,313 |
| <i>Northern Cape</i> | 0,804 | 0,852 | 0,903 | 0,958 | 1,015 | 4,532 |
| <i>SUBTOTAL</i> | 19,728 | 20,988 | 22,328 | 23,669 | 25,925 | 112,638 |

Major Achievements

Financial Viability and Sustainability

- *Cost Management*
- *Organisational Efficiency*
- *Revenue generation*

Operational performance

- *Efficiency savings*
- *Water quality met Class 1 or 2 requirements*
- *Average expenditure on BEE is 48.5%*

Met maintenance requirements

Acquisition of Vaal Gamagara scheme

Safety, Health and Environment

- The Free State region participated in the NOSA Sector E (electricity, gas and water supply) competition at both national and international levels. The company took first place in the national competition and came second at the international competition.
- The Free State region completed the whole year without any disabling injury

Training

- 25 employees received financial assistance
- 78 employees attended ABET program
- 25 students enrolled for Learnership in Water Purification and Process Operation
- 5 students received experiential training
- 18 learners were absorbed into the organisation

Challenges

Cost Recovery

- Cost recovery remains a challenge for sustainable service delivery particularly to poor and rural communities.

Contractual agreements

- Lack of willingness by WSA to enter into long term contractual obligations with WSP.

Electricity load shedding and increase in tariff

- Sedibeng Water plants operations are highly dependent on electricity as a source of energy.
- High electricity tariff and load shedding has a negative impact on sustainable water supply and water quality.

FINANCIAL PERFORMANCE 2006/2007

Another Unqualified Audit Report

Financial Overview for the previous five years

Abridged Consolidated Income Statement

| Description | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|--------------|--------------|--------------|--------------|--------------|
| | R'000 | R'000 | R'000 | R'000 | R'000 |
| Revenue | 276 887 | 271,166 | 274,896 | 250,454 | 231,763 |
| Cost of Sales | 106,829 | 98,840 | 91,025 | 90,495 | 72,485 |
| Gross Surplus | 170,058 | 172,326 | 183,871 | 159,959 | 159,278 |
| Other Income | 3,631 | 4,131 | 3,969 | 6,957 | 4,868 |
| Operating Costs | 164,871 | 166,661 | 184,639 | 157,772 | 135,514 |
| Net operating Surplus | 8,818 | 9,796 | 3,201 | 9,144 | 28,632 |
| Net Finance Charges | 463 | 8,056 | 19,058 | 35,758 | 37,374 |
| Net Surplus Before Service delivery claim | 8,355 | 1,740 | (15,857) | (26,614) | (8,742) |
| Service delivery claim | 26,188 | 26,527 | 33,471 | 39,677 | 37,270 |
| Net Surplus After Service delivery claim | 34,543 | 28,267 | 17,614 | 13,063 | 28,528 |

Financial Overview 2006/2007

Income Statement – Free State Region

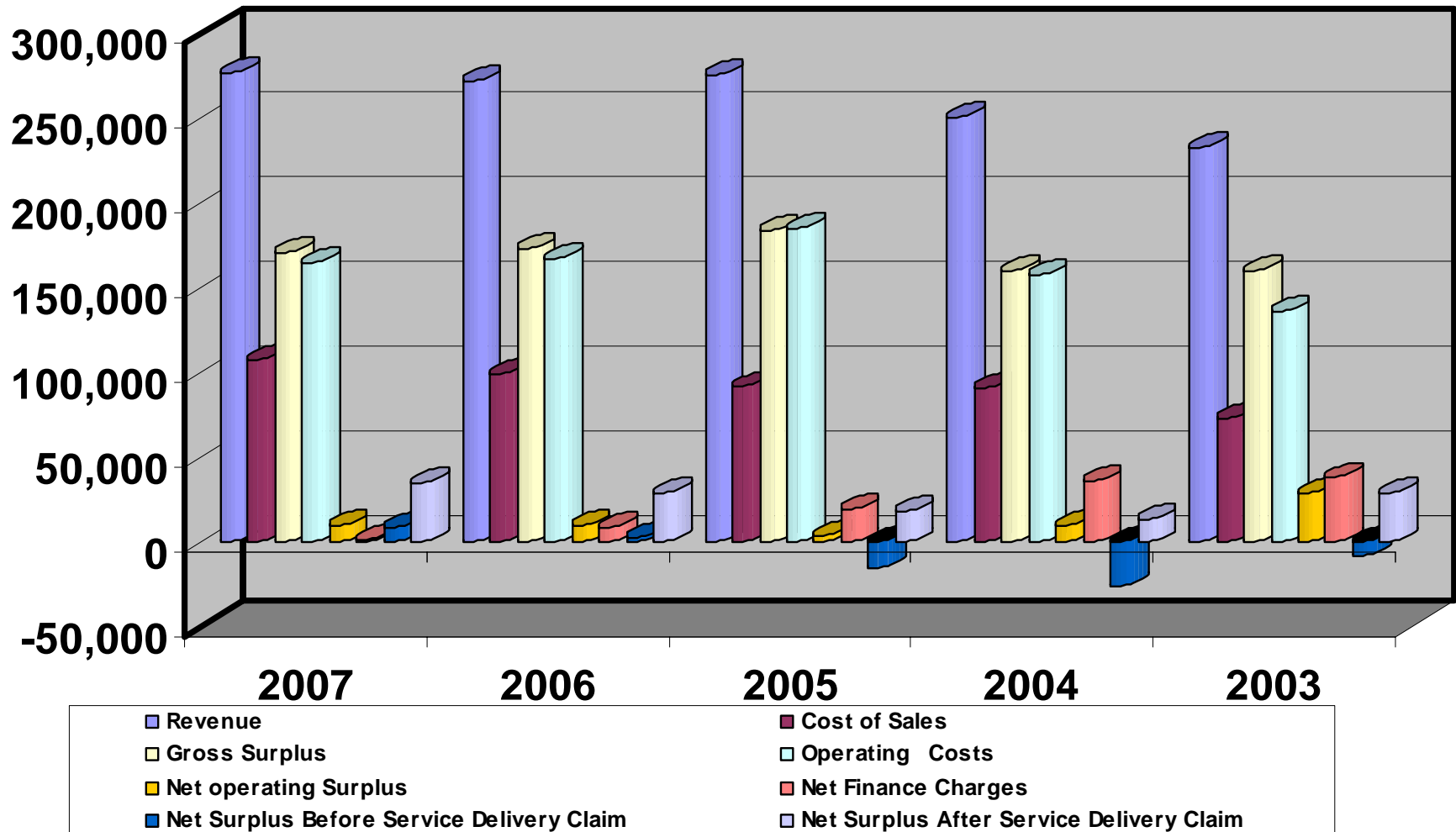
| Description | 2007 | 2006 | Percentage Variance |
|---------------------------------|---------|---------|---------------------|
| | R'000 | R'000 | % |
| Revenue | 248,916 | 231,808 | 7,38 |
| Cost of Sales | 96,927 | 87,798 | 10,39 |
| Gross Surplus | 151,989 | 144,010 | 5,54 |
| Government Grant (SETA) | 626 | 780 | (19,74) |
| Other Income | 4,727 | 4,273 | 10,62 |
| Operating Costs | 118,254 | 102,019 | 15,91 |
| Net operating Surplus | 39,088 | 47,044 | (16,91) |
| Net Finance Charges | 5,989 | 11,723 | (48,91) |
| Net Surplus/(Loss) for the year | 33,099 | 35,321 | (6,29) |

Financial Overview 2006/2007

Income Statement – North West Region

| Description | 2007 | 2006 | Percentage Variance |
|------------------------|----------|---------|------------------------|
| | Rm | Rm | % |
| Revenue | 27,971 | 32,069 | (12,78) |
| Cost of Sales | 9,902 | 9,512 | 4,10 |
| Gross Surplus | 18,069 | 22,557 | (19,90) |
| Service delivery claim | 25,562 | 20,094 | 27,21 |
| Other Income | 1,660 | 2,451 | (32,27) |
| Operating Costs | 55,998 | 52,309 | 7,05 |
| Net operating (Loss) | (10,707) | (7,207) | 48,56 |
| Net Finance Income | 5,526 | 3,659 | 51,02 |
| Net Loss for the year | (5,181) | (3,548) | 46,03 |

Financial Performance graph



Abridged Consolidated Balance Sheet

| Description | 2007 R'000 | 2006 R'000 | Percentage Variance % |
|---------------------------------------|----------------|----------------|-----------------------------|
| Non-Current Assets | 724,792 | 448,202 | 61,71 |
| Current Assets | 127,062 | 120,870 | 5,12 |
| Total Assets | 851,854 | 569,072 | 49,69 |
| Equity | 531,733 | 243,957 | 117,96 |
| Non-Current Liabilities | 247,722 | 250,638 | (1,16) |
| Current Liabilities | 72,399 | 74,477 | (2,79) |
| Total Equity & Liabilities | 851,854 | 569,072 | 49,69 |

Financial Ratio Analysis

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|-----------------------------------|--------|--------|-------|-------|--------|
| Profitability | | | | | |
| Working ratio | 0,91 | 0,94 | 0,99 | 0,96 | 0,88 |
| Operating ratio | 1,04 | 1,08 | 1,13 | 1,11 | 1,04 |
| Rate of return on assets | 0,04 | 0,06 | 0,01 | 0,02 | 0,06 |
| Assets turnover ratio | 0,33 | 0,48 | 0,48 | 0,46 | 0,46 |
| Surplus margin ratio | 0,12 | 0,10 | -0,11 | -0,10 | -0,04 |
| Debtors collection period in days | 110,46 | 101,48 | 98,60 | 85,60 | 122,10 |
| Accounts Receivable turnover | 3,30 | 3,78 | 3,75 | 4,37 | 3,03 |
| Short-Term Liquidity | | | | | |
| Current Ratio | 1,76 | 1,62 | 1,42 | 1,45 | 1,28 |
| Long Term Solvency | | | | | |
| Debt service/Interest cover ratio | 0,92 | 0,94 | 0,92 | 1,19 | 0,69 |
| Long term debt ratio | 0,45 | 1,00 | 0,52 | 0,49 | 0,59 |
| Debt equity ratio | 0,60 | 1,33 | 1,58 | 1,43 | 1,99 |

FREE STATE REGION: Business Performance Indicators

| Description | 2007 | 2006 | 2005 | 2004 | 2003 |
|--|----------------|----------------|----------------|----------------|----------------|
| Total Turnover (R'000) | 248,916 | 231,808 | 222,540 | 207,866 | 192,534 |
| Expenses as a % of total turnover | | | | | |
| Water Purchases | 38,94 | 37,87 | 38,48 | 40,06 | 34,64 |
| Electricity Purchases | 4,99 | 4,47 | 4,53 | 5,31 | 5,14 |
| Salaries & Wages | 18,31 | 18,80 | 16,70 | 15,79 | 13,18 |
| Maintenance | 5,58 | 4,94 | 6,41 | 6,09 | 6,45 |
| Finance Costs | 15,33 | 16,58 | 17,90 | 17,51 | 20,01 |

NORTH WEST REGION: Business Performance Indicators

| Description | 2007 | 2006 | 2005 | 2004 | 2003 |
|--|--------|--------|--------|--------|--------|
| Total Turnover (R'000) | 53,533 | 52,163 | 50,858 | 46,761 | 44,772 |
| Expenses as a % of total turnover | | | | | |
| Water Purchases | 18,50 | 18,24 | 10,61 | 15,45 | 12,94 |
| Electricity Purchases | 2,65 | 2,39 | 2,82 | 2,69 | 1,93 |
| Salaries & Wages | 54,39 | 53,70 | 49,26 | 47,65 | 39,75 |
| Maintenance | 11,26 | 10,40 | 19,32 | 16,15 | 13, 59 |

Loan Register

| NAME OF INSTITUTION | 2007 R'000 | 2006 R'000 |
|---|-----------------------|-----------------------|
| Department of Water Affairs and Forestry | 8,078 | 9,696 |
| Development Bank of South Africa | 58,674 | 60,789 |
| PIC | 43,250 | 43,250 |
| INCA | 99,310 | 99,310 |
| ABSA Bank | 32,000 | 32,000 |
| TOTAL | 241,312 | 245,045 |

Investments

| NAME OF INSTITUTION | 2007 R'000 | 2006 R'000 |
|------------------------------|-----------------------|-----------------------|
| Gensec | 87,438 | 75,600 |
| Investec | 59,317 | 51,926 |
| ABSA Bank | 42,953 | 39,874 |
| First Corp Investment | 13,152 | 11,830 |
| TOTAL | 202,860 | 179,230 |

Gross Revenue

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|------------------------|---------|---------|---------|---------|---------|
| Description | R'000 | R'000 | R'000 | R'000 | R'000 |
| Total Revenue | 306,706 | 301,824 | 312,336 | 297,088 | 273,901 |
| Revenue | 280,518 | 275,297 | 278,865 | 257,411 | 236,631 |
| Service delivery claim | 26,188 | 26,527 | 33,471 | 39,677 | 37,270 |

Concluding Remarks

Sedibeng Water's involvement has ensured amongst others, the following:

- Sharing of expertise;
- Capacity building;
- Improved service delivery;
- Efficiency and cost reduction; and
- Skills transfer to rural areas.