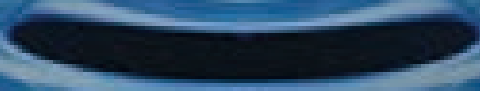




WATER UTILITIES CORPORATION
ANNUAL REPORT 2012/13

WATER CO-OPERATION
BUILDING PARTNERSHIPS



Vision

We aspire to be a leader in utility services.

Mission

To provide sustainable water and wastewater management services in a cost effective and environmentally friendly manner to the economy.



Values

Botho

We display a strong work ethic and respect for people

Therisanyo/Consultation

We value open and free exchange of views and ideas

Kgetsi ya Tsie /Team Work

We believe in working together to accomplish more

Batho Pele/ People First

We understand and exceed expectations by putting the customer first

Botswere/Quality

We provide a high quality of products and service delivery to our customers



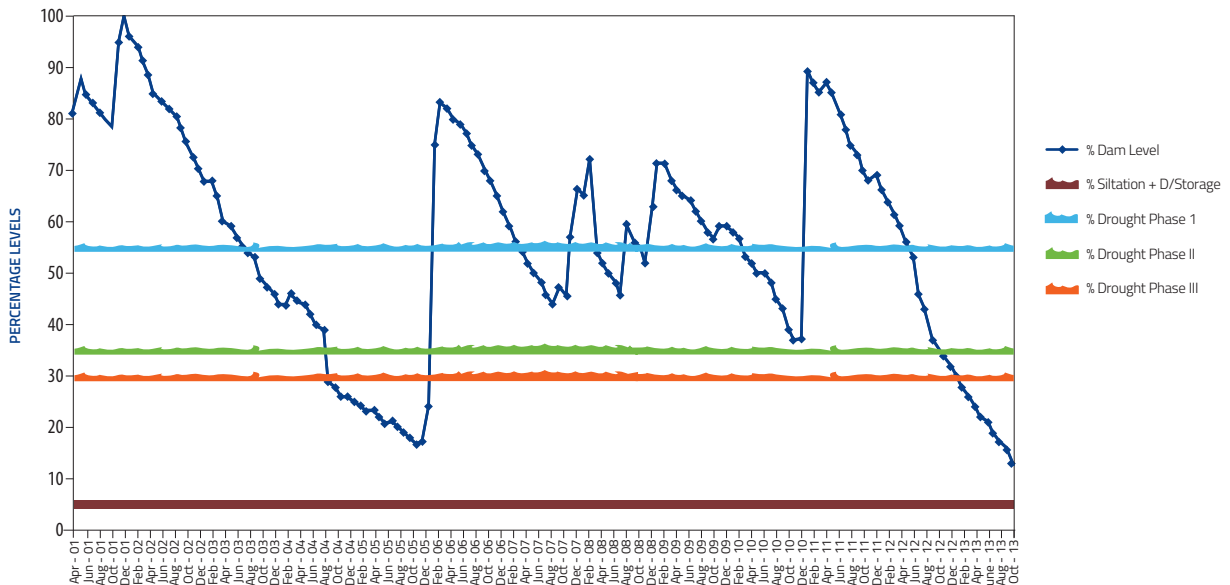
2012/13 THEME

WATER CO-OPERATION: BUILDING PARTNERSHIPS

BOTSWANA IS A FAST GROWING ECONOMY OF JUST OVER 2 MILLION PEOPLE. PERENNIAL DROUGHTS POSE A MAJOR CHALLENGE TO THE COUNTRY, MAKING IT NECESSARY FOR ALL TO ACTIVELY PARTICIPATE IN WATER CONSERVATION TO ENSURE THE SUSTAINABILITY OF THE RESOURCE

Over the years, due to insufficient rainfall the trend has been showing a decline in our dam levels.

GABORONE DAM TRENDS



Monthly Percentage Drop (Overall) = 2.6% | Monthly Percentage Drop (Abstraction) = 1.0% | Monthly Percentage Drop (Evaporation) = 1.5%



Gaborone Dam showing receding water levels



WATER CO-OPERATION BUILDING PARTNERSHIPS



Table of Contents

06 > Performance Highlights



07 > Five Year Performance at a Glance



08 > Corporate Profile



12 > Board Chairperson's Statement



16 > Board of Directors



20 > Corporate Governance



26 > Chief Executive Officer's Remarks



30 > Corporate Management Team



32 > Water Sector Reforms Programme



36 > Operational Highlights



46 > CSR & Stakeholder Management



48 > General Information





We keep it flowing, *for you*

Water is life.

Share every drop and save the future.

If we all play our part as individuals, our efforts can go a long way and lighten the burden associated with water shortages. Play your part consistently and make water conservation a way of life.



Performance Highlights for 2012/13

Net Loss P191.1m

in 2013 compared to a net loss of (P541.6m) in 2012.

Total Revenue 36.0%

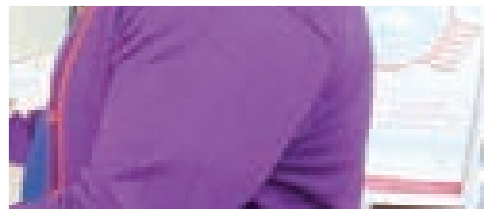
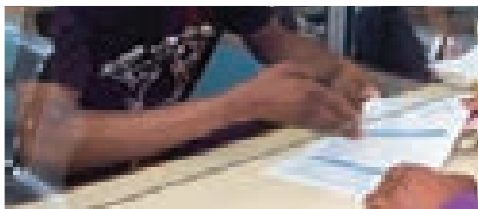
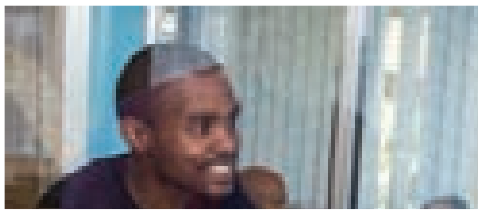
Total Revenue went up by 36.0% from P579.7m in 2012 to P790.8m in 2013.

Water Quantity 75 600tcm

Water quantity sales went up by 14,6% from to 66 000tcm in 2012 to 75 600tcm in 2013

Return on Equity (4)%

Return on equity improved from (13%) in 2012 to (4%) in 2013





Five Year Performance at a Glance

	2012/13	2011/12	2010/11	2009/10	2008/09
	P'000	restated P'000	restated P'000	P'000	P'000
Income and cash flow statements					
Water sales	770,471	571,296	571,904	560,337	520,400
Total revenue	790,778	579,685	578,543	561,107	524,402
Operating expenses	979,622	947,035	495,494	319,526	321,057
Depreciation and amortisation	184,790	186,558	119,058	86,903	67,182
Net Finance charges	28,111	13,731	14,457	14,682	111
Net surplus/(Loss)	(191,062)	(541,595)	21,809	161,414	139,669
Net cash inflow/(outflow)	(302,249)	(102,647)	52,502	154,403	(6,445)
Balance Sheet					
Operating assets	4,620,261	4,444,660	3,544,677	2,620,435	1,966,504
Development Expenditure	625,866	538,249	110,234	115,304	145,986
Government equity	4,374,297	4,089,391	2,364,477	1,410,577	752,738
Interest subsidy reserve	10,984	9,213	7,421	–	–
Reserves	796,214	989,047	1,532,434	1,518,046	1,392,943
Long term borrowings	515,036	549,212	577,720	599,721	612,473
Retirement benefit asset / (obligation)	(21,611)	(3,920)	33,045	28,925	6,736
Water sales quantities (TCM)					
	75 600	66,000	61,672	58,455	51,177
Ratios					
Return on equity	-4%	-13%	1%	11%	19%
Return on capital employed	-4%	-11%	1%	6%	7%
Return on net operating assets	-4%	-12%	1%	6%	7%
Debt service cover (times)	-1.77%	-10.66%	0.83%	4.14%	0.32%
Debt/Equity Ratio	0.12	0.13	0.24	0.43	0.81
Statistics					
Annual Inflation (%)	7.30%	7.20%	8.50%	6%	11.70%
Prime lending rate	11%	9.50%	11%	11.50%	16.50%



Corporate Profile

The Water Utilities Corporation (WUC) is a parastatal organisation, wholly owned by the Botswana Government.

It was established in 1970 by an Act of Parliament (Laws of Botswana Cap 74:02) with a mandate to manage a single project for the supply and distribution of water in what was then called the Shashe Development Area.

This involved planning, constructing, operating, treating, maintaining and distributing water resources in the country's urban centres and other areas mandated by the Botswana Government, as well as the supply of bulk water to the Department of Water Affairs and the various Local Authorities for distribution to villages and other smaller settlements in the country.

In the forty three years since its inception, the Corporation's mandate has expanded to supplying potable water to all urban centres and villages in the country, as well as managing wastewater under

the Water Sector Reforms Programme (WSRP). The programme resulted from a study to rationalise the water sector in Botswana and ensure uniform service levels for all. The implementation of the Water Sector Reforms Programme effected in May 2009 and is scheduled for completion in 2014.

Following the commencement of the implementation of the Water Sector Reforms Project, the Corporation's customer base has grown significantly from 80 000 at the beginning of the reforms in 2009 to just over 300 000 at 31st March 2013. The Corporation presently supplies over 75 million



43RD

ANNIVERSARY MANAGING THE WATER AFFAIRS OF BOTSWANA

4.6BN

WORTH OF PROPERTY, PLANT AND EQUIPMENT INCLUDING SIX DAMS

cubic metres of potable water annually to its total customer base. The low customer base is largely attributable to the fact that not all households have individual private connections, most get their supply from public standpipes.

With a property, plant and equipment value of over P4.6 billion, the Corporation's infrastructure includes six dams: Gaborone, Nnywane, Bokaa, Shashe, Letsibogo and Ntimbale as well as the North South Carrier Scheme I (NSCI) which comprises a 365km long pipeline, water treatment plants and associated pump stations.



Water Utilities Corporation Revenue Office



Corporate Profile (CONTINUED)

Additional dams, the Dikgathong, Thune and Lotsane’s construction was recently completed. They are yet to be commissioned. The WSRP resulted in the transfer of around 821 boreholes from Local Authorities and the Department of Water Affairs to the Corporation making it one of the major groundwater abstractors. These boreholes constitute about 7% of the 10951 Government drilled boreholes in the country.

Strategic Objectives

In keeping with its vision *“We aspire to be a leader in utility services”* the Water Utilities Corporation needs to be adequately prepared for institutional reforms in the water sector, be able to satisfy an increasingly discerning customer and ensure compliance

with internationally accepted corporate governance practices. To this end the Water Utilities Corporation identified key strategic objectives to guide its activities, business focus and the allocation of resources for its planning period 2012-2015. These are:

- To generate acceptable financial returns for the shareholder within the context of acceptable corporate governance structures
- To drive initiatives associated with the development and upgrading of dilapidated infrastructure in villages
- To proactively identify strategies of managing the risk of inadequate water supply
- To emphasise both internal and external stakeholder relationship management



Conserving water-using a little for laundry

Water Sector Reforms Programme Timeline with milestones

2009/10	2010/11			2012	2014
May Phase I	May Phase II	October Phase III	Phase IV	Phase V	Scheduled project completion date.
Two (2) villages taken over	Fifty (50) villages taken over. Phase I & II waste-water takeover	One hundred (100) villages taken over for both potable and wastewater	Two hundred and twenty one (221) villages taken over for both potable and wastewater	The final but one phase of the take over completed. Eighty one (81) villages taken over. Only one phase, Phase VI outstanding. The project is ahead of the scheduled 2014 date.	

The 'Botswana o a kgala' water conservation campaign





Board Chairperson's Statement

During the review period the Water Sector Reforms Project continued with the takeover of 81 more villages by the Water Utilities Corporation thus bringing the total number of villages taken over since the inception of the project in 2009 to 454.

By the close of the review period preparations for the final takeover involving about 100 villages in the Nhabe area were at an advanced stage with the takeover scheduled for the 2nd of April 2013.

Operations

When the Water Sector Reforms Programme was rolled out in 2009, the Board was well aware that this was a mammoth task which required careful planning as it entailed operating country-wide against just in urban areas, the scope of services to be provided would also be extended beyond water distribution to encompass provision of septic

tanks and pit latrine emptying services and these required skills and infrastructure that were non-existent in the Corporation. Further, the exponential expansion of the Corporation's customer base from 222 000 in 2012 to 300 000 in 2013 meant that the Corporation had to adjust its *modus operandi* to accommodate and satisfy its varied clientele. The development of a Rural Water Supply Strategy which was developed to guide the development of strategic initiatives for short, medium and long term solutions towards improving the Corporation's operational efficiency and managing public expectations



in the rural villages went a long way towards alleviating some of the hurdles. However, being totally dependent on a natural resource, rainfall, the lack of it during the period under review brought major challenges for WUC as the period went down in history as one of the driest for the Corporation. The receding surface water levels as well as underground water as boreholes dried up hindered the Corporation from adequately delivering on its mandate. This and other operational shortcomings severely dented the Corporation's image.

also required that it be provided with regular information on the progress and problems affecting the attainment of the goals. Some of this information the Board got from its interactions with customers. During the year, the Board addressed kgotla meetings in Kang and Maun.

Apart from the challenges brought about by the implementation of the WSRP as alluded to above and expounded upon in the relevant sections of this Annual Report, the Corporation experienced other problems which negatively impacted on the delivery of service. These include

emptying was also a major achievement for the Corporation. The Corporation also embarked on the project to install prepaid public standpipes to replace old public standpipes which promoted water wastage by the public.

Governance

Regarding governance issues, the Board adopted a revised Board Charter and also undertook a self-assessment appraisal to determine its effectiveness and efficiency. Through its various projects and programmes, the Corporation strove to remain

300K

TOTAL NO. OF CUSTOMERS FROM 80K IN 2009

75,6MCM

CUBIC METRES OF POTABLE WATER SUPPLIED DURING THE REVIEW PERIOD

Recognising the need for improvement in the performance of the Corporation, during the reporting year the Board continued to constantly review the strategies of the Corporation to ensure that these were in sync with the goals to be achieved and that the set goals and priorities were specific and well defined. These are aimed at commercial transformation, service delivery and building the capacity of our people. Some of the initiatives taken during the reporting period in this regard included the introduction of alternative payment methods for our customers so that they could pay their bills through post offices nationwide and electronically as well. The Board

frequent breakdowns of the NSCI, vandalism of the infrastructure and increased costs to address the lack of chlorination facilities in most villages, provision of additional storage facilities as well as bowing of water to an increased number of villages.

In-spite of all these challenges the Corporation still managed to supply its clientele with quality water for most of the period albeit the interruptions brought about by power outages due to load shedding. Some major projects were completed to alleviate the water shortages and others are on-going. The takeover of villages under the WSRP, especially the new area of septic tanks and pit latrines

relevant in the pursuit of the Millennium Development Goals (MDGs) as well as the ideals espoused in the national Vision 2016 to half the number of the country's population without access to potable water and sanitation by 2015 and 2016, respectively.



Use of recycled water for gardens is encouraged



Board Chairperson's Statement (CONTINUED)

In line with best practice corporate governance standards, the Corporation integrated sustainability into its business practice through deliberate efforts to impact on its economic, environmental and social performance. However, this was not without the challenge of achieving a balance between performance and compliance to these acceptable standards while taking into account, stakeholder expectations.

The resultant wider customer base for both internal and external customers from the Water Sector Reforms Programme came with varying customer expectations and other challenges. Guided by a deep commitment to stewardship and a sense of obligation to all the Corporation's stakeholders, the Board was able to address these challenges. In line with the Board Charter the Board had its performance evaluated by the Minister of Minerals, Energy and Water Resources.

Financial Performance

For the third consecutive year, the Corporation recorded operating losses mainly arising from a higher rate of increasing costs relative to revenue.

The year under review presents revenue amounting to P790.8 million. This is an increase of P211.1 million or 36% from P579.7 million in 2012. The increase in revenue for the year is as a result of revised tariffs that were implemented in May 2012 and an increase in the number of connections as the Corporation continued to takeover more villages through the Water Sector Reforms Programme.

The Corporation recorded total operating expenses of P1.2 billion, compared to P1.1 billion in the financial year 2011/2012. This shows an increase in total operating expenses of P0.1 billion. Water and wastewater treatment and distribution expenses constitute 40% of the total costs while administration and other operating costs constitute 44% of these costs.

The Corporation's net results for the year is a net loss of P191.1 million, compared to a net loss of P541.6 million in 2011/12 (restated). The decrease of P350.5 million is mainly attributable to the significant increase realised in revenue for the year and a revenue grant of P200 million received from the government.

The cash flow situation declined from P730.7 million in 2011/12 to P428.4 million in the financial year under review. Debt Service Coverage stood at (1.77):1 in the review period compared to (10.66):1 in the previous year.

During the year titles to some of the land and buildings acquired by the Corporation through the Water Sector Reforms Programme had not yet been transferred to the Corporation.

Looking Ahead

The Corporation remains cognisant of the fact that it will take a lot of effort and time to rehabilitate water distribution networks and find alternative water supply sources before the water supply situation in the country can stabilise and in turn achieve customer satisfaction.

The real task lying ahead is improving water delivery service through ensuring that potable water keeps flowing to the customer and wastewater away from them. The effects of the WSRP will therefore dominate the operations of the Corporation into the foreseeable future and its negative effects will remain with the Corporation for some time before the organisation

can regain its past reputation of being efficient and effective. This will also apply to the Corporation's financial situation which has continued to decline since the beginning of the WSRP. Targeted policies and relevant strategic direction put in place in the previous reporting period to ensure this are expected to start bearing fruit when the new rationalised tariffs which were approved during the period under review are effected in the next reporting period.

Meanwhile the Corporation has to continue to seek funding from various financial institutions to finance its various projects and ensure the accessibility of water to all. In doing all this, the Corporation will also have to strike a balance between making an impact on the triple-bottom line and its performance if it is to keep afloat. The standardisation of water connections to P1 500.00 in an effort to make the service affordable to all is a case in point as this fee is highly subsidised resulting in the Corporation losing millions of Pula.

Conclusion

I largely ascribe the achievements of the year under review to the dedication and hard work of the Board, Management and staff and to a large extent the cooperation of all our other stakeholders, especially the customers. Despite the difficult conditions the Corporation operated under all showed commitment in charting the way forward for the Corporation through their valued contributions in various ways. The customers gave us valuable feedback through the various consultative fora including kgotla meetings, stakeholder tours, breakfast seminars, our Facebook page and our website.

For this, on behalf of the Board, I would like to commend you all.



Nozipho A. Mabe
Board Chairperson



WATER CO-OPERATION
BUILDING PARTNERSHIPS





Board of Directors

- | | |
|---|---|
| <p>1. Nozipho A. Mabe
 (Chairperson)</p> <hr/> <p>2. Thari E. Ntshole
 (Vice Chairperson)</p> <hr/> <p>3. Godfrey B. Molefe
 Board Member</p> <hr/> <p>4. Rachel Nekati
 (Chairperson of the Audit Committee)</p> <hr/> | <p>5. Zuma Chengeta
 Board Member</p> <hr/> <p>7. Dr Obolokile T. Obakeng
 Board Member</p> <hr/> <p>6. Mercia Makgalemele
 Board Member <i>(not in picture)</i></p> <hr/> <p>8. Dr Pharoah O. Mosupi
 Board Member <i>(not in picture)</i></p> <hr/> |
|---|---|



Board of Directors (CONTINUED)

1. Nozipho A. Mabe

**(Board Chairperson) &
Chairperson of the Permanent
Executive Committee**

Qualifications: MA Economics (The Catholic University of America), BA Economics and Accounting (University of Botswana, Lesotho and Swaziland), Diploma in Advanced Taxation (Botswana Government)

Tenure: 2010 – 2013

2. Thari E. Ntshole

**(Board Vice Chairperson) &
Chairperson of the Tender
Committee**

Qualifications: BSc (University of Botswana, Lesotho and Swaziland), Diploma in Brewing (Siebel Institute, (Chicago), Advanced Quality Control, Management Development Programme

Tenure: 2009-2013

3. Godfrey B. Molefe

Qualifications: MSc Fiscal Studies (University of Bath), BCom Accounting (University of Botswana), CIMA

Tenure: 2012 - 2016

4. Rachel Nekati

**(Chairperson of the Audit
Committee)**

Qualifications: BCom (University of Botswana), Slenderizing Therapist Diploma, Nail Technician, Diploma in Events Management, Wedding Planner.

Tenure: 2012 - 2016

5. Dr Obolokile T. Obakeng

Qualifications: PhD Hydrology (University of Amsterdam), MSc Water Resources Hydrogeology (International Institute Aerospace Survey and Earth Sciences), BSc Geology (University of Botswana)

Tenure: 2010 - 2014

6. Mercia Makgalemele

Qualifications: LLB (University of Botswana), Post Graduate Certificate in Corporate Law & Securities (University of South Africa)

Tenure: 2012 – 2016

7. Zuma Chengeta

Qualifications: MSc Strategic Management (University of Derby, UK) BSc Honours Mining Geology (Leicester University, UK), Chartered Environmentalist (UK)

Tenure: 2012 – 2016

8. Dr Pharoah O. Mosupi

Qualifications: PhD Entomology (University of Pretoria), MSc Entomology (University of Arizona), BSc Agronomy (Kansas State University)

Tenure: 2012 – 2013

A vandalised pumpstation in Ramotswa





Corporate Governance

The Water Utilities Corporation subscribes to and is committed to the accepted practices of good governance and international best practice.

As an establishment created by statute, the Corporation is compelled to ensure that its processes and practices comply with the requirements of the Water Utilities Corporation Act (Cap 74:02) of the Laws of Botswana and its amendments and directives.

Ownership of the Corporation

The Corporation is a parastatal body wholly owned by the Botswana Government. The Water Utilities Corporation Act defines the *raison d'être* for the Corporation as well as the limits within which it can operate,

including the roles for the Minister of Minerals, Energy and Water Resources, the Board, and the Executive Management.

The Board

The Board of the Corporation is appointed by the Minister of Minerals, Energy and Water Resources. In appointing the Board members, the Minister takes into consideration their experience and ability to make meaningful contributions to the business of the Corporation. The composition of the Board at any one time does not exceed nine members, including the Chairperson.

The present Board comprises a fair balance of skills, knowledge and experience to meet this objective.

The role of the WUC Board is to determine corporate policy and provide strategic direction. In carrying out this mandate, it is expected to bring to bear the highest standards of ethical conduct and good governance in line with both statutes and generally accepted practice.

During the year under review, the following comprised the Board of the Water Utilities Corporation:

Dr. Obolokile T. Obakeng

Member

Mercia Makgalemela

Member

Zuma Chengeta

Member

Dr. Pharoah O. Mosupi

Member

Registered Office

Water Utilities Corporation
Head Office, Sedibeng House,
Plot 17530, Luthuli Road
Industrial Site, Gaborone

During the year under review, the Board convened four ordinary meetings and four extra-ordinary meetings. The Board also held workshops and addressed the Corporation's stakeholders in Kang and Maun.

Members' Declaration of Interest

Members declare their interest on an annual basis and at every meeting in relation to the matters before them for their decision.

Nozipho A. Mabe (Chairperson)
& Chairperson of the Permanent Executive Committee
Chairperson

Thari E. Ntshole (Vice Chairperson)
& Chairperson of the Tender Committee
Vice Chairperson

Rachel Nekati (Chairperson of the Audit Committee)
Member

Godfrey B. Molefe
Member

Independent Auditors

Deloitte & Touche

Board Meetings

The Board meets at least quarterly. It follows a structured approach of delegation, reporting and accountability. This includes reliance on three Board Committees to carry out delegated duties, namely the Audit, Tender and Permanent Executive Committees.

Board Remuneration

Board remuneration rates are determined by the Government of Botswana. Fees for members from Government Departments are paid directly to the Government. The applicable rates per sitting during this year were as follows;



Corporate Governance (CONTINUED)

Chairperson	P1050
Vice Chairperson	P840
Member	P840

Chairpersons of the Committees were also remunerated at P1050 for committee meetings.

Board Committees

To be effective and adequately cover all the Corporation’s areas of operation, the Board operated through three committees and membership of the committees were as outlined below:

Main Board	Audit Committee	Permanent Executive Committee	Tender Committee
Nozipho Mabe		✓	
Thari Ntshole	✓		✓
Rachel Nekati	✓		
Godfrey Molefe	✓		✓
Dr. Obolokile Obakeng	✓		
Mercia Makgalemele		✓	✓
Zuma Chengeta		✓	✓
Dr. Pharoah Mosupi		✓	✓

Audit Committee

The Audit Committee’s activities are governed by the Audit Charter approved by the Board. The Charter empowers the Audit Committee to provide its oversight responsibilities to the Board for the financial reporting process, the system of internal controls, the audit process and the Corporation’s process for monitoring compliance with the laws and regulations. The Committee also provides advice on Corporate Risk Management.

In addition, the Water Utilities Corporation has an Internal Audit function charged with providing independent assurance to the Audit Committee on the existence and effectiveness of internal controls, the efficiency and effectiveness of Governance processes and that the Corporation’s goals are being met.

The Committee is scheduled to meet at least three times annually, and during the reporting period it satisfied the requirement as it met five times.

Tender Committee

The Tender Committee is responsible for the implementation of the policies laid down for the procurement of works, goods and services by the Corporation. In carrying out this mandate, the Committee is expected to ensure that the principles of economy and efficiency prevail, including the need to encourage and support local businesses in the spirit of the Government local preference policy and citizen empowerment.

The Committee operates within the limits of the Corporation’s Tender Regulations and Procurement procedures. These procedures are revised from time to time to align them with best practice.

The Committee is scheduled to meet eight times per year, and in the year under review it met eight times.

Permanent Executive Committee

The Permanent Executive Committee deals with policies relating to the management of human resources, including the organisation structure, terms and conditions of service, remuneration, the appointment and dismissal of senior staff other than those appointed by the Board, pensions and any other matters delegated to it by the Board.



Tender evaluation process

The Committee meets at least quarterly. During the year under review it met four times.

Reporting to the Botswana Government

The Board of the Corporation also reports to the Minister of Minerals, Energy and Water Resources regularly on proceedings at Board meetings. An update is presented to the Minister after each Board meeting, in addition to continuous consultative meetings with the Minister and other government organs as deemed necessary. Management also sends quarterly reports on the Corporation's progress to the Office of the President.

Going Concern

The financial statements for the year ending 31st March 2013 have been prepared on a going concern basis. The Board is satisfied with the available financial resources, the future performance projections and the continued support from the Government of Botswana. The Corporation will continue to operate into the foreseeable future.

Statutory Reporting Requirements

The Water Utilities Corporation Act requires that all Corporation business be conducted along sound commercial lines and that a reasonable return is generated on the equity provided by the

Government of Botswana. The Act further requires that the Audited Financial Statements be presented to the Minister by the 30th of September each year.

The Board approved the Audited Financial Statements for the year ended 31st March 2013, on the 20th December 2013.

A statement by the Board members on their responsibility for the maintenance of adequate accounting records, the preparation and integrity of the financial statements and related information is detailed at page 50 of this Report.

Ministerial Directives

There were no Ministerial Directives during the year.

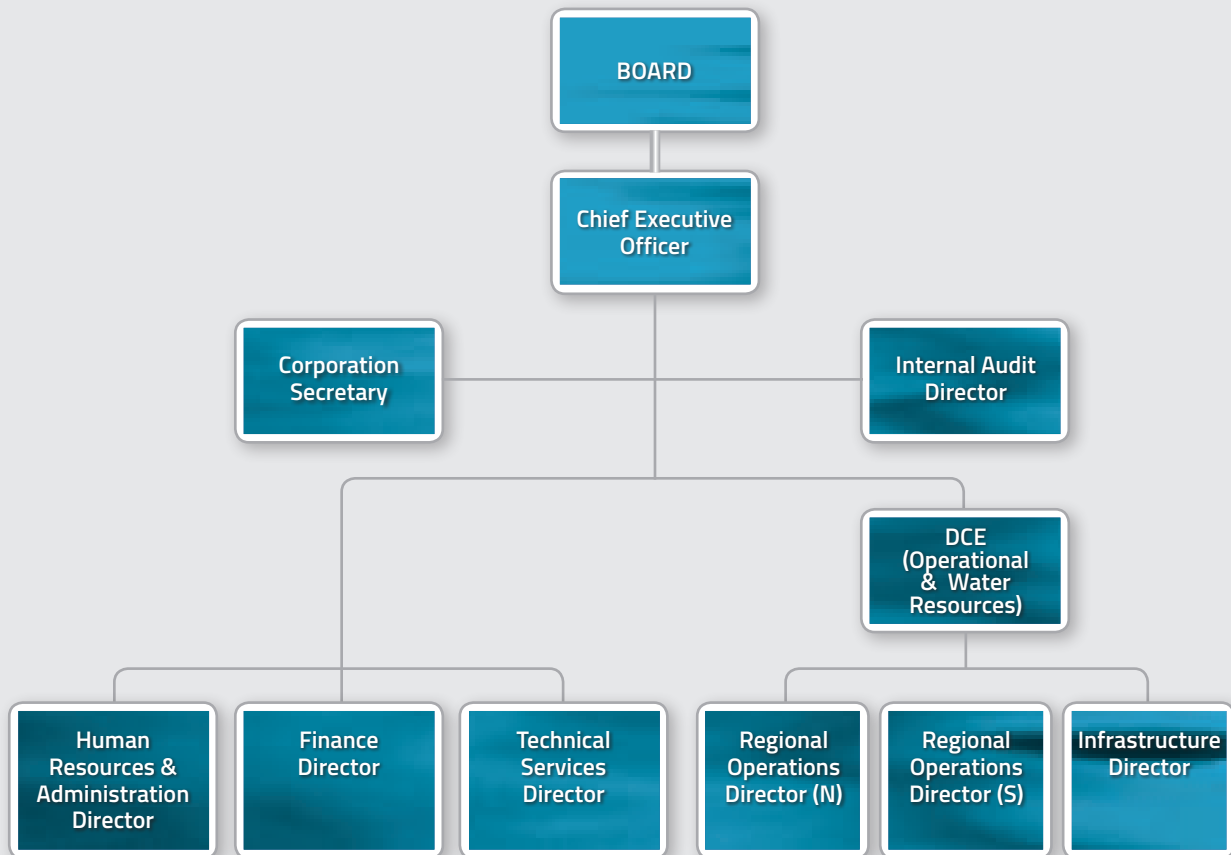


Corporate Governance (CONTINUED)

Executive Management

The management and daily running of the Corporation is the responsibility of the Chief Executive Officer with the assistance of the Corporate Management Team (CMT). The role of the CMT, with the help of Section Heads, is to implement the strategic direction and objectives as set out by the Board within the confines of the corporate vision, mission and values.

WUC Organisational Structure







Chief Executive Officer's Remarks

During the year under review the Corporation continued the takeover of more villages under the Water Sector Reforms Programme. By the close of the reporting period preparations for the final takeover of villages in the Nhabe area were at an advanced stage, with the takeover scheduled for the 2nd of April 2013.

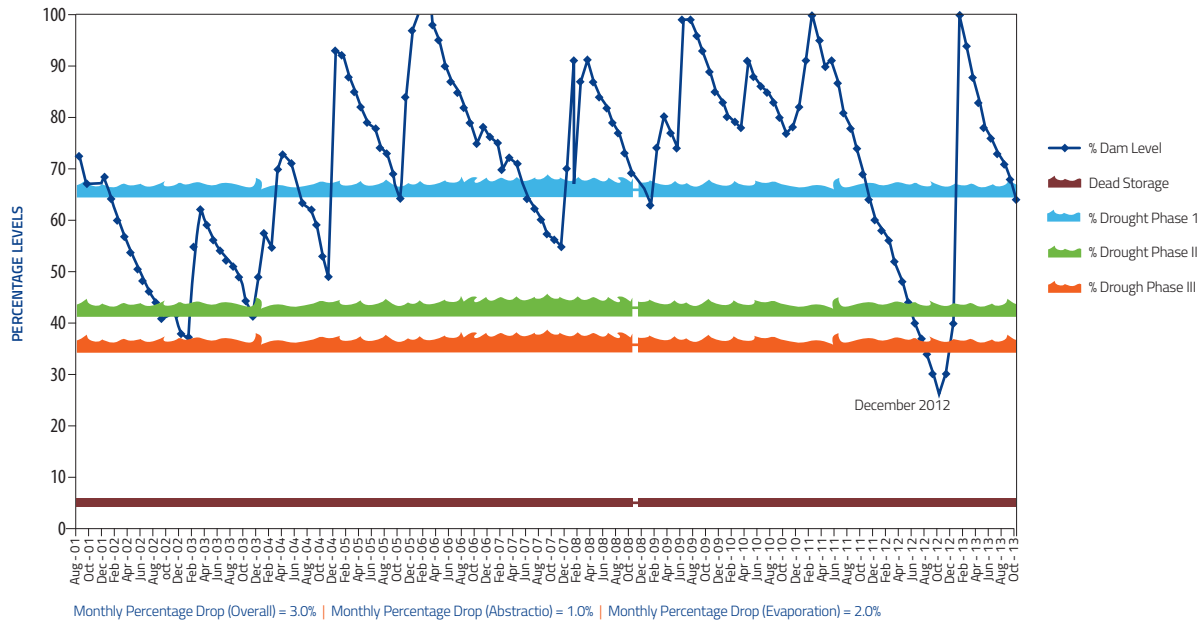
Performance

On all fronts, operational, customer satisfaction, financial, the Corporation's performance was not at its best. This was mainly due to the Water Sector Reforms Programme which gained momentum during the review period and with that saw the number of villages taken over grow from 364 to 454. This put a strain on all the Corporation's resources, human and otherwise, with an adverse effect on all other areas of the Corporation's operations.

Water Sector Reforms

The year saw the takeover of villages nearing completion as, by the close of the year 454 of the possible 540 villages had been taken over. Despite the success achieved with the increase in the numbers of the villages taken over, the burden of the reforms was at its heaviest during this period. The landscape in which WUC had to operate in the villages posed challenges as there are no proper roads, making accessing the properties with water pipes difficult.

LETSIBOGO DAM TRENDS



365KM | THE DISTANCE OF THE NSCI

904MCM | TOTAL CAPACITY OF WUC DAMS

The lack of street names and house numbers also posed a great challenge. The highly subsidised water connection fees which were effected during the year also affected the Corporation's bottom-line as it made losses from most connections, especially in the villages. The actual cost of a 50m connection can be more than P3 000 depending on the type of material and labour required. Standardising the fee to P1 500 was a deliberate way to subsidise water connection and render the service accessible to all.

The continued lack of a wastewater tariff also contributed to this loss as the Corporation had to finance wastewater management. As a result of the WSRP the Corporation's establishment increased from 2 839 in 2012 to 3 740 in 2013. This increased the Corporation's wage bill. All these factors, coupled with the various programmes the Corporation had to put in place and finance to facilitate a seamless merging of the Local Authorities, the Department of Water Affairs and WUC employees also affected the Corporation's finances. These programmes include:

- The Business Processes Management (BPM) whose

objective is to streamline the operations to make the Corporation more effective and efficient.

- Various training courses including the Investment in Excellence course to equip management with the necessary skills and competencies to take the Corporation through the transition. All of the members of the management went through the course during the year and it will be cascaded to other cadres next year.
- Various targeted change management initiatives to align the corporate culture with WUC's business objectives.



Chief Executive 's Remarks (CONTINUED)

Water Resources

The Corporation's water resources raised a lot of concern during the year. The rains were poor in the south resulting in insignificant or no inflows into some of the dams. The Nnywane Dam failed in the middle of the rainy season, putting a strain on the Gaborone Dam as Lobatse lost its 10% daily supply that it gets from Nnywane Dam. Due to this poor state of dams in the south it became imperative to keep the NSCI up and running at all times to ensure an adequate supply to the Greater Gaborone area. Due to slow recharges of boreholes as a result of droughts over the years, groundwater sources also performed badly as some boreholes dried up and others' yields were reduced drastically resulting in shortfalls in supply to many areas. In an effort to meet demand the Corporation introduced water restrictions and water rationing in the most affected areas.

Water Quality

The Corporation managed to supply its customers with quality water as per the BOS: 32:2009 standard consistently during the year, especially in the old WUC areas. The absence of chlorination infrastructure or sub-standard infrastructure in the areas taken over under the WSRP made it difficult for the Corporation to maintain

the quality of water in these areas. With a more discerning clientele, water quality debates had a presence in the public agenda. However, investigations into some of the alarms raised concerning water quality proved that the issues arose from the handling of water after the WUC meter. WUC remains responsible for water quality up to the client's meter. Any quality issues arising from private on-site storage and internal piping on the clients' properties remains the responsibility of the customer. However, WUC remains committed to assisting customers to ensure the safety of their drinking water beyond the meter.

Looking Ahead

Going forward WUC will consolidate its performance with emphasis on the triple bottom line. In recognition of the fact that the Corporation continuously learns from conversations with our various stakeholders and from technological evolutions, collaboration with relevant stakeholders through consultations, twinning partnerships, benchmarking and training of our employees will be intensified.

Through its various projects the Corporation is confident that the water shortages in the country

will be alleviated, especially in the hardest hit areas. Some of these projects such as the rehabilitation of boreholes and contaminated wellfields are low hanging fruits and possible to realise during the next reporting period. The other projects including finding alternative sources of water, infrastructure construction, are longer term projects which, when finally delivered, will address the shortages in most parts of the country.

Acknowledgements

WUC Management remains indebted to the Board for their unwavering commitment and dedication to piloting the Corporation even through these rough waters that it is currently going through. To the Management and staff, your loyalty to the Corporation will see it emerge from this dark period into greatness. To our valued customers I thank you for your tolerance and understanding, even during times when we have failed to fully meet our obligation, to keep it flowing.

Godfrey Mudanga
Chief Executive Officer





5. **Gaselemogwe Senai**
Infrastructure Director

BSc Chemistry and Environmental Science
(University of Botswana)

Responsibilities

- Sustainable water resources management
- Dams management
- Groundwater management
- Bulk water transfers
- Maintenance
- Fleet management

6. **Tsholofelo Bogosi**
Internal Audit Director

Bachelor of Commerce (Accounting) – (University of the Witwatersrand- RSA), CIMA- UK

Responsibilities

- Assurance and Consulting
- Risk Management Evaluation
- Controls Evaluation
- Corporate Governance
- Compliance with Statute, Policies and Procedures
- Whistle blowing, Fraud and Ethics Policies

7. **Meshack Balebetse**
Regional Operations Director (North)

MBA (Mancosa), BSc Physics and Chemistry
(University of Botswana)

Responsibilities

- Water supply
- Water distribution
- Commercial and customer services
- Wastewater services

8. **Taboka Muke**
Finance Director

BA Accounting (University of Botswana),
FCCA – UK

Responsibilities

- Statutory financial reporting
- Management accounting
- Budgeting
- Treasury management
- Financial forecasting
- Sourcing of funding for operations
- Management of financial obligations and covenants
- Financial policies & procedures formulation

9. **Wilhemina Pheto**
Corporation Secretary (not in picture)

MSc Human Resource Development (University of Manchester, UK), BA Social Sciences (University of Botswana)

Responsibilities

- Logistics & materials procurement
- Legal services
- Corporate Services
- Records Management
- Asset Management

10. **Harry Pheko**
Water Sector Reforms Director
(not in picture)

MSc Operations Management and Manufacturing Systems (Nottingham, UK), B.Eng Mechanical Engineering (B.I.T Mesra) M.S.M.E

Responsibilities

- Water supply
- Water distribution
- Water sector reforms co-ordination
- Commercial and customer services
- Wastewater services



Water Sector Reforms Programme

The Water Sector Reforms Programme which commenced during the 2009/10 reporting period continued into the current review period. The programme which involves the takeover of potable water service delivery and wastewater management services to villages by WUC saw the Corporation takeover 81 villages during the reporting period.

The septic tank and pit latrine emptying service which had lagged behind since the commencement of the Water Sector Reforms Programme was eventually effected. Cognisant of the fact that its clientele base was evolving and so were its needs the Corporation developed a Rural Water Supply Strategy. The strategy guides the development of strategic initiatives for short, medium and long term solutions mainly in improving the Corporation's operational efficiency and management of public expectations in the rural villages.

Prior to the commencement of the Water Sector Reforms Programme potable water delivery to big villages was the mandate of the Department of Water Affairs nationally and water delivery to smaller villages and settlements as well as wastewater management the mandate of the respective District Councils. The takeover by WUC meant an expansion of WUC's mandate, a growth in WUC's customer base as well as a growth in the Corporation's establishment.

Through the sixteen management centres which the Corporation established for purposes of better managing the Water Sector Reforms Programme, WUC brought its services closer to the customer in line with its shift towards becoming a customer-centric organisation. The management centres offer all services from the WUC service menu, and this makes it easy for customers to access services within reasonable distances.

contact it for general enquiries, meter reading submissions and account information through its Contact Centre's electronic communication services.

To effectively manage the takeover, the programme was divided into seven phases, with the programme scheduled to be completed in 2014. During the review period 81 villages were taken over under Phase Five bringing the total villages taken over by the end of the year to 454 of the possible 540. In terms of figures of villages to be taken

into one desirable culture aligned to the Corporation's business objectives became more important than ever. Targeted programmes were implemented to achieve this. A comprehensive Change Management Framework was developed to guide the Corporation through the transition and the roll-out of the various initiatives started.

Members of Senior Management were taken through the Investment in Excellence, a programme which equips management with skills and

81

VILLAGES TAKEN OVER DURING THE REVIEW PERIOD

454

OF THE POSSIBLE 540 VILLAGES TAKEN OVER SO FAR UNDER THE WSRP

Over and above its regional offices the Corporation also introduced alternative bill payment methods. By the close of the reporting period customers could pay their bills at forty seven different Post Offices around the country following an agreement between WUC and Botswana Post. Agreements had also been reached with four different banks for them to offer a facility for water bill payments for the Corporation's customers. These are the First National Bank Botswana, Stanbic Bank, Standard Chartered Bank and Barclays Bank. The Corporation also continued to offer its customers unlimited access to

over, the programme was ahead of schedule as only one district, Nhabe remained to be taken over, with its takeover scheduled for 2013. This will result in the programme completion in 2013, a year ahead of the initially planned 2014.

As a result of the WSR the Corporation's customer base rose from 222 000 in 2012 to just over 300 000 in 2013. The establishment also rose from 2 839 in 2012 to 3 740 in 2013. As most of these employees were absorbed from the Department of Water Affairs and the various District Councils, efforts to harmonise the different cultures

competencies to steer an organisation through a transformation such as the one the Corporation is going through. As part of the Change Management the Corporation embarked on a Business Process Management exercise to rationalise its operational processes and bring about efficiency. By the close of the reporting period some projects had been identified which, if properly executed could bring about the desired positive results in the Corporation in the short-term, bringing about the organisation's turn-around.



Gaborone Dam, with the water level receding.







Vandalised Ramotswa Pump Station

Operational Highlights

Surface Water Supply Situation

Water levels in the Corporation's dams continued to drop during the reporting period. The unsatisfactory rains also resulted in insignificant inflows into the dams in the south. However, the dams in the north impounded some water and by the end of the reporting period were in a healthy state.

By the close of the reporting period, the total volume of raw water stored in all the Corporation's six dams stood at 240.75MCM, representing 64% of full capacity compared to 246.85MCM or 66% year on year the previous reporting period. The paltry inflows into the dams in the south necessitated the continuation of the Level Two Water Restrictions which the Corporation had introduced in response to the drought which was imminent.

The Corporation continued to draw water from Molatedi Dam in South Africa under the two countries' long standing

agreement. To optimise the benefit of this water the Corporation started pumping the water directly into the treatment plant rather than into Gaborone Dam as had been the norm. By the close of the review period the drought was at its peak. The 2012/13 rain season had just ended leaving the Corporation's dams in the south of the country in an unsatisfactory state. Nnywane Dam failed in the middle of the rain season leaving the Lobatse area totally depended on the Gaborone Dam. The dams in the north however were in a satisfactory state with all of them above 80% of capacity.



To mitigate the severe water shortages in the south, Selebi Phikwe, Mmadinare and surrounding areas were supplied from the Shashe Dam and Letsibogo Dam was preserved to supply the south.

The status of the dams as at 31st March 2013 compared to the same period in the previous reporting period:

DAM	GABORONE		NNYWANE		SHASHE		BOKAA		LETSIBOGO		NTIMBALE	
F.S.L	141.4 MCM		2.3 MCM		85.3 MCM		18.5 MCM		100 MCM		26.5MCM	
F.S.C	(998.05 m)		(1134.03m)		(971.46m)		(954.00m)		(848.8m)		(1103.50m)	
Financial Year	12/13	11/12	12/13	11/12	12/13	11/12	12/13	11/12	12/13	11/12	12/13	11/12
Cumulative Rainfall (mm)	138.4	201.5	143	148.8	401	269.5	163.9	196.6	498.7	171.8	693	458
Impoundment (MCM)	39.6	86.5	*	1.42	80.3	79.1	5.85	3.9	89	50.4	26.1	26
Percentage Full (%)	28	61	failed	62	94.5	94	32	21	89	49	98	98

NOTE: MCM DENOTES MILLION CUBIC METRES MM DENOTES MILLIMETRES
 FSL DENOTES FULL SUPPLY LEVEL FSC DENOTES FULL SUPPLY CAPACITY

720KM

MAJOR TRANSFER SCHEMES DISTANCE

1088KM

THE WASTEWATER NETWORK IN GABORONE

Bulk Water Transfer North South Carrier Scheme I (NSCI)

The North South Carrier Scheme I NSCI continued to be the lifeblood for the south of the country as it transported water from Letsibogo Dam to these areas. The NSCI had major downtimes for maintenance and equipment failure. One such failure plunged the Greater Gaborone area into two weeks of dry taps. The low storage capacity of tanks, especially in villages taken over under the WSRP made it difficult to store water to cushion the effects of such disruptions. Power outages also impacted the functioning of the NSCI, affecting those areas supplied through the pipeline.

Incidents of fibre optic vandalism on the pipeline’s associated infrastructure also interrupted supply. Third party damage along the pipeline was also rampant and interrupted water supply for days on end. The Glass Reinforced Plastic (GRP) used in the construction of a section of the pipeline experienced several leaks during the year. Despite all these problems with the pipeline it continued to offer the south a lifeline as it transported the much needed water from Letsibogo Dam to the Greater Gaborone area, supplying Palapye and Mahalapye along the way. The scheme has been experiencing numerous pump failure primarily due to the aging of the pumps.

As an interim measure to the planned replacement of the pumps under the NSCII project, the Corporation refurbished the pumps between 2011 and 2012. However the scheme continued to experience pump defects during the reporting period. In an effort to find a sustainable solution, the Corporation engaged the original equipment manufacturer and pump supplier, KSB Pumps and Valves (Pty) Ltd to maintain the pumps and assess the condition and configuration of pumping equipment accordingly, to improve the scheme’s operating conditions.



Operational Highlights (CONTINUED)

Groundwater

Water supply challenges were also experienced in several areas that use groundwater due to the drying up and breaking down of boreholes as a result of mining of the resource, the drought and constant operation. The most affected areas included some areas around Tsabong, Semolale, Radisele, Sefhare, Molepolole and Goodhope, amongst others.

During these severe water shortage periods the Corporation bowed to these highly affected areas. Bowsing proved to be costly and not sustainable but was the only measure the Corporation could use to mitigate the effects of the shortages.

The public's requests to utilise government owned boreholes for private consumption increased during the year. These were assessed on their individual merits and approved or turned down accordingly. Despite the approvals, boreholes were granted to individuals or private entities on the understanding that should the government need to use the boreholes for national supply these boreholes will be repossessed.

The Wellfield Monitoring Framework whose development commenced during the previous year was completed. The framework guided the Corporation in groundwater management to ensure sustainable abstraction and efficient utilisation of underground water resources.

Water Losses

At the beginning of the year under review, water losses as a percentage of system input volume remained unchanged from the previous reporting period, at approximately 29% on average, which the Corporation found to be too high and put measures in place to reduce towards its targeted 15% and below. Most of the water losses were registered in villages which generally have high incidences of infrastructure failure brought about mainly by dilapidated networks, unmetered standpipes, inefficient meters and physical losses.

To address this challenge the Corporation completed a water loss audit and embarked on several initiatives including pressure management, replacement of critical pipes in areas identified to be most affected like Mahalapye, Palapye, Kanye, Molepolole and Ramotswa.

Further to that, a project to convert all public standpipes to pre-paid standpipes continued during the reporting period with standpipes in the Mochudi, Molepolole and Kasane Management Areas converted. Installation works in the outstanding areas stood at over 90% complete. The Corporation also undertook a project to replace stuck meters which contribute significantly to non-revenue water.

The functioning of water meters and other infrastructure such as valves and pipelines was greatly compromised during the period by lime scale build-up in some areas such as Selebi Phikwe and Tsabong contributing to high water losses. The lime scale build-up also resulted in a high number of stuck meters which were a major cause of unaccounted for water.

Wastewater Services

Effluent compliance continued to pose a challenge as most WUC wastewater facilities did not comply to the BOS: 93 standard. To address this challenge, the optimisation of all wastewater treatment facilities was done by upgrading infrastructure to acceptable standards with a view that this would improve the compliance rating of the effluent standard.



Gaborone Wastewater Treatment Plant

The Corporation also developed the Trade Effluent Agreement (TEA) for various industries to sign. The objective of the TEA is to control and monitor potential pollution by industries through the indiscriminate discharge of trade effluent into the sewer system, overloading the treatment capacity of wastewater treatment facilities as they are not designed to treat trade effluent. In addition to the TEA the Corporation advised all organisations that produce greasy effluent to install grease traps. WUC thereafter intensified its education on the benefits of fitting grease traps and carried out inspections in relevant organisations that produce greasy effluent.

The Corporation experienced a lack of instrumentation capacity to monitor all parameters as recommended by the effluent standards. The country's only three Wastewater Treatment Plants, namely Gaborone, Francistown and Selebi Phikwe experienced frequent blockages caused by fat deposits introduced into the system by vacuum tankers which deposit their effluent directly into the treatment plants. The Corporation introduced the use of enzymes to digest the fat. However, this method was found to be costly and not wastewater treatment ponds friendly. In other parts of the country where the Corporation uses wastewater ponds, the ponds' capacities proved to be inadequate to handle wastewater generated in major villages and surrounding areas.

Water Quality

Water quality remained a challenge during the reporting period. The problem was emphasised in areas taken over under the Water Sector Reforms Programme due to the dilapidated chlorination infrastructure or total absence of such infrastructure. To address this, routine water quality monitoring continued in all the Corporation's operational areas throughout the reporting period. Water samples were collected and analysed for various microbiological and chemical constituents from various points in the supply network. Drinking water met the BOS 32:2009 for chemical parameters in the old WUC areas.



Operational Highlights (CONTINUED)

However, in areas taken over by WUC from other water authorities, water standards remained a challenge as most of these areas did not have chlorination facilities and for those that had, the facilities were dilapidated and out of use. The Corporation embarked on a project to rehabilitate infrastructure and start chlorination in those areas which had facilities as well as install chlorinators in those areas that did not have any. By the close of the reporting period twenty six (26) additional villages across the country had chlorinators installed, bringing the total number of villages taken over under the WSRP and provided with chlorinators to 126.

Regular plant inspections were maintained in all areas and regular cleaning of service tanks also helped to improve the quality of water. In further efforts to improve the quality of water the Corporation explored alternative disinfection methods which offer a more efficient and safer to handle alternative to the conventional chlorination process.

Customer Services

The takeover of more villages under the Water Sector Reforms Programme saw the Corporation's customer base grow from 222 000 to 300 000 during the year, a 35% growth from the same period

last year. This growth brought with it challenges of customer expectations, the Corporation adjusting to servicing new areas, most with inadequate infrastructure and in most cases no plot numbers and access to the various properties. In line with its vision, *"we aspire to be a leader in utility services"* the Corporation came up with various initiatives to improve its service quality.

Customer Service Centres were opened in areas taken over under the reforms programme, to ensure the accessibility of WUC services to all. The Contact Centre which is reachable through a toll free number 0800 555 555 also offered a 24hr service to customers nationwide. Agreements with Botswana Post and four commercial banks, namely Barclays, First National Bank Botswana, Stanbic and Standard were signed to allow customers to pay their water bills through them. In remote areas mobile collections were introduced where WUC visits the villages on a pre-announced date to collect bill payments.

Long queues were experienced in WUC revenue offices during peak periods including pay days. Generally customers do not pay water bills resulting in the Corporation being owed millions of pula, something that has an adverse impact on the Corporation's operations as its operations are largely financed from its revenues.

Production and delivery of customer bills continued to be a problem, mainly due to incorrect and/or incomplete customer data. To address this, the Corporation embarked on a data collection and clean-up project to ensure customer data is correct, which is the first step in ensuring the bills reach their intended recipients.

During the year under review potable water connection fees were standardised to P1 500 for connections up to 50 metres so as to make water accessible to most. This fee is highly



subsidised as some of these connections actual cost could be in excess of P3 000.

Due to these revised connection charges the Corporation experienced a sharp rise in applications for new connections. To service these applications the Corporation hired private plant and machinery as well as labour to expedite the connections. The Rural water Supply Strategy was developed outlining some strategic initiatives for short, medium and long term solutions

to improve the Corporation's operational efficiency and manage public expectations in rural villages.

Stakeholder consultations played a pivotal role in keeping WUC in touch with its various stakeholders and were an effective vehicle for the Corporation to give information and receive feedback from them. Consultations on various issues were done with various stakeholder groups ranging from law makers, Full District

Councils, Dikgosi, Village Development Committees, the business community and the general public. The Corporation continued to establish Village Water Committees in an effort to involve the community in water resources management. Some of these committees were effective, they reported pipe bursts, water wastage and other anomalies in their villages and worked with WUC to curb these.





Major Projects

During the review period, the Corporation engaged in various major projects in a quest to have relevant infrastructure to the various conditions under which it operates. These projects covered both potable and wastewater and some of them were brought forward from the 2011/12 review period. Cabinet approved the increase of emergency water supply funds from P362 million to P1.101 billion. The funds will be used to implement water supply augmentation initiatives.

Status of Emergency Projects from the Previous Reporting Period

INTERVENTION	BENEFITS	STATUS AS AT 31 MARCH 2013
The acceleration of the development framework for groundwater monitoring and reporting. Due diligence on drought impact on groundwater resources at area level and implementation of mitigation measures.	To enhance the sustainability of ground water supplies	A Consultant had been engaged and had started work.
Rehabilitation of the Palapye Wellfield	This will augment supply to Palapye and surrounding areas to reserve Letsibogo Dam for the Greater Gaborone area.	On-going, completion expected in August 2013 (6 months duration)
The procurement and installation of backup generators countrywide.	This will ensure continuous availability of power even during load-shedding	Completed in November 2012
The Ramotswa Wellfield has significant amounts of water which have not been exploited due to the fact that the wellfield is contaminated. WUC is currently working on building a treatment plant to treat the water for potable use.	This will take pressure off the Gaborone Dam. Plans to build the treatment plant will continue.	Treatment plant not started due to lack of funds. Refurbishment of boreholes award had been approved by MTC of 20th March and awaiting award by BTC of 3rd April 2013.
The erection of water tanks and repair of damaged ones across the country	The increased capacity tanks will ensure the availability of water for longer periods during water supply interruptions.	Completed except for some in Kgalagadi District and Kopong.





Operational Highlights (CONTINUED)

Status of Emergency Projects from the Previous Reporting Period

INTERVENTION	BENEFITS	STATUS AS AT 31 MARCH 2013
The installation of telemetry and chlorination infrastructure countrywide.	WUC will be able to monitor water levels remotely, promoting efficiency and the curbing of water losses from overflowing tanks. Chlorination will be done for all areas to ensure the availability of potable water.	Done in 26 villages taken over under the WSRP.
The equipping of boreholes in Molepolole, Bobonong and other areas.	This will augment supply to the relevant areas.	<ul style="list-style-type: none"> - Molepolole started March 2013, scheduled completion December 2013 - Bobonong awarded - Sefhare awarded
Procurement of water bowsers	This will increase the amount of water that can be bowsered to communities during water supply interruptions.	All supplied and delivered by December 2012
Construction of packaged water treatment plants	Increased capacity of plants treating water to potable standards.	- Sorilatholo awarded Malatswai, Kazungula tender process in progress

Over and above these emergency projects, the Corporation will continue to implement medium and long term projects which will include the construction of primary infrastructure such as pump stations.

In addition, the Corporation is in the process of developing a diversified Rural Water Supply Strategy to counteract the water supply limitations in the rural water supply situation due to the inherent differences between rural and urban water supply requirements.

North South Carrier Scheme II (NSCII)

To augment water supply from the north to the south of the country, the government commenced construction of a second pipeline, the North South Carrier Scheme II (NSCII). The NSC II construction project suffered unexpected delays due to the finalisation of requisite project contract commencement formalities. By the end of the year the construction of the first phase of the project, NSCII A which comprises a 78km bulk raw water transfer pipeline from Break Pressure Tank I (BPTI) near Letsibogo Dam to Palapye had commenced.

Reclamation of Gaborone Wastewater for Potable Use

Following the recommendations of the National Water Master Plan Review of 2006 to recycle wastewater for potable use to augment supplies, the Corporation has been involved in a water reclamation project from its Glen Valley Wastewater Treatment Plant since. When complete, the project will supply 18% of the Greater Gaborone's demand per day. During the previous reporting period the initial project to build a recycling plant was at tender evaluation stage but had to be shelved during the current reporting period for lack of funds.

Chemical dosing room - Mmamashia Water Treatment Plant





CSR & Stakeholder Management

Corporate Social Responsibility

The Corporation continued to build sustainable relationships with its stakeholders during the year. For its customers WUC committed to achieving its set customer service standards as well as quality standards and stakeholder involvement in relevant issues.

Guided by its Corporate Social Responsibility Policy the Corporation implemented projects to assist it to remain socially sustainable. The Corporation adopted a culture of non-discrimination, inclusivity and fairness in all aspects of its business. The highly subsidised water connection fees effected In July 2012, regular stakeholder consultations through various fora, the Health and Wellness Employee programme, amongst other efforts all strove to realise this.

Various Corporate Social Responsibility projects were also completed during the year. These include a donation of 150 pairs of shoes to orphans in Letlhakeng, a house to a destitute family in

Kanye, a photocopier and printing machine in Sefhare and litter picking in Masunga amongst other initiatives.

Safety, Health and Environment (SHE)

The Corporation's safety record took a knock following the death of four employees during the course of their duties. Three drowned in the Gaborone Dam and one fell from a water tank in Mosojane Village.

Following investigations into these incidents the Corporation's Standard Operating Procedures (SOPs) were found to be in place and relevant. Findings were that the Corporation needed to do



150

PAIRS OF SHOES TO ORPHANS
IN LETLHAKENG

1

HOUSE TO A DESTITUTE
FAMILY IN KANYE

more in the area of enforcement and adherence to these by some employees. The Corporation put relevant measures and controls in place to ensure adherence and strict monitoring.

In line with the Corporate Safety, Health and Environment Strategy (SHE) which aims to reduce the number of preventable incidents such as those recorded during the year, the Corporation carried out SHE training and workshops. The Corporate SHE Standards were reviewed to accommodate the new operations such as wastewater management that the Corporation assumed as a result of its expanded mandate under the WSRP.

Guided by its Environmental Policy the Corporation ensured that its business operations were conducted in an environmentally sensitive manner. Incidents of at least 400 cattle carcasses were reported at Letsibogo Dam and 50 at Shashe Dam. The cattle got trapped in the mud while drinking water from the dams. The carcasses were disposed off in line with environmental regulations and in collaboration with the relevant stakeholders.

Our Employees

The absorption of employees taken over under the Water Sector Reforms Programme continued during the year with targeted programmes to manage the transition. These included staff inductions, workshops, sporting

activities and other social events. Management training, including coaching commenced during the period and will continue into the foreseeable future as the training is cascaded to other cadres in the Corporation.

In-house courses on soft-skills such as customer service training, employee relations training, amongst others, were run within the Corporation for the majority of the employees. Safety Health & Quality (SHEQ) training also took place. Guided by its Health and Wellness Policy the Corporation provided medical screening for occupational related illnesses. Health and financial management education was emphasized for employees throughout the period.



General Information

(Incorporated in Botswana in terms of the Water Utilities Corporation Act of 1970 - Laws of Botswana Cap 74:02)

BUSINESS

The original mandate for the Corporation was to provide water supply services to the urban and peri urban areas of Botswana. In accordance with the 5 year Water Sector Reforms project that was implemented in May 2009, the Corporation is in the process of taking over potable water supply services and waste water services in the whole country.

MEMBERS OF THE BOARD

Nozipho A. Mabe	Chairman
Thari E. Ntshole	Vice Chairman
Obolokile T. Obakeng	
Godfrey B. Molefe	
Rachel Nekati	
Pharoah Mosupi	Appointed 1 May 2012
Zuma Chengeta	Appointed 1 May 2012
Mercia B. Makgalemele	

EXECUTIVE DIRECTORS

Godfrey W Mudanga	Chief Executive Officer
Nginani Mbayi	Deputy Chief Executive-Operations & Water Resources
Taboka Muke	Finance Director
Harry B. Pheko	Regional Operations Director South
Matlhogonolo L. Mponang	Human Resources and Administration Director
Wilheminah M. Pheto	Corporation Secretary
Tsholofelo Bogosi	Internal Audit Director
Gaselemogwe Senai	Infrastructure Director
Meshack Balebetse	Regional Operations Director North
Lilian Mosimaneotsile	Technical Services Director

REGISTERED OFFICE

Water Utilities Corporation Head Office
Sedibeng House
Plot 17530, Luthuli Road
Industrial Site
Gaborone

INDEPENDENT AUDITORS

Deloitte & Touche
P O Box 778
Gaborone



Index to the Annual Financial Statements for the year ended 31 March 2013

50) Statement of
Responsibility by the
Members of the Board

52) Independent Auditor's
Report

54) Statement of
Comprehensive Income

55) Statement of Financial
Position

56) Statement of Changes
in Equity

57) Statement of Cash
Flows

58) Significant Accounting
Policies

68) Notes to the Financial
Statements

82) Financial Risk
Management

The following statements are presented in compliance with the requirements of the Water Utilities Corporation Act (Cap. 74.02):-



Statement of Responsibility by the Members of the Board

For the year ended 31 March 2013

The members of the Board are responsible for the preparation and fair presentation of the annual financial statements of Water Utilities Corporation, comprising the statement of financial position as at 31 March 2013, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards ("IFRS") and in the manner required by the Water Utilities Corporation Act 1970 (CAP 74:02).

The members of the Board are required by the Water Utilities Corporation Act 1970 (CAP 74:02), to maintain adequate accounting records and are responsible for the content and integrity of and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the Corporation at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with IFRS. The external auditors are engaged to express an independent opinion on the annual financial statements.

The members of the Board are responsible for such internal controls as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The annual financial statements are prepared in accordance with IFRS and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The responsibilities of the members of the Board also include maintaining adequate accounting records and an effective system of risk management.

The members of the Board acknowledge that they are ultimately responsible for the system of internal financial control established by the Corporation and place considerable importance on maintaining a strong control environment. To enable the directors 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 Corporation and all employees are required to maintain the highest ethical standards in ensuring the business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Corporation is on identifying, assessing, managing and monitoring all known forms of risk across the Corporation. While operating risk cannot be fully eliminated, the members of the Board endeavour to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.



Statement of Responsibility by the Members of the Board *(continued)*

For the year ended 31 March 2013

Although the members of the Board are primarily responsible for the financial affairs of the Corporation, they are supported by the Corporation's external auditors. The auditors are responsible for reporting on whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

The external auditors are responsible for independently reviewing and reporting on the Corporation's annual financial statements. The annual financial statements have been examined by the Corporation's external auditors and their report is presented on pages 52 and 53.

The members of the Board are 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.

Going Concern

The members of the Board have made an assessment of the Corporation's ability to continue as a going concern and there is no reason to believe the business will not be a going concern in the year ahead. The Ministry of Minerals, Energy and Water Resources has undertaken to provide full financial support to the Corporation to enable it to continue its operations in the foreseeable future.

Members of the Board's approval of the annual financial statements

Against this background, the members of the Board accept responsibility for the annual financial statements on pages 54 to 84 which were approved on 20 December 2013 and signed on its behalf by:

.....

Director

.....

Director



Independent Auditor's Report

For the year ended 31 March 2013

TO THE MINISTER OF MINERALS, ENERGY AND WATER RESOURCES AND BOARD MEMBERS PURSUANT TO SECTION 25 OF THE WATER UTILITIES CORPORATION ACT (CHAPTER 74:02)

Report on the Financial Statements

We have audited the accompanying annual financial statements of Water Utilities Corporation, which comprise the statement of financial position as at 31 March 2013, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 54 to 84.

Directors' Responsibility for the Financial Statements

The Corporation's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as the directors determine 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 conduct our audit in accordance with 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 judgment, 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 give a true and fair view of the financial position of Water Utilities Corporation as at 31 March 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Independent Auditor's Report *(continued)*

For the year ended 31 March 2013

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 4 of the financial statements, which states that title to the land and buildings acquired by the Corporation from the Department of Water Affairs and the Ministry of Local Government under the Water Sector Reforms Project has not yet been transferred to the Corporation. The Corporation anticipates the title to the assets to be transferred in the fullness of time.

A handwritten signature in black ink that reads 'Deloitte & Touche'.

Deloitte & Touche
Certified Auditors

20 December 2013
Gaborone

Practicing Member:
P. Naik (19900296)

Supplementary information

Without qualifying our opinion we report the following:

Report on Other Legal and Regulatory Requirements

In accordance with Section 25 of the Water Utilities Corporation Act (Chapter 74:02), we confirm that:

- The Corporation has kept proper books of account with which the financial statements are in agreement
- We have received all the information and explanations necessary for the performance of our audit
- The Corporation has complied with all the financial provisions of the Water Utilities Corporation Act (Chapter 74:02)
- The Corporation has not complied with Section 26(1) of the Water Utilities Corporation Act (Chapter 74:02), which requires the Corporation to submit to the Minister a comprehensive report on its operations and audited accounts within a period of six months after the end of the financial year.

The Deloitte logo, consisting of the word 'Deloitte.' in a bold, sans-serif font.



Statement of Comprehensive Income

as at 31 March 2013

	Notes	2013 P'000	Restated 2012 P'000
Revenue		790,778	579,685
Other income		10,683	2,276
Revenue grant amortisation	13	200,000	23,768
		<u>210,683</u>	<u>26,044</u>
Operating expenses			
Water treatment and distribution expenses		(467,236)	(516,649)
Administration and other expenses		(512,386)	(430,386)
Depreciation and amortisation		(184,790)	(186,558)
Total operating expenses		<u>(1,164,412)</u>	<u>(1,133,593)</u>
Operating deficit	1	(162,951)	(527,864)
Finance income	3	29,664	45,462
Finance costs	3	(57,775)	(59,193)
Total loss and total comprehensive loss for the year		<u>(191,062)</u>	<u>(541,595)</u>

Statement of Financial Position

for as at 31 March 2013

	Notes	2013 P'000	Restated 2012 P'000
ASSETS			
Non-current assets			
Property, plant and equipment	4	4,608,857	4,431,031
Intangible assets	5	11,404	13,629
Development expenditure	6	625,866	538,249
		<u>5,246,127</u>	<u>4,982,909</u>
Current assets			
Inventories	7	33,498	37,170
Trade and other receivables	8	292,805	151,247
Cash and cash equivalents	10	428,415	730,664
		<u>754,718</u>	<u>919,081</u>
Total assets		<u>6,000,845</u>	<u>5,901,990</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Irredeemable capital	11	752,738	752,738
Government contribution - Water Sector Reforms	12	3,621,559	3,336,653
Revenue grant	13	-	-
Interest subsidy reserve	22	10,984	9,213
Retained earnings		796,214	989,047
		<u>5,181,495</u>	<u>5,087,651</u>
Non-current liabilities			
Borrowings	14	515,036	549,212
Consumer deposits		21,821	20,933
Retirement benefit obligation	20	21,611	3,920
		<u>558,468</u>	<u>574,065</u>
Current liabilities			
Borrowings	14	30,664	28,101
Trade and other payables	15	230,218	212,173
Dividend payable	16	-	-
		<u>260,882</u>	<u>240,274</u>
Total liabilities		<u>819,350</u>	<u>814,339</u>
Total equity and liabilities		<u>6,000,845</u>	<u>5,901,990</u>



Statement of Changes in Equity

for the year ended 31 March 2013

	Notes	Irredeemable capital P'000	Government contribution P'000	Revenue Grant P'000	Interest subsidy Reserve P'000	Retained earnings P'000	Total P'000
Balance at 1 April 2011		752,738	1,604,971	6,768	7,421	1,532,434	3,904,332
Government contributions received	12,13	-	1,731,682	17,000	-	-	1,748,682
Revenue grant amortisation	13	-	-	(23,768)	-	-	(23,768)
Total comprehensive loss for the year - as restated	21	-	-	-	-	(541,595)	(541,595)
Transfer to interest subsidy reserve	22	-	-	-	1,792	(1,792)	-
Balance at 31 March 2012 - as restated		752,738	3,336,653	-	9,213	989,047	5,087,651
Government contributions received	12,13	-	284,906	200,000	-	-	484,906
Revenue grant amortisation	13	-	-	(200,000)	-	-	(200,000)
Total comprehensive loss for the year		-	-	-	-	(191,062)	(191,062)
Transfer to interest subsidy reserve	22	-	-	-	1,771	(1,771)	-
Balance at 31 March 2013		752,738	3,621,559	-	10,984	796,214	5,181,495

Statement of Cash Flows

for the year ended 31 March 2013

	Notes	2013 P'000	Restated 2012 P'000
Cash flows from operating activities	17	(297,981)	(296,384)
Cash flows (used in)/from investing activities			
Development expenditure incurred		(115,692)	(75,707)
Proceeds on sale of property, plant and equipment		498	1,853
Purchase of property, plant and equipment and intangible assets		(51,761)	(29,988)
Interest received		29,664	45,462
Net cash used in investing activities		(137,291)	(58,380)
Cash flows from/(used in) financing activities			
Interest paid		(57,775)	(59,193)
Dividend paid	16	-	(36,311)
Repayment of long-term borrowings		(31,968)	(30,233)
Increase in consumer deposits		888	1,997
Increase in retirement benefit liability		17,691	36,965
Cash grants received from Government- revenue grant		200,000	17,000
Government contribution - Water Sector Reforms		-	259,851
Assets transferred in terms of Water Sector Reforms		4,187	62,041
Net cash from financing activities		133,023	252,117
Net decrease in cash and cash equivalents		(302,249)	(102,647)
Cash and cash equivalents at beginning of the year		730,664	833,311
Cash and cash equivalents at end of the year	10	428,415	730,664



Significant Accounting Policies

for the year ended 31 March 2013

1. General Information

The Corporation has been established under the Water Utilities Corporation Act Cap 74:02. The Corporation provides water supply services to urban and peri urban centres in Botswana. In accordance with the 5 year Water Sector Reforms Project the Corporation is in the process of taking over potable water supply services and waste water services in the whole country.

2. Summary of principal accounting policies

The principal accounting policies applied by the Corporation in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Corporation have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Water Utilities Corporation Act (CAP 74:02). The financial statements have been prepared under the historical cost convention with the exception of certain assets and liabilities at fair value through profit or loss.

Adoption of new and revised standards (IFRS)

a) Standards and Interpretations adopted

Standards and interpretations affecting amounts reported in the current period

In the current period, the Corporation has adopted the following new and revised Standards and Interpretations of the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 April 2012. The adoption of these standards has not resulted in changes to the Corporation's accounting policies.

Revised International Financial Reporting Standards

IAS 1

Presentation of Financial Statements - Disclosure requirements for comparative information. The amendment is effective for periods beginning on or after 1 January 2013. The amendment clarified that there is no need to present three (3) sets of balance sheet notes when a third (3rd) balance sheet is presented and that the third (3rd) balance sheet is only required if the restatement in terms of IAS 8 has a material impact on the 3rd balance sheet. The Corporation has early adopted this Standard.

Significant Accounting Policies *(continued)*

for the year ended 31 March 2013

IFRS 7

Financial Instruments: Disclosures - Amendments enhancing disclosures about transfers of financial assets - effective date: Annual periods beginning on or after 1 July 2011.

IAS 12

Income Taxes - Limited scope amendment (recovery of underlying assets) - effective date: Annual periods beginning on or after 1 January 2012.

b) **Standards and Interpretations in issue but not yet effective**

At the date of approval of these financial statements, the following Standards and Interpretations were issued but were not yet effective.

New/Revised International Financial Reporting Standards

IFRS 10

Consolidated Financial Statements - annual periods beginning on or after 1 January 2013.

IFRS 11

Joint Arrangements - annual periods beginning on or after 1 January 2013.

IFRS 12

Disclosure of Interests in Other Entities Annual periods beginning on or after 1 January 2013
IFRS 13 Fair Value Measurement - annual periods beginning on or after 1 January 2013.

IAS 19

Employee Benefits (2011) - An amended version of IAS 19 Employee Benefits with revised requirements for pensions and other post-retirement benefits, termination benefits and other changes - annual reporting periods beginning on or after 1 January 2013.

IAS 27

Amended version of IAS 27 which now only deals with the requirements for separate financial statements, which have been carried over largely unchanged from IAS 27 Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements - annual reporting periods beginning on or after 1 January 2013.

IAS 28

Investments in Associates and Joint Ventures (2011) - This Standard supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures - annual reporting periods beginning on or after 1 January 2013.

Management has not yet assessed the impact of the above Standards and Interpretations on the financial statements of the Corporation.



Significant Accounting Policies *(continued)*

for the year ended 31 March 2013

2.2 Property, plant and equipment

Property, plant and equipment comprise mainly land, dams and buildings, distribution systems, vehicles and equipment. All property, plant and equipment purchased by the Corporation is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Property plant and equipment transferred to the Corporation in terms of the Water Sector Reforms is accounted for at valuation on the depreciated replacement cost basis.

Freehold land is not depreciated and leasehold land is depreciated over the lease period. Depreciation on other assets is calculated on the straight-line method to write off the depreciable cost (acquisition cost less residual value) of each asset over their estimated useful lives (in years) as follows:

Leasehold land, dams and buildings	25-99
Distribution systems, plant and machinery	5-40
Vehicles and equipment	5-15

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position 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.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised within 'Other Income' in the statement of comprehensive income.

Interest costs on borrowings obtained to finance the construction of property, plant and equipment are capitalised during the period of time that is required to complete and prepare the property for its intended use. Other borrowing costs are expensed. Development expenditure is depreciated from the date of commissioning.

The amount of the cost of property, plant and equipment financed by Government is set off against the advances from government on these projects and depreciation is charged on the net amount. The amount of the cost of property, plant and equipment financed by private consumers is capitalised and depreciated over the expected useful lives of these assets. The amount received from consumers is recognised as deferred income and amortised over the expected useful life of the related assets.

Significant Accounting Policies *(continued)*

for the year ended 31 March 2013

2.3 Computer software development costs

Acquired computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (five years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

However, costs that are directly associated with identifiable and unique software products controlled by the Corporation and have probable economic benefit exceeding the cost beyond one year, are recognised as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Computer software development costs recognised as intangible assets are amortised using the straight-line method over their useful lives, not exceeding a period of 5 years.

2.4 Impairment of non financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For purposes of assessing impairment,

assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non financial assets other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

2.5 Leases

Leases of property, plant and equipment where the Corporation has substantially all risks and rewards of ownership are classified as finance leases. Finance lease are capitalised at the inception of the lease at the lower of the fair value of the asset or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long term payables.

The interest element of the finance cost is charged to income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.



Significant Accounting Policies *(continued)*

for the year ended 31 March 2013

2.6 Dividend distribution

Dividend distribution to the Corporation's shareholders is recognised as a liability in the Corporation's financial statements in the period in which dividends are approved by the Corporation's shareholders.

2.7 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted average method. Cost includes the purchase price and all of the direct costs incurred in bringing the products to their present location and condition. Provision is made for obsolete, slow moving and defective inventories.

2.8 Revenue recognition

Revenue comprises invoiced value of water sales to customers, customers' new connection and reconnection fees net of value added tax. Revenue from sale of water is recognised when consumers' water consumption has been metered and the consumer accounts billed on an accrual basis.

Connection and reconnection fees are recognised when service is provided.

Interest income is recognised on a time proportion basis using the effective interest method.

2.9 Trade receivables

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

A provision for impairment of trade receivables is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired.

The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowable account, and the amount of the loss is recognised in the income statement within 'administration and other expenses'. When a trade receivable is uncollectible, it is written off against the allowable account for trade receivables. Subsequent recoveries of the amounts previously written off are credited against 'administration and other expenses' in the statement of comprehensive income.

2.10 Foreign currency translation

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Botswana Pula, which is the Corporation's functional and presentation currency.

Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting



Significant Accounting Policies *(continued)*

for the year ended 31 March 2013

from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

2.11 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at current and call accounts with banks and other short term highly liquid investments net of bank overdrafts.

2.12 Employee benefits

Pension obligations

The Corporation operates a combined defined benefit and defined contribution pension scheme which is funded through payments to a trustee administered fund.

A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service and compensation.

The liability in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date minus the fair value of plan assets together with adjustments for actuarial gains/losses and past service cost. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited to the income statement.

For defined contribution plan obligations, the contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

2.13 Borrowings

Borrowings are recognised initially at proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method.

Borrowings obtained from the Debt Participation Capital Funding Limited (DPCFL) and Government borrowings at rates below the ruling market rates are originally recorded at amortised cost, determined based on the effective yield method. Under this method, the fair value of the borrowing is measured as the present value of anticipated future cash flows discounted at an applicable interest rate.

The difference between the borrowing received and the amortised cost is recognised as income when the borrowing is received, and unwinds to interest expense over the period of the loan based on the effective interest rate yield curve.



Significant Accounting Policies *(continued)*

for the year ended 31 March 2013

2.14 Assets financed by consumer capital contributions

Contributions by Government in respect of capital works on extensions to the reticulation systems are set off against the related expenditure upon completion of the work. While such work is in progress, the costs incurred are carried forward under development expenditure and the respective contributions from the government are shown as a liability. The contributions by consumers other than government are classified as deferred income and amortised over the expected useful lives of the related assets.

2.15 Provisions

Provisions are recognised when the Corporation has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Employee entitlements to annual leave and contractual gratuities are recognised when they accrue to employees as a result of services rendered by employees up to the statement of financial position date.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.16 Financial Instruments

(a) Financial assets

Initial recognition

The Corporation classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised on the Corporation's balance sheet when the Corporation becomes a party to the contractual provisions of the instrument.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at amortised cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and at bank and funds on deposits.

Effective interest method

The effective interest method is a method of calculating the amortised of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all cash paid or received that form an integral part of the effective interest

Significant Accounting Policies *(continued)*

for the year ended 31 March 2013

rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Impairment of financial assets

'Loans and receivables' are assessed for indicator of impairment at each statement of financial date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For 'Loans and receivables' objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the consumer will enter bankruptcy or financial re-organisation.

For certain categories of loans and receivables, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Corporation's past experience of collecting payments, and increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

De-recognition of financial assets

The Corporation de-recognises a financial asset only when the contractual right to the cash flows from the asset expire; or it transfers the financial asset substantially all the risks and rewards of ownership of the asset to another entity. If the Corporation neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Corporation recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Corporation retains substantially all the risks and rewards of ownership of a transferred financial asset, the Corporation continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.



Significant Accounting Policies *(continued)*

for the year ended 31 March 2013

2.16 Financial Instruments *(continued)*

(b) Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

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

Cash contribution received from the Government of Botswana are recorded at the proceeds received and assets transferred in terms of the Water Sector Reforms are recorded at fair value at transfer date. The fair value of property, plant and equipment is determined on the depreciated replacement cost basis.

Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

De-recognition of financial liabilities

The Corporation de-recognises financial liabilities when, and only when, the Corporation's obligations are discharged, cancelled, or they expire.

2.17 Trade payables

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

2.18 Related party transactions

Related parties comprise the Government of Botswana, executive management and members of the Board.

Transactions with related parties are in the normal course of business and are conducted on an arm's length basis.

2.19 Government grants

Government grants are not recognised until there is reasonable assurance that the Corporation will comply with conditions attaching to them and that the grants will be received.

Government grants whose primary condition is that the Corporation should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of related assets.

Significant Accounting Policies *(continued)*

for the year ended 31 March 2013

Government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Corporation with no future related costs are recognised in profit or loss in the period in which they become receivable.

2.20 Critical accounting estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Corporation's accounting policies. These areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Corporation's financial statements are disclosed.

Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of events that are believed to be reasonable under the circumstances.

a) Determination of useful lives and residual values of property, plant and equipment

The Corporation tests annually whether, the useful life and residual value estimates are appropriate and in accordance with its accounting policy.

b) Impairment loss on trade receivables

The Corporation reviews its debtors to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Corporation makes judgments as to whether there is any observable data indicating that there is a measurable decrease in estimated cash flows from a portfolio of debtors. Management uses estimates based on historical loss experience of assets. The assumptions used for estimating the amount and timing of cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

c) Retirement Benefit Asset

The amounts recognised in the statement of financial position have been determined based on a valuation performed at 31 March 2012 by independent actuaries using the projected unit credit method. The assumptions and methodology used are consistent with IAS 19. The pension costs and statement of financial position items are dependent on the assumptions made for future experience. IAS 19 sets out how these assumptions should be set. These assumptions are shown in note 20 to the financial statements.

d) Provision for slow moving or obsolete inventory

Management's estimate of slow moving or obsolete inventory is based on the movement of inventory and general condition of inventory items as the Corporation does not hold inventory for resale, but for use in its operations. The provision for obsolescence is based on the physical review of inventory items by management.



Notes to the Financial Statements

for the year ended 31 March 2013

	2013 P'000	Restated 2012 P'000
1. Operating deficit		
The following items have been included in arriving at operating deficit:		
Auditor's remuneration - current year	1,950	1,750
- prior year	460	924
Depreciation of property, plant and equipment (note 4)	181,581	183,045
Amortisation of intangible assets (note 5)	3,209	3,513
Increase in accounts receivable impairment provision	21,584	51,701
Board members' fees	216	134
Operating lease rentals - property	6,732	5,727
Remuneration - executive management	9,310	9,910
Foreign exchange gains	(3,182)	(1,167)
	<u> </u>	<u> </u>
2. Staff Costs		
Salaries and wages	547,331	417,592
Pension costs - defined benefit scheme (note 20)	30,742	45,850
- defined contribution scheme	44,883	38,676
Terminal benefits	2,705	24,336
Medical aid	23,813	18,721
Other (leave travel concession, recruitment)	3,775	4,239
Number of employees:		
Permanent and pensionable	3,177	2,830
Industrial class	8	9
	<u>3,185</u>	<u>2,839</u>
3. Finance income/costs		
Finance income		
Interest on deposits and short term investments	29,664	43,585
Foreign exchange transaction gains	-	1,877
	<u>29,664</u>	<u>45,462</u>
Finance costs		
- Government of Botswana loans	11,454	11,149
- DPCFL borrowings	4,231	2,211
- foreign bank loans	3,462	3,860
- bank overdraft	6	15
- DMTN Bond	42,498	42,498
Foreign exchange transaction gains	(3,876)	(540)
	<u>57,775</u>	<u>59,193</u>

Notes to the Financial Statements *(continued)*

for the year ended 31 March 2013

	Land, dams and buildings P'000	Distribution systems, plant and machinery P'000	Vehicles and equipment P'000	Total P'000
4. Property, plant and equipment				
COST OR VALUATION				
Balance as at 1 April 2011	963,894	3,210,411	142,231	4,316,536
Additions	11,576	10,147	426	22,149
Transfer from development expenditure (note 6)	263	8,551	7,839	16,653
Acquired in terms of Water Sector Reforms (note 12)	607,124	375,015	58,690	1,040,829
Disposals	-	-	(3,887)	(3,887)
Balance as at 31 March 2012 - as restated	1,582,857	3,604,124	205,299	5,392,280
Additions	2,285	6,489	42,003	50,777
Transfer from development expenditure (note 6)	1,993	21,350	4,732	28,075
Acquired in terms of Water Sector Reforms (note 12)	76,419	172,227	32,073	280,719
Disposals	-	-	(800)	(800)
	<u>1,663,554</u>	<u>3,804,190</u>	<u>283,307</u>	<u>5,751,051</u>
DEPRECIATION				
Balance at 1 April 2011	189,490	547,251	44,421	781,162
Depreciation charge	56,049	104,478	22,518	183,045
Disposals	-	-	(2,958)	(2,958)
Balance at 31 March 2012 - as restated	245,539	651,729	63,981	961,249
Depreciation charge	56,552	92,399	32,630	181,581
Disposals	-	-	(636)	(636)
Balance at 31 March 2013	<u>302,091</u>	<u>744,128</u>	<u>95,975</u>	<u>1,142,194</u>
Carrying amount at 31 March 2012 - as restated	<u>1,337,318</u>	<u>2,952,395</u>	<u>141,318</u>	<u>4,431,031</u>
Carrying amount at 31 March 2013	<u>1,361,463</u>	<u>3,060,062</u>	<u>187,332</u>	<u>4,608,857</u>

In terms of the Water Sector Reforms the Corporation acquired property, plant and equipment and other assets from the Department of Water Affairs and Ministry of Local Government.

The value of the land, dams, buildings, distribution systems and plant and machinery includes assets relating to Phase I to V of the Water Sector Reforms transferred to the Corporation between May 2010 and 31 March 2013. These assets were independently valued by professionally qualified valuers namely CB RealReach, who are members of the Real Estate Institute of Botswana.

The title to all the land and buildings taken over under the Water Sector Reforms has not yet been transferred to the Corporation. The Corporation anticipates the title to the assets to be transferred in the fullness of time.



Notes to the Financial Statements *(continued)*

for the year ended 31 March 2013

	2013 P'000	Restated 2012 P'000
5. Intangible assets		
Computer software development costs		
COST		
Balance at beginning of the year	25,273	17,434
Additions	984	7,839
Balance at end of the year	<u>26,257</u>	<u>25,273</u>
AMORTISATION		
Balance at beginning of the year	11,644	8,131
Amortisation	3,209	3,513
Balance at end of the year	<u>14,853</u>	<u>11,644</u>
Carrying amount at 31 March	<u>11,404</u>	<u>13,629</u>
6. Development expenditure		
Balance at beginning of the year	538,249	110,234
Contract costs incurred during the year	115,692	75,707
Acquired in terms of Water Sector Reforms	-	368,961
Contract costs capitalised during the year	(28,075)	(16,653)
Balance at end of the year	<u>625,866</u>	<u>538,249</u>
7. Inventories		
Chemicals	980	4,324
Spares and consumables	32,928	33,125
Provision for obsolete inventories	(410)	(279)
	<u>33,498</u>	<u>37,170</u>
Movement in the provision for obsolete inventories		
Balance at beginning of the year	279	101
Allowance made during the year	131	178
Balance at end of the year	<u>410</u>	<u>279</u>

Notes to the Financial Statements *(continued)*

for the year ended 31 March 2013

	2013 P'000	Restated 2012 P'000
8. Trade and other receivables		
Trade receivables	426,146	262,772
Less provision for impairment of receivables	<u>(151,112)</u>	<u>(124,489)</u>
	275,034	138,283
Other receivables	17,771	12,964
	<u>292,805</u>	<u>151,247</u>
<p>All receivables were reviewed for impairment. As at 31 March 2013, trade receivables of P 192 748 000 (2012: P113 675 000) were past due but not impaired. The age analysis of these trade receivables is as follows:</p>		
Up to 3 months	133,605	70,406
3 - 6 months	59,143	43,269
	<u>192,748</u>	<u>113,675</u>
<p>As at 31 March 2013, trade receivables of P151 112 000 (2012: P124 489 000) were impaired and provided for. The movements on the provision for impairment of trade receivables are as follows:</p>		
Balance at beginning of the year	124,489	108,242
Increase in impairment provision - statement of comprehensive income	21,584	51,701
Net increase/(decrease) in impairment provision - grant account (note 12)	5,039	(35,454)
Balance at end of the year	<u>151,112</u>	<u>124,489</u>

The raising and release of provision for impaired receivables have been included in the 'trade receivables – impairment charge for bad and doubtful debts' in the statement of comprehensive income. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Corporation does not hold any collateral as security except for connection deposits.

Except for the total amount owed by the Government of the Republic of Botswana (note 21), there are no individual customers with a balance representing 5% or more of the total receivable balance as at year end.



Notes to the Financial Statements *(continued)*

for the year ended 31 March 2013

	2013 P'000	Restated 2012 P'000
9. Analysis of financial instruments		
Financial instruments by category		
Receivables		
Trade and other receivables	292,805	145,564
Cash and cash equivalents	428,415	730,664
	<u>721,220</u>	<u>876,228</u>
Other financial liabilities		
Borrowings	545,700	577,313
Trade and other payables	230,218	212,173
	<u>775,918</u>	<u>789,486</u>
There were no liabilities at fair value through the profit and loss, derivatives used for hedging, or available-for-sale financial instruments as at year end.		
10. Cash and cash equivalents		
Cash and cash equivalents comprise:		
Current and call accounts	Interest rate	
	(4,244)	118,679
Short-term investments		
- Pula	5.92%	157,604
- Rand	5.90%	45,133
- US dollar	2.25%	16,604
Money Market Fund	5.78%	213,318
		<u>428,415</u>
		<u>730,664</u>
Comprising:		
- Pula		366,678
- Rand		45,133
- US dollar		16,604
		<u>428,415</u>
		<u>730,664</u>

Cash and cash equivalents includes an amount of P11.0 million (2012: P9.2 million) relating to EIB interest subsidy reserve, the use of which is restricted to "Water Sector Building" projects as set out in note 23.

Notes to the Financial Statements *(continued)*

for the year ended 31 March 2013

	2013 P'000	Restated 2012 P'000
11. Irredeemable capital		
Balance at beginning and end of the year	<u>752,738</u>	<u>752,738</u>
12. Government contribution - Water Sector Reforms		
Balance at beginning of the year	3,336,653	1,604,971
Received during the year: Cash contribution	-	259,851
Property, plant and equipment (note 4)	280,719	1,040,829
Development expenditure (note 6)	-	368,961
Other assets	9,226	26,587
Reversal of prior year provision for bad debts	-	50,495
Provision for bad debts	(5,039)	(15,041)
Balance at end of the year	<u>3,621,559</u>	<u>3,336,653</u>
13. Revenue grant		
Balance at beginning of the year	-	6,768
Cash grant received during the year	200,000	17,000
Amortisation	(200,000)	(23,768)
Balance at end of the year	<u>-</u>	<u>-</u>



Notes to the Financial Statements *(continued)*

for the year ended 31 March 2013

		2013 P'000	Restated 2012 P'000	
14. Borrowings				
Current borrowings				
Foreign borrowings		9,969	9,922	
Government borrowings		17,218	15,040	
DPCFL borrowings		3,477	3,139	
		<u>30,664</u>	<u>28,101</u>	
Non current borrowings				
Foreign borrowings		65,941	79,492	
Government borrowings		42,282	59,499	
DPCFL borrowings		6,813	10,221	
DMTN Bond		400,000	400,000	
		<u>515,036</u>	<u>549,212</u>	
Total Borrowings		<u>545,700</u>	<u>577,313</u>	
<p>Foreign borrowings are secured by guarantees issued by Government. Government borrowings and Debt Participation and Capital Funding Limited (DPCFL) borrowings are unsecured. The Domestic Medium Term Note (DMTN) Bond is unsecured.</p>				
Maturity of non current borrowings				
Between 1 and 2 years		14,145	14,079	
Between 2 and 5 years		81,455	85,225	
Over 5 years		419,436	449,908	
		<u>515,036</u>	<u>549,212</u>	
Foreign borrowings	Denomination			
Loan 38 EIB	JPY	1,422	2,801	4,142
	USD	289	568	840
Loan 45 EIB	ZAR	79,684	87,653	95,621

Notes to the Financial Statements *(continued)*

for the year ended 31 March 2013

Loan Number	% rates of interest p.a.	Period of repayment P'000	Balance at 1 April 2012 P'000	Interest unwinding for the year P'000	Adjustments for currency variations P'000	Repaid during the year P'000	31 March 2013 P'000
<i>14. Borrowings (continued)</i>							
<i>Foreign Loans direct to the Corporation</i>							
38-EIB	3	1998-2013	4,474	-	434	(2,345)	2,563
45-EIB	8-12	2008-2023	84,940	-	(4,310)	(7,283)	73,347
			<u>89,414</u>	<u>-</u>	<u>(3,876)</u>	<u>(9,628)</u>	<u>75,910</u>
<i>Foreign loans on-lent by Government</i>							
42-EIB	8	1997-2022	74,539	3,568	-	(18,607)	59,500
			<u>74,539</u>	<u>3,568</u>	<u>-</u>	<u>(18,607)</u>	<u>59,500</u>
<i>DPCFL Loans</i>							
35	7.5	1992-2014	2,770	159	-	(1,152)	1,777
36	8	1993-2015	4,392	248	-	(1,284)	3,356
37	9.5	1993-2016	6,198	256	-	(1,297)	5,157
			<u>13,360</u>	<u>663</u>	<u>-</u>	<u>(3,733)</u>	<u>10,290</u>
<i>DMTN Bond</i>							
WUC001	10.65	2008-2018	195,000	-	-	-	195,000
WUC002	10.6	2008-2026	205,000	-	-	-	205,000
			<u>400,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>400,000</u>
TOTAL LOANS			<u>577,313</u>	<u>4,231</u>	<u>(3,876)</u>	<u>(31,968)</u>	<u>545,700</u>



Notes to the Financial Statements *(continued)*

for the year ended 31 March 2013

	2013 P'000	Restated 2012 P'000
15. Trade and other payables		
Trade creditors	155,873	131,579
Interest accrued on borrowings	12,933	12,261
Other payables and accruals	61,412	68,333
	<u>230,218</u>	<u>212,173</u>
16. Dividend payable		
Balance at beginning of the year	-	36,311
Paid during the year	-	(36,311)
Balance at end of the year	<u>-</u>	<u>-</u>
<p>Section 19 of the Water Utilities Corporation Act (Chapter 74:02), requires the Corporation to pay annually, a dividend of 25% of the surplus for the year, excluding revenue grant. No dividend has been declared for the year ended 31 March 2013 (2012: PNil) as the Corporation reported a deficit, excluding revenue grant of P391 062 000 (2012: P565 363 000).</p>		
17. Cash flows (used in)/from operating activities		
Total loss and total comprehensive loss for the year	(162,951)	(527,864)
Adjustment for non cash items		
Amortisation of Water Sector Reforms revenue grant (note 13)	(200,000)	(23,768)
Depreciation and amortisation of intangible assets	184,790	186,558
Profit on sale of assets	(334)	(924)
Foreign exchange translation profit and interest unwind	355	4,306
	<u>(178,140)</u>	<u>(361,692)</u>
Changes in working capital		
Inventories	3,672	(17,196)
Trade and other receivables	(141,558)	(7,972)
Trade and other payables	18,045	90,476
	<u>(119,841)</u>	<u>65,308</u>
Cash used in operating activities	<u>(297,981)</u>	<u>(296,384)</u>

Notes to the Financial Statements *(continued)*

for the year ended 31 March 2013

	2013 P'000	Restated 2012 P'000
18. Commitments		
Operating lease commitments		
The future minimum lease payments under non-cancellable operating leases are as follows:		
Due within one year	3,429	4,863
Due after one year	11,233	8,216
	<u>14,662</u>	<u>13,079</u>
Capital commitments		
Capital expenditure approved at the statement of financial position date but not recognised in the financial statements is as follows:		
Approved and contracted for	452,458	80,545
Approved but not yet contracted for	744,192	514,650
	<u>1,196,650</u>	<u>595,195</u>

The commitments are expected to be financed from internally generated funds, external borrowings and funding from the Government of the Republic of Botswana under the Water Sector Reforms Project.

19. Contingent liabilities

- (a) The Corporation has guaranteed the obligations of its employees under the motor vehicle, motor cycle and bicycle guarantee scheme up to a total of P25 million (2012: P25 million). The scheme is operated through Wesbank (a Division of First National Bank of Botswana Limited).
- (b) The Corporation has guaranteed the obligations of its employees under the residential property and personal loans scheme up to a total of P15 million (2012: P15 million). The schemes are operated through Barclays Bank of Botswana Limited and First National Bank of Botswana Limited respectively.
- (c) The Corporation has no obligations (2012: PNil) in respect of litigation matters, which existed at financial year end.



Notes to the Financial Statements *(continued)*

for the year ended 31 March 2013

20. Retirement benefit liability

Pension benefits

As at 31 March 2013, 2 867 members of the defined benefit plan had either opted out of the defined benefit plan or joined the Corporation after 1 August 2009. 67 members opted to remain under the defined benefit plan. During the current year, a professional actuarial valuation was performed in terms of IAS 19. The assets of the fund are held in an independent trustee administered fund, administered in terms of the Pension and Provident Funds Act (CAP 27:03). The last statutory actuarial valuation was done on 31 March 2013. The next actuarial valuation of the fund will be performed in March 2014.

Management and industrial class employees are provided with gratuity in terms of their conditions of service, which is paid at the conclusion of their contracts of employment.

Amounts recognised in the statement of financial position are determined as follows:

	2013 P'000	Restated 2012 P'000
Present value of funded obligations		
Opening balance	66,102	79,863
Current service cost	3,619	3,498
Interest cost	4,805	5,874
Benefits paid	(11,505)	(14,919)
Transfers out of the fund	-	(14,253)
Actuarial losses	16,619	6,039
Present value of funded obligation	<u>79,640</u>	<u>66,102</u>
Fair value of plan assets		
Opening balance	62,182	112,908
Expected return on assets	6,564	9,987
Employer contributions	2,671	3,342
Benefits paid	(11,505)	(14,919)
Transfers out of the fund	-	(15,129)
Actuarial (losses)/gains	(1,883)	(34,007)
Fair value plan assets	<u>58,029</u>	<u>62,182</u>
Obligation in the statement of financial position	<u>(21,611)</u>	<u>(3,920)</u>

Notes to the Financial Statements *(continued)*

for the year ended 31 March 2013

	2013 P'000	Restated 2012 P'000
20. Retirement benefit assets <i>(continued)</i>		
Movement in liability recognised in the statement of financial position		
Balance at the beginning of the year	27,724	(33,045)
Loss as shown below	30,742	45,850
Employer contributions	11,505	14,919
Balance at end of the year	69,971	27,724
Amounts recognised in the statement of comprehensive income are as follows:		
Current service cost	4,805	5,874
Interest cost	(11,505)	(14,919)
Expected return on plan assets	(2,671)	(3,342)
Loss on transfers out of the fund	18,502	40,046
Actuarial losses recognised during the year	21,611	18,191
Total included in staff costs (note 2) - restated	30,742	45,850
The principal actuarial assumptions used are as follows:		
Discount rate	7.0%	7.5%
Expected return on plan assets	7.0%	9.1%
Future salary increases	6.4%	5.5%
Future pension increases	4.8%	3.4%

21 Prior year re-statements

- i) - Accounting for property, plant and equipment acquired in the prior year in terms of the Water Sector Reforms and related depreciation. These assets were not accounted for in the prior year as the fair value of the assets had not yet been determined.
- ii) - Actuarial loss on fair value of the plan assets. The assets in respect of the defined benefit section of the combined defined benefit and defined contribution fund were overstated at the previous valuation date thereby understating the actuarial loss that was recognised in the prior year annual financial statements.

The effect of the re-statement on the comparative information is as follows:



Notes to the Financial Statements *(continued)*

for the year ended 31 March 2013

	Property plant and equipment P'000	Government contribution P'000	Retirement benefit obligation P'000	Retained earnings P'000
21 Prior year re-statements <i>(continued)</i>				
Balance as at 31 March 2012 - as previously stated	3,447,001	2,307,829	10,351	(1,048,112)
Fair value of property, plant and equipment acquired in terms of the Water Sector Reforms (i)	1,028,824	(1,028,824)	-	-
Depreciation charge relating to assets brought to account (i)	(44,794)	-	-	44,794
Actuarial loss on fair value of plan assets (ii)	-	-	(14,271)	14,271
Balance as at 31 March 2012 - as restated	<u>4,431,031</u>	<u>1,279,005</u>	<u>(3,920)</u>	<u>(989,047)</u>

**Re-stated
2012
P'000**

Statement of Comprehensive Income

Total loss for the year - as previously stated	(482,530)
Depreciation charge on assets acquired (i)	(44,794)
Actuarial loss on fair value of plan assets (ii)	(14,271)
Total loss for the year - as re-stated	<u>(541,595)</u>

22. Related party transactions

Related parties comprise the Government of the Republic of Botswana, Key Management and Board members. Transactions with related parties are disclosed in the related notes.

Refer to note 14 for borrowings and the amounts outstanding in loans at 31 March 2013 to the Government of the Republic of Botswana.

Refer to note 16 for dividend matters.

A list of members of the Board is disclosed on the front page of the report. In 2013, the total Director's fees paid amounted to P216 000 (2012: P134 000) (note 1).

A list of the Executive Management is disclosed on the front page of the report.

The total remuneration of Executive Management was P9.3 million (2012: P9.9 million).

Water sales to the Government of the Republic of Botswana during the year ended 31 March 2013 (included in revenue) amounted to P295 million (2012: P236 million)

Accounts receivable from the Government of Republic of Botswana at 31 March 2013 (included in trade receivables) amounted to P94 million (2012: P87 million).

Notes to the Financial Statements *(continued)*

for the year ended 31 March 2013

	2013 P'000	Restated 2012 P'000
23. Interest subsidy reserve		
Balance at the 1 April 2012	9,213	7,421
Interest subsidy income - transfer	1,771	1,792
Balance at the 31 March 2013	10,984	9,213

The interest subsidy reserve relates to a subsidy on the European Investment Bank (EIB) loan 45 (note 14). In accordance with the agreement with the EIB, the Corporation shall pay net interest on the daily balance of the loan balance at the interest rate applicable reduced by an interest rate subsidy of 1.82%, provided that the interest payable shall at no time fall below 3%. The Corporation can use the cash equivalent of the difference between the subsidised interest rate and unsubsidised interest rate (the interest subsidy) for the financing of measures to enhance operational efficiency, capacity building and other "Water Sector Building" measures as agreed with the EIB.

24. Taxation

The Corporation is exempt from paying tax on income as per Income Tax Act Schedule II – Part 1.

25. Going concern

The Corporation has incurred a loss for the year of P191 062 000 (2012:P541 595 000). The Corporation rationalised tariffs countrywide on 1 June 2013. The rationalisation is expected to result in an increase in revenue by an average of 15%. The Ministry of Minerals, Energy and Water Resources has undertaken to provide full financial support to the Corporation to enable it to continue its operations in the foreseeable future.

26. Events after reporting date

There have been no material events between the reporting date and the date of approval of these financial statements that may require adjustment or disclosure in the financial statements.



Financial Risk Management

for the year ended 31 March 2013

Financial risk factors

The Corporation's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash and price risk), credit risk and liquidity risk. The Corporation's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Corporation's financial performance. Risk management is carried out under policies approved by the board. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Corporation is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the American Dollar (USD), Japanese Yen (JPY) and South African Rand (ZAR). Foreign exchange risk arises from borrowings, investments and other commercial transactions. Management has set up a policy to require the Corporation to manage its foreign exchange risk against functional currency. To manage foreign exchange risk arising from those transactions, the Corporation ensures that it maintains adequate funds in foreign currency in its bank accounts and negotiates terms and conditions in the loan agreements with the lenders. Foreign exchange risk arises when commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

At 31 March 2013, the Corporation's foreign exchange exposure was to ZAR, USD and Yen borrowings and investments. If the Botswana Pula (BWP) had moved 1% against foreign currencies, the effect would have resulted in an exchange loss or gain of P2.6 million (2012: P1.5 million).

This would be as a result of foreign exchange loss or gain on the translation of foreign currency-denominated financial assets and liabilities.

(ii) Interest rate risk

The Corporation's interest rate risk arises from long-term borrowings and short-term deposit investments. Borrowings and short-term deposit investments at variable rates expose the Corporation to cash flow interest rate risk. Borrowings and short-term deposit investments issued at variable rates expose the Corporation to fair value interest rate risk. The Corporation maintains its borrowings and short-term deposit investments at variable interest rates agreed with the counterparties. During 2012/2013 financial year, the Corporation's borrowings and short-term deposit investments at variable rates were denominated in Pula (BWP), US Dollar (USD) and Rand (ZAR).

A 1% movement in interest rate in foreign currency borrowings and short-term deposit investments would increase/decrease the Corporation's net interest charge by P220 000 (2012: P349 000)

Financial Risk Management *(continued)*

for the year ended 31 March 2013

ii) Price risk

The Corporation does not deal in commodities and therefore there is no exposure to price risk.

(iv) Cash flow and fair value interest rate risk

The Corporation manages interest rate risk by ensuring that excess funds are invested in high interest earning bank and investment accounts.

(b) Credit risk

Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to consumers, including accounts receivable.

Deposits are payable by consumers before water is connected. Accounts receivable are settled in cash, cheques or electronic transfer. Accounts receivable outstanding were reviewed and considered for impairment provision in accordance with IAS 39 — Financial Instruments: Recognition and Measurement.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, and the availability of funding through an adequate amount of committed credit facilities.

Management monitors rolling forecasts of the Corporation's liquidity reserves (comprises cash and cash equivalents – note 10) on the basis of expected cash flow. This is generally carried out by management in accordance with practice and limits set by the board.

The table below analyses the Corporation's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows:

	Less than 1 year P'000	Between 1 and 2 years P'000	Between 3 and 5 years P'000	Over 5 years P'000
At 31 March 2013				
Borrowings	82,278	79,035	373,104	421,975
Consumer deposits	-	-	-	21,821
Accounts payable	<u>230,218</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 March 2012				
Borrowings	93,619	82,278	207,331	666,782
Consumer deposits	-	-	-	20,933
Accounts payable	<u>212,173</u>	<u>-</u>	<u>-</u>	<u>-</u>



Financial Risk Management *(continued)*

for the year ended 31 March 2013

(d) Capital risk management

The Corporation is a parastatal established by an Act of Parliament. The Corporation is supported by its shareholder, Government of Botswana. The Corporation's objectives when managing capital are to safeguard the ability to continue as a going concern in order to provide returns and benefits for stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Consistent with others in the industry, the Corporation monitors capital on the basis of the debt to equity ratio. This ratio is calculated as long term debt divided by total equity.

	2013 P'000	2012 P'000
Total long - term debt (note 14)	545,700	577,313
Total capital and reserves	5,181,495	5,087,651
Debt : equity ratio	0.11	0.11

The Corporation considers a debt equity ratio of less than 1 to be acceptable. This is reviewed annually after considering market conditions and the growth goals of the Corporation.

The ratio of interest bearing debt to the net book value of property, plant and equipment is calculated as:

	2013 P'000	2012 P'000
Total interest bearing borrowings (note 14)	545,700	577,313
Property, plant and equipment (note 4)	4,608,857	4,431,031
Ratio of interest bearing debt to property, plant and equipment	11.84%	13.03%

(e) Fair value estimates

The fair value of financial instruments that are not traded in an active market is based on quoted bid prices. The Corporation uses a variety of methods and makes assumptions that are based on market conditions existing at each statement of financial position date. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Corporation for similar financial instruments.



Acronyms

for the year ended 31 March 201

BOBS	Botswana Bureau of Standards
CMT	Corporate Management Team
DIFR	Disabling Injury Frequency Rate
DCS	Debt Service Coverage
DPCFL	Debt Participation Funding Limited
EIB	European Investment Bank
EMS	Environmental Management Systems
EIA	Environmental Impact Assessment
ERM	Enterprise Wide Risk Management
IBC	Inside Back Cover
IFC	Inside Front Cover
ISO	International Standards Organisation
IWRM	Integrated Water Resources Management
MCM	Million Cubic Metres
NSC	North South Carrier
NOSA	National Occupational Safety Association
PSO	Project Support Office
PDSF	Public Debt Service Fund
SADC	Southern African Development Community
SHE	Safety Health and Environment
TCM	Thousand Cubic Metres
USD	United States Dollar
WAB	Water Apportionment Board
WDM	Water Demand Management
WHO	World Health Organisation
WUC	Water Utilities Corporation
ZAR	South African Rand