





Water Utilities Corporation 2018 Annual Report



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➤ Digital Excellence in Water Service Provision



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in Water
Service
Provision.**



Performance Highlights 2017/18



WATER SALES REVENUE

P1.8 billion From
P1.4 billion in 2016/17



RETURN ON EQUITY

9.4% from 2% in 2016/17



RETURN ON NET OPERATING ASSETS

0.087% from -2% in 2016/17



OPERATING PROFIT

P267.8 million from P96.4 million
loss in 2016/17



OPERATING ASSETS

P5.8 billion from
5.7 billion in 2016/17



TOTAL OPERATING EXPENSES

P1.6 billion from
P1.5 billion in 2016/17



DEBT / EQUITY RATIO

0.07



Five Year Performance at a Glance



	2017/18	2016/17	2015/16	2014/15 Re-stated	2013/14
		P'000	P'000	P'000	P'000
Income and cashflow statements					
Water sales	1,821,753	1,405,775	1,276,595	975,801	914,994
Total revenue	1,845,899	1,423,345	1,307,272	1,006,744	948,061
Operating expenses	1,321,971	1,282,917	1,327,057	1,122,539	1,076,400
Depreciation and amortisation	256,131	236,808	241,178	219,867	224,276
Net finance charges	24,673	41,196	26,392	47,201	33,703
Net surplus / (loss)	513,152	(137,575)	121,629	(370,282)	(346,559)
Net increase / (decrease) in cash equivalent	677,950	(17,719)	129,045	(76,800)	(254,840)
Balance Sheet					
Operating assets	5,880,884	5,660,156	5,703,916	5,440,892	5,040,805
Development Expenditure	732,223	825,868	490,799	632,679	771,755
Government equity	6,484,024	6,158,301	5,565,562	5,340,282	4,975,050
Interest subsidy reserve	16,420	15,686	14,802	13,789	12,493
Reserves	571,645	58,915	197,184	76,568	448,146
Long term borrowings	230,885	400,000	400,000	400,874	480,494
Retirement benefit asset / (obligation)	-	-	-	-	(1,351)
Financial Ratios %					
Return on equity	9.4	-2	2	-7	-7
Return on net operating assets	0.087	-2	2	-7	-7
Debt service cover (times)	1.2	-2	-3.5	-4.7	-4.9
Debt/Equity Ratio	0.07	0.08	0.08	0.08	0.10
Statistics %					
Annual Inflation	2.8%	3.5%	3	2.8	4.4
Prime lending rate	6.5%	7%	7.5	7.5	9

Corporate Profile



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

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

Between 2009 and 2013, the Corporation was rationalized to supply potable water to all urban centres and villages in the country, as well as managing wastewater and sanitation services. The programme dubbed Water Sector Reforms (WSR), resulted from a study to rationalise the water sector in Botswana and ensure uniform service levels.

The provision of uniform service levels as well as upgrading of water infrastructure however, remains a long-term assignment that the Corporation pursues.

The WSR commencement and implementation drove the Corporation's customer base from 80,000 when the programme began to over 400,000 to date which translate to an annual supply of 80 TCM potable water.

The Corporation's has an asset base valued at over P8 billion which comprises nine dams; the Gaborone, Nnywane, Bokaa, Shashe, Letsibogo, Ntimbale, Dikgatlong, Thune and Lotsane dams. The Corporation further owns the North South Carrier Scheme I (NSCI), which is a combination of a 360km long pipeline, water treatment plants and associated pump stations as well as break pressure tanks. Other assets include potable water and wastewater treatment facilities.

At the helm of its strategy, WUC envisions "to be a world class water utility". The vision challenges the Corporation to

reposition itself to meet an increased demand on a wide and geographically diverse, yet sophisticated customer base, by illuminating them with user-friendly platforms that makes doing business with WUC easy and exciting while following international and corporate governance practices.



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Corporate Strategy

The Corporation identified strategic objectives in its planning period 2015-2018 to guide its activities, business focus and the allocation of resources as follows:

VISION
TO BE A WORLD CLASS WATER UTILITY

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

Strategic Perspective:
Stakeholder management, service delivery and quality.

Strategic objectives:

- Improve customer satisfaction.
- Improve portable water and wastewater quality.

Strategic Perspective:
Results oriented talent, leadership and culture.

Strategic objectives:

- Attract, develop and retain skilled and competent workforce.
- Drive high performance culture.

Strategic Perspective:
Financial Growth Sustainability

Strategic objectives:

- Reduce non revenue water
 - Increase revenue.
- Reduce cost to income ratio.

Strategic Perspective:
Infrastructure Development and Operational Efficiency.

Strategic objectives:

- Enhance and stabilize infrastructure
- Manage water resources to ensure sustainability.
 - Improve strategic use of ICT.
 - Transform WUC business model.
 - Improve Corporate Governance and Risk Management.

High Level Corporate Structure



Digital Excellence In Water Service Provision

The Corporation delivers quality water by utilizing the latest technologies to be on a competitive advantage by providing excellent service in line with its vision of becoming a "World class water service provider". The quality that resonates with excellence stems from systems of water abstraction, supply includes card payment.



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Digital Excellence in Water Service Provision



Board Chairman's Statement

Dear Valued Shareholder

The financial year 2017/18 was a busy year for the Corporation, particularly on the water supply projects side. The focus was on rehabilitating and increasing schemes and water storage to meet demand and to cater for growth as well as reticulating new areas. Several of the projects are however, long term with long term impact expected. We urge our customers to bear with us, for we are certain that once complete, safe and clean drinking water will be accessible to many across the country. Sanitation services would have also vastly improved.

Operational Highlights

The Corporation's mandate is to ensure access to water and provision of decent sanitation. Whilst we closed the year with healthy dam levels for sustained surface water provision, we continued to observe high salinity and low rates of replenishment in our underground water supply. Over abstraction was felt in areas such as Kanye, Dukwi, Letlhakane, Ghanzi and Molepolole despite their dependence on underground water.

That said, the year also saw the completion of Mahalapye Water Supply Distribution Network Rehabilitation, the result of which is that new areas such as Cornsfield, Kanamo, Mahalapye West and Moko wards were connected to the water supply network. As part of the same project, some old water pipelines were also replaced, but the work is expected to complete in the next financial year.

The Mmamashia treatment project to restore the plant components to optimal capacity was also completed. This followed the plant's decrease in treatment capacity due to a drop-in components' efficiency.

The reporting period also saw the approval of the World Bank

Group funding. The procurement process for most of these projects has commenced, with works scheduled to commence in the upcoming financial year.

Financial Sustainability

As I reported last year, the Corporation financial performance is gradually improving. Total revenue for the year ended 31 March 2018 was P1.821 Billion compared to the previous year's revenue of P1.405 Billion.

The increase in revenue was mainly due to increased potable water sales. The Corporation also put in place cost control measures, reducing cost to income ratio from 110.9% reported last year to 84.9% reported in the period ended 31 March 2018.

On the downside, customer debt remained a challenge, but the Corporation continues to put in place strategies to reduce debt.

The above picture clearly shows that the Corporation has the potential to be financially sustainable going into the future. Regular tariff review, cost containment, improved operational efficiencies and intensified collection efforts will go a long way in improving the Corporation financial performance.

As the Chairman, I am quite pleased with the strides the Corporation has taken to provide access to water for the citizens of this beautiful country.

We fully understood the importance of water as a basic human need and shall continue to ensure its security for all.

Matome Tsholetsa Malema
Board Chairman



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Mmamashia Water Treatment Plant

Board of Directors



Chairman
Matome Malema
 Tenure: 2014 - 2018

Qualifications

Executive MBA (UCT Graduate School of Business, RSA) BEng (Hons) Mineral Process Engineering (Camborne School of Mines, UK).



Vice Chairman
Dr. Obolokile Obakeng
 Tenure: While Deputy Permanent Secretary

Qualifications

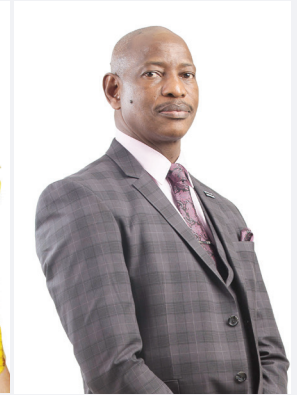
PhD Hydrology (University of Amsterdam) MSc Water Resources Hydro- Geology (International Institute Aerospace Survey and Earth Sciences) BSc Geology (University of Botswana).



Member
Mokgadi Nteta
 Tenure: 2015 - 2019

Qualifications

MBA Human Resource Management (City University Business School, London) Fellow of the Chartered Institute of Personnel and Development (UK) BSc Hons Applied Psychology (University of Wales Institute of Science and Technology).



Member
John Phatshwe
 Tenure: 2018- 2022

Qualifications

Masters in Environmental Planning (University of Nottingham, UK) Masters of Commerce in Project Management (Cranfield College, RSA) BA Environmental Science (University of Botswana).

Corporate Governance

The Board of Directors

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

Chairman
Matome Malema

Vice Chairman and Chairman of the Operations and Technical Committee
 Dr Obolokile Obakeng

Member and Chairman of the Finance, Risk & Audit Committee
 Godfrey Molefe

Member and Chairman of the Human Resources Committee
John Phatshwe





Member
Noble Katse
 Tenure: 2018- 2022

Member
Galeitsewe Ramokapane
 Tenure: 2018- 2022

Member
Godfrey Molefe
 Tenure: 2016 - 2020

Member
Othusitse Lekoko
 Tenure: 2016-2020

Member
Juliana White
 Tenure: 2016-2020

Qualifications

MBA (University of Botswana) BA Statistics (University of Botswana).

Qualifications

BCom Human Resources Management & Industrial Relations (Zimbabwe Open University) Diploma in Agriculture (University of Botswana).

Qualifications

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

Qualifications

MSc GeoInformation Science & Earth Observation (University of Twente) Netherlands; BSc Parks & Natural Resources Management (California State University) USA

Qualifications

LMM (University of London); LLB (University of Botswana).

Member and Chairman of the Tender Committee
Noble Katse

Member
Galeitsewe Ramokapane

Member
Othusitse Lekoko

Member
Juliana White

Member
Mokgadi Nteta

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

Independent Auditors
Deloitte & Touche

Board Meetings

Board meetings

The Board meets at least quarterly. It follows a structured approach of delegation, reporting and accountability. This includes reliance on four Board Committees to carry out delegated duties, namely the Finance Risk and Audit, Tender and Human Resource and Operations and Technical Board Committees.

During the year under review, the Board convened four ordinary meetings and ten (10) special meetings.

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.

Board Remuneration

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

Chairman	P2250
Vice Chairman	P1800
Member	P1800

Chairmen of the Committees were also remunerated at P2250 for committee meetings.

Committees are as follows:

- HRC - Human Resource Committee
- BTC - Board Tender Committee
- FRAC - Finance Risk and Audit Committee
- OPTEC - Operations and Technical Committee

Human Resource Committee (HRC)

The Human Resource Committee comprises three members of the Board; John Phatshwe, Noble Katse and Mokgadi Nteta. It 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. The Committee meets at least quarterly. During the year under review it satisfied the requirement. It also convened five special meetings.



Tender Committee



The Tender Committee comprises four members of the Board; John Phatshwe, Godfrey Molefe, Noble Katse and Juliana White. It is responsible for the implementation of 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. Furthermore, there is a need to encourage and support local businesses in line with the Government's Economic Diversification Drive and other citizen empowerment policies.

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 supposed to meet eight times per year. During the year under review it met ten times.

Finance, Risk & Audit Committee

The FRAC comprises four members of the Board; Godfrey Molefe, Noble Katse, Mokgadi Nteta and Dr Obolokile Obakeng. The committee's activities are governed by the FRAC Charter which was approved by the Board. The Charter empowers the FRAC to provide its oversight responsibilities to the Board for:

- The financial reporting process
- The system of internal controls
- The audit process
- Corporate and information technology governance, and
- The Corporation's process for monitoring compliance with laws and regulations.

The Committee also provides advice on Corporate Risk Management and the budget.

In addition, the Water Utilities Corporation has an Internal Audit function charged with providing independent assurance to the FRAC on the existence and effectiveness of internal controls, the efficiency and effectiveness of governance processes and risk management, so that the Corporation's goals are met.

The Committee is scheduled to meet at least four times annually. During the period under review it satisfied this requirement as it held its four scheduled meetings and one special meeting.

Operations and Technical Committee (OPTECH)

The committee consists of five members; Dr Obolokile Obakeng, Matome Malema, Godfrey Molefe, Othusitse Lekoko and Galeitsiwe Ramokapane. The Operations and Technical Committee (OPTEC) assists the Board in monitoring and reviewing any matters of significance including:

- The abstraction, supply and distribution of water resources
- Project management and systems acquisition
- Asset operation and management
- Health, safety, environment and quality management
- Strategic management of technological innovation

Board meetings attendance

	BOARD			HRC			BTC			OPTEC		FRAC	
	ORDINARY	SPECIAL	TOTAL	ORDINARY	SPECIAL	TOTAL	ORDINARY	SPECIAL	TOTAL	ORDINARY	ORDINARY	SPECIAL	TOTAL
Matome Malema	2	5	7	N/A	N/A	N/A	N/A	N/A	N/A	3	N/A	N/A	N/A
Noble Katse	4	9	13	4	4	8	3	5	8	N/A	3	1	4
Godfrey Molefe	4	9	13	4	3	7	4	5	9	4	4	1	5
John Phatshwe	4	9	13	4	4	8	4	6	10	N/A	N/A	N/A	N/A
Othusitse Lekoko	3	8	11	1	1	2	N/A	N/A	N/A	2	N/A	N/A	N/A
Dr Obolokile Obakeng	0	3	3	N/A	N/A	N/A	N/A	N/A	N/A	3	1	1	2
Galeitsiwe Ramokapane	2	3	5	N/A	N/A	N/A	N/A	N/A	N/A	3	N/A	N/A	N/A
Mokgadi Nteta	4	9	13	4	4	8	N/A	N/A	N/A	N/A	4	1	5
Julianna White	3	6	9	1	1	2	1	3	4	N/A	N/A	N/A	N/A

KEY: N/A - Not a member of the committee

Reporting to the Botswana Government

The Board of the Corporation also reports to the Minister of Land Management, Water & Sanitation Services regularly on proceedings at Board meetings.

There are also continuous consultative meetings wherever necessary between the Board and the Minister. Management also sends quarterly reports on the Corporation's progress to the Ministry.

Going Concern

The financial statements for the year ending 31st March 2018 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.



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The Act further requires that the Audited Financial Statements be presented to the Minister by the 30th of September each year. The Corporation is expected to attend the Parliamentary Committee on Statutory Bodies annually, when invited to do so. The Board is satisfied that the Corporation has complied with this and other statutory requirements for the year that ended on 31st March 2018.

A statement by 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 from Page 45 of this Report.

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.



Chief Executive Officer's Report



I am delighted to present to you, our 47th Annual Report in line with the requirements of the Water Utilities Corporation Act, Cap 74:02. It has taken another year of hard work and commitment by our team, to steer our growth and improvement in the right direction. I take this opportunity to thank you.

We continue to review our business activities and have made efforts that ensure our ability to render the best customer service without compromising on our objectives. We have embraced innovation and made positive strides to the benefit of the customer.

The key performance indicators from our 2015-2018 Corporation's Strategic Plan were guided by the strategy perspectives which were set by the board of directors. Quarterly reviews, monitoring and evaluation were conducted to keep the Corporation focused on meeting set targets.

Infrastructure and Operational Efficiency

The Corporation's water sources were satisfactory during the year under review, especially those in the north. The Gaborone Dam which is the mainstay of the southern water supply, had a two percent increase that puts it at 79 percent, which means it can supply at its current rate for two years without inflow.

The Corporation continued to face challenges in groundwater due to natural factors such as high salinity, low rates of replenishment due to low rainfall and the deep-seated nature of our aquifers. Other challenges facing groundwater resources are old boreholes infrastructure and high leakages, vandalism and theft of equipment, illegal abstraction, and uncoordinated developments in the wellfields leading to groundwater pollution and over-abstraction and the ever-increasing water demands. Groundwater accounts for about 60 percent of water supply.

Some operational areas continued facing water shortages. Normal water supply to the areas require significant funding. Our

continued commitment to service excellence was demonstrated by an increased investment in infrastructure rehabilitation.

The government through the World Bank provided support for our efforts to bring water to stakeholders in the affected areas. The Corporation employees worked hard to provide water project solutions that traversed Botswana. The NSC Scheme operated satisfactorily despite some stoppages due to both planned and unplanned maintenance works.

Planned shutdowns were successfully carried out to allow for connection of new water developments that included boreholes, additional pump stations and associated break pressure tanks for enhanced water supply.

I am happy to report that our Laboratory is now international and regionally recognised following accreditation by the Southern African National Accreditation Services.

The accreditations bring confidence that our testing processes are meeting required standards.



Financial Growth and Sustainability

The Corporation has identified Financial Growth and Sustainability as one of the key strategic areas in its 2015-18 Corporate Strategy. The goal is to identify opportunities that will improve revenue streams and contribute to a sustainable financial base.

Several initiatives were identified that sought to among other things increase revenue, improve collection efficiency and reduce operational costs. The Strategy was developed following the Water Sector Reforms, which had negatively affected the Corporation's financial performance.

Although the Corporation is still on the road to recovery, there are indications that financial performance will improve going forward. Revenue for the period ended March 2018 reached P1.8 Billion, which was the target set in the Strategy.

The biggest challenge was experienced in the area of collection efficiency. The Corporation fell short of the set target and continues to put measures to improve collection.

In view of the ongoing restructuring exercise, the Corporation will not develop a new strategy in the new financial year, but will extend the timelines of the current Strategy to March 2019. The new Corporate Strategy will be aligned to a restructured organisation. This will also have the benefit of affording the Corporation an opportunity to consolidate performance in areas that recorded positive performance and strive to reach targets that it failed to reach in the current Strategy. One of the areas that will be given more attention is debt collection.

Initiatives that are planned for the next financial year include outsourcing debt collection and developing a Billing and Collection Strategy under the World Bank

funded projects. These initiatives, it is hoped, will help the Corporation attain its goal of Financial Growth and Sustainability.

Stakeholder Management, Service Delivery and Quality

We recognised that a customer's expectation is the driving force behind business existence. Our Organizational strategy facilitated the development of customer service objectives some of which are fulfilled through projects geared towards bringing customers closer.

The Corporation enhanced the technology to improve vital business processes that meet customer needs as a way of leveraging technology and our people's talent to improve service.

While our Quality Management System made strides through the QMS 9001:2015 documentation, we further created opportunities for online interactions with our customers to ease access to our services.

The efforts included the use of strategic partnerships such as that with the First National Bank of Botswana (FNBB).

Other smart investments also include the Geographical Information System (GIS) that direct us towards sites and provide immediate access to water equipment. Our technological advances are meant to empower the water user to become an active participant in the water service.

In our quest to be customer centric, we continued to interact with our customers through kgotla meetings, media conference, workshop, exhibitions, project tours and Corporate Social Investments. We joined Batswana to explain the water processes, accomplishments and challenges.

The Corporation further carried out

Environmental Impact Assessments (EIA) for relevant projects in line with legislative requirements and its EIA policy while also rehabilitating the environment following completion of water works.

On the billing side, we continue to make efforts to improve and enhance our billing platform as well as implementation of mitigations geared towards debt reduction.

The measures include immediate disconnection of water supply for non-payment, improved relations with major customers, improved metering and provision of alternative payment methods. All our stakeholder engagements are guided by the Stakeholder Management Strategy.

Results Oriented Talent, Leadership and Culture

One of the weakness identified in implementing the 2015-2018 strategy was a suboptimal organisational structure with unclear roles for some employees. As a key change agenda, the Corporation engaged the services of a consultant to restructure the organisation with a view to bring about optimisation and improved results through the alignment of roles with the right talent.

The revised structure is expected to appropriately resource areas such as borehole and wastewater management which were new to the Corporation when it became national during the Water Sector Reforms (WSR) of 2009.

As the reporting year closed, the restructuring project was yet to be completed amidst further consultations on issues of separation packages.

Looking Ahead

The Water Utilities Corporation recognises that the water industry by its nature is complex and even more demanding in



Botswana where challenges on the ground needs an extraordinary approach to tackle.

Funding is also critical to restore some operational requirements especially where the country remain inundated with inefficient water supply infrastructure.

While some mitigation measures were put in place through projects, most of them are long term.

WUC is still committed to do its best under the prevailing circumstances to remain true to its promise; of keeping it flowing, for you.

Acknowledgements

I would like to extend my gratitude to the Ministry, Board, Management, staff and all our stakeholders who continue to support

our efforts in providing a sustainable water service.

Despite a good rainy season, we remain a semi-arid country where water conservation remains a way of life. I appeal to our stakeholders to continue to support us in executing our mandate.

I invite you to use our varied self service channels to access our services, to learn more about our efforts to serve you.

Once again, I thank you for your support.

Mmetla Masire
Chief Executive Officer



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Corporate



Mmetla Masire
Chief Executive Officer

Responsibilities

The overall management of the Corporation, development and implementation of strategic plans and achievement of the organizational mission, vision, business objectives and goals established by the Board

Responsible for the broad policy objectives of the Corporation and general advice to the Board

- Water Supply
- Wastewater Services

- Operations and Maintenance
- Customer Billing & Commercial Services
- Customer Services & Quality
- Strategic Partnerships & Stakeholder Management
- Water Loss Reduction
- Water Resources Management
- Safety, Health, Environment & Quality



Felicity Ziga
Corporation Secretary

Responsibilities

- Risk Management
- Legal services
- Board Secretarial Services



Tsholofelo Bogosi
Head of Internal Audit

Responsibilities

- Assurance and Consulting
- Risk Management Evaluation
- Controls Evaluation
- Corporate Governance
- Appraise compliance with Statute, Policies and Procedures



Macheng E. Macheng
Human Resource Director

Responsibilities

- Organisational development
- Personnel & Training
- Staffing
- Employee relations
- Employee wellbeing
- Recruitment



Management Team



Thapelo Kalake
Shared Services Director

Responsibilities

- Information Technology (IT) including business systems
- Property and Administration
- Fleet Services
- Knowledge Management
- Asset Management
- Security Services



Taboka Muke
Chief Financial Officer

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
- Payroll Logistics & materials procurement



Gaselemogwe Senai
Sustainability and Water Resources Director

Responsibilities

- Sustainable water resources management
- Dams management
- Groundwater management
- Bulk water transfers
- Maintenance
- Water quality
- Safety, Health, Environment & Quality



Thapelo Leinaeng
Technical Services Director

Responsibilities

- Infrastructure and Capacity Planning
- Design/ Engineering Consultancy
- Major projects implementation
- Geographical Information Systems (GIS)
- Project Engineering and Construction management
- Infrastructure asset management

Operational Highlights



Surface Water Supply Situation

The Corporation's nine (9) dams; Gaborone, Letsibogo, Shashe, Dikgathong, Ntimbale, Lotsane, Thune, Nnywane and Bokaa were above 65 percent capacity.

The total water under storage for all the dams stood at 911.9 MCM as opposed to 1020.9MCM at the same period last year. The dam levels translated to an average of 82.4 % of water under storage while at the same time last year it was 92.2%. All dams levels were in a healthy state which led to improved water storage following good rainfall in January 2018.

Water level monitoring has been improved with the installations of electronic level sensors in some of the dams such as Thune, Lotsane, Letsibogo and Ntimbale.

These dams have been equipped with Long Range Ultrasonic sensors which improves the stability, precision and accuracy in measuring water Levels in turbulent waters.

The dam levels are logged at real time which assists in finding the Maximum Overflow Levels reached during the day or night.

The technology also assists in raising alarms for evacuation in case of emergency thereby improving Dam Safety.

Table 1: Dams water level situation as at 29th March 2018

Dam	Capacity MCM	Current Level (%) 29/03/2018	Same Date Last Year Level (%) 29/03/2017	Months of supply without inflow	Area supplied
Dikgathong	400	101.0	100.2	24	Greater Gaborone Mahalapye Palapye
Molatedi (SA dam supplying WUC)	201	38.4	65.0	53	Greater Gaborone
Gaborone	141.4	79.7	98.6	27	Greater Gaborone
Letsibogo	100	96.6	99.2	20	S/Phikwe, BCL & Mmadinare
Thune	90	69.3	86.1	-	Bobirwa Sub- District
Shashe	85.0	101.9	99.2	20	Greater Francistown
Ntimbale	26.5	99.9	99.8	15	North East & Tutume Sub-District
Lotsane	42.35	72.6	100.0	26	22 villages of Tswapong North
Bokaa	18.5	70.3	97.5	10	Greater Gaborone
Nnywane	2.3	97.4	95.8	12	Lobatse



Year to year dam situation

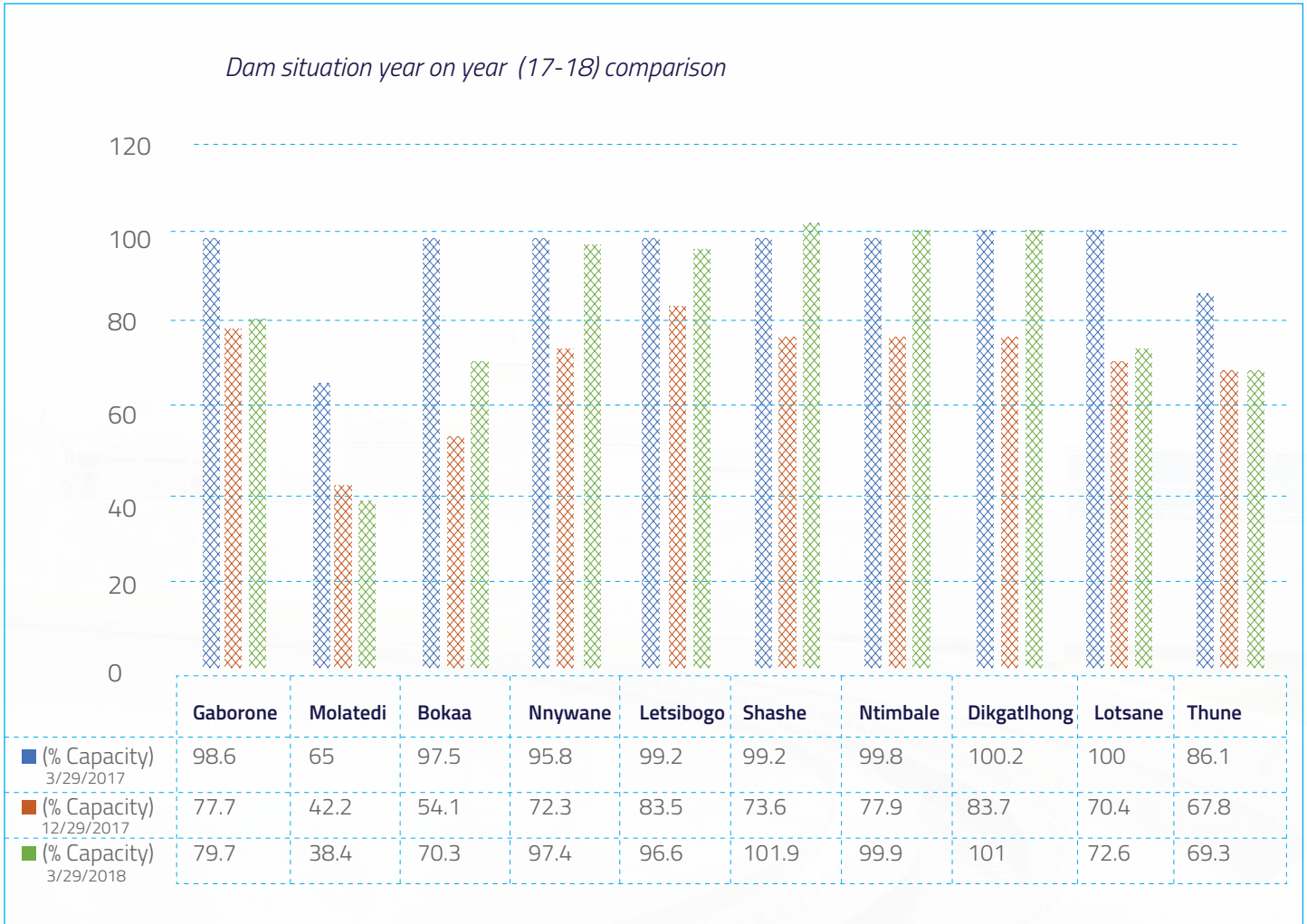
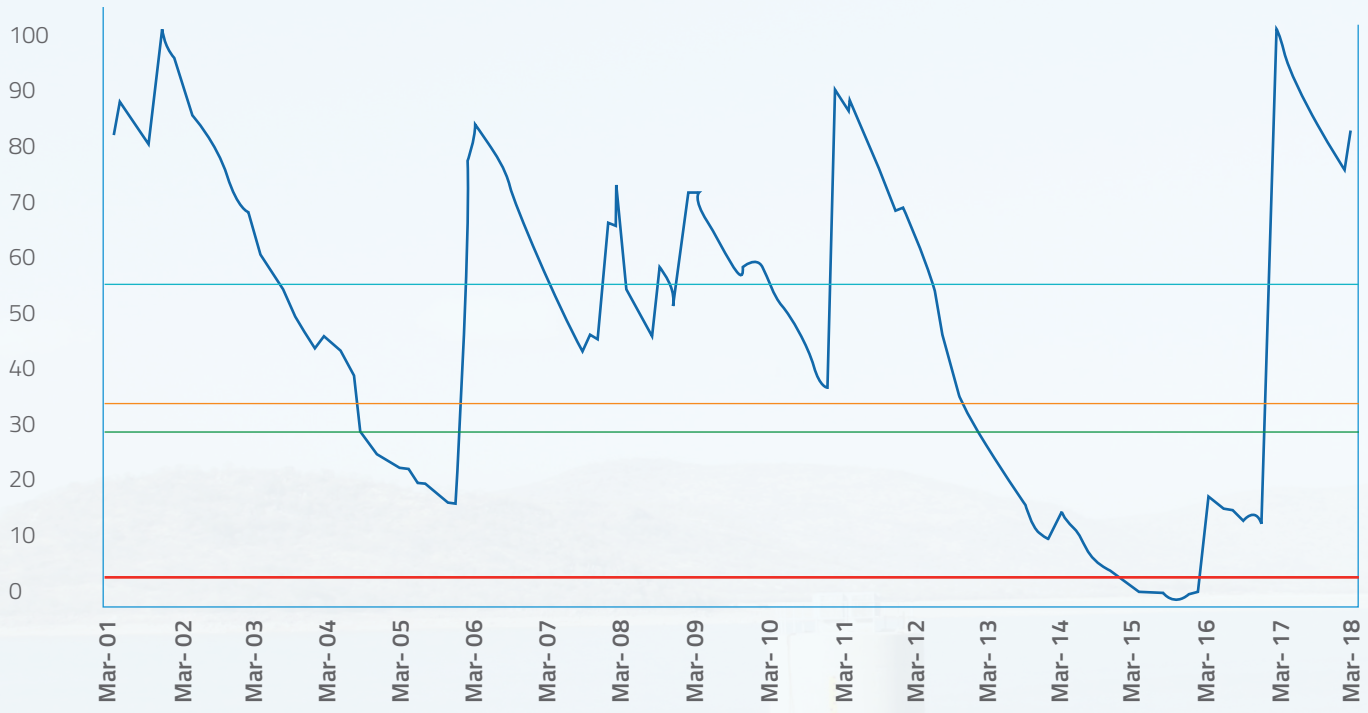


Figure 1: Year on year comparison of dam situation

The figure above shows a slight decline in dam levels in the reporting period. The levels however are enough to sustain Botswana for over a year before the next inflows.

Monthly Percentage Drop (Overall=2.6%)



- % Dam Level
- % Siltation + D/storage
- % Drought Phase I
- %Drought Phase II
- % Drought Phase III

Gaborone Dam water level trends

Gaborone Dam underwent varying periods of water levels as depicted by the above table. The dam's recovery in the reporting period brought joy and relief to water users while enabling the Corporation to keep the resource flowing. Recognising that Botswana remains susceptible to drought, the Corporation continued with the implementation of Level Two Water Restrictions to save water for the usual water stressed Greater Gaborone area.



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Level 2 Water Restrictions

1

Watering of all gardens, parks and sports fields using potable water is prohibited. Use of potable water for construction purposes is prohibited, except with the express written permission of the Corporation in cases where non-potable water has been proven to be detrimental to the quality of work.

2

Washing of vehicles with potable water using hose-pipes is prohibited.

3

Automatic urinals are prohibited and should all be terminated or retro-fitted within 2 months of the effective date of these restrictions.

4

The filling of all swimming pools with potable water is prohibited

5

The spraying or washing of pavements, side-walks and streets with potable water is prohibited.

6

All defective plumbing and pipe fittings which result in water wastage must be repaired within 24 hours of notice.



Customers'
Favourite
partner in Digital



most
Efficient
operator



winning
Team



Responsible
business conduct

Groundwater Resources

Groundwater supplies in the country are faced with natural challenges such as high salinity, low rates of replenishment due to low rainfall and the deep-seated nature of aquifers.

Other challenges facing groundwater resources are old infrastructure (boreholes infrastructure) and high leakages, vandalism and theft of equipment, illegal abstraction, uncoordinated developments in the wellfields leading to groundwater pollution and over-abstraction, and the ever-increasing water demands.

The Corporation demonstrated that wellfields in Kanye, Maitengwe, Dukwi, Letlhakane, Molepolole (Gaotlhobogwe) and Ghanzi were experiencing declining water levels and low recharge rate and some wellfields failed as a result.

The Corporation's parent ministry, the Ministry of Land Management, Water and Sanitation Services, responded to some of these

problems through extension of North South Carrier (NSC) to connect villages such as Kanye, Thamaga and Molepolole. The impact is yet to be felt as construction is still ongoing. Other challenges such as declining borehole water levels and high leakages due to dilapidated infrastructure, continue to pose a challenge. Management Centers such as Letlhakane, Molepolole, Tsabong and Ghanzi are wholly dependent on groundwater supplies.

However, there has been no major groundwater resources development projects implemented in these areas in a very long time despite the design life of boreholes.

Molepolole Management Center is the only center to have seen a major groundwater development project in the recent past (2008); the development of Malwelwe and Sorilatholo Wellfields.

Most of the boreholes in the Malwelwe Wellfield were drilled in 1991 and were only rehabilitated during the 2008 Botlhapatlou Groundwater Development Project.



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Table 2: Borehole Statistical data

Centre	Operational Boreholes	Total Handed Over	Period - Borehole Drilled				
			>1980	1980 - 2000	2000 - 2010	2010 - 2017	No Record
Ghanzi	35	61	5	49	5	0	2
Kanye	66	75	7	49	14	0	5
Letlhakane	26	39	6	25	7	0	1
Lobatse	65	79	11	62	7	3	1
Mahalapye	62	63	3	56	3	0	0
Masunga	37	103	15	59	23	0	6
Maun	54	73	5	47	14	7	0
Mochudi	24	29	7	16	3	0	3
Molepolole	83	94	14	62	8	6	4
Palapye	31	56	3	41	10	0	2
Serowe	53	58	6	48	3	0	1
Tsabong	53	65	2	46	13	0	4
Kasane	3	6	0	6	0	0	0
Francistown	4	4	0	4	0	0	0
Gaborone	9	9					
Masama	32	32	0	0	0	32	0
TOTAL	637	846	84	570	110	48	29





The Nata Cluster continues to experience water supply problems because of increased demand and leakages owing to aged infrastructure as well as destruction of water supply networks by elephants.

To address the problems in the cluster, the Ministry identified four monitoring boreholes within Dukwi Wellfield for conversion to production boreholes to augment the supply as a short-term solution, however the envisaged plan by the Corporation has a potential risk of subsequently aggravating a deterioration in water quality.

Statistics from Table 2 on page 29 shows that, of the 846 analyzed boreholes, 654 were drilled before the year 2000 indicating that well over 75% of boreholes have long gone past their design life.

The borehole conditions are aggravated by high salinity in areas such as Tsabong, Letlhakane and Masunga Management Centers whilst in other areas such as Molepolole, Pallaroad, Masama and Serowe, incrustation from formation of iron bacterial colonies has contributed significantly to the accelerated dilapidation of borehole infrastructure.

The observations are not recent as they were previously identified through a Borehole Rehabilitation Project.

A detailed analysis of the Corporation's water supply boreholes is required as current analysis are limited by the absence of groundwater monitoring data and information.

Nevertheless, the Corporation's in-house programme to rehabilitate its water supply boreholes continues.



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Groundwater Monitoring

A 2017 World Bank study concluded that the Corporation’s transition in role and responsibility set against unaltered management and operation structure and personnel complement compromises the Corporations’ ability to fulfil all the responsibilities and activities placed upon it.

Despite all the challenges identified above, efforts are being made to improve the Corporations Groundwater Monitoring activities.

The World Bank funded Emergency Water Security and Efficiency Project is intended to interalia address chronic drought in Botswana that continues to affect boreholes by saline intrusion, drying up and collapsing. To this end the proposed investment are aimed at reducing stress on groundwater sources by developing alternative and more sustainable sources.

Borehole Rehabilitation

The Cleaning and Fishing Rig has been able to rehabilitate over 42 boreholes countrywide in five Management Centres; (Kanye, Molepolole, Mahalapye, Masunga and Tsabong).

This represented an average of 3.5 boreholes against the target of 4 boreholes per month.

Borehole drilling

The Corporation drilled two boreholes, one at Bray and another at Ramotlabaki during the period under review.

These two villages had no source of supply after their boreholes suffered collapse and therefore necessitated the drilling of replacement boreholes.

The successful completion of the boreholes and their subsequent connection to the network has alleviated the acute water shortage the villages have been facing.

North South Carrier

The NSC scheme operated satisfactorily during the period under review. Pump Stations showed good availability over the year except for Pump Station No: 2 (n PS2) which had only one out of the three pumps available during the first quarter.

There was a spike in the downtime of the scheme arising from maintenance works required to connect new components to the scheme.

The overall availability of the scheme stood at 87.5%.

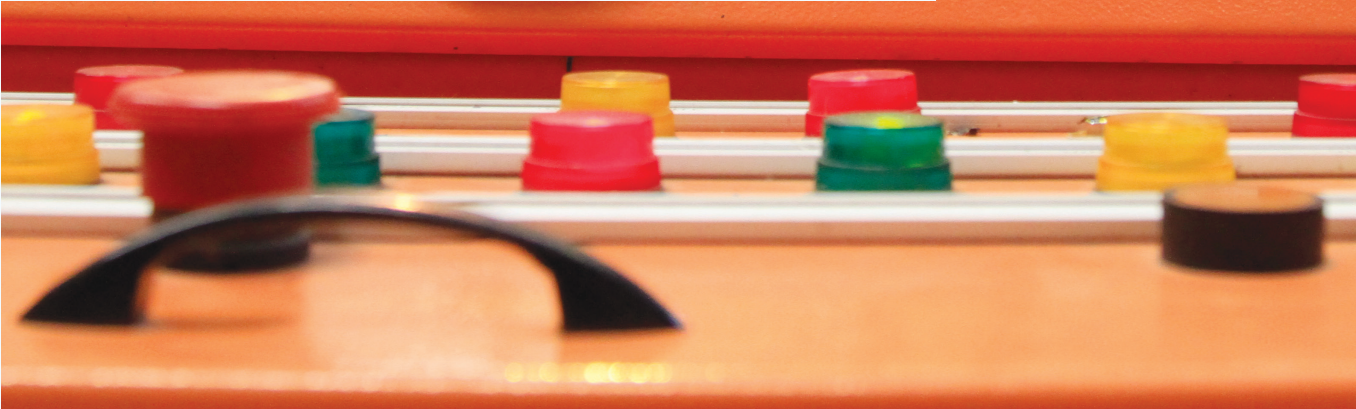


Table 3: NSC Availability

PumpStation	Availability			
	Quarter 1	Quarter 2	Quarter 3	Quarter 4
PS1	100%	100%	100%	100%
PS2	33%	67%	67%	67%
PS3	67%	100%	67%	100%
Dikgathlong	100%	100%	100%	100%
Serowe PS1(Morupule)	67	100%	100%	100%
Serowe PS2 (Masama)	67%	100%	100%	100%
Nsc Down Time (Days)	10.6	11.2	9.95	13.7

Masama East Injection Scheme

Masama East Wellfield was available as stand-by to the NSC.

Masama West Injection Scheme

The Masama West Project Construction is complete, safe for the connection of Masama West sub-station to the new main substation across the railway line.

The commissioning of Masama West scheme is expected in the next reporting year.

Vandalism of NSC

With increased incidents of vandalism, the Corporation equipped the New pump stations and Reservoirs with surveillance cameras that are controlled remotely from Mmamashia Command Centre.

Water Losses

Water losses were mainly registered in areas with high incidences of infrastructure failure owing to dilapidated networks, unmetered standpipes, inefficient meters and physical losses.



WUC Laboratory Accredited

Confidence has been bestowed on the WUC Laboratory following its accreditation by the Southern African Development Corporation Accreditation Service (SADCAS).

The laboratory has since seen an increase in customer base due to its international accreditation spanning from the credibility and the quality of its testing work.

As the national water supplier, WUC relies on test results (Quality data) to determine compliance to relevant standards, both local & international on the abstraction, treatment and distribution of water.

The accreditation of the testing facilities provides:

- A system of traceable policies, procedures and controls on how things are done;
- A means to ensure product quality/safety;
- A means to control vital information: records, procedures, manuals;
- A means to continually improve and evaluate the impact of the changes;
- A means for internal checks through audits and reviews;

The Corporation was granted accreditation for 22 test parameters for both chemical and microbiological analysis in August 2013.

This is in accordance with the International Standard, ISO/IEC 17025:2005 General requirements for the competence of testing and calibration laboratories valid for a period of 5 years.

According to SADCAS accreditation requirements, the laboratory is assessed on an annual basis to confirm continued compliance to the requirements of the standard which the laboratory has had successful outcome for four (4) consecutive years and due for its full re-assessment in the next reporting period.

The laboratory is currently accredited for 29 test parameters following successful extension of scope in February 2017 with eight (8) approved personnel for the scope.

Water Quality

The Corporation continued to provide quality water supply to its customers in line with internationally acceptable standards. Water supply deviations were recorded in some areas.

Pollution Control

Trade Effluent Agreement (TEA) documents and associated procedures were reviewed and approved.

The Corporation continued to monitor adherence to TEA and even issued certain companies with disconnection notices following their continued discharge of non-compliant effluent into the Corporation sewer system. Non - Compliant effluent pollutes the sewer system and invariably affects the wastewater treatment process, resulting in the discharge of non-compliant effluent into the environment.



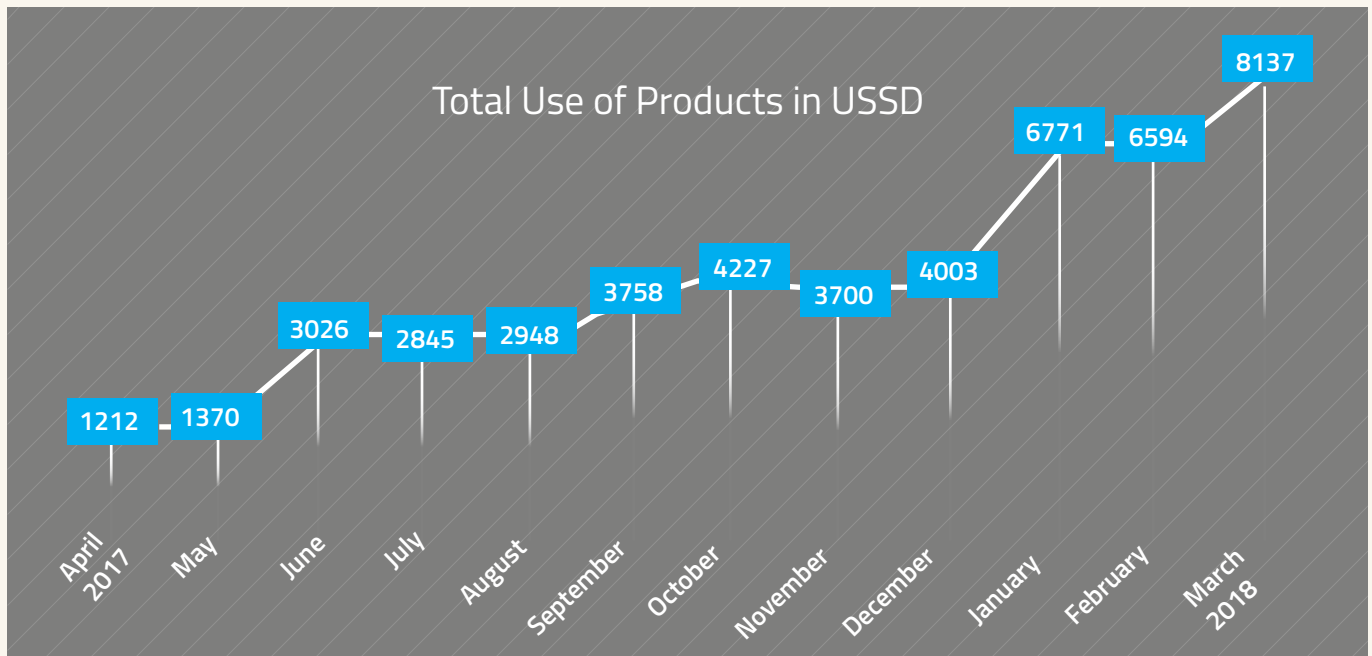
Customer Service

The Corporation continued encouraging bill payments through different strategies amongst them public campaign and mass disconnections for non-payment.

Bills to major customers such as Government Departments, District Councils and major businesses were also delivered at their door steps, to enable ease of bill settlement and subsequent debt recovery. The introduction of the *186# self service platform was the highlight of the year. It provides customers with ease of bill payments from their cell phones.

An increased trend was recorded on reporting of leaks and blockages, meter reading, request for statement, checking of balances and payments as summarized in the table below depicting the use of Unstructured Supplementary Service Data (USSD) and website. Education on other alternative payment methods such as Electronic Funds Transfers (EFT), mobile phone payments and the use of post offices and banks for bill payments, continues.

Graph 1 Demonstrating increased use of USSD



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Graph 2 Demonstrating increased use of website



Water Tariffs

During the year under review, potable and wastewater were revised as follows;

**WATER UTILITIES CORPORATION TARIFFS
EFFECTIVE 1 APRIL 2017**

**DOMESTIC, COMMERCIAL & INDUSTRIAL
POTABLE WATER TARIFFS**

Tariff Block Category	EXCL. VAT Revised Tariff 1st April 2017 (Pula)	INCL. VAT Revised Tariff 1st April 2017 (Pula)
Minimum Charge	0	0
0-5 KL **	3.50	3.92
>5-15 KL	10.40	11.65
>15-25 KL	18.20	20.38
>25-40 KL	28.00	31.36
>40 KL	35.00	39.20

**DOMESTIC, COMMERCIAL & INDUSTRIAL
WASTEWATER TARIFFS**

Tariff Block Category	EXCL. VAT Revised Tariff 1st April 2017 (Pula)	INCL. VAT Revised Tariff 1st April 2017 (Pula)
Minimum Charge	0	0
0-5 KL	0.65	0.73
>5-15 KL	2.60	2.91
>15-25 KL	3.90	4.37
>25-40 KL	5.20	5.82
>40 KL	6.50	7.28

**** DOMESTIC CONSUMERS ONLY - First 5KL exempt from VAT**

Health, Safety and Environment (HSE)

The Corporation subscribes to the NOSA 5 Star Integrated System which underwent some changes in line with the new ISO Standards. The system aims to reduce employee occupational diseases, illnesses, and safety injuries thereby cutting related costs. The new HSE acronym puts more emphasis on the health aspect, which has a long-term impact on employees.

As part of the requirement of the new NOSA Standard, the Corporation conducted a legal audit for all operational areas. Compliance to the following statutory laws were evaluated:

CAP 47:03 - Worker's Compensation Act, 23 of 1998	Act, 46 of 1971 CAP 47.01 - Employment Act, 29 of 1982
CAP 63.01 - Public Health Act, 44 of 1971	Cap 34.03 - Waterworks Law, 26 of 1961
CAP 65.02 - Building Control Act	Compliance was measured against each clause in the section and the result was either 100% or 0%. The fewer the clauses under each act, the higher the chance of scoring 0 or 100%. The attainment of 100% is only where the whole Corporation has complied in all clauses.
CAP 65.03 - Atmospheric Pollution Prevention Act, 18 of 1971	The Corporation had a low compliance on the Atmospheric Pollution Prevention Act, Waste Management Act and Waterworks Laws, Smoking and Road Traffic Acts.
CAP 65.04 - Smoking Controls Act, 32 of 1992	The Smoking Act requires the Corporation to write all signs in both Setswana and English, while WUC had them only in English.
CAP 65.06 - Waste Management Act, 15 of 1998	
CAP 65.08 - Environmental Assessment Act, 10 of 2011	
CAP 69.01 - Road Traffic Act	
CAP 44-01 - Factory Act	
CAP 34.02 - Borehole Act	The Corporation was however found to be complying with the Aquatic Weeds, Employment and Worker's Compensation Acts and scored high marks.
Cap 34.04 - Aquatic Weeds (Control)	



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Internal HSE Action Plan Update

Action plans were developed following the HSE Audit to address the short comings that were identified during the audit. In executing the plans, 14 out of 16 Management Centres were above 50 %, with seven centres above 70%. Management continues to accelerate correction of short comings.

Management Centre	Total non Conformities	Done by 31/03/2018	% Completed 31/03/2018	Ongoing	Not Done
1. NSC	255	93	36	78	84
2. Kasane	126	49	39	54	23
3. Mochudi	88	60	68	28	nil
4. Palapye	143	85	59	30	28
5. Maun	152	104	68	37	11
6. Ghanzi	130	99	76	19	12
7. Gaborone	227	129	57	76	22
8. Francistown	139	102	73	22	15
9. Masunga	202	112	60	51	29
10. Serowe	151	112	74	20	19
11. Molepolole	59	30	51	22	7
12. Letlhakane	150	115	77	27	8
13. Selebi Phikwe	199	151	76	5	43
14. Head Office	119	47	39	52	20
15. Tsabong	81	35	43	27	19
16. Lobatse	115	65	57	30	20
17. Mmamashia Lab	176	125	71	42	9
18. Mahalapye	62	50	81	11	1
19. Kanye	82	30	37	32	20

Incidents

During the year under review, the Corporations' safety record was compromised when three employees were involved in a car accident, which caused a fatality. The next table shows that vehicle and safety injuries formed almost 80 percent of all incidents with a reduced trend towards the end of the year.

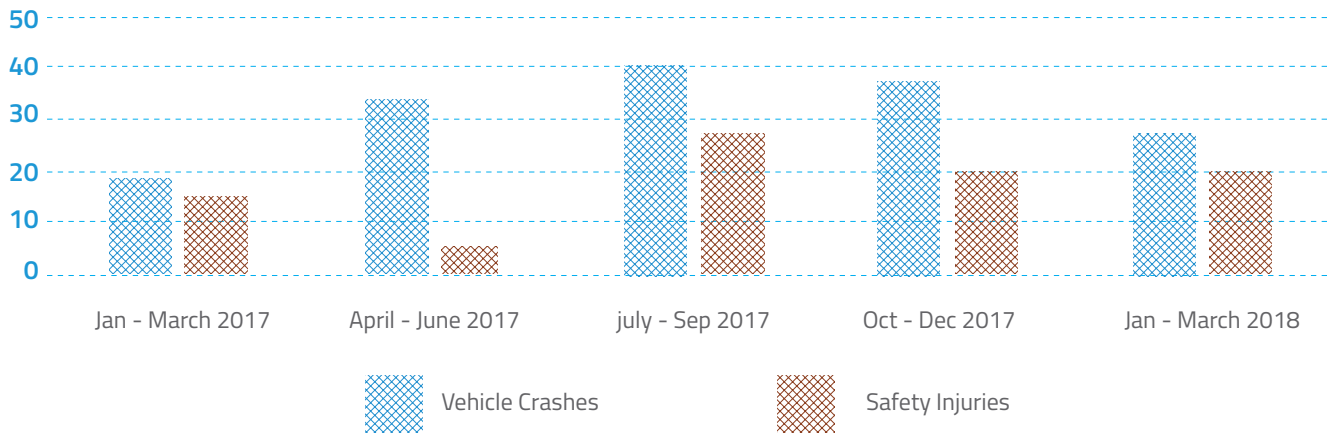
Quality Management System

The year under review saw a development and completion of Quality Management System (QMS) 9001: 2015 Documentation. The complete QMS System consists of two hundred and forty-nine (249) documents amongst them, the following:

- i. Quality Management Policy
- ii. Quality Management Manual
- iii. System Operating Procedures (20 No)
- iv. WUC Process: Standard Operating Procedures (80 No)
- v. System Implementation Forms (145 No).

The system documentation, save for Quality Management Policy and Manual, was approved for implementation with awareness workshops on ISO 9001 QMS rolled out in Gaborone, Selibe -Phikwe and Palapye.

Graph 3: Prominent SHE Incidents for 2017/2018



The Corporation takes employee safety seriously and works towards averting preventable incidents for a safe working environment.

Consultative Fora

The Corporation had face to face interactions with its stakeholders in the year under review. In addition the Corporation interacted with its customers through its website and Facebook page.

The Facebook page proved to be an effective tool to reach a niche market as well as through instant communication with customers, especially on important issues such as water supply interruptions. Short Message Service (SMS) line also provided an alternative communication platform with customers by facilitating instant flow of information.



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Corporate Social Responsibility and Stakeholder Relationship Management



The Corporation continues to build sustainable and viable relationship with its valuable stakeholders during the year by implementing projects that ploughed back to the community.

The Corporation adopted a culture of fairness in all aspects of Corporate Social Responsibility dealings with the community.

This was a deliberate approach to benefit a wide section of the community, to profile the Corporation and to partner with key stakeholders such as the Government.

All WUC management areas were given funds and encouraged through volunteer activities, to raise more funds to augment Corporate projects.

Various Corporate Social Responsibility

(CSR) projects were completed during the year. More emphasis was put on education as WUC believes education remains an important way to unlock the untold potential the children have, more especially in the field of Information Technology (IT).

Education

WUC in its quest to support the education system in Botswana donated pre-school equipment comprising 40 chairs, 10 tables, 40 assorted puzzles, 10 hoola hoops, 35 colouring books and 40 beach sets to Boipelo Primary School in Charles Hill.

The Corporation recognizes that technology changes the world, transforms mindsets and adds value in service provision while connecting the younger generation to the global community.

Bearing this in mind, a donation of a computer lab and seven computers, a laptop, printer and IT network cabling was made to Gudigwa Primary School in Gudigwa village.

The Corporation went further to donate six computers, a printer and IT network cabling to Semitwe Primary School in Semitwe village and another computer set with a printer to Moreomaoto Primary School.

Welfare and Poverty Alleviation

The Corporation donated a two-bedroomed house to a less privileged resident of Xhosa 1 Ward in Mahalapye and water standpipe to a less privilege member of the community in Charles Hill.

Community Development

The Corporation also funded Dipetsana Multipurpose Co-operative Trust in Kasane, Shoshong Constituency Development Trust and further constructed two bus shelters in Kalakamati village.

Stakeholder Management

Customer Days and breakfast seminars were conducted nationwide as a way to



interact with customers. The events created a platform to share ideas, lobby for support and address water challenges in villages and towns. Customer days were held in Maun, Moshupa, Kanye and Palapye.

The Corporate Social Responsibility (CSR) programme which emphasizes community development, environment, staff welfare and involvement, allowed both WUC and the community to interact for sustained relationships. Other areas of collaboration included the continuous signing of Trade Effluence Agreements to cushion operational effects on the environment.



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Our Employees

"Clients do not come first. Employees come first. If you take care of your employees, they will take care of clients", Sir Richard Branson.

Our employees are our assets and ambassadors. We value them as having the potential to contribute towards our bottom line, as the face of our culture and champions of our products and services. We pride ourselves with a workforce that is steadfast in our pursuit of excellence and quest to deliver water services to Batswana.

WUC is cognisant of the fact that it takes more than just paying competitive wages for the employer to show that it values its employees. The most effective strategy is a blend of tangible and intangible rewards and recognition. Our Human Resources Department endeavours to align with forward-thinking practices that contribute to modern thinking and enhanced productivity. The envisaged implementation of the restructuring exercise dubbed Itemogo Project is expected to align WUC with best practices and help it effectively deliver on its mandate.

WUC has transformed since the Water Sector Reforms and continues to transform amidst the challenges it faces in executing its mandate. The Corporation recognises the challenges as windows of opportunity and growth. The strategic role of HR as a business partner includes ensuring that the human capital is ready to tackle contemporary water supply challenges to meet the Corporation's strategic intent. The Corporation's head count stood at 3,259 out of an establishment of 3743. The Employee Relations section on the other hand, continues to ensure cordial and harmonious relations between the Corporation and its employees by promoting fair labour practices.

Motivated by our value of Botswana/Quality, we encourage and empower our employees to be innovators. We provide communication platforms that unite our employees around a common goal to bridge the geographically spread space within which the Corporation operates. While doing this, we ensure that they are fully insured under the Corporation's Life Assurance policy and Medical Insurance. The year under review saw the implementation of the Comprehensive Total Wellness Strategy through compulsory on the job and exit medical screening, provision of gym subsidy, and promotion of fair labour practices. Many employees especially in the outstations did a sterling job holding wellness days, some of which attracted our national leaders.



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Water Utilities Corporation

Financial Statements

31st March 2018



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Digital Excellence in Water Service Provision

Water Utilities Corporation

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

Business

The mandate of the Corporation is to provide potable water supply and wastewater services in the whole country.

Members of the Board

Matome T. Malema
Obolokile T. Obakeng
Godfrey B. Molefe
Mokgadi K. Nteta
John P.D. Phatshwe
Galeitsiwe Ramokopane
Noble Katse
Juliana White
Othusitse Lekoko

Resigned 31 April 2018

Corporate Management Team

Mmetla Masire
Taboka Muke
Thapelo Kalake
Macheng E. Macheng
Tsholofelo Bogosi
Gaselemogwe Senai
Thapelo Leinaeng
Felicity Ziga

Chief Executive Officer
Chief Financial Officer
Shared Services Director
Human Resource Director
Head of Internal Audit
Sustainability and Water Resources Director
Technical Services Director
Corporation Secretary

Resigned 15 May 2018

Registered Office

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

Independent Auditors

PricewaterhouseCoopers

Water Utilities Corporation

Index to the Financial Statements

For the Year Ended 31st March 2018

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Statement of Cash Flows	57
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Water Utilities Corporation

Index to the Financial Statements *(Continued)*

For the Year Ended 31st March 2018

Statement of Responsibility by the Board of Directors

The Members of the Board are responsible for the preparation and fair presentation of the financial statements of Water Utilities Corporation ("the Corporation"), comprising the statement of financial position as at 31 March 2018, 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 (Chapter 74:02).

The Members of the Board are required by the Water Utilities Corporation Act (Chapter 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 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 Members are responsible for such internal controls as the Board determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The 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 endeavour to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Members 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 financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The external auditors are responsible for independently reporting on the Corporation's financial statements and their report is presented on pages 49 to 53.

Water Utilities Corporation

Index to the Financial Statements *(Continued)*

For the Year Ended 31st March 2018

Statement of Responsibility by the Board of Directors (Continued)

Going Concern

The Members of the Board have made an assessment of the Corporation's ability to continue as a going concern and believe that continued financial support from the Government of the Republic of Botswana and the revision of tariffs will ensure that the Corporation continues as a going concern in the future.

Members of the Board's approval of the financial statements

Against this background, the Members of the Board accept responsibility for the financial statements on pages 44 to 82 which were approved on 19 October 2018 and signed on its behalf by:



.....
Director



.....
Director



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Digital Excellence in Water Service Provision

Independent Auditor's Report

To the Minister of Land Management, Water and Sanitation Services

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Water Utilities Corporation (the Corporation) as at 31 March 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Water Utilities Corporation Act, 1970 (the "Act").

What we have audited

Water Utilities Corporation's financial statements set out on pages 45 to 82 comprise:

- the statement of financial position as at 31 March 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Corporation in accordance with the Botswana Institute of Chartered Accountants' Code of Ethics (the "BICA Code") and the ethical requirements that are relevant to our audit of financial statements in Botswana. We have fulfilled our other ethical responsibilities in accordance with these requirements and the BICA Code. The BICA Code is consistent with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (Parts A and B).

PricewaterhouseCoopers, Plot 50371, Fairground Office Park, Gaborone, P O Box 294, Gaborone, Botswana T: (267) 395 2011, F: (267) 397 3901, www.pwc.com/bw

Country Senior Partner: B D Phirie

Partners: R Binedell, A S Edirisinghe, L Mahesan, R van Schalkwyk, S K K Wijesena

Independent Auditor's Report

To the Minister of Land Management, Water and Sanitation Services

Report on the audit of the financial statements

Overall materiality

- P13,700,000, which represents 5% of average adjusted profit/loss before tax over the last five financial years

Key audit matters

- Impairment assessment of trade receivables

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality

P13,700,000

How we determined it

5% of average adjusted profit/loss before tax over the last five financial years

Rationale for the materiality benchmark applied

We chose average profit/loss before tax as the basis for our materiality benchmark because, in our view, it is the benchmark against which the performance of the Corporation can be consistently measured by users. We adjusted this benchmark for tariff subsidy income as this has historically been given by the Government of Botswana on a discretionary basis, fluctuated significantly from one financial year to the next, and could therefore impact significantly on profit/loss before tax from one year to the other. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented entities.



Independent Auditor's Report

To the Minister of Land Management, Water and Sanitation Services

Report on the audit of the financial statements

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We communicate the key audit matter that relates to the audit of the financial statements of the current period in the table below.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>Impairment assessment of trade receivables</p> <p>The carrying amount of trade and other receivables of the Corporation as at 31 March 2018 amounted to BWP 480.72 million.</p> <p>Management assessed the impairment of trade receivables on an individual basis in the current year and recognised an impairment loss of BWP 389.31 million.</p> <p>We considered the impairment assessment of trade receivables to be a matter of most significance to our audit of the current year due to the following:</p> <ul style="list-style-type: none"> ▪ The magnitude and significance of the trade receivables balance; and ▪ Management applied significant judgement, estimates and assumptions which included the following: <ul style="list-style-type: none"> o Estimated future cash flows and the timing of the future cash flows <p>The disclosures relating to accounts receivables are set out in the financial statements in the following notes:</p> <p>Critical accounting estimates and assumptions (Page 66) Note 9 Trade and other receivables (Page 71)</p>	<p>We performed the following procedures over management's impairment assessment of trade receivables:</p> <ul style="list-style-type: none"> ▪ We obtained management's impairment assessment and obtained an understanding of the basis on which the final impairment provision was determined. We noted that the ageing of receivables is the primary determinant; ▪ We selected a sample of invoices, inspected the dates and details on the invoices in order to determine the ageing and compared this to the debtors age analysis obtained from management. No material differences were noted; ▪ We identified trade receivables that were outstanding as at year-end, taking into account the ageing of these receivables. We compared these outstanding trade receivables to the trade receivables used by management in their impairment assessment and noted that these have been included by management in their impairment assessment; ▪ On a sample basis, we tested subsequent realisation of the outstanding balances at the year-end by agreeing them to supporting evidence identifying the payment received from customers. We compared the results of our testing to management's assessment of the recoverability of these receivables. No material differences were noted; and ▪ In order to assess the reasonability of the estimated cash flows used by management, we compared the estimated future cash flows included in the impairment assessment to historical collection and past experience. We found the estimated future cash flows used by management to be comparable to historical collection and past experience.

Independent Auditor's Report

To the Minister of Land Management, Water and Sanitation Services

Report on the audit of the financial statements

Other information

The board members are responsible for the other information. The other information comprises the information included in the Water Utilities Corporation's Financial Statements for the year ended 31 March 2018, which we obtained prior to the date of this auditor's report, and the Water Utilities Corporation 2017/18 Annual Report, which is expected to be made available to us after that date. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the board members for the financial statements

The board members are responsible for the preparation that give a true and fair view of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Water Utilities Corporation Act, and for such internal control as the board members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the board members are responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board members either intend to liquidate the Corporation or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board members.



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Independent Auditor's Report

To the Minister of Land Management, Water and Sanitation Services

Report on the audit of the financial statements

- Conclude on the appropriateness of the board members' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with the board members regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the board members with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board members, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In accordance with Section 25 of the Water Utilities Corporation Act, 1970 (Chapter 74:02), we report that:

- we have received all the information and explanations which, to the best of our knowledge and belief were necessary for the performance of our duties as auditor;
- the accounts and related records of the Corporation have been kept in a reasonable state;
- The Corporation has complied with all the financial provisions of the Act; and
- The financial statements prepared by the Corporation were prepared on a basis consistent with that of the preceding year.

Practicing Member: Butler Phirie
Membership number: 19900312

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Water Utilities Corporation

Statement of Comprehensive Income

For the Year Ended 31st March 2018

	Notes	2018 P'000	2017 P'000
Revenue		<u>1,821,753</u>	<u>1,405,775</u>
Other income		24,146	17,571
Operating expenses			
Water treatment and distribution expenses		(872,621)	(789,947)
Administration and other expenses		(449,350)	(492,970)
Depreciation and amortisation		(256,131)	(236,808)
Total operating expenses		<u>(1,578,102)</u>	<u>(1,519,725)</u>
Operating profit/(loss) before tariff subsidy	1	<u>267,797</u>	<u>(96,379)</u>
Revenue grant	14	360,000	-
Operating profit/(loss) after tariff subsidy		<u>627,797</u>	<u>(96,379)</u>
Finance income	3	19,935	3,794
Finance costs	3	(44,608)	(44,990)
Profit/(Loss) for the year before taxation		<u>603,124</u>	<u>(137,575)</u>
Taxation	4	(89,972)	-
Profit/(loss) for the year		<u>513,152</u>	<u>(137,575)</u>
Other comprehensive income			
Items that will not be reclassified subsequently to profit and loss:			
Net actuarial gain recognised on the defined benefit plan	23	312	190
Total comprehensive income /(loss) for the year		<u>513,464</u>	<u>(137,385)</u>



Water Utilities Corporation

Statement of Comprehensive Income *(Continued)*

For the Year Ended 31st March 2018

	Notes	31 March 2018 P'000	31 March 2017 P'000 Restated	1 April 2016 P'000 Restated
ASSETS				
Non-current assets				
Property, plant and equipment	5	5,873,257	5,650,192	5,696,045
Intangible assets	6	7,627	9,964	7,871
Development expenditure	7	732,223	825,868	490,799
		<u>6,613,107</u>	<u>6,486,024</u>	<u>6,194,715</u>
Current assets				
Inventories	8	40,844	43,469	41,706
Trade and other receivables	9	480,720	409,907	259,941
Cash and cash equivalents	11	886,051	208,101	225,820
		<u>1,407,615</u>	<u>661,477</u>	<u>527,467</u>
Total assets		<u>8,020,722</u>	<u>7,147,501</u>	<u>6,722,182</u>
EQUITY AND LIABILITIES				
Capital and reserves				
Irredeemable capital	12	752,738	752,738	752,738
Government contribution - Water Sector Reforms	13	4,104,627	4,104,627	4,101,634
Interest reserve - EIB	25	16,420	15,686	14,802
Retained earnings		571,645	58,915	197,184
		<u>5,445,430</u>	<u>4,931,966</u>	<u>5,066,358</u>
Non-current liabilities				
Capital grants	15	1,626,659	1,300,936	711,190
Borrowings	16	230,885	400,000	400,000
Consumer deposits		41,150	31,011	24,018
Retirement benefit obligation	23	-	-	-
Deferred taxation	17	21,815	-	-
		<u>1,920,509</u>	<u>1,731,947</u>	<u>1,135,208</u>
Current liabilities				
Borrowings	16	201,478	36,302	43,281
Trade and other payables	18	385,148	447,286	477,335
Tax payable		68,157	-	-
		<u>654,783</u>	<u>483,588</u>	<u>520,616</u>
Total liabilities		<u>2,575,292</u>	<u>2,215,535</u>	<u>1,655,824</u>
Total equity and liabilities		<u>8,020,722</u>	<u>7,147,501</u>	<u>6,722,182</u>

Water Utilities Corporation

Statement of Changes in Equity

For the Year Ended 31st March 2018

	Notes	Irredeemable capital P'000	Government contribution P'000	Capital grant P'000	Interest subsidy reserve P'000	Retained earnings P'000	Total P'000
Balance at 1 April 2016 (as previously reported)		752,738	4,101,634	711,190	14,802	197,184	5,777,548
Adjustment on the capital grant reclassification	15	-	-	(711,190)	-	-	(711,190)
Balance at 1 April 2016 (restated)		<u>752,738</u>	<u>4,101,634</u>	-	<u>14,802</u>	<u>197,184</u>	<u>5,066,358</u>
Total comprehensive loss for the year		-	-	-	-	(137,385)	(137,385)
Reversal of provision	13	-	2,993	-	-	-	2,993
Transfer to interest subsidy reserve	25	-	-	-	884	(884)	-
Balance at 31 March 2017		<u>752,738</u>	<u>4,104,627</u>	-	<u>15,686</u>	<u>58,915</u>	<u>4,931,966</u>
Total comprehensive income for the year		-	-	-	-	513,464	513,464
Assets received from Projects	13	-	-	-	-	-	-
Transfer to interest subsidy reserve	25	-	-	-	734	(734)	-
Balance at 31 March 2018		<u>752,738</u>	<u>4,104,627</u>	-	<u>16,420</u>	<u>571,645</u>	<u>5,445,430</u>



Water Utilities Corporation

Statement of Cash Flows

For the Year Ended 31st March 2018

	Notes	2018 P'000	2017 P'000
Cash flows from/(to) operating activities	20	771,080	(32,701)
Cash flows used in investing activities			
Development expenditure incurred	7	(354,534)	(506,323)
Proceeds on sale of property, plant and equipment		13,695	4,883
Purchase of property, plant and equipment	5	(72,585)	(52,871)
Interest received	3	19,935	3,794
Net cash used in investing activities		(393,489)	(550,517)
Cash flows from financing activities			
Interest paid	3	(44,608)	(44,990)
Repayment of long-term borrowings	16	(3,939)	(6,979)
Cash grants received from Government - Capital grant	15	348,906	617,468
Net cash from financing activities		300,359	565,499
Net increase/(decrease) in cash and cash equivalents		677,950	(17,719)
Cash and cash equivalents at beginning of the year		208,101	225,820
Cash and cash equivalents at end of the year	11	886,051	208,101

Water Utilities Corporation

Significant Accounting Policies

For the Year Ended 31st March 2018

General Information

The Corporation has been established under the Water Utilities Corporation Act (CAP 74:02). The Corporation provides potable water supply and wastewater services throughout Botswana.

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.

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 and are presented in Pula (P). Historical cost is generally based on the fair value of the consideration given in exchange of the assets.

ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards effective in the current year

The Corporation has adopted the following new and revised standards that are relevant to its operations for the annual reporting period commencing 1 April 2017. Adoption of these standards has not had any significant impact on the financial statements of the Corporation.

Standards affecting amounts reported in the current year

New/Revised International Financial Reporting Standards

Effective Date

IAS 7 Statement of Cash Flows: amendment as a result of the Disclosure Initiative	Annual periods beginning on or after 1 January 2017
IAS 12 Income taxes: amendment regarding the recognition of deferred tax assets for unrealised losses	Annual periods beginning on or after 1 January 2017



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Water Utilities Corporation

Significant Accounting Policies *(Continued)*

For the Year Ended 31st March 2018

Basis of preparation (continued)

Standards affecting financial statements in future years

At the date of approval of these financial statements, the following applicable standards were in issue but not effective.

New/Revised International Financial Reporting Standards	Effective Date
IAS 40 Investment Properties	Annual periods beginning on or after 1 January 2018
IFRS 7 Financial Instruments: Additional disclosure resulting from the introduction of the hedge accounting chapter in IFRS 9	Annual periods beginning on or after 1 January 2018
IFRS 9 Financial Instruments	Annual periods beginning on or after 1 January 2018
IFRS 15 Revenue from Contracts with Customers	Annual periods beginning on or after 1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	Annual periods beginning on or after 1 January 2018
IFRS 16 Leases	Annual periods beginning on or after 1 January 2019
IFRS 17 Insurance Contracts	Annual periods beginning on or after 1 January 2021
IAS 28 Long-term Interests in Associates and Joint	Annual periods beginning on or after 1 January 2019
IFRS 9 Prepayment features with negative compensation	Annual periods beginning on or after 1 January 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	Annual periods beginning on or after 1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	Annual periods beginning on or after 1 January 2019

The Corporation has not assessed the impact of these standards and amendments on the financial results.

Water Utilities Corporation

Significant Accounting Policies *(Continued)*

For the Year Ended 31st March 2018

Property, plant and equipment

Property, plant and equipment comprises mainly land, dams and buildings, distribution systems, plant and machinery, vehicles and equipment. All property, plant and equipment purchased by the Corporation is stated at historical cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses. 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

Depreciation is recognised in the statement of comprehensive income.

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.

Development expenditure (i.e. capital work in progress) is depreciated from the date of commissioning.

Computer software development costs

Acquired computer software is 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 five years. Amortisation is recognised in the statement of comprehensive income.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.



Water Utilities Corporation

Significant Accounting Policies *(Continued)*

For the Year Ended 31st March 2018

Impairment of non financial assets

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in profit or loss 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

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.

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.

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 direct costs incurred in bringing the products to their present location and condition. Provision is made for obsolete, slow moving and defective inventories.

Revenue recognition

Revenue comprises invoiced value of potable water and wastewater sales to customers, customers' new connection and reconnection fees net of value added tax. Revenue from the sale of potable water and wastewater 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.

Water Utilities Corporation

Significant Accounting Policies *(Continued)*

For the Year Ended 31st March 2018

Trade receivable

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the original 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 are considered indicators that the trade receivable is impaired.

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.

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 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.

Employee benefits

Payments to the defined contribution retirement benefit plan are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements).
- Net interest expense or income.
- Remeasurement.

The Corporation presents the first two components of defined benefit costs in profit or loss in the line item administration and other expenses. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognised in the statement of financial position represents the actual deficit or surplus in the Corporation's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans. A liability for a termination benefit is recognised at the earlier of when the Corporation can no longer withdraw the offer of the termination benefit and when the Corporation recognises any related restructuring costs.



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Water Utilities Corporation

Significant Accounting Policies *(Continued)*

For the Year Ended 31st March 2018

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.

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 that the asset is available for use.

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.

Financial Instruments

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.

(a) Financial assets

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.

Water Utilities Corporation

Significant Accounting Policies *(Continued)*

For the Year Ended 31st March 2018

Financial Instruments *(Continues)*

(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.

Financial liabilities

Other financial liabilities

Other 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.

Trade payables

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

Related party transactions

Related parties comprise 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.

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 are recognised in profit or loss on a systematic basis over the periods in which the Corporation recognises relates costs for which the grants are intended to compensate. Specifically, 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 the related assets.

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.



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Water Utilities Corporation

Significant Accounting Policies *(Continued)*

For the Year Ended 31st March 2018

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Corporation's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by reporting period end.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit/loss nor the accounting profit/loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Corporation expects, at the reporting date, to recover or settle the carrying amounts of its assets and liabilities.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Corporation intends to settle its current assets and current liabilities on a net basis.

Current tax and deferred tax for the year

Current tax and deferred tax for the period are recognised as an expense or income in profit or loss, except when they relate to items debited or credited directly to equity in which case the tax is also recognised directly in equity.

Water Utilities Corporation

Significant Accounting Policies *(Continued)*

For the Year Ended 31st March 2018

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 judgement in the process of applying the Corporation's accounting policies. These areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Corporation's financial statements are disclosed.

Estimates and judgements 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 lives 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. In determining whether an impairment loss should be recorded in the income statement, the Corporation makes judgements as to whether there is any observable data indicating that there is a measurable decrease in estimated cash flows from debtors.

c) Retirement benefit asset

The amounts recognised in the statement of financial position based on a valuation performed at 31 March 2018 by independent actuaries using the projected unit credit method. The assumptions and methodology used are consistent with IAS 19 - Employee Benefits. 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 23 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.



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Water Utilities Corporation

Notes to the Financial Statements

For the Year Ended 31st March 2018

	2018 P'000	2017 P'000
1. Operating profit/(loss) before tariff subsidy		
The following items have been included in arriving at the operating profit/(loss) before tariff subsidy:		
Auditor's remuneration - current year	1,075	1,911
Depreciation of property, plant and equipment (note 5)	290,835	260,451
Amortisation of capital grant (note 15)	(37,041)	(27,722)
Amortisation of intangible assets (note 6)	2,337	2,722
Increase in accounts receivable impairment provision (note 9)	96,361	96,536
Board members' fees (note 24)	506	126
Operating lease rentals - property	8,807	8,747
Remuneration - executive management (note 24)	5,976	5,818
Foreign exchange losses	684	370
	<u>637,516</u>	<u>619,811</u>
2. Staff Costs		
Salaries and wages	549,096	519,778
Pension costs	459	476
- defined benefit scheme (note 23)		
- defined contribution scheme	53,431	
Terminal benefits	3,110	4,775
Medical aid	42,216	39,824
Recruitment costs	344	1,535
	<u>637,516</u>	<u>619,811</u>
3. Finance income/costs		
Finance income		
Interest on deposits and short term investments	<u>19,935</u>	<u>3,794</u>
Finance costs		
- European Investment Bank loans	2,110	2,433
- DMTN Bond	42,498	42,557
	<u>44,608</u>	<u>44,990</u>
4. Taxation		
Current tax:		
Basic tax at 22 % (2017: 22%)	68,157	-
Deferred income tax:		
Deferred income tax expense (note 17)	21,815	-
Income tax expense	<u>89,972</u>	<u>-</u>

Water Utilities Corporation

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st March 2018

4. Taxation *(Continued)*

Profit before income tax

Tax calculated at applicable tax rates of 22% (2017: 22%)

Tax effects of:

- Expenses not deductible for tax purposes
- Income not subject to income tax
- Tax effects of tax loss not recognised in the previous year"
- Deferred tax assets not raised

Current tax expense

5. Property, plant and equipment

COST

	Land, dams and buildings P'000	Distribution systems, plant and machinery P'000	Vehicles and equipment P'000	Total P'000
Balance as at 1 April 2016	2,858,088	4,200,603	471,583	7,530,274
Additions	1,313	7,698	43,860	52,871
Transfer from development expenditure (note 7)	57,627	113,627	-	171,254
Transfer to intangible assets (note 6)	-	-	(12,144)	(12,144)
Disposals	-	-	(13,248)	(13,248)
Balance as at 31 March 2017	2,917,028	4,321,928	490,051	7,729,007
Additions	3,585	12,190	56,810	72,585
Assets received from Projects	-	-	13,858	13,858
Transfer from development expenditure (note 7)	2,943	435,236	-	438,179
Disposals	-	(2,913)	(34,298)	(37,211)
Balance at 31 March 2018	2,923,556	4,766,441	526,421	8,216,418

ACCUMULATED DEPRECIATION

Balance at 1 April 2016	553,486	1,054,675	226,068	1,834,229
Depreciation charge	93,721	132,488	34,242	260,451
Transfer to intangible assets (note 6)	-	-	(7,329)	(7,329)
Disposals	-	-	(8,536)	(8,536)
Balance at 31 March 2017	647,207	1,187,163	244,445	2,078,815
Depreciation charge	112,745	139,715	38,375	290,835
Disposals	-	(1,354)	(25,135)	(26,489)
Balance at 31 March 2018	759,952	1,325,524	257,685	2,343,161
Carrying amount at 31 March 2017	2,269,821	3,134,765	245,606	5,650,192
Carrying amount at 31 March 2018	2,163,604	3,440,917	268,736	5,873,257



Water Utilities Corporation

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st March 2018

5. Property, plant and equipment (Continue)	Land, dams and buildings P'000	Distribution systems, plant and machinery P'000	Vehicles and equipment P'000	Total P'000
COST				

The title to certain of 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 due course.

The Corporation does not have any property, plant and equipment pledged as security for borrowings.

	2018 P'000	2017 P'000
6. Intangible assets		
Computer software development costs		
COST		
Balance at beginning of the year	38,671	26,527
Re-classification from property, plant and equipment (note 5)	-	12,144
Balance at end of the year	<u>38,671</u>	<u>38,671</u>
AMORTISATION		
Balance at beginning of the year	28,707	18,656
Re-classification from property, plant and equipment (note 5)	-	7,329
Amortisation	2,337	2,722
Balance at end of the year	<u>31,044</u>	<u>28,707</u>
Carrying amount	<u>7,627</u>	<u>9,964</u>
7. Development expenditure		
Balance at beginning of the year	825,868	490,799
Contract costs incurred during the year	354,534	506,323
Impairment adjustment	(10,000)	-
Contract costs capitalised during the year (note 5)	(438,179)	(171,254)
Balance at end of the year	<u>732,223</u>	<u>825,868</u>
8. Inventories		
Chemicals	678	410
Spares and consumables	42,582	45,475
Provision for obsolete inventories	(2,416)	(2,416)
	<u>40,844</u>	<u>43,469</u>

The cost of inventories recognised as an expense during the year was P87 947 000 (2017: P93 973 000).

Water Utilities Corporation

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st March 2018

	2018 P'000	2017 P'000
8. Inventories <i>(Continued)</i>		
Movement in the provision for obsolete inventories		
Balance at beginning and end of the year	<u>2,416</u>	<u>2,416</u>
9. Trade and other receivables		
Trade receivables	845,727	755,824
Less provision for impairment	(387,698)	(367,134)
	458,029	388,690
Prepayments	11,194	11,154
Other receivables	28,730	10,063
Less provision for impairment	(17,233)	-
	11,497	10,063
	<u>480,720</u>	<u>409,907</u>

All receivables were reviewed for impairment. As at 31 March 2018, trade receivables of P251,380,000 (2017: P166,977,000) were past due but not impaired. The Corporation provides its customers with a 30 days credit period. Any amounts outstanding over 30 days are considered past due. The age analysis of these trade receivables is as follows:

Up to 2 months	126,855	163,695
3 - 6 months	45,881	81,879
Over 6 months	78,644	36,533
	<u>251,380</u>	<u>282,107</u>

Credit risk exposure in relation to trade receivables is analysed below:

At 31 March 2018	Government Department and Councils	Business	Domestic	Total
Neither past due nor impaired	130,255	39,035	60,833	230,124
Past due but not impaired	206,732	8,089	36,559	251,380
Individually impaired	-	59,176	305,047	364,223
	<u>336,987</u>	<u>106,301</u>	<u>402,439</u>	<u>845,727</u>
Less: Provision for impairment	(15,617)	(59,176)	(312,905)	(387,698)
	<u>321,370</u>	<u>47,125</u>	<u>89,534</u>	<u>458,029</u>



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Water Utilities Corporation

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st March 2018

9. Trade and other receivables *(continued)*

As at 31 March 2018, trade receivables and other receivables of P404,931 000 (2017: P367 134 000) were impaired and provided for. The movements on the provision for impairment of trade receivables are as follows:

	2018 P'000	2017 P'000
Balance at beginning of the year	367,134	280,756
Bad debts written off	(58,564)	(7,165)
Increase in impairment provision	96,361	96,536
Net increase in impairment provision - grant account (note 13)	-	(2,993)
Balance at end of the year	<u>404,931</u>	<u>367,134</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 various Government Departments and Councils of the Republic of Botswana, there are no individual customers with a balance representing 5% or more of the total receivable balance as at year end.

10. Analysis of financial instruments

Financial instruments by category

Receivables

Trade and other receivables (excluding prepayments)	469,526	398,753
Cash and cash equivalents	886,051	208,101
	<u>1,355,577</u>	<u>606,854</u>

Other financial liabilities

Borrowings	432,363	436,302
Trade and other payables (excluding VAT and payroll accruals)	312,200	357,078
	<u>744,563</u>	<u>793,380</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.

Water Utilities Corporation

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st March 2018

	2018 P'000	2017 P'000
11. Cash and cash equivalents		
Cash and cash equivalents comprise:		
Current and call accounts	138,666	63,822
Short-term investments	747,385	144,279
	<u>886,051</u>	<u>208,101</u>
Cash and cash equivalents includes an amount of P16 420 000 (2017: P15 686 000) relating to European Investment Bank "(EIB)" interest subsidy reserve, the use of which is restricted to "Water Capacity Sector Building" projects as set out in note 25.		
12. Irredeemable capital		
Balance at beginning and end of the year	<u>752,738</u>	<u>752,738</u>
13. Government contribution - Water Sector Reforms		
Balance at beginning of the year	4,104,627	4,101,634
Adjustment to provision for bad debts	-	2,993
Balance at end of the year	<u>4,104,627</u>	<u>4,104,627</u>
14. Revenue grant		
Cash grant received during the year	360,000	-
Recognised in income statement	(360,000)	-
Balance at end of the year	<u>-</u>	<u>-</u>
15. Capital grants		
Balance at the beginning of the year	1,300,936	711,190
Received during the year	348,906	617,468
Vehicles received from Government	13,858	-
Amortisation of grant	(37,041)	(27,722)
Balance at the end of year	<u>1,626,659</u>	<u>1,300,936</u>

Capital grant - Emergency/drought projects is made up of funds received from the Government of the Republic of Botswana to fund emergency or drought related projects aimed at improving water supply in the country. The grants are amortised over the useful lives of the respective assets acquired to match with the depreciation costs for the constructed assets.

15.1 Restatement of capital grants

In previous years, Emergency/drought projects funded by the Government of Botswana has been treated as capital grants in the financial statements and amortised in line with the depreciation of the respective asset. However, this was incorrectly classified under equity. This has now been corrected and the capital grants are presented as deferred revenue in the statement of financial position.



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Water Utilities Corporation

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st March 2018

	2018 P'000	2017 P'000
15.1 Restatement of capital grants <i>(Continued)</i>		
The restatement is considered to be a correction of an error in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The reclassification had no impact on the profit for the previous years.		
16. Borrowings		
Current borrowings		
Foreign borrowings	6,478	36,302
DMTN Bond	195,000	-
	<u>201,478</u>	<u>36,302</u>
Non current borrowings		
Foreign borrowings	25,885	-
DMTN Bond	205,000	400,000
	<u>230,885</u>	<u>400,000</u>
Total Borrowings	<u>432,363</u>	<u>436,302</u>

The Domestic Medium Term Note (DMTN) Bond is unsecured.

The foreign borrowings of P32 363 000 which are unsecured and obtained from the European Investment Bank (EIB)

Maturity of non current borrowings

Between 1 and 2 years	195,000	195,000
Between 2 and 5 years	-	-
Over 5 years	205,000	205,000
	<u>400,000</u>	<u>400,000</u>

Foreign borrowings

	Denomination			
Loan 45 EIB	ZAR	39,842	47,811	

Loan Number	% rates of interest p.a.	Period of repayment	Balance at 1 April 2017 P'000	Repaid during the year P'000	Balance at 31 March 2018 P'000
Foreign Loans direct to the Corporation					
45-EIB	8-12	2008-2023	<u>36,302</u>	<u>(3,939)</u>	<u>32,363</u>
<i>DMTN Bond</i>					
WUC001	10.65	2008-2018	195,000	-	195,000
WUC002	10.6	2008-2026	<u>205,000</u>	-	<u>205,000</u>
			<u>400,000</u>	-	<u>400,000</u>
TOTAL LOANS			<u>436,302</u>	<u>(3,939)</u>	<u>432,363</u>

Water Utilities Corporation

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st March 2018

	2018 P'000	2017 P'000
17. Deferred Taxation		
Deferred income taxes are calculated in full on all temporary differences under the liability method using a principal tax rate of 22% (2017: 22%).		
Balance at beginning of the year	-	-
Income statement expense (note 4)	21,815	-
Balance at end of the year	<u>21,815</u>	<u>-</u>
Broken down as:		
Differences in tax and accounting depreciation	65,666	-
Accruals and provision	(43,851)	-
	<u>21,815</u>	<u>-</u>
18. Trade and other payables		
Trade creditors	118,805	173,343
Interest accrued on borrowings	11,507	14,486
Value added tax	1,116	6,445
Payroll accruals	71,832	83,763
Other payables and accruals	181,888	169,249
	<u>385,148</u>	<u>447,286</u>
19. Dividend payable		
No dividend has been declared or paid during the year.		
20. Cash flows from operating activities		
Total comprehensive income/(loss) for the year	513,464	(137,385)
Adjustment for		
Depreciation and amortisation expense	293,172	263,173
Impairment adjustment (note 7)	10,000	-
Amortisation of grant (note 15)	(37,041)	(27,722)
Adjustment to bad debts provision - Water Sector Reforms (note 13)	-	2,993
Finance income (note 3)	(19,935)	(3,794)
Finance costs (note 3)	44,608	44,990
Profit on sale of assets	(2,972)	(171)
Tax payable	89,972	-
	<u>891,268</u>	<u>142,084</u>
Adjusted for working capital movements		
Movement in inventories	2,625	(1,763)
Movement in trade and other receivables	(70,814)	(149,966)
Movement in consumer deposits	10,139	6,993
Movement in trade and other payables	(62,138)	(30,049)
	<u>(120,188)</u>	<u>(174,785)</u>
Cash to operating activities	<u>771,080</u>	<u>(32,701)</u>



Water Utilities Corporation

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st March 2018

	2018 P'000	2017 P'000
21. Commitments		
Operating lease commitments		
The future minimum lease payments under non-cancellable operating leases are as follows:		
Due within one year	8,131	9,333
Due after one year	15,680	26,269
	<u>23,811</u>	<u>35,602</u>

Operating leases relate to leases of properties with lease terms between 2 and 5 years with an average yearly rental escalation of 10%. The Corporation does not have an option to purchase the properties at the expiry of the lease periods.

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	1,266,810	1,109,196
Approved but not yet contracted for	<u>1,149,290</u>	<u>1,812,400</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 Emergency/ Drought projects.

22. Contingent liabilities

The Corporation has guaranteed the obligations of its employees under the residential property and personal loans scheme up to a total of P10 million (2017: P10 million). The schemes are operated through Barclays Bank of Botswana Limited. The amount disclosed represents the Corporation's exposure on the loan scheme. The extent to which an outflow of funds will be required is dependent on future rate of default by the employees.

The Corporation has no material obligations (2017: PNil) in respect of litigation matters, which existed at the financial year end.

23. Retirement benefit liability

The Corporation operates a hybrid pension fund with both defined benefit and defined contribution members. The defined contribution and defined benefit plans are administered by a separate Fund that is legally separated from the Corporation. The board of the pension fund is composed of an equal number of representatives from both employers and (former) employees. The board of the pension fund is required by law and by its articles of association to act in the interest of the fund and of all relevant stakeholders in the scheme, i.e. active employees, inactive employees, retirees, employers. The board of the pension fund is responsible for the investment policy with regard to the assets of the fund.

Defined Contribution Plan

The Corporation is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Corporation with respect to the retirement benefit plan is to make the specified contributions. The total expense recognised in profit or loss of P42 292 000 (2017: P53 431 000) represents contributions made to these plans by the Corporation at rates specified in the rules of the plan.

Water Utilities Corporation

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st March 2018

23. Retirement benefit liability (Continued)

Defined Benefit Plan

In accordance with statutory requirements, independent actuaries value the Fund at the end of each financial year. Such valuations are based on the projected unit credit funding method. Under this method, the present value of benefits, which have accrued as a result of service prior to the valuation date, are compared with the value of the plan's assets. Allowance is made in the valuation of the accrued benefit for estimates of future salary increases, withdrawals and deaths benefits payable.

The defined benefit plan exposes the Corporation to actuarial risks, such as longevity risk, interest rate risk and market (investment) risk.

The most recent actuarial valuation of the defined benefit plan was performed at 31 March 2018 by AON Hewitt. The results of the valuation are as follows:

Amounts recognised in the Statement of Financial Position are determined as follows:

	2018 P'000	2017 P'000
Present value of defined benefit obligation	(35,983)	(35,903)
Fair value of plan assets	41,009	40,916
Paragraph 64 limit	(5,026)	(5,013)
Net liability arising from defined benefit obligation	-	-

Amounts recognised in profit or loss in respect of the defined benefit plan are as follows:

Current service cost	783	655
Gain on settlement	-	-
Interest on obligation	2,005	2,302
Interest income on plan assets	(2,248)	(2,571)
Interest on asset ceiling	276	279

Net actuarial loss recognised in the year

Amounts recognised in other comprehensive income in respect of the defined benefit plan are as follows:

<u>816</u>	<u>665</u>
<u>(312)</u>	<u>(190)</u>



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Water Utilities Corporation

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st March 2018

23. Retirement benefit liability *(Continued)*

Movements in the present value of the defined benefit obligations in the current period were as follows:

	2018 P'000	2017 P'000
Opening defined benefit obligation	35,903	39,348
Current service cost	738	655
Interest cost	2,005	2,302
Benefits paid	(556)	(1,508)
Actuarial losses	898	444
Actuarial losses due to experience	(3,006)	(5,338)
Closing defined benefit obligation	<u>35,982</u>	<u>35,903</u>

Movement in the present value of the plan assets in the current period was as follows:

Fair value of plan assets

Opening fair value of plan assets	40,916	44,093
Expected return on assets	2,248	2,571
Contributions	459	476
Benefits paid	(556)	(1,508)
Actuarial gains	(2,058)	(4,716)
Closing fair value of plan assets	<u>41,009</u>	<u>40,916</u>

Asset

Asset not recognised	5,026	5,013
	<u>(5,026)</u>	<u>(5,013)</u>

Net Asset/ obligation in the statement of financial position

	<u>-</u>	<u>-</u>
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The principal actuarial assumptions used are as follows:

Discount rate	5.2%	5.5%
Expected return on plan assets	5.2%	5.5%
Future salary increases	5.2%	5.2%
Future pension increases	3.3%	3.5%

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate and pension increase rate. The sensitivity analyses below have been determined based on reasonably possible changes to of respective assumptions occurring at end of period, while holding other assumptions constant.

If the pension increase rate is 0.5% higher (lower), the defined benefit obligation would decrease by P1 201 000,(increase by P 1 337 000), 2017 decrease by P1 850 000 (increase by P1 327 000).

Water Utilities Corporation

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st March 2018

23. Retirement benefit liability *(Continued)*

The plan ensures that investment positions are managed within an asset-liability matching framework that has been developed to achieve long term investments that are in line with obligations under the pension plans

The assets in respect of the defined benefit portion were estimated by deducting the total liabilities of the defined contribution portion from the total assets of the fund as shown below

	2018 P'000	2017 P'000
Total fund assets	707,429	674,326
Liabilities in respect of defined contribution portion		
- Active members' fund credits	(589,757)	(554,194)
- Deferred members' benefits	(75,912)	(78,276)
- Outstanding benefits	(751)	(765)
Estimated assets in respect of defined benefits portion	<u>41,009</u>	<u>41,091</u>

24. 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 19 for dividend matters.

A list of members of the Board is disclosed on the front page of the report. In 2018, the total Director's fees paid amounted to P506 000 (2017: P126 332).

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

The total remuneration of Directors and other members of key management personnel during the year was as follows:

Short-term benefits	5,976	5,818
	<u>5,976</u>	<u>5,818</u>
25. Interest reserve - EIB		
Balance at the 1 April 2017	15,686	14,802
Interest subsidy income - transfer	734	884
Balance at the 31 March 2018	<u>16,420</u>	<u>15,686</u>

The interest subsidy reserve relates to a subsidy on the EIB loan 45 (Note 16). 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.



Water Utilities Corporation

Financial Risk Management *(Continued)*

For the Year Ended 31st March 2018

26. Taxation

The Corporation was previously a "Specified Corporation" which was exempt from income tax because it was wholly owned by the Government of the Republic of Botswana.

In terms of the Income Tax Amendment Act 2015 (Act 14 of 2015) and Statutory Instrument number 41 of 2016 Income Tax (Bodies Corporate Exempt from Tax) Regulations 2016 that came into operation on 1 July 2016, the Corporation became a taxable entity.

The Botswana Unified Revenue Services ("BURS") has not issued any guidelines as to any transitional arrangements which would apply in the first tax period for the Corporation. Accordingly, the Corporation has calculated income tax and deferred tax for the current year based on management's interpretation of the Income Tax Act as it may apply to the Corporation. These interpretations may differ to those of BURS. Any changes as a result of different interpretations made by BURS will be accounted for when agreed to by the Corporation.

27. Compliance with the Water Utilities Corporation Act (Chapter - 74:02)

The Corporation has complied with the requirements of Section 19 of the Water Utilities Corporation Act (Chapter 74:02) which requires the Corporation to conduct its affairs on sound commercial lines and to produce a net operating income by which a reasonable return can be measured. An operating surplus of P267 797 000 (2017: P96 379 000 loss) before taking into account the tariff subsidy grant received from the Government of the Republic of Botswana of P360 000 000 (2017: PNil).

28. 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.

29. Financial risk management

The Corporation's activities expose it to a variety of financial risks: market 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

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks.

(i) Foreign exchange risk

The Corporation is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the South African Rand (ZAR). Foreign exchange risk arises from borrowings and other commercial transactions.

Water Utilities Corporation

Financial Risk Management *(Continued)*

For the Year Ended 31st March 2018

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 2018, the Corporation's foreign exchange exposure was to ZAR borrowings of R39 842 000 (2017: R47 811 000). If the Botswana Pula (BWP) had moved 1% against foreign currencies, the effect would have resulted in an exchange loss of P245 000 (2017: P359 000). 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 the 2017/2018 financial year, the Corporation's borrowings and short-term deposit investments at variable rates were denominated in Pula (BWP) and Rand (ZAR).

At 31 March 2018, the Corporation's foreign exchange exposure was to ZAR borrowings of R39 842 000 (2017: R47 811 000). If the Botswana Pula (BWP) had moved 1% against foreign currencies, the effect would have resulted in an exchange loss of P 245 000 (2017: P359 000). This would be as a result of foreign exchange loss or gain on the translation of foreign currency-denominated financial assets and liabilities.

A 1% movement in interest rate in borrowings and short-term deposit investments would increase/decrease the Corporation's net interest charge by P2 700 000 (2017: P2 900 000).

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 refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Corporation. 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 and overdue accounts are disconnected. 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. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. On-going credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, customers are disconnected until they settle.



Water Utilities Corporation

Financial Risk Management *(Continued)*

For the Year Ended 31st March 2018

29. Financial risk management (continued)

(c) Liquidity risk

Liquidity risk refers to the risk that the Corporation will not be able to generate sufficient cash flows to meet its financial obligations as they fall due. 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 11) 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 2018				
Borrowings	215,767	-	-	261,203
Consumer deposits	-	-	-	41,150
Accounts payable	385,148	-	-	-
Dividend payable	-	-	-	-
At 31 March 2017	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Borrowings	-	215,807	-	265,892
Consumer deposits	-	-	-	31,011
Accounts payable	<u>447,286</u>	<u>-</u>	<u>-</u>	<u>-</u>

(d) Capital risk

The Corporation is a parastatal established by an Act of Parliament. The Corporation is supported by its shareholder, Government of the Republic 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.

	2018 P'000	2017 P'000
Total long - term debt (note 16)	432,363	436,302
Total capital and reserves	5,445,430	6,232,902
Debt : equity ratio	0.08	0.07

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:

Water Utilities Corporation

Financial Risk Management *(Continued)*

For the Year Ended 31st March 2018

			2018 P'000	2017 P'000
Total interest bearing borrowings (note 16)			432,363	436,302
Property, plant and equipment (note 5)			5873,257	5,650,192
Ratio of interest bearing debt to property, plant and equipment			0.07	0.08
	Government Departments and Councils P'000	Business P'000	Domestic P'000	Total P'000
At 31 March 2018				
Neither past due nor impaired	130,255	39,036	60,833	230,124
Past due but not impaired	206,732	8,089	36,559	251,380
Individually impaired	-	59,176	305,047	364,223
	<u>336,987</u>	<u>106,301</u>	<u>402,439</u>	<u>845,727</u>
Less: Provision for impairment	<u>(15,617)</u>	<u>(59,176)</u>	<u>(312,905)</u>	<u>(387,698)</u>
	<u>321,370</u>	<u>47,125</u>	<u>89,534</u>	<u>458,029</u>



Notes

A series of horizontal dotted lines for writing notes.



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