



We keep it flowing, *for you.*

# 2015/16

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# ANNUAL REPORT



WATER FOR PEOPLE, WATER BY PEOPLE





A newly introduced pre-paid public stand pipe in Mogoditshane

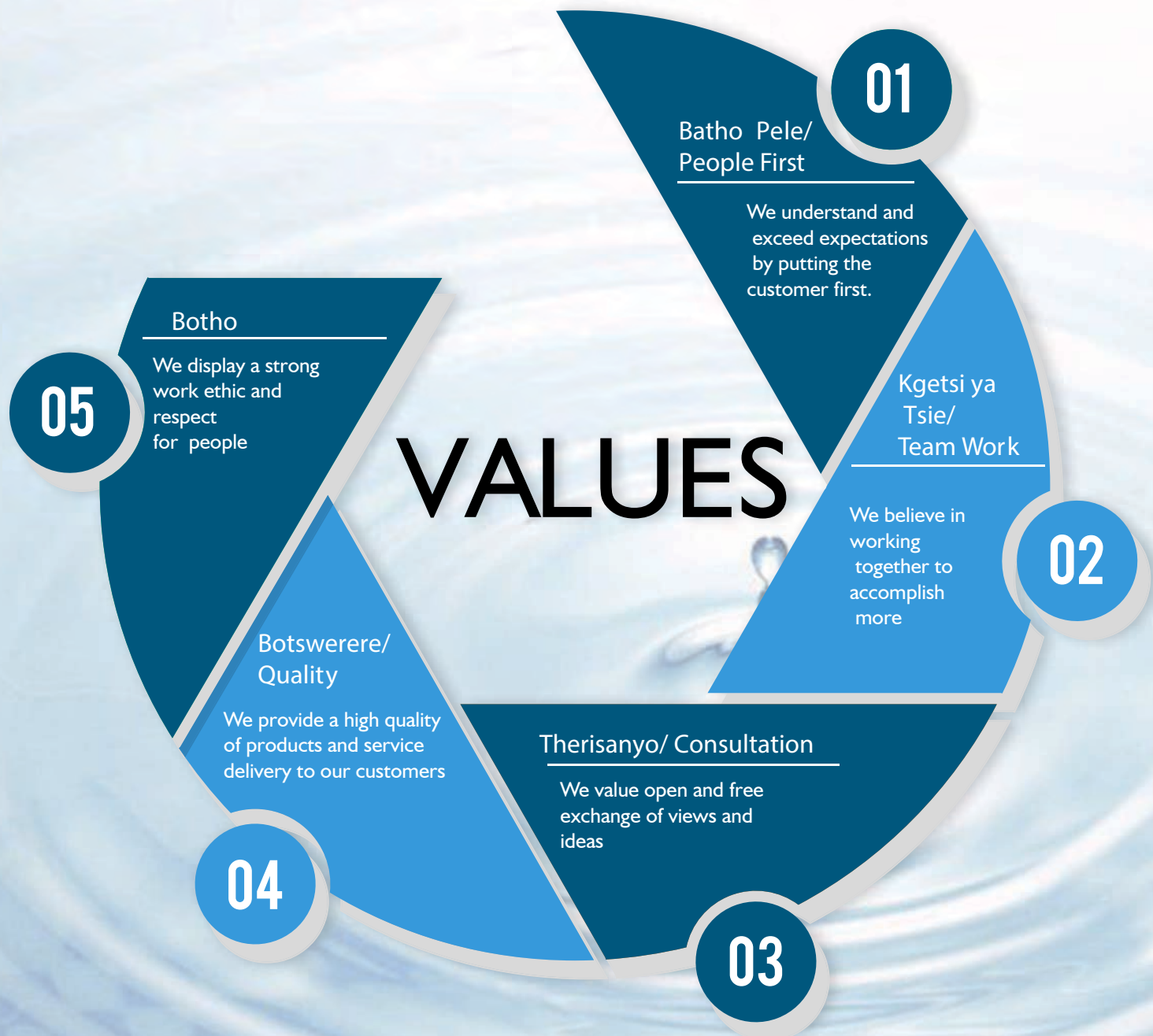


## VISION

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.



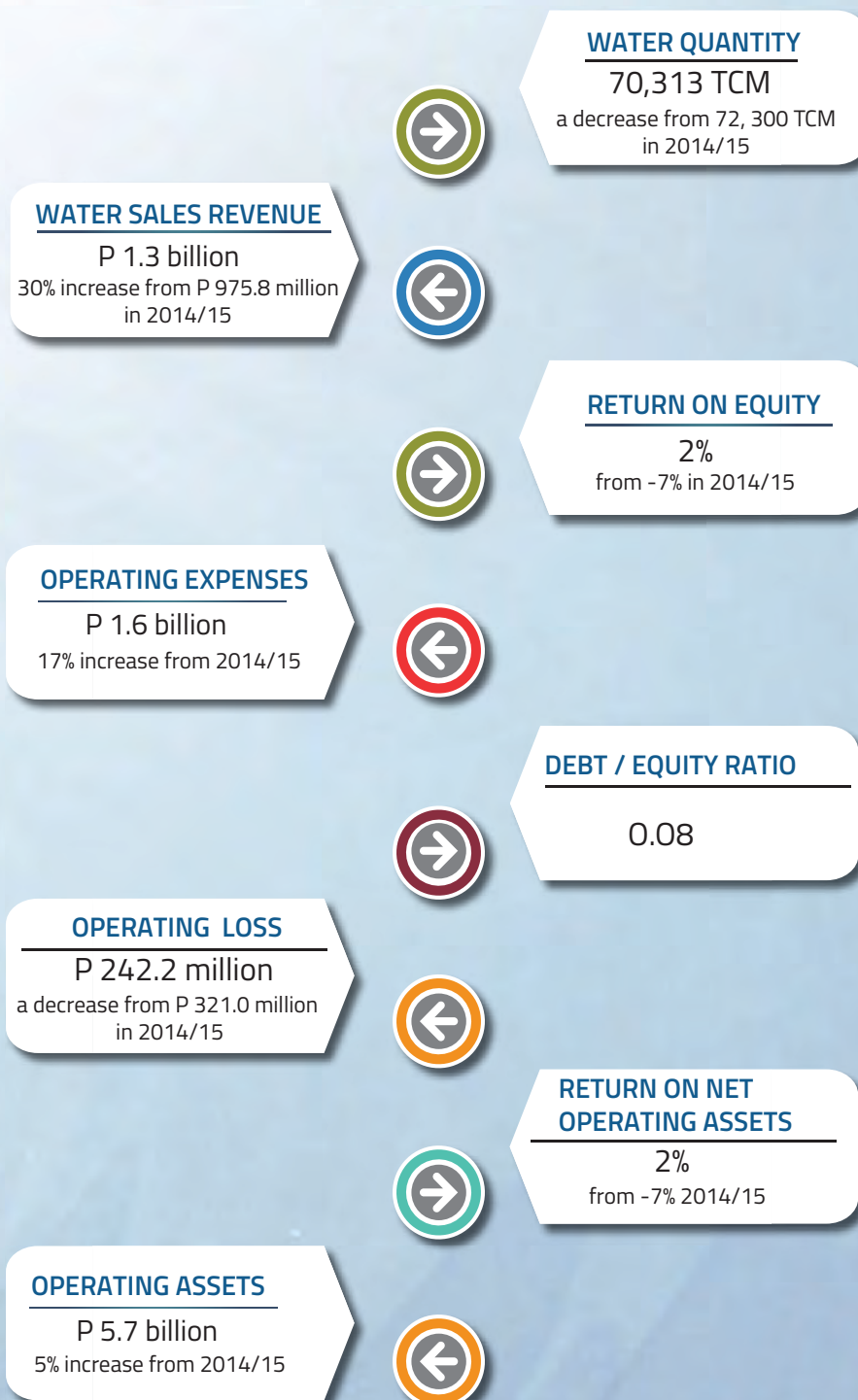


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## Performance Highlights For 2015/16





## Five Year Performance at a Glance

	2015/16	2014/15	2013/14	2012/13	2011/12
	P'000	P'000	P'000	Re-stated P'000	Re-stated P'000
<b>Income and cashflow statements</b>					
Water sales	1,276,595	975,801	914,994	770,471	571,296
Total revenue	1,307,272	1,006,744	948,061	790,778	579,685
Operating expenses	1,327,057	1,122,539	1,076,400	957,200	947,035
Depreciation and amortisation	241,178	219,867	224,276	184,790	186,558
Net finance charges	26,392	47,201	33,703	28,111	13,731
Net surplus/(loss)	121,629	(370,282)	(346,559)	(191,062)	(541,595)
Net increase/(decrease)	129,045	(76,800)	(254,840)	(302,249)	(102,647)
<b>Balance Sheet</b>					
Operating assets	5,703,916	5,440,892	5,040,805	4,620,261	4,444,660
Development Expenditure	490,799	632,679	771,755	625,866	538,249
Government equity	5,565,562	5,340,282	4,975,050	4,374,297	4,089,391
Interest subsidy reserve	14,802	13,789	12,493	10,984	9,213
Reserves	197,184	76,568	448,146	796,214	989,047
Long term borrowings	400,000	400,874	480,494	515,036	549,212
Retirement benefit asset / (obligation)	-	-	(1,351)	(21,611)	(3,920)
Water sales quantities (TCM)	70,313	72,300	71,200	75,600	66,000
<b>Financial Ratios %</b>					
Return on equity	2	-7	-7	-4	-13
Return on capital employed	0	0	0	0	0
Return on net operating assets	2	-7	-7	-4	-12
Debt service cover (times)	3.5	-4.7	-4.9	-1.8	-10.7
Debt/Equity Ratio	0.08	0.08	0.10	0.12	0.13
<b>Statistics %</b>					
Annual Inflation	3	2.8	4.4	7.3	7.2
Prime lending rate	7.5	7.5	9	11	9.5

## 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.

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

In the forty-six years since its inception, the Corporation's mandate has expanded to supplying potable water to all urban centres and villages in the country, as well as managing wastewater and sanitation. This expansion in mandate was done under the Water Sector Reforms Programme. The programme resulted from a study to rationalise the water sector in Botswana and ensure uniform service levels for all. The implementation of the Water Sector Reforms Project effected in May 2009 and was completed in 2013. The process to level service levels and upgrade water infrastructure in the acquired areas to WUC standards will be a long term project.

Following the commencement of the implementation of the Water Sector Reforms Project, the Corporation's customer base has grown significantly from 80 000 at the

beginning of the reforms in 2009 to 355 000 as at 31<sup>st</sup> March 2016. The Corporation presently supplies over 70 TCM of potable water annually to its customers.

With a property, plant and equipment value of over P5.7 billion, the Corporation's infrastructure includes nine dams, the Gaborone, Nnywane, Bokaa, Shashe, Letsibogo, Ntimbale, Dikgatlhong, Thune and Lotsane. It also owns the North South Carrier Scheme I (NSCI) which comprises a 360km long pipeline, water treatment plants and associated pump stations.

In keeping with its vision ***"To be a world-class water utility"*** the Water Utilities Corporation needs to be able to satisfy an increasingly discerning customer and ensure compliance with internationally accepted corporate governance practices. To this end the Water Utilities Corporation identified key strategic objectives to guide its activities, business focus and the allocation of resources for its planning period 2015-2018. These are:



# Corporate Strategy

## Key Strategic objectives

### 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 Intent:**

Leadership effectiveness

**Strategic themes:**

- To improve the performance culture of the organisation
- To improve staff morale and motivation

**Strategic Intent:**

Service Delivery and Quality Assurance

**Strategic themes:**

- To develop and implement a Rural Water Supply Services Policy
- To develop and implement a new business model
- To align existing policies with the operating model
- To meet water demand
- To reduce water losses

**Strategic Intent:**

Stakeholder Management

**Strategic themes:**

- To increase stakeholder satisfaction

**Strategic Intent:**

Financial Growth Sustainability

**Strategic themes:**

- To identify new product lines to increase revenue
- To have a tariff structure that is cost reflective
- To identify areas for cost containment in line with enhancing WUC's image

**Strategic Intent:**

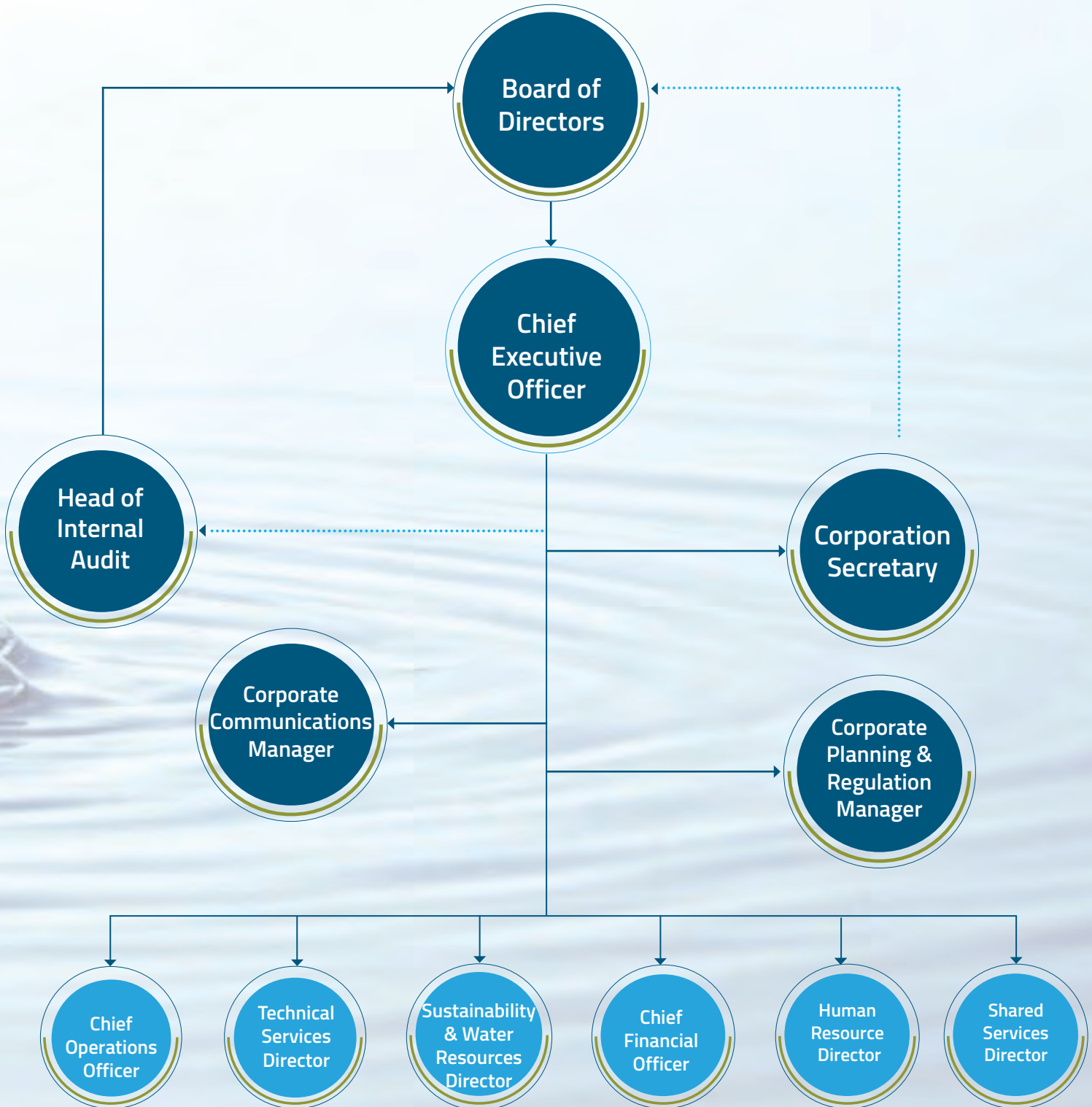
Infrastructure Development and Operational Efficiency

**Strategic themes:**

- To develop short, medium and long term capital programmes to ensure water security



## High Level Corporate Structure



In keeping with its vision ***“to be a world class water utility”*** the Water Utilities Corporation needs to be able to satisfy an increasingly discerning customer and ensure compliance with internationally accepted corporate governance practices. To this end the Water Utilities Corporation identified key strategic objectives to guide its activities, business focus and the allocation of resources for its planning period 2015-2018.



## Board Chairman's Statement

Another financial year has come and gone for the Water Utilities Corporation and I am pleased to present the 46<sup>th</sup> Annual Report of the Corporation. The report covers the period 1<sup>st</sup> April 2015 to 31<sup>st</sup> March 2016.

It would be remiss of me not to start off by expressing my and WUC's appreciation of the Ministry of Minerals, Energy and Water Resources' support. In true parent style, the Ministry stood with WUC throughout the most difficult period when the Corporation could not keep afloat financially. Regular subsidies and tariff increase approvals became WUC's lifeline which bailed it out many a times and enabled it to continue operating.

The twelve months under review were mainly characterized by water shortages due to the prevailing drought and the failure of the Gaborone Dam. In addition, there was a reduction in project execution due to constrained funding. The Corporation also witnessed a significant change in leadership as it moved to create a more resilient organization capable of dealing with current and future challenges in the provision of potable water and the management of wastewater services in the country.

The theme of this Annual Report ***"Water for People, Water by People"*** captures the context of the water supply landscape and the challenges that the Corporation faced during the year as a result of the failure of the Gaborone Dam and diminished water levels in other dams, especially in the southern part of the country. Participative stakeholder driven water management on the demand side took centre stage as we reached out to our stakeholders to help ensure the little available water was rationed equitably. Guided by its Stakeholder Management Strategy, the Corporation segmented and engaged its various stakeholders on the water supply and demand situation and their roles and responsibilities in managing the situation. We are happy to report that the contribution and understanding

of our stakeholders was remarkable and this lessened the impact of the effects of the water shortages.

We are also happy to note that for the first time the introduction of a tariff with a wastewater component assisted the Corporation to some extent towards cost recovery. The introduction of a wastewater tariff that is built into the potable water tariff has increased, albeit by a small margin, cost recovery and top line earnings, which over the years had affected our liquidity position. While the liquidity position of the Corporation deteriorated, the Corporation remained vigilant and a strong focus was placed on managing our debt, thus ensuring that the capital structure remained strong and robust amid these tectonic shifts in our operating environment.

We have continued to incur significant cashflow constraints, while at the same time the demand for water has increased. This has led to delays in critical projects such as the Masama West, NSC 2.2, Glen Valley Wastewater Treatment Plant upgrades and other critical projects. However, of note is that the year saw the commissioning of Dikgatlong and Lotsane Dams, thus increasing our surface water supply.

### Operations

During the period under review, our revenue grew by 30% while costs grew by 17%. The growth in revenue was mainly driven by a tariff increase and to a lesser extent by water sales. While we incurred an operating loss of P242.2 million, before taking into account a tariff subsidy of P388 million. The loss was significantly lower than the loss of P321.0 million for the previous year. This was further improved by the tariff subsidy from the Government. Overall total comprehensive income for the year improved from a loss of P367 million in the previous financial year to P121.6 million in the current financial year. This demonstrates that while we have



## Board Chairman's Statement (continued)

not returned to profitability the trend is upwards. Key financial performance indicators are detailed in the Chief Executive Officers Report.

The Operations and Technical Committee, a sub-committee of the Board whose main objective is to provide Board oversight on operations and technical management, project management and system acquisition continued to have a positive impact during the year. Through committee the Board was able to provide effective and adequate reporting on safety, health and environmental issues, dam levels and trends thereof, potable water and waste treatment facilities operational integrity, key operational and technical risks and mitigation. These mitigations include, amongst other things, the installation of automatic fire suppression systems in the main pump stations, an initiative which will be carried out on other facilities during the next financial year.

We have also seen a significant improvement in the availability and utilization of the North South Carrier Scheme (NSC) which is the life blood of the Greater Gaborone area. The implementation of various initiatives further improved water availability.

During the period under review, the Board was instrumental in assisting Management to focus on sustainable borehole water abstraction; improve water quality by increasing the efficacy of water disinfection facilities, signing of effluent trade agreements with industry to deal with pollutants that are discharged into the wastewater facilities, amongst others. During the reporting period WUC experienced a significant improvement in borehole management and in the signing of effluent trade agreements. A greater focus in integrated planning between the Corporation and our parent Ministry was recorded. We also made significant strides in improving the integrity of our customer database. While we had some success in this and other areas, the one area that requires more focus and

stakeholder support is accounts receivables (debtors). By the end of the financial year, aged debtors had grown significantly and this severely compromised our ability to run the affairs of the Corporation prudently and undermined our profitability, liquidity and effectiveness.

The Corporation continues to experience major setbacks in timeous provision of water to various areas in the country due to land servicing constraints. Land servicing remains the mandate of the Department of Lands and Housing and the respective Local Authorities or the land owners in the case of private land. This arrangement and the lack of synchronization in the provision of the related services by the responsible players in water service provision is a constraint to timeous and effective provision of services by the Corporation to its customers.

The most prohibitive and constraining of these is the lack of reconciliation between plot allocations and land servicing, which often result in plots being occupied in areas without any water delivery infrastructure. It is our aspiration that the relevant Acts be reviewed and amended to reflect this reality and empower WUC to effectively deliver its mandate in the provision of water and wastewater services. While we have relentlessly pursued this issue during the year under review, the results have been less than satisfactory.

During the year the potable water quality from the Corporation's water treatment plants remained compliant to the BOS32:2009. However, deviations were recorded in areas without chlorination facilities. While we have made significant progress in continuing to provide disinfection facilities in many areas, water chemistry remains a concern in areas where we do not have treatment plants.

### Corporate Governance

The Board, under the guidance of the Board and Board Committee Charters and the general principles of good

corporate governance continued to fulfill its mandate of active enterprise leadership. The Board recognizes that it is the focal point and custodian of good governance. The Board and Management are aware of the value that good governance adds to the Corporation and are fully committed to the principles of good governance. Board and Board Committee meetings were conducted as planned or as and when it was deemed necessary and these were adequate and effective in delivering the mandate of the Board. The Board is aware that while it delegates certain functions to the Board committees it does not in the process abdicate its responsibility to govern. During the financial year the following initiatives were completed by the Board:

- Board appraisal resulting in an action plan whose implementation will spill into the next review period;
- Board training on principles of good governance and risk management;
- Review of the Board Charter with a review of the Committee Charters planned for the coming financial year;
- Review of the procurement policy to fully align it to the PPADB and Presidential directives on procurement in state owned enterprises
- Review of the Strategic Plan

On an on-going basis the Board considers the impact of the Corporation's operations on its stakeholders and the environment to review assurance reports from Management, internal and external auditors, consultants and other advisors and ensure that these reports are adequate and effective; and are a fair representation of the status of the Corporation. We will further continue to monitor the hazards and risks that face the Corporation and employees on a day to day basis and focus on compliance to legal and regulatory

requirements with regard to safety and the need to ensure that such requirements are carried out and where there are deviations such deviations are reported and rectified urgently.

It is our view as a Board, and assisted by Management, that, guided by these principles, we will continue to take good stewardship of the Corporation. We will ensure that we promote and foster public trust in an environment that is becoming increasingly volatile, uncertain, complex and ambiguous and is also characterised by significant shifts in both the contextual and operating environment.

### Stakeholder Management and Corporate Social Responsibility

The Corporation remained committed to working closely with all its stakeholders. Guided by its Stakeholder Management Strategy, the Corporation engaged, consulted, informed and involved its various stakeholders in the relevant aspects of its operations. The feedback received from stakeholders was invaluable and was used to inform future policies and strategies to better serve our stakeholders. The Board participated in several Corporate Social Responsibility events. This was yet another avenue to enhance existing relations and develop new relations and understanding with the communities in which we operate.

### The Strategic Plan

During the year, Management, under the guidance of the Board went through a strategic planning process to position itself for the challenges and opportunities for the period 2015 to 2018. The Board remained committed to positioning the Corporation to effectively implement its identified key strategic imperatives to ensure delivery on its mandate. The key strategic imperatives for the period are:



## Board Chairman's Statement (continued)

- Attaining financial growth and sustainability
- Stakeholder management, service delivery and quality
- Infrastructure development and operational efficiency
- Results oriented talent, leadership and culture

### Financial Performance

As reported in the previous report, revenue and profit margin projections are indicative of a gradual shift towards improved performance. However, the Board remains cognisant of the fact that the recovery will be gradual and will be largely dependent on the funding of the necessary capital projects by government and through other funding options such as Public Private Partnerships. The Board is committed to pursuing these options with the necessary vigour and riqour at a time when competing national priorities will increasingly place a heavy burden on the fiscus. While these investments and their timely sequencing and execution is critical, the necessary project management and systems acquisition capabilities are required to ensure successful project delivery and achieve the required return on capital employed and ensure the Corporation earns its cost of capital on a sustainable basis.

It is also of utmost importance for the Corporation to significantly improve operational efficiencies throughout all facets of its operations. These range from operational efficiencies in its water treatment plants, cost optimization through improved cost structures, improved collections, water conservation, good asset management practices, among others. During the year, improvements in some of these areas were recorded.

### Looking Ahead

Our focus for the next three years is to restructure the Corporation to make it a more flexible and agile enterprise with the right people in the right jobs. It is through this that we can have a strong and sustainable focus on safety, health and environmental compliance, water conservation, asset management, operational excellence, capital programme delivery and stakeholder management.

### Appreciation

The Board, Management and staff of the Corporation would like to thank our stakeholders for their support during the year. We also extend our appreciation to our shareholders for their relentless moral and financial support and encouragement during a very difficult year.

On behalf of the Board I would also like to thank two Board Members Mr. Zuma Chengeta and Ms Marcia Makgalemele; and the former CEO Mr Leonard Nxumalo, who resigned during the review period. The Corporation will forever be grateful for their invaluable contribution. The Board also welcomes Ms Mokgadi Nteta who joined the Board in the last quarter of the financial year. We also would like to acknowledge the unwavering support

Revenue Categories	Amount in Pula ('000)	Accounts Receivable	Revenue Category as % of sales
Domestic	399,071	205,568	30.5%
Business & Industrial (Including mines)	192,814	96,442	14.7%
Government	563,349	205,641	43.1%
City Council	88,786	18,935	6.8%
District Council	5,630	0	0.4%
Connection fees	30,677	0	2.3%
Waste Water Sales : All Custoomers	26,945	3,887	2.1%
<b>Total Revenue</b>	<b>1,307,272</b>	<b>530,471</b>	<b>100%</b>



that the Union accords the Corporation, at a time when employees are most uncertain about the future given the impending restructuring exercise aimed at creating an agile and responsive organisation.

Finally the Board welcomes the men and women who joined the Corporate Management Team under the leadership of Mr. Mmetla Masire who has led the Corporation as Acting CEO since quarter three and has ably taken stewardship of the Corporation during

a difficult and transitory period. We wish him and his team well in the future.

On behalf of the Board, Management and employees, I thank you all.

Handwritten signature of Matome Tsholetsa Malema in black ink.

**Matome Tsholetsa Malema**  
Board Chairman



## Board of Directors



**Matome Malema**  
**Board Chairman**

**Qualifications:**

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

Tenure: 2014 -2017



**Dr. Obolokile Obakeng**  
**Vice Chairman**

**Qualifications:**

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

Tenure: 2015 - 2019



**Mokgadi Nteta**  
**Member**

**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).

Tenure: 2015 - 2019



**John Phatshwe**  
**Member**

**Qualifications:**

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

Tenure: 2013-2017



**Galeitsiwe Ramokapane**  
**Member**

**Qualifications:**

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

Tenure: 2013 - 2017





**Noble Katse**  
Member

Qualifications

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

Tenure: 2013 -2017



**Godfrey Molefe**  
Member

Qualifications:

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

Tenure: 2012 - 2016



**Zuma Chengeta**  
Member

Qualifications

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

Tenure: 2012 – 2016  
(Resigned 6 October 2015)



**Marcia Makgalemele**  
Member

Qualifications

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

Tenure: 2012 - 2016  
(Resigned 16 September 2015)



## Corporate Governance

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

### Ownership of the Corporation

The Corporation is a parastatal body wholly owned by the Government of Botswana. The Water Utilities Corporation Act defines the *raison d'être* for the Corporation as well as the limits within which it can operate, including the roles of the Minister of Minerals, Energy and Water Resources, the Board of Directors, and the Executive Management.

### The Board of Directors

The role of the WUC Board is to determine corporate policy and provide strategic direction. In carrying out this mandate, it is expected to bring to bear the highest standards of ethical conduct and good governance, in line with both statutes and generally accepted practice. The Board of the Corporation is appointed by the Minister of Minerals, Energy and Water Resources. In appointing the Board members, the Minister takes into consideration their experience and ability to make meaningful contributions to the business of the Corporation. The present Board comprises a fair balance of skills, knowledge and experience to meet this objective. The composition of the Board at any one time, including the Chairman, does not exceed nine members.

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

#### Matome Malema

Chairman

#### Dr Obolokile Obakeng

Vice Chairman and Chairman of the Operations and Technical Committee

#### Godfrey Molefe

Member and Chairman of the Audit Committee

#### John Phatshwe

Member and Chairman of the Human Resources Committee

#### Noble Katse

Member and Chairman of the Tender Committee

#### Galeitsiwe Ramokapane

Member

#### Zuma Chengeta

Member

#### Marcia Makgalemele

Member

#### Mokgadi Nteta

Member

#### Registered Office

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

#### Independent Auditors

Deloitte & Touche



## Board Meetings

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

During the year under review, the Board met the set requirement and convened four ordinary meetings. The Board also convened nine extra-ordinary meetings.

### Main Board Attendance Register

Name of Board Member	Position	04 May 15	13 May 15	12 Jun 15	31 Jul 15	13 Aug 15	25 Sep 15	06 Oct 15	29 Oct 15	23 Nov 15	27 Nov 15	03 Dec 15	03 Mar 16	18 Mar 16	Sitting Allowance (P)
Matome Malema	Board Chairman	✓	✓	✓	✓	✓	✓	✓	✗	✗	✓	✓	✓	✓	1 050.00
Dr Obolokile Obakeng	Vice Board Chairman	✗	✗	✗	✓	✗	✓	✗	✗	✗	✗	✗	✓	✓	840.00
Godfrey Molefe	Member	✓	✓	✓	✗	✓	✓	✓	✓	✓	✗	✓	✓	✓	840.00
John Phatshwe	Member	✓	✓	✓	✓	✓	✓	✓	✓	✗	✓	✓	✗	✓	840.00
Noble Katse	Member	✓	✓	✓	✓	✓	✓	✗	✓	✓	✗	✓	✓	✗	840.00
Zuma Chengeta	Member	✓	✓	✗	✗	✓	✗	✓	PR	PR	PR	PR	PR	PR	840.00
Mokgadi Nteta	Member	BA	BA	BA	✗	✗	✓	✗	✓	✗	✓	✓	✗	✗	840.00
Marcia Makgalemele	Member	✓	✓	✗	✓	✓	PR	PR	PR	PR	PR	PR	PR	PR	840.00

KEY: BA - Before appointment | PR – Post Resignation

- In attendance
- Not in attendance

### 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 are paid directly to the Government. The applicable rates per sitting during the year were as follows;

Chairman	P1050
Vice Chairman	P 840
Member	P 840

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

## Board Committees

### Audit Committee

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

- The financial reporting process
- The system of internal controls
- The audit process
- Corporate, and information technology governance, and
- The Corporation's process for monitoring compliance with the 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 Audit Committee 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 being met.

The Committee is scheduled to meet at least four times annually, and during the reporting period it satisfied the requirement as it held its three scheduled meetings and two extra-ordinary meetings.

### Audit Committee Attendance Register

Name of Board Member	Position	22 Apr 15	07 Jul 15	24 Sep 15	22 Oct 15	21 Jan 16	03 Mar 16	Sitting Allowance (P)
Godfrey Molefe	Chairman	✓	✓	✓	✓	✓	✓	1 050.00
Noble Katse	Member	✓	✓	✓	×	✓	✓	840.00
Mokgadi Nteta	Member	BA	×	×	✓	✓	✓	840.00
Dr Obolokile Obakeng	Member	BA	✓	✓	✓	✓	✓	840.00

KEY:  In attendance  
 Not in attendance



## Tender Committee

The Tender Committee comprises four members of the Board, John Phatshwe, Godfrey Molefe, Noble Katse and Zuma Chengeta. 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, including the need to encourage and support local businesses in the spirit of the Government local preference policy and citizen empowerment. The Committee operates within the limits of the Corporation's Tender Regulations and Procurement procedures. These procedures are revised from time to time to align them with best practice. The Committee is scheduled to meet eight times per year, and during the year under review it met seven times.

### Board Tender Committee Attendance Register

Name of Board Member	Position	12 May 15	10 Jul 15	21 Aug 15	09 Oct 15	23 Nov 15	27 Mar 16	22 Jan 16	Sitting Allowance (P)
Noble Katse	Chairman	X	X	X	✓	✓	✓	✓	1 050.00
Godfrey Molefe	Member	✓	✓	✓	✓	✓	X	X	840.00
John Phatshwe	Member	✓	✓	✓	✓	✓	✓	✓	840.00
Zuma Chengeta	Member	X	X	✓	PR	PR	PR	PR	840.00

KEY: BA - Before appointment | PR – Post Resignation

- In attendance
- Not in attendance

## Human Resource Committee

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 six extra-ordinary meetings.

### Human Resource Committee Attendance Register

Name of Board Member	Position	09 Apr 15	19 May 15	20 May 15	27 May 15	29 Jul 15	23 Oct 15	03 Nov 15	15 Dec 15	16 Dec 15	22 Mar 16	Sitting Allowance (P)
John Phatshwe	Chairman	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	840.00
Noble Katse	Member	✗	✓	✓	✓	✓	✗	✓	✗	✗	✓	840.00
Mokgadi Nteta	Member	BA	BA	BA	BA	✓	✓	PR	PR	PR	PR	840.00
* Zuma Chengeta	Chairing	✓										1 050.00
* Godfrey Molefe		✓										840.00
* Matome Malema	Chairing								✓	✓		1 050.00

KEY: BA - Before appointment | PR – Post Resignation

✓ In attendance

✗ Not in attendance

\* Not substantive members, attended by invitation



Newly built water reservoir in Kgatleng





## Operations and Technical Committee

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

- 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

### Operations and Technical Committee Attendance Register

Name of Board Member	Position	10 Jul 15	08 Oct 15	05 Feb 15	Sitting Allowance (P)
Dr Obolokile Obakeng	Chairman	BA	X	✓	1 050.00
Matome Malema	Member	✓	X	✓	840.00
Godfrey Molefe	Member	✓	✓	X	840.00
Galeitsewe Ramokapane	Member	✓	—	—	840.00
Zuma Chengeta	Chairman Resigned 6 October 2015	✓	PR	PR	—
John Phatshwe (Standing in for Galeitsewe Ramokapane)	—	—	✓	—	—

KEY:  In attendance  
 Not in attendance

### Reporting to the Botswana Government

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

### Going Concern

The financial statements for the year ending 31<sup>st</sup> March 2016 have been prepared on a going concern basis. The Board is satisfied with the available financial resources, the future performance projections and the continued support from the Government of Botswana. The Corporation will continue to operate into the foreseeable future.

### Statutory Reporting Requirements

The Water Utilities Corporation Act requires that all Corporation business be conducted along sound commercial lines and that a reasonable return is

generated on the equity provided by the Government of Botswana. The Act further requires that the Audited Financial Statements be presented to the Minister by the 30<sup>th</sup> of September each year. The Board is satisfied that the Corporation has complied with this and other statutory requirements for the year ended 31<sup>st</sup> March 2016. 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 on Page 60 of this Report.

### Ministerial Directives

There were no Ministerial Directives during the year.

### 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.



# Acting Chief Executive Officer's Report

I am honoured to present this, the Water Utilities Corporation's 46<sup>th</sup> Annual Report. This report covers the period 1<sup>st</sup> April 2015 to 31<sup>st</sup> March 2016 and is in compliance with the requirements of the Water Utilities Corporation act of 74:02 of 1970.

The report, covers progress on key performance indicators which were identified and included in the Corporation's Strategic Plan 2015- 2018. During the reporting period, these objectives were reviewed, monitored and evaluated quarterly to enable the Corporation to remain focused in its efforts to meet the set targets as below:

## Infrastructure and Operational Efficiency

The period under review was the most challenging year since the establishment of the Corporation.

Still grappling with the challenges of supplying water through old dilapidated and inefficient infrastructure inherited from former water authorities, the Corporation was hit by a severe drought. The Corporation's water sources remained in an unsatisfactory state during the year, with dams, especially those in the south of the country having failed to impound significant inflows. The Gaborone Dam which is the main water source for the capital city and surrounding areas dropped to an unprecedented 1.2% level.

Ground water sources were not spared either, as the lack of rains also led to either the boreholes' reduced yields or total failure, such as in Molepolole, Tsabong and Tswapong areas, amongst others. With groundwater accounting for 60% of the country's water supply, this left no alternative source for the Corporation to supply the country from as surface water sources were also greatly affected.

In light of all this, WUC's efforts to meet water demand were dealt a major blow and the Corporation had to put

measures in place to cushion the severe water shortages. To mitigate this nationwide problem, WUC introduced water rationing in the most affected areas including Gaborone City and surrounding villages. Each of these areas' water supply was cut off for at least three days per week to allow supply to other areas.

WUC remained cognisant of the fact that a sustainable solution to these problems would be the strategic planning of projects that will mitigate the effects of climate change which is a reality that has to be addressed. The identification of new water sources as well as the rehabilitation of existing water infrastructure in most areas also remained top on WUC's list of possible solutions to the water crisis.

During the year, the Corporation embarked on several water infrastructure projects around the country to address the water supply crisis. Of note was the completion of the development of the Masama East well field project which saw twenty-two boreholes completed and put into use. The 30MI per day output from the boreholes was pumped into the NSCI to augment supply to the Greater Gaborone area. The second phase of the project, the development of an additional twenty-two boreholes under the Masama West project commenced during the year and is scheduled for completion in the next review period. The successful rehabilitation of eight of eleven boreholes in the Maun area to provide supply following the drying up of the main source, the Thamalakane River was also one of the Corporation's major successes during the year.

## Financial Growth and Sustainability

For the period under review, WUC remained in a compromised liquidity position and operated on a deficit budget. Much as the organization would like to move on and re-define its identity post the Water Sector Reforms Programme, the legacy of the reforms will remain with WUC into the foreseeable future.



## Acting Chief Executive Officer's Report (continued)

The Corporation's poor performance over the years continued to have an adverse impact on the Corporation's operations and affected capital projects which the Corporation had planned to implement to address the water supply crisis in the country. Despite the review of tariffs and introduction of a nominal wastewater tariff, these were not sufficient to fully finance the operations of the Corporation as they are not cost reflective.

As has been the case in the last few years, the Corporation remained highly dependent on government subsidies to remain afloat during the reporting period. The unwillingness of customers to honour their bills also continued to contribute to WUC's financial woes. By the close of the reporting period unpaid water bills amounted to at least P530.4 million. This was an over 70% increase from P300 million year on year the previous reporting period.

In an effort to mitigate this financial risk, the Corporation came up with a debt reduction strategy. The strategy included continued engagement of WUC's parent Ministry, the Ministry of Minerals, Energy and Water Resources on project funding and the engagement of the Ministry of Local Government on payment of water subsidies for Remote Area Dwellers. It also guided on targeted efforts to get the various Ministries and Government institutions to pay their huge outstanding bills which form the larger part of WUC customers' unpaid bills.

In an effort to recover the monies it is owed, WUC embarked on mass disconnections and intensified its use of alternative payment methods offered to customers. E-mail bills and sms account balances were introduced for those customers who provided the relevant contact details.

Water supply projects were prioritized and the generated funds channeled to fund these projects as and when they were received.

### Stakeholder Management, Service Delivery and Quality

In keeping with contemporary corporate governance practices, WUC emphasized the triple bottom line in its operations and measured performance not only through financial performance but through social and environmental performance too. Faced with a more discerning customer, WUC moved towards customer centricism. Stakeholder engagements took centre stage as the Corporation's various interest groups were engaged in various fora including public kgotla meetings, media conferences, workshops, open houses, fairs, exhibitions and project tours, amongst others.

Guided by its Environmental Management Policy, WUC carried out Environmental Impact Assessments for relevant projects in line with legislative requirements in this area.

The restoration of the environment was done following the completion of projects, even small ones such as pipe burst repairs. Public participation was sought and got on clean-up campaigns of reservoir catchment areas and dam perimeters.

The Board's guidance in effectively managing the Corporation to remain relevant even through this turbulent period remained invaluable. The strategic direction the Board set guided WUC operations towards achieving its set strategic objectives. Guided by the Stakeholder Management Strategy and the Board Charter, the Board was involved in stakeholder engagements and showed a non-wavering sense of commitment and stewardship during the year.

### Results Oriented Talent, Leadership and Culture

In response to the changes in the Corporation's mandate in recent years, WUC reviewed its Corporate Strategy. New high level targets and a corporate scorecard were developed and cascaded to departmental and individual scorecards.

Guided by its Training Strategy, the upgrading of skills and effectiveness of existing staff continued through training and development programmes across all levels. The training was done through, in-house programmes, seminars and workshops, both locally and regionally. Due to budget constraints the training strategy could not be implemented fully.

WUC's reward philosophy recognizes that employment is not solely about competitive pay and benefits but also has to offer individual growth and development, good career opportunities and a sense of being part of a performance driven organization. In line with this, induction programmes for new staff as well as team building and social sporting activities were used to facilitate team building for all staff. Under its Employee Health and Wellness Programme WUC continued to pay gym membership for its employees. Health and wellness committees were formed in various operational areas and supported accordingly. Regular job specific medical examinations were carried out to ensure employees work in conducive environments as well as to mitigate any health problems that may be detected.

### Looking Ahead

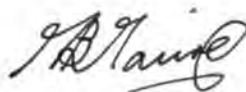
The Water Utilities Corporation acknowledges its shortfalls in operation during the review period. Most of these are attributable to climatic changes which resulted in the drought which in turn affected water supply. This, coupled with old and inefficient water

supply infrastructure resulted in widespread water shortages around the country and a national public outcry. WUC is also cognisant of the fact that the situation may deteriorate further before it normalizes. The Corporation is still grappling to put mitigation measures in place and this may take a long time. These measures are mainly in the form of projects whose success will mainly depend on the availability of funding.

WUC remains committed to do its best under the prevailing circumstances to remain true to its motto, **we keep it flowing, for you.** Initiatives to source funding and implement relevant projects to address the obtaining water supply shortages situation will continue. The Corporation has adopted a multi-pronged approach to addressing the problem. This will include the identification of new water sources, the development of well fields, exploration of alternative sources of water, public private partnerships in projects' funding, stakeholder engagement and public education, amongst others.

### Acknowledgements

I would like to extend my gratitude to the Board, Management, staff and all our stakeholders who supported us during one of the most challenging years the Corporation has faced in its operations. I remain cognisant of the fact that we may yet face more challenges in the future and appeal to all our valued stakeholders to accord us their usual support and understanding as we forge ahead in our efforts to keep it flowing for all.



**Mmetla Masire**  
Acting Chief Executive Officer



# Corporate Management Team



**Mmetla Masire**  
Acting Chief Executive Officer/  
Chief Operations Officer

BEng in Electrical & Electronics Engineering (University of Wales (UK)

#### 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



**Tsholofelo Bogosi**  
Head of Internal Audit

BComm (Accounting) – (University of the Witwatersrand- RSA), CIMA- UK (Botswana Accountancy College) ACMA, CGMA, ACPA

#### Responsibilities

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



**Thapelo Leinaeng**  
Technical Services Director

MEng Civil Engineering (South Bank University, UK, London); BEng Hons Civil Engineering (South Bank University, UK, London) MBIE, PrEng

#### Responsibilities

- Capacity planning
- Design
- Major projects implementation
- Geographical Information Systems (GIS)



**Thapelo Kalake**  
Shared Services Director

MBA (University of Botswana), BSc. Eng. Industrial Engineering (Western Michigan University, USA), COP Long term (Botswana Accountancy College)

#### Responsibilities

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



**Taboka Muke**  
 Chief Financial Officer

BA Accounting (University of Botswana), FCCA – UK (Botswana Accountancy College)

**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

BSc Chemistry and Environmental Science (University of Botswana)

**Responsibilities**

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



**Macheng Macheng**  
 Human Resource Director

MEnviron Education (University of Liverpool, United Kingdom), Diploma in Human Resource Management (University of Botswana), Diploma in Secondary Education (University of Botswana)

**Responsibilities**

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



**Felicity Ziga**  
 Acting Corporation Secretary

LLB (University of Botswana)

**Responsibilities**

- Risk Management
- Legal services
- Board Secretarial Services



Pipes used in the construction of the NSC





## Operational Highlights

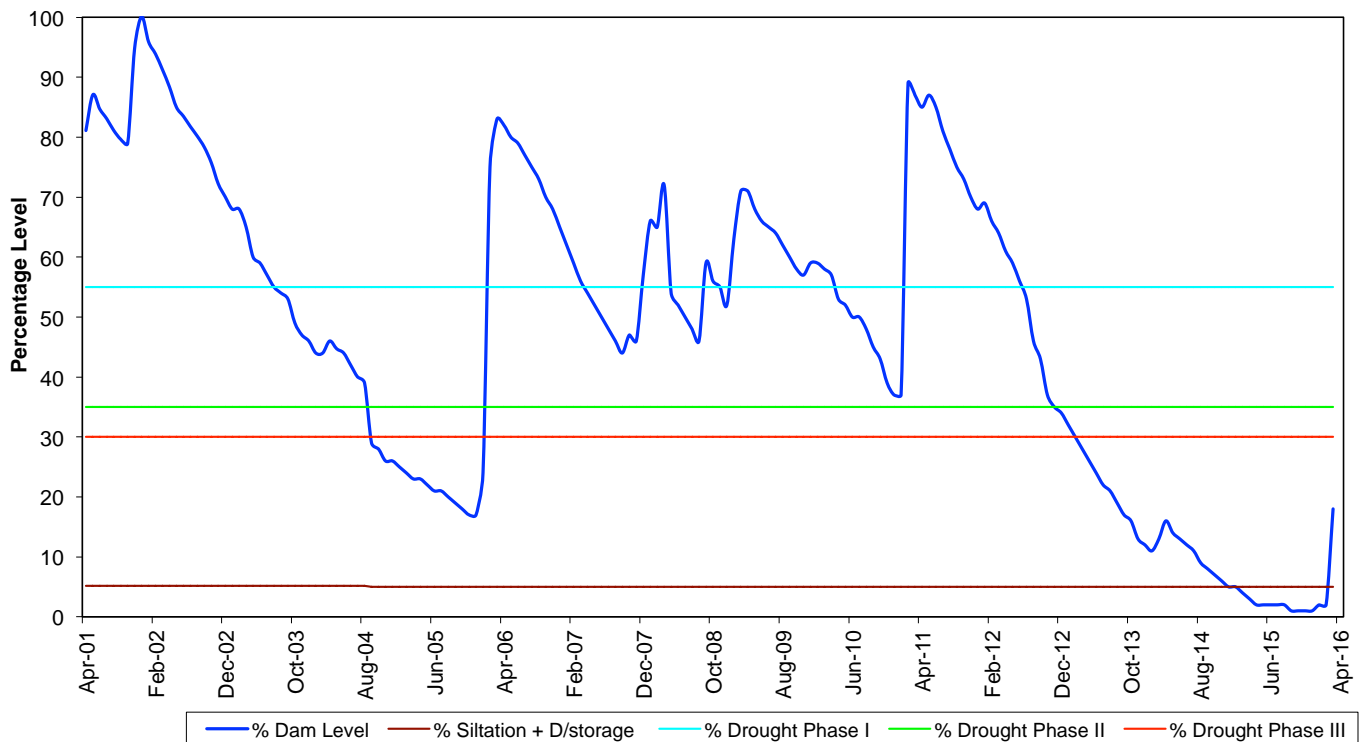
### Surface Water Supply Situation

Due to climate conditions, the risk of drought remained high all over the country during the reporting period. Despite the good rains towards the close of the reporting period, the exposure to drought remained high as Botswana is generally a water stressed country and rains are erratic. The rains came late, to dams which had hit rock bottom levels and ground sources whose yields had been greatly reduced. Of the Corporation's nine dams, Gaborone, Letsibogo, Shashe, Dikgatlong, Ntimbale, Lotsane, Thune, Nnywane and Bokaa dams only six reached levels over 90%. Insignificant inflows were experienced by Gaborone and Thune dams which went up to 19% and 39% respectively. Letsibogo Dam went up from 34% to 69%.

The Gaborone Dam water level trend graph below depicts typical seasonal variability in surface water storage owing to frequent recurrence of droughts. Gaborone and Bokaa Dams failed completely during the period under review due to the worst hydrological drought in decades. The dams replenished in March 2016 resulting in the resuscitation of their operations, which brought significant reprise to the Greater Gaborone area water supply situation.

### Gaborone Dam water level trends

Monthly Drop in Level (Overall) = 2.6 %  
 Monthly Drop in Level (Abstraction) = 1.0 %  
 Monthly Drop in Level (Evaporation) = 1.6 %



The slight recovery of the Gaborone Dam brought relief to the Greater Gaborone area which had been under rationing for six months. Following these rains, water rationing was suspended and water supply restored to the area. However, Level Two Water Restrictions were maintained in some areas including the Greater Gaborone area and Selebi Phikwe and surrounding areas. These restrictions are more stringent than Level One Water Restrictions and prohibit the use of potable water for many common activities which use a lot of water.



## Level Two Water Restrictions (Effective 1<sup>st</sup> August 2012)


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..

The filling of all swimming pools with potable water is prohibited

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

The use of potable water in fountains and ornamental water features is prohibited.





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

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

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

Watering of all gardens and parks and sports fields using potable water is prohibited.



## Groundwater Supply Situation

Botswana's groundwater supplies remained limited due to low groundwater recharge over the years mainly as a result of poor and erratic rains. Despite this, groundwater still accounted for over 60 % of the country's water supply. In an effort to satisfy demand, groundwater was mined, exposing the groundwater sources to depletion and depreciation in quality. As a result of borehole mining, some boreholes experienced low yields and others total failure. The most affected well fields due to over abstraction included the Kanye, Maitengwe, Dukwi, Letlhakane, Gaotlhobogwe and Ghanzi well fields. These areas were mostly affected as there were no alternative water sources in the areas to relieve the well fields. For those areas with alternative sources such as Serowe and Paje well fields, augmentation from the NSC cushioned the effects of mining. However, by the close of the reporting period, these well fields were also showing signs of decline in yield.

In a bid to ensure water security into the future, the Corporation embarked on several initiatives, amongst them the development of well fields and the conjunctive use of surface and groundwater sources. The Masama East project which is a conglomeration of twenty-

two boreholes with an output of 30MI/day was commissioned during the reporting period. The water from these boreholes was injected into the NSCI and augmented supply to the Greater Gaborone area. The development of Masama West, a project with a similar output started during the reporting period and is scheduled for completion during the next reporting period.

In some areas where groundwater sources were affected and there were alternative sources of supply to turn to, the Corporation used these. In some areas the Corporation resorted to drilling replacement boreholes and rehabilitation of abandoned boreholes. However, in some of these areas such as Bray and Molepolole, WUC failed to strike water during the drilling of the replacement boreholes. This plunged the areas into dire water shortages.

The drying up of the Thamalakane River plunged Maun and surrounding areas into an unprecedented water supply crisis. Boreholes in the Sexanaka, Shashe and Kunyere wellfields which had been abandoned following their flooding years prior had to be rehabilitated. However, of the eleven boreholes, three were found to be of insignificant yield and therefore were abandoned.

## Dam levels as at 31<sup>st</sup> March 2016

Dam	Capacity MCM	31/03/2015 Levels (%)	Latest Levels (%) 31/03/2016	Months of supply without inflow	Area supplied	Percentage contribution to area supplied
Dikgathong	400	86.0	99.9	> 24	Greater Gaborone Mahalapye Palapye	48 95 68
Molatedi	201	14.2	42.6	48	Greater Gaborone	3.6
Gaborone	141.4	2.9	18.4	8	Greater Gaborone	40
Letsibogo	100	61.6	79.0	20	S/Phikwe , BCL & Mmadinare	100
Thune	90	45.5	39.9	-	-	-
Shashe	85	92	100	23	Greater Francistown	100
Ntimbale	26.5	93.0	99.7	15	North East & Tutume District (The other 50 from Maitengwe Wellfield)	50
Lotsane	42.35	70.9	99.7	29	22 villages of Tswapong North	100
Bokaa	18.5	16.1	99.2	13	Greater Gaborone	12.8
Nnywane	2.3	86.0	98.3	13	Lobatse	10



### North South Carrier Scheme I (NSCI)

Since the commissioning of the North South Carrier Scheme I (NSC I) in 2000, the scheme has been the mainstay of the Greater Gaborone area as it augments supply to the area which experiences regular droughts. During the year under review the scheme remained stable with an availability rate of over 90%. The commissioning of Dikgatlhong Dam helped preserve the Letsibogo Dam as, through the NSCII which is interconnected to the NSCI in Palapye, Dikgatlhong Dam also augmented supply to the Greater Gaborone area. Decreased incidents of vandalism of the pipeline were recorded, compared to the previous reporting period. Public consultations and education on the dangers of tempering with the NSC seemed to have borne fruit and garnered buy-in. By the close of the year, the project to construct the second phase of the NSCII, from Palapye to Gaborone was at pre-qualification stage for contractors. The completion date for this project was reviewed to 2020.

### Water Losses

Water losses are still causing concern and affecting water supply in some areas as significant amounts go unaccounted for resulting in unmet demand and financial loss to the Corporation. Dilapidated infrastructure which results in frequent pipe bursts has been identified as the main contributor to water losses. During the review period the Corporation continued to implement initiatives to reduce these losses. A tripartite project by the First National Bank of Botswana Foundation (FNBB), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and the Water

Utilities Corporation (WUC) whose main objective was to reduce water losses in the Greater Gaborone area continued from the previous reporting period. The Somarela Thoti (Save Every Drop) Project as it was aptly named in line with its intended objectives, contributed in the reduction of water losses. During the year under review, water loss as a percentage of system input volume was at 33%. A total of 102,554,634 KL treated water was pumped into the distribution networks for use and of this, only 68,957,604KL was accounted for, leaving 33,597,030 KL as Non-Revenue Water (NRW). This was a regression as it was higher than the previous year's 28%. To curb these losses the Corporation investigated factors leading to water loss and explored various initiatives to assist with the reduction of Non-Revenue Water

Components affecting Non-Revenue Water (NRW) were found to be varied and primarily related to metering, reactive versus preventative maintenance and non-effective meter reading and billing. Secondary issues such as water resources availability and social awareness were found to play an important role in the management of water demand and hence the reduction of non-revenue water.

From its Water Conservation and Water Demand Management Strategy the Corporation identified and implemented some high impact initiatives. These included, among others the Somarela Thothi Pressure management intervention under the tripartite project.

The Somarela Thothi Project contributed significantly in the reduction of water losses. The project's focus areas included the implementation of twelve (12) new



Pressure Reducing Valve installations and servicing and re-calibration of five (5) existing ones.

The Corporation, First National Bank of Botswana Foundation and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) invested an equivalent of P4 million on this initiative and generated approximately P12 million value of water saved. The Corporation has therefore committed to replicate the concept in its other operational areas around the country.

### Wastewater Services

The absence of wastewater by-laws remained a hurdle in the enforcement of the Trade Effluent Agreement (TEA) within the business community. Due to the indiscriminate discharge of trade effluent into the sewer network, the Corporation's wastewater infrastructure was greatly compromised. This, compounded by the aged and dilapidated wastewater infrastructure resulted in the Corporation's incidents

of failure to comply with the BOS: 93:2012 standard for wastewater. During the year, the optimisation of WUC wastewater treatment facilities to improve their efficiency and hence compliance with the BOS93:2012 standard bore fruit as the effluent discharged into the environment complied with the standard more often than not. Reduced incidents of non-compliance were recorded during the year.

To control and monitor pollution by industries through the discharge of trade effluent into the sewer network, the Corporation continued to engage the relevant industries, work-shop them and encourage them to sign Trade Effluent Agreements (TEA) with the Corporation. The companies' response continued to be low as most did not meet the set standards for effluent disposal. To identify and assist those that did not meet the set standards for effluent disposal, the Corporation intensified its public education on the subject, made door to door inspections and advised companies as to what corrective measures they could take to meet the set requirements.



Community leaders and media tour  
of the drying up Gaborone Dam





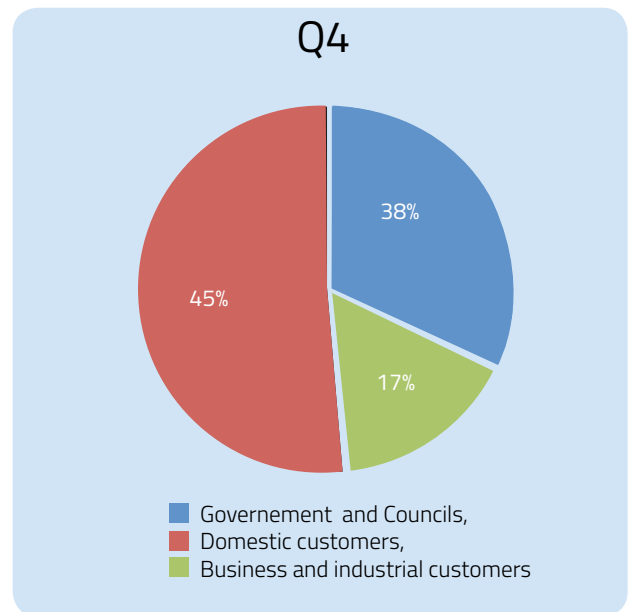
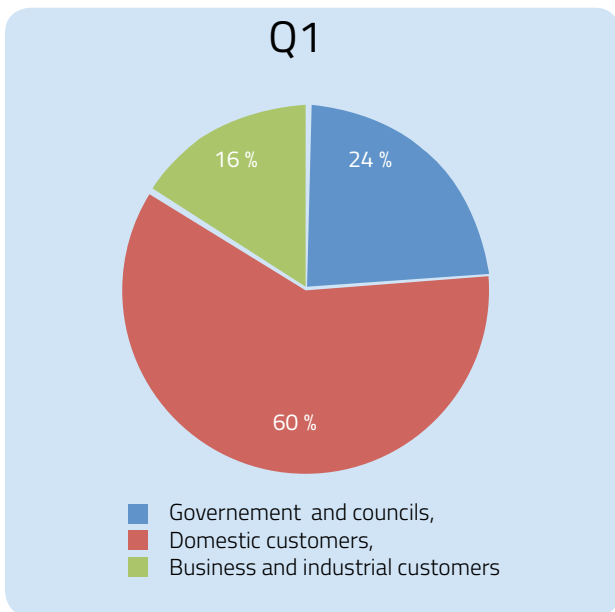
## Customer Services

Billing efficiency increased during the reporting period, reaching 95% against a targeted 98%. However, consumer debtors increased, with money owed the Corporation going up from P300 million at the close of the previous reporting period to over P530.4 million this year. Major debtors remained Government Departments and District Councils.

To encourage customers to pay their bills, the Corporation embarked on a public campaign and carried out mass disconnections for non-payment. Hand delivery of major customers' bills was introduced in a quest to bring about expeditious debt recovery. Hand delivery of bills was done to Government Departments, District Councils and major businesses, amongst others.

WUC continued to explore other ways of making its services accessible to customers. Over and above its walk-in customers service centres, the Corporation introduced alternative payment methods. These include electronic transfers, mobile phone payments and the use of post offices for bill payment. The number of banks offering bill payments were also increased. Mobile units continued to service remote areas. These initiatives offered convenience to our customers.

### Total debt by customer category



Alternative payment methods for bill payments were increased and promoted. Institutions offering WUC bill payment facilities were increased to include Barclays and Stanbic banks. The post office and online payment proved to be the preferred payment option amongst WUC customers. To expedite the reconciliation of customer accounts paid with other institutions, an Electronic Funds Transfer Unit was established in the Corporation.

In an effort to improve its services and eliminate queries on non-receipt of hard copy bills through the mail WUC introduced email and short message system (sms) bills for those customers who had provided their contacts to the Corporation. WUC continued to encourage customers to update their contacts regularly so that they can benefit from these services. During the review period, WUC tariffs and fees were revised and a nominal wastewater fee introduced in an effort to make the charges cost reflective. Despite this, the tariffs are still highly subsidized.



# WUC Tariffs

Water Tariffs- Effective 1<sup>st</sup> April 2015

## Potable Water

Tariff Block Category		Domestic, Commercial and Industrial - VAT inclusive					
Schedule	Min	0-5 kl	>5-15 kl	>15-25 kl	>25-40 kl	>40 kl	
2	20.00	2.00	8.00	13.00	20.00	25.00	
3	20.00	2.00	8.00	13.00	20.00	22.00	
4	20.00	2.00	6.00	11.50	15.50	22.00	

Tariff Block Category		Government - VAT inclusive					
Schedule	Min	0-5 kl	>5-15 kl	>15-25 kl	>25-40 kl	>40 kl	
1	50.00	7.20	19.20	25.00	40.00	50.00	

## Wastewater Tariff (all customers connected to central wastewater systems).

Wastewater Tariffs effective 1<sup>st</sup> April 2015 - VAT inclusive

	Min	0-5 kl	>5-15 kl	>15-25 kl	>25-40 kl	>40 kl
Wastewater	0	0.50	2.00	3.00	4.00	5.00

Other Tariffs effective 1<sup>st</sup> April 2015 - VAT inclusive

VAT Exclusive

	Raw Water	Below Class 2 Borehole Water	Treated Effluent	Treated Bulk Water Domestic & Business	Treated Bulk Water- Government Consumers
Tariff per KL	0	2.50	4.50	18.00	21.25

## New Connections

(i) Standard Connection Fee- up to 50m connection distance (water Utilities Corporation digging trenches and providing connection materials) - P2,000.00 inclusive of VAT.

(ii) Standard Connection Fee- up to 50m connection distance (Customers digging their own trenches and Water Utilities Corporation providing connection materials) - P1,500.00 inclusive of VAT.

Key: kl = kilolitre = 1000 litres

### Consultative Fora

Guided by its Communication and Stakeholder Management Strategy, WUC effectively managed its various stakeholders. Targeted initiatives were embarked on to engage stakeholders at parliamentary, Ntlo ya Dikgosi, community leaders, government, diplomatic corps, the business community and general public on issues of interest to them. Feedback received from these and other interactions were used to inform future targeted interventions to improve the service the Corporation offers various interest groups. The Corporation's website and Facebook page also continued to play a pivotal role in keeping WUC's customers abreast of developments in the Corporation. The Corporation's Facebook page proved to be an effective tool to reach a niche market as well as instantly communicate with customers, especially on emergent issues such as unplanned water supply interruptions.

### Village Water Committees

The Corporation maintained and strengthened its Village Water Committees in the various areas around the country. In line with this report's theme, "**Water for people, water by people**" the Village Water Committees were established in an effort to involve the community in water resources management. Comprising of residents of a particular area, the committees monitor water usage in the area, report pipe bursts, water wastage and other anomalies in their villages, to WUC. They are also a point of contact for WUC in their villages. Some of these committees were effective and worked tirelessly and selflessly to curb water wastage and WUC infrastructure vandalism in their areas.



WUC employees restoring a burst pipe



## Safety, Health and Environment (SHE)

The Corporation subscribes to the NOSA 5 Star Integrated System, which aims to reduce employee injury and illnesses, and their related costs, including medical care, sick leave, disability benefit costs, amongst others. During the year under review the Corporation carried out audits to check its various operational areas compliance with the set standards. The audit mainly focused on:

- Premises and House Keeping.
- Mechanical, Electrical and Personal Safeguarding
- Management of Fire and Other Emergency Risks
- Safety and Health Incident Recording and Investigation.
- Organisational Management

During the year WUC's safety record took a knock when two employees suffered injuries in a manhole in Ghanzi. Despite availing the best medical care at home and abroad, one of the employees has remained permanently disabled. The other one made a full recovery and is back at work. Investigations into the incident revealed that WUC's Standard Operating Procedures (SOPs) were relevant and in place. What was identified as a strong point for improvement was adherence to these, enforcement and monitoring.

WUC prides itself with putting the safety of its employees first and this incident demonstrated that we can collectively do more to improve our safety culture. Accidents that are preventable are in fact prevented. To address such incidents going forward, the Corporation will be revamping its safety systems in line with best practice. As a Corporation we hold ourselves, management, employees as well as our business partners to the highest compliance to all safety, health and environmental standards.



## SHE Audit Results

Management Centre	Commitment and SHE Management Policy	Planning of the NOSA SHE Management System	Implementation and Operation of the system	NOSA SHE Management System Evaluation & Corrective Action
Head Office – Sedibeng House	100%	32.7%	71.5%	56.7%
Lobatse Management Centre	100%	38.9%	65.8%	46.7%
Gaborone Management Centre	100%	34.3%	69.9%	38.7%
Mochudi Management Centre	100%	39.0%	77.1%	56.7%
Molepolole Management Centre	100%	40.2%	78.9%	64.1%
Mahalapye Management Centre	100%	40.2%	74.0%	70.4%
Palapye Management Centre	90%	33.3%	77.1%	74.2%
Selibe Phikwe Management Centre	100%	45.2%	80.8%	79.1%
Francistown Management Centre	100%	30.9%	63.5%	64.1%
Masunga Management Centre	75%	32.4%	76.2%	70.6%
Kasane Management Centre	65%	34.3%	66.4%	63.5%
Serowe Management Centre	100%	25.2%	78.5%	71.8%
Kanye Management Centre	100%	36.3%	66.2%	52.7%
Tsabong Management Centre	100%	34.3%	76.0%	65.4%
Ghanzi Management Centre	100%	33.9%	84.2%	68.7%
Letlhakane Management Centre	100%	20.8%	76.8%	66.0%
Maun Management Centre	100%	45.4%	74.7%	69.0%
Mmamashia Main Accredited Laboratory	100%	23.9%	77.1%	70.2%
North South Carrier Management Centre	100%	32.4%	58.6%	73.3%
<b>CONSOLIDATED OUTCOME</b>	<b>96.3</b>	<b>34.4</b>	<b>73.3</b>	<b>64.3</b>

By the close of the reporting period the Corporation was in the process of addressing some issues highlighted during the audit, amongst them the procurement of rescue equipment such as lifebuoys and life jackets, procedures for entry and working in confined spaces, amongst others.

SHE System Review	Overall Effort %2015	Disabling Incident Frequency Rate (DIFR) 2015	Star Rating 2015
23.5%	63.4%	0.0	3
13.6%	58.0%	0.6	2
23.5%	58.4%	0.4	2
13.6%	67.6%	0.0	3
13.6%	70.6%	1.3	3
9.5%	68.9%	0.0	3
14.8%	70.9%	0.0	3
12.4%	75.8%	0.0	4
23.5%	60.0%	0.0	2
16.4%	69.3%	0.0	3
12.4%	61.5%	0.0	3
17.4%	70.5%	1.4	3
13.6%	59.4%	0.4	2
17.4%	68.5%	0.0	3
17.4%	74.3%	0.8	3
13.0%	67.6%	1.7	3
17.4%	69.7%	1.8	3
23.5%	69.2%	0.0	3
14.0%	59.2%	1.9	2
<b>16.3</b>	<b>66.9</b>	<b>0.5</b>	<b>3</b>

From the audit, amongst the Corporations achievements was the handling and control of hazardous materials where the Mmamashia Water Treatment Plant excelled - and housekeeping, with Maun and Ghanzi topping the list.



# Corporate Social Responsibility





## Corporate Social Responsibility and Stakeholder Management

The Corporation remained committed to cushioning the effects of its operations on the communities in which it operates. In recognition of the fact that Batswana respect and value open consultation and communication, the Corporation engaged in constant consultation with various interest groups. Top of the agenda was the water supply crisis and the signing of the Trade Effluent Agreement, amongst others. Kgotla meetings, workshops, radio programmes, print media, social media became the lifeblood of the Corporation's communication and interaction with its customers.

Under its Corporate Social Responsibility programme which emphasizes community development, the environment and staff welfare and involvement, the Corporation focused its activities through a strong emphasis on management area specific community development.

This stood to benefit a wide section of the community rather than an individual, with select national flagship projects whose aim was to profile WUC, build its reputation and allow it to partner with key stakeholders such as the Government, Village Development Committees, and environmental agencies, amongst others. The various WUC management areas were allocated minimal funds and encouraged, through volunteer activities, to raise more funds to augment these to complete their identified projects.

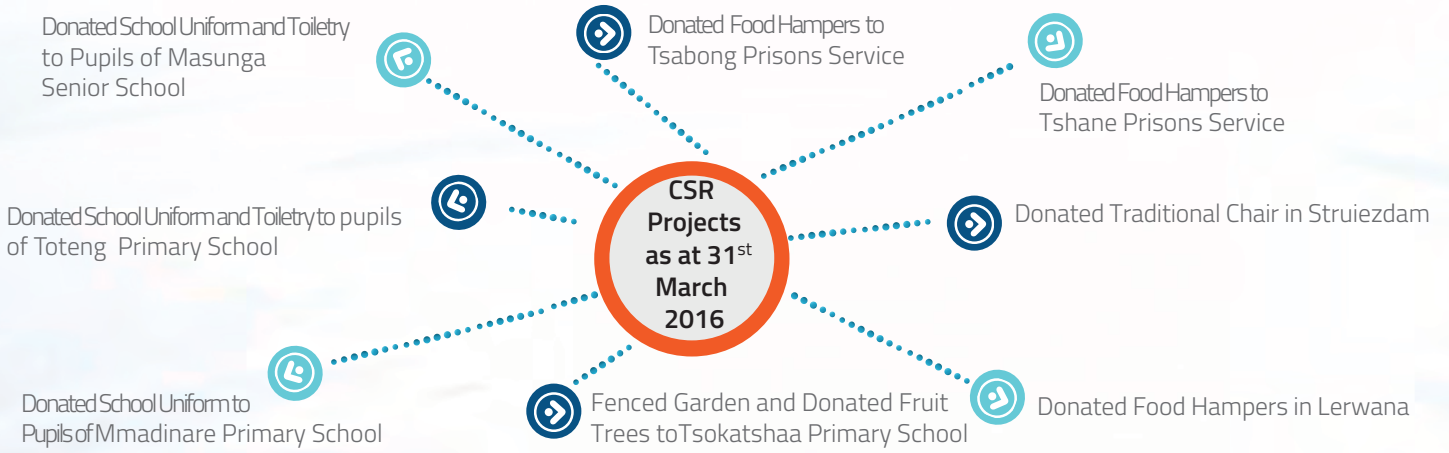
Under its internship programme, the Corporation continued to open its doors to university and other tertiary institutions' students to give them practical industry related experience. The Corporation's treatment plants and other relevant operational areas were made accessible to students, researchers and other visitors for educational, research, leisure and other purposes.



## Social responsibility project in Mochudi



## CSR Projects as at 31<sup>st</sup> March 2016



## Anonymous Tip-Off Programme

The Tip-Off Anonymous programme was used to promote and safe guard the reputation of the Corporation. Some of the issues raised through this forum were further investigated by the Corporation and corrective action taken where relevant. The Corporation is still pursuing plans to open up the service to its suppliers and other stakeholders. This will ensure that malpractices within all aspects of the Corporation's operations are reported. For transparency, objectivity and independence the programme administration remained in the hands of an external firm.



## Our Employees

Water Utilities Corporation values human capital as one of its greatest assets that drives the realization of its mandate. Hence, the Human Resource Department is viewed more as a business partner than just a mere support service function. Nonetheless, the Corporation has to embark on prudent manpower planning to effectively and efficiently achieve this mandate. Out of an approved establishment register of, 3 700 vacancies the Corporation's current head count stands at 3,200 employees.

In line with this, during the year, the Corporation's three year Corporate Strategy was reviewed and refocused the Corporation towards efficient human

resource development and utilization to effectively realise set objectives. As per the Training Strategy, the Corporation's Training Centre is BQA (Botswana Qualification Authority) accredited and offers training in pipefitting and plumbing.

Pursuant to its value for the human resource, the Corporation adopted a comprehensive Health and Total Wellness Strategy. Through the strategy, compulsory on- job and exit medical screening of employees is carried out. The Corporation also provides employees a gym subsidy. In order to maintain a conducive working environment the Corporation has an Employee Relations section.



## INDEX TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 MARCH 2016

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

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# 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 for the Corporation is to provide potable water supply and wastewater services in the whole country. The mandate was expanded in accordance with the 5 year Water Sector Reforms project that was implemented in May 2009 and was completed in April 2013.

## Members of the Board

Matome T. Malema		
Obolokile T. Obakeng		
Godfrey B. Molefe		
Mokgadi K. Nteta	Appointed	24 March 2015
Zuma Chengeta	Resigned	06 October 2015
Marcia B. Makgalemele	Resigned	16 September 2015
John P.D. Phatshwe		
Galeitsiwe Ramokopane		
Noble Katse		

## Corporate Management Team

Leonard B. Nxumalo	Chief Executive Officer, Resigned 1 December 2015
Mmetla Masire	Acting Chief Executive Officer
Nginani Mbayi	Resigned 30 June 2015
Taboka Muke	Chief Financial Officer
Thapelo Kalake	Shared Services Director, Appointed 03 September 2015
Macheng Macheng	Human Resources Director, Appointed 05 October 2015
Tsholofelo Bogosi	Head of Internal Audit
Gaselemogwe Senai	Sustainability and Water Resources Director
Thapelo Leinaeng	Technical Services Director, Appointed 01 September 2015
Enelys Shamakumba	Corporation Secretary, Resigned 06 October 2015
Felicity R. Ziga	Acting Corporation Secretary

## Registered Office

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

## Independent Auditors

Deloitte & Touche



## Statement of Responsibility by the Members of the Board

For the year ended 31 March 2016

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 2016, 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 of the Board are responsible for such internal controls as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The responsibilities of the members of the Board also include maintaining adequate accounting records and an effective system of risk management. The Members of the Board acknowledge that they are

ultimately responsible for the system of internal financial control established by the Corporation and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the Board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk.

These controls are monitored throughout the Corporation and all employees are required to maintain the highest ethical standards in ensuring the business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Corporation is on identifying, assessing, managing and monitoring all known forms of risk across the Corporation. While operating risk cannot be fully eliminated, the members of the Board endeavour to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

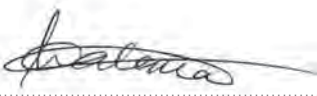
The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control 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 3 to 4.



## Going Concern

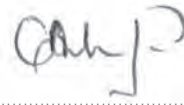
The Members of the Board have made an assessment of the Corporation's ability to continue as a going concern and believe that continued financial support from the Government of the Republic of Botswana and the revision of tariffs will ensure that the Corporation continues as a going concern in the future.



.....  
Director

## 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 60 to 94 which were approved on 22 September 2016 and signed on its behalf by:



.....  
Director

## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the financial statements of Water Utilities Corporation, as set out on pages 60 to 94 which comprise the statement of financial position as at 31 March 2016, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Directors' Responsibility for the Financial Statements

The Corporation's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Water Utilities Corporation Act (Cap 74:02), and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conduct our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements, plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Water Utilities Corporation as at 31 March 2016, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Water Utilities Corporation Act (Cap 74:02).

### Emphasis of Matters

Without qualifying our opinion, we draw attention to the following matters:

### Going Concern

The Corporation incurred a loss of P266 371 000 (2015: P371 470 000) before taking into account the tariff subsidy grant received from the Government of the Republic of Botswana of P388 000 000 (2015: P1 188 000). This condition indicates the existence of a material uncertainty that may cast significant doubt about the Corporation's ability to continue as a going concern. As indicated in Note 25 of these financial statements, the Government of the Republic of Botswana has committed to provide ongoing financial support in the future.

### Property without Title Deeds

We draw attention to note 4 of the financial statements, which states that title to certain of the land and buildings acquired by the Corporation from the Department of Water Affairs and the Ministry of Local Government under the Water Sector Reforms Project has not yet been transferred to the Corporation. The Corporation anticipates the title to the assets to be transferred in due course.

### Supplementary information

Without qualifying our opinion we report the following:  
Report on Other Legal and Regulatory Requirements  
In accordance with Section 25 of the Water Utilities Corporation Act (Chapter 74:02), we confirm that:

- The Corporation has kept proper books of account with which the financial statements are in agreement.
- We have received all the information and explanations necessary for the performance of our audit.
- The Corporation has complied with all the financial provisions of the Water Utilities Corporation Act (Chapter 74:02) except for the matter referred to below.

As set out in Note 26 to the financial statements, the Corporation has not 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. The Corporation incurred an operating loss of P242 670 000 (2015: P321 014 000) before taking into account the tariff subsidy grant received from the Government of the Republic of Botswana of P388 000 000 (2015: P1 188 000).

*Deloitte + Touche*

Deloitte & Touche  
Certified Auditors

Date: 22 September 2016  
Gaborone

Practicing Member:

P. Naik (19900296)

**Deloitte.**



## Statement of Comprehensive Income

For the year ended 31 March 2016

	Notes	2016 P'000	2015 P'000
Revenue		1,307,272	1,006,744
Other income		18,753	14,648
Operating expenses			
Water treatment and distribution expenses		(861,769)	(764,894)
Administration and other expenses		(465,288)	(357,301)
Depreciation and amortisation		(241,178)	(220,211)
Total operating expenses		(1,568,235)	(1,342,406)
Operating loss before tariff subsidy	1	(242,210)	(321,014)
Revenue grant	13	388,000	1,188
Operating profit/(loss) after tariff subsidy		145,790	(319,826)
Finance income	3	20,709	3,218
Finance costs	3	(47,101)	(50,418)
Profit/(loss) for the year		119,398	(367,026)
Other comprehensive income/(loss)			
<i>Items that will not be reclassified subsequently to profit and loss:</i>			
Net actuarial gain/(loss) recognised on the defined benefit plan		2,231	(3,256)
Total comprehensive income/ (loss) for the year		121,629	(370,282)

## Statement of Financial Position

For the year ended 31 March 2016

	Notes	2016 P'000	2015 P'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	5,696,045	5,432,677
Intangible assets	5	7,871	8,215
Development expenditure	6	490,799	632,679
		<u>6,194,715</u>	<u>6,073,571</u>
<b>Current assets</b>			
Inventories	7	41,706	40,502
Trade and other receivables	8	259,941	134,220
Cash and cash equivalents	10	225,820	96,775
		<u>527,467</u>	<u>271,497</u>
<b>Total assets</b>		<u><b>6,722,182</b></u>	<u><b>6,345,068</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Irredeemable capital	11	752,738	752,738
Government contribution - Water Sector Reforms	12	4,101,634	4,111,103
Revenue grant	13	-	-
Capital grant - Emergency/drought projects	14	711,190	476,441
Interest subsidy reserve	23	14,802	13,789
Retained earnings		197,184	76,568
		<u>5,777,548</u>	<u>5,430,639</u>
<b>Non-current liabilities</b>			
Borrowings	15	400,000	400,874
Consumer deposits		24,018	20,543
Retirement benefit obligation	21	-	-
		<u>424,018</u>	<u>421,417</u>
<b>Current liabilities</b>			
Borrowings	15	43,281	89,822
Trade and other payables	16	477,335	403,190
		<u>520,616</u>	<u>493,012</u>
<b>Total liabilities</b>		<u><b>944,634</b></u>	<u><b>914,429</b></u>
<b>Total equity and liabilities</b>		<u><b>6,722,182</b></u>	<u><b>6,345,068</b></u>



## Statement of Changes in Equity

For the year ended 31 March 2016

	Notes	Irredeemable capital P'000	Government contribution P'000	Revenue grant P'000	Capital grant P'000	Interest subsidy reserve P'000	Retained earnings P'000	Total P'000
Balance at 31 March 2014		752,738	4,109,124	1,188	112,000	12,493	448,146	5,435,689
Government contributions received	12,14	-	1,979	-	374,307	-	-	376,286
Amortisation of revenue grant	13	-	-	(1,188)	-	-	-	(1,188)
Amortisation of capital grant	14	-	-	-	(9,866)	-	-	(9,866)
Total comprehensive loss for the year		-	-	-	-	-	(370,282)	(370,282)
Transfer to interest subsidy reserve	22	-	-	-	-	1,296	(1,296)	-
<b>Balance at 31 March 2015</b>		<b>752,738</b>	<b>4,111,103</b>	<b>-</b>	<b>476,441</b>	<b>13,789</b>	<b>76,568</b>	<b>5,430,639</b>
Government contributions received	12,14	-	(9,469)	388,000	251,439	-	-	629,970
Amortisation of revenue grant	13	-	-	(388,000)	-	-	-	(388,000)
Amortisation of capital grant	14	-	-	-	(16,690)	-	-	(16,690)
Total comprehensive income for the year		-	-	-	-	-	121,629	121,629
Transfer to interest subsidy reserve	22	-	-	-	-	1,013	(1,013)	-
<b>Balance at 31 March 2016</b>		<b>752,738</b>	<b>4,101,634</b>	<b>-</b>	<b>711,190</b>	<b>14,802</b>	<b>197,184</b>	<b>5,777,548</b>

## Statement of Cash Flows

For the year ended 31 March 2016

	Notes	2016 P'000	2015 P'000
Cash flows (to)/ from operating activities	18	(56,204)	114,134
Cash flows used in investing activities			
Development expenditure incurred	6	(356,748)	(434,702)
Proceeds on sale of property, plant and equipment		651	10,059
Purchase of property, plant and equipment and intangible assets	4,5	(22,560)	(68,269)
Interest received	3	20,709	3,218
Net cash used in investing activities		<u>(357,948)</u>	<u>(489,694)</u>
Cash flows from financing activities			
Interest paid	3	(47,101)	(50,418)
Repayment of long-term borrowings	15	(43,147)	(21,015)
Increase/(Decrease) in consumer deposits		3,475	(2,620)
Decrease in retirement benefit liability		-	(1,351)
Cash grants received from Government - Revenue grant	13	388,000	-
Cash grants received from Government - Capital grant	14	251,439	374,307
Assets transferred in terms of Water Sector Reforms	12	(9,469)	(143)
Net cash from financing activities		<u>543,197</u>	<u>298,760</u>
Net increase/(decrease) in cash and cash equivalents		129,045	(76,800)
Cash and cash equivalents at beginning of the year		96,775	173,575
Cash and cash equivalents at end of the year	10	<u>225,820</u>	<u>96,775</u>



# Significant Accounting Policies

For the year ended 31 March 2016

## General Information

The Corporation has been established under the Water Utilities Corporation Act (CAP 74:02). The Corporation provides water supply and waste water 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 with the exception of certain property, plant and equipment that are carried at their fair values 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 and interpretations effective in the current year

In the current year, the entity has adopted all the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for annual periods beginning on or after 1 April 2015. Adoption of these standards and interpretations have not had any impact significant on the financial statements of the Corporation.

Amendments to IAS 19 Defined Benefit Plans: Employee

Contributions (effective annual periods beginning on or after 1 July 2014). Annual Improvements 2010-2012 Cycle (effective annual periods beginning on or after 1 July 2014) Makes amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, and IAS 16, IAS 24 and IAS 38.

Annual Improvements 2011-2013 Cycle (effective annual periods beginning on or after 1 July 2014) Makes amendments to IFRS 1, IFRS 3 and IFRS 13 and IAS 40.

## Standards in issue but not yet effective

At the date of authorisation of these financial statements, the following standards and interpretation were issued but not yet effective:

*IFRS 9 Financial Instruments:* classification and measurement (effective annual periods beginning on or after 1 January 2018)

Amendment relates to classification and measurement requirements for financial instruments based on a combined business model and contractual cash flow test. Entities may recognise changes in their own credit risk for fair valued financial liabilities in Other Comprehensive Income. Impairment methodology is now based on expected credit losses rather than incurred credit losses.

*IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) (effective annual periods beginning on or after 1 January 2018)*

Introduces a new chapter to IFRS 9 on hedge accounting, putting in place a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

*IFRS 9 Financial Instruments (2014) (effective annual periods beginning on or after 1 January 2018)*



A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The key impact of IFRS 9 will be to require that financial assets be classified into two measurement categories: fair value and amortised cost.

*IFRS 14 Regulatory Deferral Accounts (effective annual periods beginning on or after 1 January 2016)*

IFRS 14 specifies the accounting for regulatory deferral account balances that arise from rate-regulated activities.

*IFRS 15 Revenue from Contracts with Customers (effective annual periods beginning on or after 1 January 2018)*

IFRS 15 provides a new model for the recognition and measurement of all revenue arising from contracts with customers. In principle, an entity will be required to recognise revenue amounts that reflect consideration an entity is entitled to in exchange for transferring goods or services to a customer.

*Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) (effective annual periods beginning on or after 1 January 2016)*

Amends IFRS 11 Joint Arrangements to require an acquirer of an interest in a joint operation in which the activity constitutes a business

*Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) (effective annual periods beginning on or after 1 January 2016)*

Clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate

*Equity Method in Separate Financial Statements (Amendments to IAS 27) (effective annual periods beginning on or after 1 January 2016)*

Amends IAS 27 Separate Financial Statements to permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) (effective annual periods beginning on or after 1 January 2016)*

Amends IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) to clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture.

*Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the consolidation exception (effective annual period beginning on or after 1 January 2016)*

The amendment clarifies the exemption from preparing consolidated financial statements and is only available to a parent entity that is a subsidiary of an investment entity.

*Annual Improvements 2012-2014 Cycle (effective annual periods beginning on or after 1 July 2016)*

Makes amendments to IFRS 5, IFRS 7, IAS 9 and IAS 34 The Corporation will evaluate the effect of all the new standards, amendments and interpretations that are in issue for adoption in the applicable periods.



## Significant Accounting Policies (continued)

For the year ended 31 March 2016

### 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 is depreciated from the date of commissioning.

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

### Computer software development costs

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

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

However, costs that are directly associated with identifiable and unique software products controlled by the Corporation and have probable economic benefit exceeding the cost beyond one year, are recognised as

intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

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

#### **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.



## Significant Accounting Policies (continued)

For the year ended 31 March 2016

### Inventories

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

### Revenue recognition

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

Connection and reconnection fees are recognised when service is provided.

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

### Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired.

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

### 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 defined contribution retirement benefit plans 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.

## 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 of commissioning.



## Significant Accounting Policies (continued)

For the year ended 31 March 2016

### Assets financed by consumer capital contributions

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

### 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.

## (a) Financial assets (continued)

### Cash and cash equivalents

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

### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all cash paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or where appropriate for a shorter period.

### Impairment of financial assets

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

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

- significant financial difficulty of the issuer or counterparty; or

- default or delinquency in interest or principal payments; or

- it becoming probable that the consumer will enter bankruptcy or financial re-organisation.

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

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

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

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related



## Significant Accounting Policies (continued)

For the year ended 31 March 2016

objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

### De-recognition of financial assets

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

### (b) Financial liabilities and equity instruments

#### Classification as debt or equity

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

#### Equity instruments

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

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

### Financial liabilities

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

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

### 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 life and residual value estimates are appropriate and in accordance with its accounting policy.

#### b) Impairment loss on trade receivables

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



## Significant Accounting Policies (continued)

For the year ended 31 March 2016

### c) Retirement benefit asset

The amounts recognised in the statement of financial position have been determined based on a valuation performed at 31 March 2016 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 21 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.

### e) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In

estimating the fair value of an asset or a liability, the Corporation takes into account the characteristics of the asset or liability if the market participants would take those characteristics into account when pricing that asset or liability at the measurement date. Fair value measurement and/or disclosure purposes in these financial statements is determined on such basis, except for leasing transactions within the scope of IAS 17-Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2-Inventories or value in use in IAS 36-Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and significance of the inputs to the fair value measurements in its entirety which are described as follows:

**Level 1:** Inputs are quoted prices (unadjusted) in active market for identical assets or liabilities that the Corporation can access at the measurement date;

**Level 2:** Inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (prices) or indirectly (that is, derived from prices); and

**Level 3:** Inputs for are unobservable inputs for the asset or liability.

## Notes To The Financial Statements

For the year ended 31 March 2016

	2016 P'000	2015 P'000
<b>1. Operating loss before tariff subsidy grant</b>		
The following items have been included in arriving at the operating loss before subsidy grant:		
Auditor's remuneration - current year	1,700	1,200
Depreciation of property, plant and equipment (note 4)	257,524	229,733
Amortisation of capital grant (note 14)	(16,690)	(9,866)
Amortisation of intangible assets (note 5)	344	344
Increase in accounts receivable impairment provision (note 8)	101,910	38,020
Board members' fees (note 22)	209	233
Operating lease rentals - property	8,361	9,049
Remuneration - executive management	7,917	10,752
Foreign exchange gains	(8,088)	(2,190)
	<u>661,812</u>	<u>643,190</u>
<b>2. Staff Costs</b>		
Salaries and wages	567,291	563,702
Pension costs - defined benefit scheme (note 21)	460	780
- defined contribution scheme	44,153	40,381
Terminal benefits	8,295	2,879
Medical aid	40,704	34,009
Recruitment costs	909	1,439
	<u>661,812</u>	<u>643,190</u>
<b>3. Finance income/costs</b>		
<b>Finance income</b>		
Interest on deposits and short term investments	<u>20,709</u>	<u>3,218</u>
<b>Finance costs</b>		
- Government of Botswana loans	3,496	5,038
- DPCFL borrowings	1,107	2,882
- DMTN Bond	42,498	42,498
	<u>47,101</u>	<u>50,418</u>



## Notes to the Financial Statements (continued)

For the year ended 31 March 2016

### 4. Property, plant and equipment

	Land, dams and buildings	Distribution systems, plant and machinery	Vehicles and equipment	Total
	P'000	P'000	P'000	P'000
<b>COST OR VALUATION</b>				
<b>Balance as at 1 April 2014</b>	1,871,506	4,209,273	313,166	6,393,945
Additions	3,523	7,435	57,311	68,269
Transfer from development expenditure (note 6)	4,075	556,771	12,932	573,778
Acquired in terms of Water Sector Reforms (note 12)	-	-	2,122	2,122
Disposals	(138)	-	(28,501)	(28,639)
Re-classification	512,372	(608,635)	96,263	-
Balance as at 31 March 2015	2,391,338	4,164,844	453,293	7,009,475
Additions	9,406	6,354	6,800	22,560
Transfer from development expenditure (note 6)	457,344	29,405	11,879	498,628
Disposals	-	-	(389)	(389)
<b>Balance at 31 March 2016</b>	<b>2,858,088</b>	<b>4,200,603</b>	<b>471,583</b>	<b>7,530,274</b>
<b>ACCUMULATED DEPRECIATION</b>				
<b>Balance at 1 April 2014</b>	366,053	866,219	129,427	1,361,699
Depreciation charge	65,314	121,183	43,236	229,733
Disposals	(26)	-	(14,608)	(14,634)
Re-classification	36,465	(57,030)	20,565	-
Balance at 31 March 2015	467,806	930,372	178,620	1,576,798
Depreciation charge	85,680	124,303	47,541	257,524
Disposals	-	-	(93)	(93)
<b>Balance at 31 March 2016</b>	<b>553,486</b>	<b>1,054,675</b>	<b>226,068</b>	<b>1,834,229</b>
Carrying amount at 31 March 2015	1,923,532	3,234,472	274,673	5,432,677
Carrying amount at 31 March 2016	2,304,602	3,145,928	245,515	5,696,045

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

The value of the land, dams, buildings, distribution systems, plant, machinery, vehicles and equipment includes assets relating to Phase I to VI of the Water Sector Reforms transferred to the Corporation between May 2010 and 31 March 2015. These assets were independently valued by professionally qualified valuers namely CB RealReach, who are members of the Real Estate Institute of Botswana. The fair value of land was determined based on the open market value approach that reflects recent transaction prices

of similar transactions. The fair values of dams, buildings, distribution systems, plant, machinery, vehicles and equipment assets was determined using the replacement cost approach which reflects the cost to the market participant to construct assets of a comparable utility and age, adjusted for obsolescence. The significant inputs include estimated construction costs and other ancillary expenditure and a depreciation factor applied to the estimated construction cost.

Details of the Corporation's land, dams, buildings, distribution systems, plant, machinery, vehicles and equipment and information about the fair value as at 31 March 2016 is as follows:

	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
Land, dams and buildings	-	-	1,292,621	1,292,621
Distribution systems, plant and machinery	-	-	1,852,543	1,852,543
Vehicles and equipment	-	-	94,565	94,565

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.

There were no transfers between levels during the year. The Corporation does not have any property, plant and equipment pledged as security for borrowings.



## Notes to the Financial Statements (continued)

For the year ended 31 March 2016

	2016 P'000	2015 P'000
<b>5. Intangible assets</b>		
Computer software development costs		
<b>COST</b>		
Balance at beginning and end of the year	26,527	26,527
<b>AMORTISATION</b>		
Balance at beginning of the year	18,312	17,968
Amortisation	344	344
Balance at end of the year	18,656	18,312
<b>Carrying amount</b>	<b>7,871</b>	<b>8,215</b>
<b>6. Development expenditure</b>		
Balance at beginning of the year	632,679	771,755
Contract costs incurred during the year	356,748	434,702
Contract costs capitalised during the year (note 4)	(498,628)	(573,778)
Balance at end of the year	490,799	632,679
<b>7. Inventories</b>		
Chemicals	497	314
Spares and consumables	43,625	42,604
Provision for obsolete inventories	(2,416)	(2,416)
	<b>41,706</b>	<b>40,502</b>
The cost of inventories recognised as an expense during the year was P54 700 385 (2015: P57 266 000).		
<b>Movement in the provision for obsolete inventories</b>		
Balance at beginning of the year	2,416	1,230
Utilised during the year	-	(25)
Allowance made during the year	-	1,211
Balance at end of the year	2,416	2,416

	2016 P'000	2015 P'000
<b>8. Trade and other receivables</b>		
Trade receivables	530,471	307,559
Less provision for impairment of receivables	<u>(280,756)</u>	<u>(185,294)</u>
	249,715	122,265
Prepayment	7,539	7,470
Other receivables	2,687	4,485
	<u>259,941</u>	<u>134,220</u>
<p>All receivables were reviewed for impairment. As at 31 March 2016, trade receivables of P187 168 693 (2015: P54 617 000) were past due but not impaired. The age analysis of these trade receivables is as follows:</p>		
Up to 3 months	102,527	41,432
3 - 6 months	50,272	13,185
Over 6 months	34,370	-
	<u>187,169</u>	<u>54,617</u>
<p>As at 31 March 2016, trade receivables of P280 756 000 (2015: P185 294 000) were impaired and provided for. The movements on the provision for impairment of trade receivables are as follows:</p>		
Balance at beginning of the year	185,294	157,576
Bad debts written off	(15,917)	(10,302)
Increase in impairment provision - statement of comprehensive income	101,910	38,020
Net increase in impairment provision - grant account (note 12)	9,469	-
Balance at end of the year	<u>280,756</u>	<u>185,294</u>



## Notes to the Financial Statements (continued)

For the year ended 31 March 2016

	2016 P'000	2015 P'000
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### 8. Trade and other receivables (continued)

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 allowable account are generally written off, when there is no expectation of recovering additional cash. The other classes within trade and other receivables do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

The Corporation does not hold any collateral as security except for connection deposits. Except for the total amount owed by the Government of the Republic of Botswana, there are no individual customers with a balance representing 5% or more of the total receivable balance as at year end.

### 9. Analysis of financial instruments

#### Financial instruments by category

##### Receivables

Trade and other receivables (excluding prepayments)	252,402	126,149
Cash and cash equivalents	225,820	96,775
	<u>478,222</u>	<u>222,924</u>

##### Other financial liabilities

Borrowings	443,281	490,696
Trade and other payables (excluding VAT and payroll accruals)	369,762	323,570
	<u>813,043</u>	<u>814,266</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.



		2016	2015
		P'000	P'000
<b>10. Cash and cash equivalents</b>			
Cash and cash equivalents comprise:	Interest rate		
Current and call accounts		83,467	95,491
Short-term investments			
- Pula	4.50%	142,353	1,284
		<u>225,820</u>	<u>96,775</u>
Cash and cash equivalents includes an amount of P14 802 000 (2015: P13 789 000) relating to European Investment Bank "(EIB)" interest subsidy reserve, the use of which is restricted to "Water Sector Building" projects as set out in note 23.			
<b>11. Irredeemable capital</b>			
Balance at beginning and end of the year		<u>752,738</u>	<u>752,738</u>
<b>12. Government contribution - Water Sector Reforms</b>			
Balance at beginning of the year		4,111,103	4,109,124
Received during the year: Property, plant and equipment (note 4)		-	2,122
Grant adjustment		-	(143)
Provision for bad debts		(9,469)	-
Balance at end of the year		<u>4,101,634</u>	<u>4,111,103</u>
<b>13. Revenue grant</b>			
Balance at beginning of the year		-	1,188
Cash grant received during the year		388,000	-
Recognised in income statement		(388,000)	(1,188)
Balance at end of the year		<u>-</u>	<u>-</u>



## Notes to the Financial Statements (continued)

For the year ended 31 March 2016

	2016 P'000	2015 P'000
<b>14. Capital grant - Emergency/drought projects</b>		
Balance at the beginning of the year	476,441	112,000
Received during the year	251,439	374,307
Amortisation of grant	(16,690)	(9,866)
Balance at the end of year	<u>711,190</u>	<u>476,441</u>
<p>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.</p>		
<b>15. Borrowings</b>		
<b>Current borrowings</b>		
Foreign borrowings	42,317	53,691
Government borrowings	-	33,669
DPCFL borrowings	964	2,462
	<u>43,281</u>	<u>89,822</u>
<b>Non current borrowings</b>		
DPCFL borrowings	-	874
DMTN Bond	400,000	400,000
	<u>400,000</u>	<u>400,874</u>
<b>Total Borrowings</b>	<u><u>443,281</u></u>	<u><u>490,696</u></u>

Foreign borrowings are secured by guarantees issued by Government. Government borrowings and Debt Participation and Capital Funding Limited (DPCFL) borrowings are unsecured. The Domestic Medium Term Note (DMTN) Bond is unsecured.

Total balance for loan 45 of P42 317 000 obtained from the European Investment Bank (EIB) is disclosed as current borrowings. The Corporation did not maintain a debt service coverage ratio which is above 1.5:1 as required by EIB. This is a breach of the loan agreement and could result in the loan being recalled.

		2016	2015
		P'000	P'000
<b>15. Borrowings (continued)</b>			
<i>Maturity of non current borrowings</i>			
Between 1 and 2 years		-	874
Between 2 and 5 years		195,000	195,000
Over 5 years		205,000	205,000
		<u>400,000</u>	<u>400,874</u>
<b>Foreign borrowings</b>			
	Denomination		
Loan 45 EIB	ZAR	<u>55,779</u>	<u>63,747</u>



## Notes to the Financial Statements (continued)

For the year ended 31 March 2016

### 15. Borrowings (continued)

Loan Number	% rates of interest p.a.	Period of repayment	Balance at 1 April 2015	Interest unwinding for the year	Adjustments for currency variations	Repaid during the year	Balance at 31 March 2016
			P'000	P'000	P'000	P'000	P'000
<i>Foreign Loans direct to the Corporation</i>							
45-EIB	8-12	2008-2023	53,691	-	(5,376)	(5,998)	42,317
<i>Foreign loans on-lent by Government</i>							
42-EIB	8	1997-2016	33,669	975	-	(34,644)	-
<i>DPCFL Loans</i>							
36	8	1993-2015	773	26	-	(799)	-
37	9.5	1993-2016	2,563	107	-	(1,706)	-
			<u>3,336</u>	<u>133</u>	<u>-</u>	<u>(2,505)</u>	<u>964</u>
<i>DMTN Bond</i>							
WUC001	10.65	2008-2018	195,000	-	-	-	195,000
WUC002	10.6	2008-2026	205,000	-	-	-	205,000
			400,000	-	-	-	400,000
<b>TOTAL LOANS</b>			<u>490,696</u>	<u>1,108</u>	<u>(5,376)</u>	<u>(43,147)</u>	<u>443,281</u>

	2016 P'000	2015 P'000
<b>16. Trade and other payables</b>		
Trade creditors	262,194	224,553
Interest accrued on borrowings	10,613	12,434
Value added tax	11,617	(7,702)
Payroll accruals	95,957	80,330
Other payables and accruals	96,954	93,575
	<u>477,335</u>	<u>403,190</u>
<b>17. Dividend payable</b>		

Section 19 of the Water Utilities Corporation Act (Chapter 74:02), requires the Corporation to pay annually, a dividend of 25% of the surplus for the year, excluding revenue grant. No dividend has been declared for the year ended 31 March 2016 (2015: P Nil) as the Corporation reported a loss for the year of P266 371 000 (2015: P371 470 000) before tariff subsidy.

#### 18. Cash flows from operating activities

Total comprehensive income/(loss) for the year	121,629	(370,282)
Adjustment for Amortisation of Water Sector Reforms revenue grant (note 13)	(388,000)	(1,188)
Depreciation and amortisation expense	257,868	230,077
Amortisation of grant	(16,690)	(9,866)
Finance income	(20,709)	(3,218)
Finance costs	47,101	50,418
(Profit)/Loss on sale of assets	(355)	3,946
Foreign exchange translation profit and interest unwind	(4,268)	1,263
	<u>(3,424)</u>	<u>(98,850)</u>
<b>Changes in working capital</b>		
Increase in inventories	(1,204)	(957)
(Increase)/decrease in trade and other receivables	(125,721)	131,036
Increase in trade and other payables	74,145	82,905
	<u>(52,780)</u>	<u>212,984</u>
<b>Cash (to)/from operating activities</b>	<u>(56,204)</u>	<u>114,134</u>
<b>19. Commitments</b>		
<b>Operating lease commitments</b>		
The future minimum lease payments under non-cancellable operating leases are as follows:		
Due within one year	8,935	8,794
Due after one year	18,973	5,874
	<u>27,908</u>	<u>14,668</u>



## Notes to the Financial Statements (continued)

For the year ended 31 March 2016

	2016 P'000	2015 P'000
<b>19. Commitments (continued)</b>		
<p>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.</p>		
<p><b>Capital Commitments</b></p> <p>Capital expenditure approved at the statement of financial position date but not recognised in the financial statements is as follows:</p>		
Approved and contracted for	969,163	694,953
Approved but not yet contracted for	<u>1,965,500</u>	<u>43,637</u>
	<u>2,934,663</u>	<u>738,590</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.

## 20. 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 (2015: 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 (2015: PNil) in respect of litigation matters, which existed at the financial year end.

## 21. 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 P44 153 000 (2015: P40 381 000) represents contributions made to these plans by the Corporation at rates specified in the rules of the plan.

### 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 2016 by AON Hewitt South Africa. The results of the valuation are as follows:

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

	2016 P'000	2015 P'000
Present value of defined benefit obligation	(39,348)	(43,477)
Fair value of plan assets	44,093	49,610
Paragraph 64 limit	(4,745)	(6,133)
<b>Net liability arising from defined benefit obligation</b>	<b>-</b>	<b>-</b>



## Notes to the Financial Statements (continued)

For the year ended 31 March 2016

	2016 P'000	2015 P'000
<b>21. Retirement benefit assets (continued)</b>		
Amounts recognised in profit or loss in respect of the defined benefit plan are as follows:		
Current service cost	627	1,186
Gain on settlement	2,018	(5,290)
Interest on obligation	2,363	3,573
Interest income on plan assets	(2,697)	(3,296)
Interest on assets ceiling	380	
<b>Net actuarial (gain)/loss recognised in the year</b>	<b>(2,231)</b>	<b>3,256</b>
Amounts recognised in other comprehensive income in respect of the defined benefit plan are as follows:		
	2,691	3,827
Movements in the present value of the defined benefit obligations in the current period were as follows:		
Opening defined benefit obligation	43,477	60,942
Current service cost	627	1,186
Interest cost	2,363	3,573
Benefits paid	(3,180)	(2,519)
Actuarial losses	835	(6,669)
Transfers out of the fund	(4,774)	(13,036)
Closing defined benefit obligation	39,348	43,477
Movement in the present value of the plan assets in the current period was as follows:		
<b>Fair value of plan assets</b>		
Opening fair value of plan assets	49,610	59,591
Expected return on assets	2,697	3,296
Contributions	460	780
Benefits paid	(3,180)	(2,519)
Actuarial gains	(720)	1,498
Transfers out of the fund	(4,774)	(13,036)
Closing fair value of plan assets	44,093	49,610



	2016 P'000	2015 P'000
<b>21. Retirement benefit assets (continued)</b>		
<b>Asset/(obligation)</b>	<b>4,745</b>	<b>6,133</b>
Asset not recognised	(4,745)	(6,133)
Obligation in the statement of financial position	-	-
The principal actuarial assumptions used are as follows:		
Discount rate	5.9%	6.2%
Expected return on plan assets	5.9%	6.2%
Future salary increases	5.5%	5.8%
Future pension increases	3.8%	4.0%

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 discount rate is 0.5% basis points higher (lower), the defined benefit obligation would decrease by P1 366 000,(increase by P 1 551 000), 2015 decrease by P1 792 000 (increase by P1 034 000).

If the pension increase rate is 0.5% higher (lower), the defined benefit obligation would increase by P1 366 000,(decrease by P677 000), 2015 increase by P842 000 (decrease by P780 000).

The major categories of plan assets, and the expected rate of return at reporting date for each category, are as follows:

Equity	446,144	419,421
Bonds	136,619	114,901
Cash	27,667	33,486
Property	11,063	8,624
Other	3,921	7,635
Net current assets	4,338	2,983
<b>Total assets</b>	<b>629,773</b>	<b>587,050</b>

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.



## Notes to the Financial Statements (continued)

For the year ended 31 March 2016

	2016 P'000	2015 P'000
<b>21. Retirement benefit assets (continued)</b>		
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;		
<b>Total fund assets</b>	<b>629,773</b>	<b>587,049</b>
Liabilities in respect of defined contribution portion		
- Active members' fund credits	(507,885)	(459,712)
- Deferred members' benefits	(77,035)	(76,985)
- Outstanding benefits	(760)	(742)
<b>Estimated assets in respect of defined benefits portion</b>	<b>44,093</b>	<b>49,610</b>

## 22. Related party transactions

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

Refer to note 15 for borrowings and the amounts outstanding in loans at 31 March 2016 to the Government of the Republic of Botswana.

Refer to note 17 for dividend matters.

A list of members of the Board is disclosed on the front page of the report. In 2016, the total Director's fees paid amounted to P208 833 (2015: P233 000) (note 1).

Accounts receivable from the Government of Republic of Botswana at 31 March 2016 (included in trade receivables) amounted to P239 797 000 (2015: P43 million). No provision for doubtful debts has been made against this amount.

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:

	2016 P'000	2015 P'000
<b>22. Retirement benefit assets (continued)</b>		
Short-term benefits	5,146	7,238
Terminal benefits	2,771	3,514
	<u>7,917</u>	<u>10,752</u>
<b>23. Interest subsidy reserve</b>		
Balance at the 1 April 2015	13,789	12,493
Interest subsidy income - transfer	1,013	1,296
<b>Balance at the 31 March 2016</b>	<u><b>14,802</b></u>	<u><b>13,789</b></u>

The interest subsidy reserve relates to a subsidy on the EIB loan 45 (Note 15). In accordance with the agreement with the EIB, the Corporation shall pay net interest on the daily balance of the loan balance at the interest rate applicable reduced by an interest rate subsidy of 1.82%, provided that the interest payable shall at no time fall below 3%. The Corporation can use the cash equivalent of the difference between the subsidised interest rate and unsubsidised interest rate (the interest subsidy) for the financing of measures to enhance operational efficiency, capacity building and other "Water Sector Building" measures as agreed with the EIB.

#### 24. Taxation

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

#### 25. Going concern

The Corporation incurred a loss of P266 371 000 (2015: P371 470 000) before taking into account the tariff subsidy grant received from the Government of the Republic of Botswana of P388 000 000 (2015: P1 188 000). This condition, indicates the existence of a material uncertainty that may cast significant doubt about the Corporation's ability to continue as a going concern. The Government of the Republic of Botswana has committed to provide ongoing financial support in the future aimed at sustaining the Corporation in the medium to long term through funding capital projects and implementation of revised tariffs as approved by cabinet.

#### 26. Compliance with the Water Utilities Corporation Act (Chapter 74:02)

The Corporation has not 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 a loss of P242 670 000 (2015: P321 014 000) before taking into account the tariff subsidy grant received from the Government of the Republic of Botswana of P388 000 000 (2015: P1 188 000).



## Notes to the Financial Statements (continued)

For the year ended 31 March 2016

### 27. 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.

### 28. Financial risk management

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

#### (a) Market risk

##### *(i) Foreign exchange risk*

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

At 31 March 2016, the Corporation's foreign exchange exposure was to ZAR borrowings of R55 779 000 (2015: R63 747 000). If the Botswana Pula (BWP) had moved 1% against foreign currencies, the effect would have resulted in an exchange loss or gain of P420 000 (2015: P827 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 2015/2016 financial year, the Corporation's borrowings and short-term deposit investments at variable rates were denominated in Pula (BWP) and Rand (ZAR).

A 1% movement in interest rate in borrowings and short-term deposit investments would increase/decrease the Corporation's net interest charge by P3.0 million (2015: P3.9 million).

*iii) Price risk*

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

*(iv) Cash flow and fair value interest rate risk*

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

**(b) Credit risk**

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

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

**(c) Liquidity risk**

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

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

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

	Less than 1 year P'000	Between 1 and 2 years P'000	Between 3 and 5 years P'000	Over 5 years P'000
<b>At 31 March 2016</b>				
Borrowings	48,553	48,553	278,355	325,760
Consumer deposits	-	-	-	24,018
Accounts payable				
	<u>477,335</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>At 31 March 2015</b>				
Borrowings	136,457	43,459	286,032	353,545
Consumer deposits	-	-	-	20,543
Accounts payable	<u>403,190</u>	<u>-</u>	<u>-</u>	<u>-</u>



## Notes to the Financial Statements (continued)

For the year ended 31 March 2016

### 28. Financial risk management (continued)

#### (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.

	2016 P'000	2015 P'000
Total long - term debt (note 15)	443,281	490,696
Total capital and reserves	5,777,548	5,430,639
Debt : equity ratio	0.08	0.09

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:

Total interest bearing borrowings (note 15)	443,281	490,696
Property, plant and equipment (note 4)	5,696,045	5,432,677
Ratio of interest bearing debt to property, plant and equipment	7.78%	9.03%

#### (e) Fair value estimates

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

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

## Acronyms

BIUST	BOTSWANA INTERNATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
CMT	CORPORATE MANAGEMENT TEAM
DCE	DEPUTY CHIEF EXECUTIVE
DWA	DEPARTMENT OF WATER AFFAIRS
FSC	FULL SUPPLY CAPACITY
FSL	FULL SUPPLY LEVEL
GIS	GEOGRAPHICAL INFORMATION SYSTEMS
IT	INFORMATION SYSTEMS
LAs	LOCAL AUTHORITIES
MCM	MILLION CUBIC METERS
MM	MILLIMETERS
MMEWR	MINISTRY OF MINERALS, ENERGY AND WATER RESOURCES
NRW	NON - REVENUE WATER
NSCI	NORTH SOUTH CARRIER SCHEME I
NSCII	NORTH SOUTH CARRIER SCHEME II
SHEQ	SAFETY, HEALTH, ENVIRONMENT & QUALITY
TEA	TRADE EFFLUENT AGREEMENT
WSRP	WATER SECTOR REFORMS PROGRAMME
WUC	WATER UTILITIES CORPORATION



# *WATER FOR PEOPLE,*







# *WATER BY PEOPLE*





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