

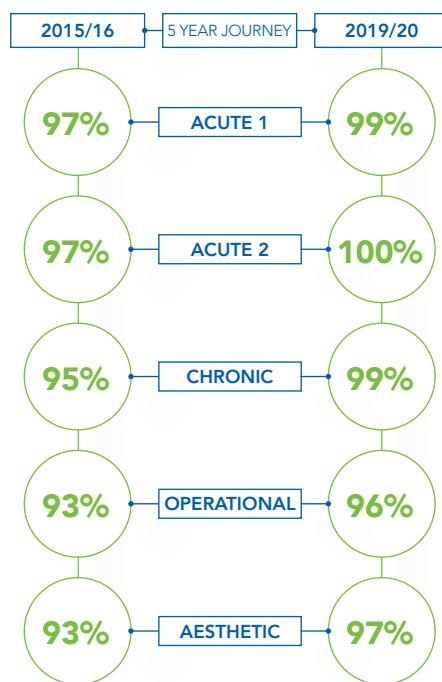
ANNUAL REPORT



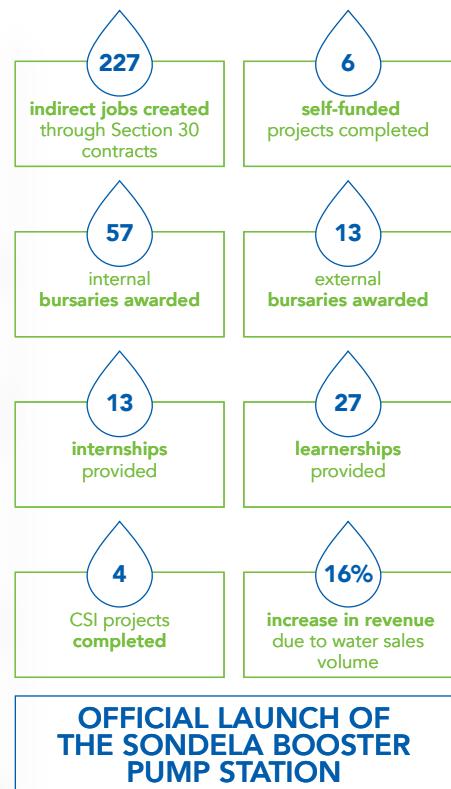
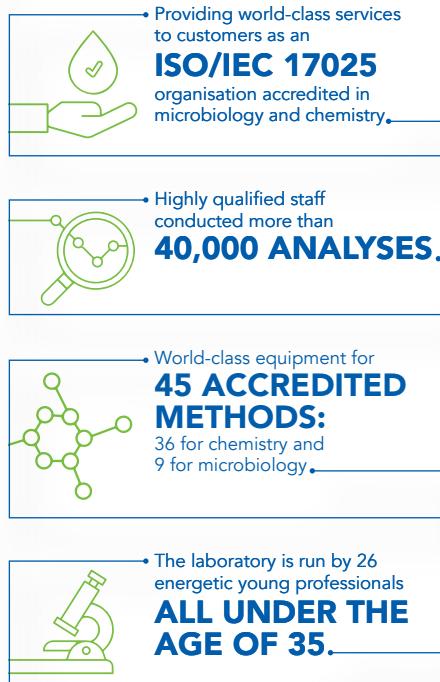
2019
2020

MAGALIES WATER HIGHLIGHTS

WATER QUALITY COMPLIANCE LEVELS



SCIENTIFIC SERVICES LABORATORY



CONTENTS

| | |
|----------------------------------------------------------------------------------------------|------------|
| PART A: Statements, Corporate Governance and Strategic Overview | 2 |
| Foreword by the Minister of Human Settlements, Water and Sanitation..... | 4 |
| Statement of the Chairperson | 6 |
| Statement by the Chief Executive Officer | 10 |
| Statement of Responsibility and Confirmation of the Annual Report Information Accuracy | 14 |
| Corporate Governance | 15 |
| Outgoing Board Members | 18 |
| Board Members | 19 |
| Executive Committee Members..... | 30 |
| Strategic Overview | 32 |
| Thematic Core Values of the Magalies Water of the Future..... | 33 |
| PART B: Business Model and Performance Information | 40 |
| Report Profile | 42 |
| Governance..... | 50 |
| Organisational Capacity: Employment Report | 52 |
| Corporate Social Investment..... | 53 |
| Magalies Water: The Year in Pictures..... | 54 |
| PART C: General Performance and Assurance | 58 |
| General Performance and Assurance | 60 |
| Organisational Efficiency and Effectiveness..... | 68 |
| Corporate Services Division..... | 74 |
| Stakeholder and Customer Services..... | 85 |
| Financial Performance Perspective: Chief Financial Officer Statement | 94 |
| Audit Committee Report | 100 |
| Internal Audit Opinion | 104 |
| Report of the Auditor-General to Parliament on Magalies Water..... | 105 |
| PART D: Financial Performance Perspective | 110 |
| Annual Financial Statements | 113 |

PART A

STATEMENTS, CORPORATE GOVERNANCE AND STRATEGIC OVERVIEW





FOREWORD BY THE MINISTER OF HUMAN SETTLEMENTS, WATER AND SANITATION

Ms LN Sisulu

Minister of Human Settlements,
Water and Sanitation

Access to water and sanitation, as enshrined in Chapter 2 of the Bill of Rights in the Constitution, is a basic service that requires the involvement of all stakeholders in the water sector and improved effectiveness of water policies across all government levels.

As a water-scarce country with areas of high water stress and vulnerable to water risks, South Africa's water security is negatively impacted by climate volatility, drought, water quality matters and aging infrastructure. It is incumbent upon every citizen to take ownership and ensure water is used wisely to conserve available limited water resources.

The protection of our water resource is fundamentally linked to water usage, conservation, management and control. Current trends show that demand is likely to exceed supply, should the rate at which water is currently utilised continue. Compounding this is the global Covid-19 pandemic, which immediately increased water demand due to the required regular washing of hands in order to curb the spread of the virus.

I am pleased with the response the Department received and the continued determination by the water sector to ensure dignity is restored to the most vulnerable in our communities. The Department has also taken initiatives to create public awareness through various campaigns that were intensified during the annual March water week.

Not one person should lack access to the most basic necessity of life that is water. I must commend Magalies Water for heeding this call through the delivery of water and sanitation services, particularly in rural areas within the Bela Bela, Modimolle-Mookgophong, Moses Kotane, Rustenburg and Thabazimbi local municipalities.

As government, we need a significant shift in policy and societal behaviour to address the seriousness of water conservation as well as the increasing demand and evolving uses for water. Initiatives such as Magalies Water's 'Somarela Metsi, Metsi ke Bophelo' campaign are a step in the right direction but we are cognisant that more still needs to be done and key

to this is our response to the systematic barriers of inequality, unsustainable consumption patterns, weak institutional capacity and environmental degradation.

The water boards play a vital role in ensuring water security for their primary users and their financial stability must be sustained. I am confident in the good work that Magalies Water continues to deliver as a provider of bulk water services and would like to convey my gratitude to the Board, executive management and staff members of Magalies Water for their role in revolutionising the water and sanitation sector.



Ms LN Sisulu (MP)

Minister of Human Settlements, Water and Sanitation



STATEMENT OF THE CHAIRPERSON

Ms RN Mokoto
Chairperson of the Board

It gives me great pleasure to present to you the Magalies Water Annual Report for the financial year ended 30 June 2020.

I would like to take this opportunity to firstly convey my appreciation to the Honourable Minister of Human Settlements, Water and Sanitation, Ms Lindiwe Sisulu for the continued support and confidence in the Board and its Executive management to deliver on its set mandate. We are indebted to and value guidance provided by her Department during the year under review. I wish to also extend my sincere gratitude to our other esteemed stakeholders, our customers who are befitting our acknowledgement, that is, all the Mayors, Councillors and officials of Water Services Authorities for the strategic partnerships that assisted in the sustainable development that has brought about positive change to our communities. We are honoured and humbled by the endless patronage, which we continue to receive across all service areas of Magalies Water including the Tribal and Royal Authorities. Last, but certainly not least, we express our genuine appreciation to all Captains of Industry and Private Sector Partners for their valuable contributions and collaborations that have ensured that the delivery of service materializes.

As Board members, we recognise the entire staff compliment of Magalies Water, without whose hard work and dedication, this annual report and the success of the organisation would not have been possible. We are honoured and grateful to work with such a strong and dedicated team who tirelessly executed the necessary strategic direction and focus to the entity we crafted. We appreciate the Executive led by the Chief Executive, Mr Sandile Mkhize, for the warm welcome, diligence and overall work ethic.

Having said that, we must continue with the hard work of ensuring that Magalies Water continues to strive towards achieving its vision of being **the leading provider of quality water services in South Africa**. This resolve is demonstrated in our organisational performance, through overcoming the challenges detailed later in this statement that we had faced and some of which are still work in progress, our governance and strategic direction and the important stakeholder engagements and collaborations which ultimately led, and still lead, to ensuring sustainable service delivery as per our core mandate.

Organisational Performance

Our organisational strategy, which focused towards excellence and growth throughout the year, proved worthwhile as indicated in the organisation's performance. Our efforts led us to achieve 93% of our set targets during the financial year under review. We pronounce a surplus increase of 37% and for this accomplishment, our improvement could also be attributed to us perfecting the implementation of the provisions of the Generally Recognised Accounting Practice (GRAP) reporting framework.

Magalies Water continues to grow exponentially as an organisation. Over the past financial year, we managed to generate a revenue of R789 million and a surplus of R169 million was declared. Our total asset value had increased to an amount of R3,5 billion after enhancing the capacity on the delivery of our water services. This is evidence of our consistency in having the capacity and ability to generate positive cash flows from our operations.

The entity had employed a total of 288 officials, an increase from 277 headcount at the start of the reporting period. We

also supported our staff in their quest to better themselves by awarding a total of 57 bursaries.

Challenges and Opportunities

Insufficient financial resources to sustain and grow the business, insufficient raw water and shortage of good quality raw water remain key challenges. These are the downside strategic risks that affect the ability of Magalies Water to deliver water to those communities that require water the most. Engagements with the Department of Water and Sanitation to reach an amicable solution to ensure delivery of quality water are ongoing.

Magalies Water is endowed with opportunities (upside risks) for the realisation of its growth aspirations. Some communities, both within our area of supply and other surroundings on the borders of our jurisdiction still do not have access to adequate water. These include Kgetlengrivier Local Municipality, Madibeng Local Municipality, and Lephala Local Municipality. Population growth poses a challenge as it puts constraints on the capacity of our infrastructure to supply water due to the high demand, but it also gives reasons for Magalies Water to pursue its Growth Strategy with determination. The main hurdle is the required additional funding to help Magalies Water to execute its expansion programmes in relation to the infrastructure which aims to match current and future capacity to current and anticipated future demand.

Poverty, unemployment and inequality remain a manifestation of historical disparities in our area of supply and have a halo effect on some of our customers who are still confronted with the inability to pay for the services rendered. In light of this, Magalies Water, regrettably missed its 50 Debtor Day target due to legacy challenges such as non-payment. The financial year under review concluded with 85 Debtor Days. As an organisation, we continue to deploy a debt collection system or approach that mitigates the impact that comes with this uneven economic landscape.

Governance and Strategy

The Auditor General of South Africa expressed that Magalies Water has received a Clean Audit Opinion for the reporting period. This success is a direct result of the hard work and dedication by employees of Magalies Water with the strong support and guidance from the Board.

As we strive for more credibility within the industry, we have set high standards for ourselves in the delivery of our mandate, taking care to abide by and follow the guidelines of Good Corporate Governance as set out in the King IV Report. Good governance and sustainable service delivery will remain key to all business operations. Our conduct as an organisation will continue to position Magalies Water as a provider of good quality water services to all stakeholders and partners.

Stakeholder engagement and collaborations

It goes without saying that Magalies Water understands fully that it does not exist in isolation but operates in an open environment that consist of various stakeholders that have the best interests of this organisation. It is with this understanding that the Board's strategic intent and direction encapsulated a stakeholder engagement and collaboration matrix with the purpose of identifying key stakeholders and rolled out a deliberate and focused stakeholder engagement plan. The Board interacted and received valuable feedback on important issues, all anchored on the basis that Magalies Water takes seriously the impact of stakeholder perceptions on the overall organisational reputation. The strategic thrust is for not only to gain new stakeholders' trust but to maintain and strengthen the good relations that had been developed with the existing ones too.

Our stakeholder engagement approach is to ensure that Magalies Water continues to be valued as a trustworthy and reputable organisation and a service provider of choice.

Sustainable service delivery

Magalies Water, as a self-funded entity, achieved its noble goals without reliance on the national fiscus and through collaborations with stakeholders for the benefit of communities in our supply areas.

In March 2020, as the global Coronavirus Pandemic hit South Africa and the country faced uncertainty and lockdown, Magalies Water, along with other water boards across the country, rallied together and heeded the call from the Honourable Minister Sisulu to provide water and sanitation to the most vulnerable communities. The aim was to assist with water shortages during the lockdown and in turn, minimize the spread of the virus in vulnerable communities.

By May 2020, several communities within Magalies Water's area of supply including municipalities within Bojanala District, Bela-Bela and Modimolle-Mookgopong Local Municipalities had since benefitted from this initiative. Twenty (26) tanks were installed out of a total of 41 required. This service was further extended to the schools within Magalies Water's area of supply in collaboration with the Department of Basic Education, to mention some interventions rolled out during this reporting period.

Effect of COVID-19 on operations

During the last quarter of the year under review we, together with the rest of the world, faced the most difficult period marked by serious uncertainties because of the onset of total lockdown. We now had to adjust to the challenge brought about by the onset of COVID-19. Not only did we suffer repercussions impacting directly on our personnel, our

operational systems, organisational programmes, project plans and budgets had to be quickly adapted to suit the prevailing circumstances.

Moving forward the impact could be felt on the overall productivity of the organisation, projected revenue figures spiralled down, our liquidity position became weakened and our appetite for investment was also negatively impacted upon.

As the interim Board, I am confident that with the support from the entire Magalies Water family, we will continue to, not only produce good results but elevate the organisation to even greater heights and be a force to be reckoned with within the water industry. We also feel that the 2019/20 Annual Report would not be complete without thanking the Auditor General of South Africa and the Parliamentary Portfolio Committee on Water and Sanitation for being unwavering in continuously holding us accountable.

Once more, to all stakeholders, both internal and external, your participation has contributed immensely to our achievement. Our overall performance of 93% shows that we are on the right path. Let us forge ahead with the good work and continue striving to make a positive impact not only in the communities under our jurisdiction but even beyond.

RN Mokoto

Interim Chairperson of the Board



Mr Sandile Mkhize
Chief Executive

FOREWORD BY THE CHIEF EXECUTIVE

On behalf of Magalies Water Executive collective and the entire workforce, it gives me pleasure to present to you, our esteemed shareholder, stakeholders and customers the 2019/20 Annual Report. Once more, this Annual Report comes on the back of a strong financial, technological, strategic and collective performance of Magalies Water, which has consistently been on the upward trajectory over the last few years. This performance report on the achievement of our strategic objectives and Key Performance Indicators (KPIs) is always contextualised through our understanding of both the primary and the secondary mandate that stems from sections 29 and 30 of the Water Services Act (WSA, Act 108 of 1997), respectively.

This Annual Report marks the start of the five-year strategic journey that we, as Magalies Water, are embarking on through the commitments made in our business strategic plan that spans from 2019/20 to 2023/24, a period aligned with our five-year forward-looking Corporate Plan (2019/20 - 2023/24). We have implemented structural improvements and have also developed bulk water infrastructure which has positioned the organisation for rapid growth within the current markets. We intend to place ourselves centrally, in the minds and hearts of our customers and stakeholders as the bulk water utility of choice.

Our performance

Magalies Water's organisational performance as unpacked in this report, is based on the strategic context that is premised on the following four (4) balance scorecard perspectives as well as general performance measurements that enhanced governance provisions of sustainable development as propagated in the King IV Code:

- Organisational effectiveness and efficiency
- Finance and governance
- Customer and stakeholder interactions
- Organisational capacity; and
- General Performance

For the period under review, we remained determined and persistent on our deliverables as set out in our Shareholder Compact, which is aligned with the Government's National Development Plan (NDP) and the United Nation's (UN's) Sustainable Development Goal Six (eight targets) that focuses on water as an enabler for development. We have also continued to consider all pertinent issues that influenced the performance of Magalies Water during the strategic planning and contracting phases with the Shareholder.

The 41 Key Performance Indicators (KPIs) were measured and reported to the Shareholder through Quarterly Performance Information Reports against the Shareholder Compact. Out of the 41 KPIs, 38 KPIs were achieved, while three (3) KPIs remained unachieved. This represents an overall performance of 93%, as compared to the 94.4% achieved during the 2018/19 Financial Year (FY). Although this represent a regression of 1.4% from the previous financial year performance, management remains proud of this performance considering the challenges that we experienced during the Financial Year. Magalies Water has continued with its upward trajectory of robust financial and technical performance despite the challenging business operating environment facing South Africa at large. During the 2019/20 financial year, Magalies Water was exposed to two major natural disaster events that interrupted business. In December 2019, the Area East was exposed to floods which impacted major parts of the Gauteng province. Our raw water abstraction infrastructure at the Wilge Dam was washed away by floods, which caused Region 5 of the City of Tshwane Metropolitan Municipality to be without water for about 15 days. Our Cullinan Water Treatment plant was forced to shutdown until 25 December 2019, whilst a temporary pump-station was being constructed.

We remain thankful to the communities of Cullinan and Rayton towns, and Refilwe township for being patient with us whilst the repairing of the bulk water infrastructure was underway. On 26 March 2020, South Africa was placed under strict lockdown due to the worldwide outbreak of the COVID-19 pandemic. The declaration of the State of National Disaster further impacted negatively on the business operations of Magalies Water, which also adversely impacted the health and the well-being of our employees. However, through continued education and awareness programmes, our employees have continued to exercise caution by following the COVID-19 regulations set by Government.

Despite the challenging 2019/20 financial year, we are proud of our performance in relation to our primary mandate, that of water sales. Magalies Water achieved water sales volume of 94,704,537kl against the target of 93,503,932kl. This represents an over-achievement of just over 1%. In addition to the above, the water sold was on average compliant with all five parameters of the SANS 241:2015 standard (Acute-1 health, Acute-2 health, Chronic health, Operational, and Aesthetic).

The following are KPIs that Magalies Water did not achieve as at the end of the 2019/20 financial year:

- **Average debtors days** - The target was 50 days and we achieved 85 days. The target was not achieved due to most Municipalities defaulting on the payment arrangements, resulting in an increase in the debt book. Several engagements were held with the Municipalities during the financial year to discuss and agree on a payment plan. Some municipalities have committed and signed payment agreement but did not honor the arrangement. The situation was worsened by the impact of COVID-19, whereby the debtor's collection significantly reduced. Some of the collection control measures such as water supply restrictions could not be implemented to defaulting customer during lock down period. Most customers defaulted on their payment arrangements, which increased the debtors balance. Notwithstanding the above, we remain resolute and confident that the

Debt Collection Strategy intended to achieve operational excellence will yield the desired results in the foreseeable future.

- **Number of Repeat Internal Audit Findings** - All the repeat findings were related to Debtors and this was elevated to be a critical risk in the strategic risk register. The implementation of corrective measures such as implementing legal processes and water restrictions has been identified and will be implemented going forward.
- **Total Number (Direct)** - The KPI relates to vacancies filled within the organisation and an annual target of five (5) was set and three (3) was achieved. The implementation of the COVID -19 lockdown halted recruitment operations and the organisation had to implement business continuity and other measures to address the non-achieved KPI.

Most of the municipalities within our area of supply are classified as rural municipalities, where socio-economic challenges are rife, resulting in a snowball effect of challenges for the organisation. However, Magalies Water has continued with its upward performance despite the challenging business operating environment facing South Africa at large. We continue to face chronic drought conditions due to erratic weather conditions, which may be associated with the global warming phenomenon. This has put mounting pressure on our water production costs due to the deteriorating raw water quality conditions caused by reduced dam levels in our catchment areas, and elevated pollution loads from both point sources (poor performing wastewater treatment works discharging non-compliant effluent into our rivers) and diffused sources (human settlements and agricultural activities polluting nearby streams and rivers).

In the year under review, a revenue of R789 million was generated from operating activities. Efficiencies in operations and cost containment initiatives resulted in an unprecedented net surplus of more than R169 million; a performance trend which is expected to continue in the medium-to long-term. Magalies Water boasts a strong balance sheet with a current total asset base worth R3.5 billion which is an indication of a growing organisation.

We have, once more, continued producing bulk potable water of excellent quality which consistently complies with the South African National Standards (SANS) Water Quality Standard. It is encouraging to have attained such high levels of performance despite the continued challenges of low dam levels and deteriorating raw quality from both the Crocodile West and the Pienaars River catchments. The continued deterioration in the raw water quality, as evidenced by the increasing values of the Water Treatability Index over the years, has forced Magalies Water to implement advanced water treatment processes that are above the industry-average, generic water treatment processes such as pre-oxidation (ozone or chlorine dioxide), concomitant dissolved air floatation and granular activated carbon filtration. This has increased the production cost pressures for Magalies Water while the raw water cost tariff charged by the regulator, the Department of Water and Sanitation, has remained standard for all the water users regardless of the raw water quality standards.

Forward looking (2019/20 to 2023/24)

We developed short-term scenarios to help us weather the storm of the evolving strategic environment within our service area. The demand for water services continues to grow on par with the local population growth. However, we remain determined and persistent towards achieving our mandate irrespective of the prevailing economic conditions. Water scarcity, compounded by the changing weather patterns attributed to the climate change phenomenon, is the reality that is facing our country. We have to adapt our operations and be resilient going into the future, if we are to deliver successfully on our contribution to the socio-economic development mandate.

I therefore present the commitments we made in our Corporate Plan (2019/20 –2023/24) towards achieving our vision of being the leading provider of quality water services in South Africa despite funding and other constraints.

In this regard, we will deliver on the following strategic objectives as defined in our 5-year Corporate Plan:

- To provide quality potable water
- To provide reliable and sustainable water services to customers
- To achieve growth and sustainable financial returns
- To manage financial and business risk
- To manage Customer and Stakeholder relations
- To contribute towards Transformation and Developmental Agenda
- To maintain and retain critical skills of all employees

Appreciation

Once more, to our Shareholder, stakeholders, customers and communities within our areas of operation, as Magalies Water, we would like to thank you for your continued support of our efforts to deliver on our mandate. I remain humbled to lead such a highly-motivated and dedicated team towards a cause that brings to life the spirit inherent in the mantra “water is life, and sanitation is dignity”. As an organisation, we want to give assurance that we are geared to respond to the development and service delivery opportunities in accordance with our Growth Strategy which is being implemented in accordance with the availability of financial resources. We shall continue on the upward trajectory path of stretching our abilities towards ensuring delivery of quality water services for all in our lifetime.

In conclusion, I would like to express my sincere gratitude to the Board of Magalies Water under the leadership of Ms. RN Mokoto for their collective leadership and guidance. We remain committed to towards achieving a clean audit while driving the Growth Strategy of the organisation.



Mr Sandile Mkhize
Chief Executive

STATEMENT OF RESPONSIBILITY AND CONFIRMATION OF THE ANNUAL REPORT INFORMATION ACCURACY

In my capacity as the Accounting officer in terms of the Public Finance Management Act (PFMA) (Act 1 of 1999) as amended and as the Chief Executive officer of Magalies Water, it is my honour to accept the responsibility for the maintenance and preparation of financial statements and non-financial performance information of Magalies Water for the 2019/20 financial year. The Annual Financial Statements have been prepared in accordance with, among others, the Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board (ASB) and the requirements of the PFMA.

I also take full responsibility for the preparation, assessments or evaluations and the outcomes contained in this Annual Report (2019/20) financial year ending 30 June 2020. The level of performance (93%) reported on the predetermined objectives is accurate and I have confidence that the content is credible, of integrity and reliable due to the currently embedded internal controls that remain relevant and adequate.

These are designed to provide reasonable assurance on our performance throughout the year. For instance, at self-assessment level, the Magalies Water internal controls are implemented and monitored; our employees understand the importance of maintaining the highest ethical standards in the manner we conduct our business.

The internal audit function and the risk management processes provide the necessary oversight that takes into account all

levels of defense in the verification of the effectiveness if the existing control measures and the identification of additional ones, where applicable. The two functions also continued to provide reasonable assurance against material misstatements or deficits and to check whether risk and opportunities were dealt with, whenever it was deemed necessary.

This is our account of the acceptability of the true state of affairs of our entity's results from both operations and financial reporting for the year ended 30 June 2020. It is premised on two critical factors:

1. Our reported information has been externally audited and the Auditor General South Africa (AGSA) has expressed an independent opinion on both the annual financial and all other predetermined non-financial objectives that had been contracted to the Shareholder for the reporting period. We provided unrestricted access to the AGSA for review of all the relevant records as legally required. Refer to the AG Report on pages 103 to 107.
2. The Board and Executive Authority have been privy to the Annual Report for 2019/20 in line with the legislative requirements.

The Annual Report has been prepared on a going concern basis and the Executive Authority approved it by the end of February 2021.



Mr SP Mkhize

Chief Executive Officer



Ms RN Mokoto

Interim Chairperson of the Board

CORPORATE GOVERNANCE

Magalies Water Board is a Schedule 3B state-owned entity (SOE) established in terms of Section 28 of the Water Services Act, 1997 (Act 108 of 1997) (WSA) and is classified as a government business enterprise in Schedule 3B of the Public Finance Management Act, 1999 (Act 1 of 1999). The service area of Magalies Water determined by the Minister stretches over the Pienaars and Crocodile rivers, these being two of its major catchment areas.

As an SOE, Magalies Water is governed by, among others, legal frameworks that constitute its regulatory universe, including the legislation listed below. These legal instruments ensure that the roles and responsibilities of the Executive Authority, the Accounting Authority and management are clarified to prevent any possible conflicts. To that effect, the Minister of the Department of Human Settlements, Water and Sanitation (DHSWS), Ms Lindiwe Sisulu, continues to devolve some of her vested powers to members of the Board of Magalies Water:

- The Constitution of the Republic of South Africa, 1996 (Act 108 of 1996). According to Chapter 2: Bill of Rights of the Constitution, the state must respect, protect, promote and fulfil the rights of all people in our country and (must) affirm the democratic values of human dignity, equality and freedom. Section 10 states that everyone has rights to human dignity and Section 11 speaks of everyone's right to life.
- The Companies Act 2008 (Act 71 of 2008).
- The Public Finance Management Act, 1999 (Act 1 of 1999) (PFMA) as amended.
- National Water Act, 1998 (Act 36 of 1998) (NWA) and its Regulations: The NWA provides that national government is the public trustee of the nation's water resources. Acting through the Minister of Human Settlements, Water and

Sanitation, national government has the power to regulate the use, flow and control of all water in the Republic. The goals are to protect, use, develop, conserve and manage water resources sustainably and equitably for the benefit of all persons.

- The Water Services Act, 1997 (Act 108 of 1997), which provides for the right of access to basic water supply and the right to basic sanitation services. The WSA also provides for the establishment of water boards and defines their primary (Section 29) and secondary functions (Section 30).
- Other applicable public sector protocols.

Magalies Water also makes use of the King IV Report on Corporate Governance to exercise ethical and effective leadership in achieving the following governance outcomes:

- Ethical culture
- Good performance
- Effective control
- Legitimacy.

Corporate governance key focus

During the 2019/20 financial year, the key focus areas included application for a borrowing limit to implement strategy growth plans. The intent is to ensure sustainability and enhance efficiency and productivity, which are ongoing concerns for Magalies Water. The implementation of Magalies Water's corporate plan programmes took into account the principles of King IV on Corporate Governance, which came into effect on 01 April 2017.

The function of the Company Secretary and the Magalies Water Board

Company Secretary

The Company Secretary oversees administration and compliance in the organisation. The Company Secretary, together with Board members, is responsible for tasks specified in the Companies Act 2008, as amended. The function oversees coordination of activities of the Board and its committees in line with the Institute of Directors South Africa (IoDSA), which states that:

'The Company Secretary has a key role to play in ensuring that Board procedures are both followed and regularly reviewed. The Chairperson and the Board will look to the Company Secretary for guidance on what their responsibilities are, under the rules and regulations to which they are subject and on how these responsibilities should be discharged. All directors should have access to the advice and services of the Company Secretary and should recognise that the Chairperson is entitled to strong support from the Company Secretary in ensuring the effective functioning of the Board.'

In addition to governance, the Magalies Water Company Secretary ensured that members of the Executive Committee (Exco) and the Board carried out their roles and responsibilities as outlined in the Board Charter.

Key functional activities of the Board

The Board leads Magalies Water and takes collective responsibility for its long-term success. It provides leadership in setting strategic objectives, vision and values within the framework of prudent controls over risks and opportunities,

the success or failure of which forms part of the corporate compliance and planning cycle.

Among the roles and responsibilities mandated to the Board and extracted from its adopted charter are:

- Strategic direction of the company.
- Growth and sustainability.
- Ensure that defined objectives of the shareholder are achieved.
- Consider and guide strategic risk management commitments and processes, and the implementation of effective risk management systems.
- Approve annual tariffs and budget allocation in line with strategic objectives.
- Ensure that the organisation is financially viable, including condoning irregular expenditure provided that the transactions are not financially significant.
- Ensure that management is vigilant on local municipalities' liquidity and financial sustainability, while addressing the affordability of non-paying debtors.
- Be responsive and guide mitigation of reputational impacts and approval processes for escalation of customers in arrears to the ministers, and/or engage National Treasury on the municipalities' equitable share apportionment.
- Approve committee reports and activities, including:
 - ▶ Declaration of interest and confidentiality undertaking procedures.
 - ▶ All committee terms of references in line with the Board Charter.
 - ▶ Setting and/or approval of policies of the organisation.
 - ▶ Audited annual financial statements and the annual performance reports for each financial year.
- Approve quarterly and annual performance information reports.
- Approve annual salary increases and performance incentive bonuses for each year.
- Set key performance indicators for borrowing limits, guarantees and grant funding. This was carried out during the development of the corporate plan for 2019/20 to 2023/24 and the Shareholder Compact (2019/20).

Additional Board duties:

- Setting and/or revising the delegation of authority.
- Dispatching its power of attorney, including ensuring that Magalies Water has registered tax representatives, an approved executive organisational structure and external auditors (Auditor-General South Africa continues to add value to the organisation's business planning and monitoring).
- Ensuring that the organisation is and is seen to be a responsible citizen.

At pre-set intervals the Board, with the assistance of the Company Secretary, performs self-assessment.

The Board and changes in the composition

Members of the Magalies Water Board were appointed by the Minister of Human Settlements, Water and Sanitation in terms of Schedule 1 of the WSA for a term not exceeding four years. The Board was subsequently disbanded and the Minister issued letters of appreciation for service to the members on 30 June 2020. An interim Board was then appointed from 01 July 2020 until a new Board is appointed. An inaugural meeting facilitated by the DWS was held on 13 July 2020, followed by an induction on 22 July 2020. Thereafter, Board committees were established.



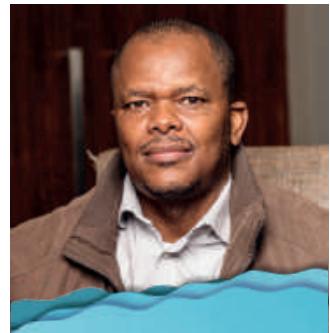
OUTGOING BOARD MEMBERS



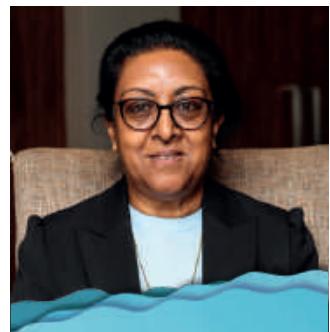
Standing L-R: Kgosi VS Suping, Dr L Zitha, Ms DM Manamela, Ms KP Mokoena, Ms NM Mufamadi, Ms YM Matolong, Mr FP Vilakazi, Mr RM le Roux

Seated L-R: Adv. MM Petlane & Ms PN Nkwinika

External independent Audit Committee members



Mr SM Mamotheti



Ms K Moodley

BOARD MEMBERS



**Ms Nthibane Rebecca
Pinky Mokoto
Chairperson**

Ms Mokoto is a seasoned communicator, having attained a number of qualifications in the communications field and risen up the ranks to now being appointed as the Interim Chairperson of the Board of Magalies Water. She has worked in many spheres of government and her political career included numerous positions as a Portfolio Committee Member and Former Member of the Mayoral Committee, to mention a few.



**Dr Thembinkosi
Gladden Twalo
Deputy Chairperson**

Dr Twalo is an accomplished academic who has written and published numerous journal articles, conference papers and research reports. He has extensive experience in research, management, evidence-based policy-making and innovation.



**Dr Kenielwe Lydia Sebego
Board member**

Dr Sebego has an extensive background in teaching. She has supervised and managed the curriculum development in the education department of North West, and training of biology, mathematics and science teachers. She is a strategist who has provided leadership and mentoring to government departments.



**Ms Magogodi Elizabeth
Tebogo Malaka
Board member**

Ms Malaka has over 20 years of experience in the public sector, with expertise in programme and project management, strategic leadership, financial management and infrastructure delivery. She is a member of the Institute of Directors South Africa and serves on numerous Board committees. She has also attended water sector study tours in Canada, Stockholm and Sri Lanka.

BOARD MEMBERS (CONTINUED)



Ms Bukeka Mahlutshana

Board member

Ms Mahlutshana is an experienced leader with a successful track record in strategic planning, business development, business turnaround strategies and coordinating and managing the execution of innovative solutions, among others. She has held various positions in both the private and public sectors and has worked closely with government departments, municipalities, unions and communities. Her key achievements include the successful establishment of the Bus Rapid Transit in the City of Tshwane and the North West Transport Investment Business Development Unit.



Mr Motiki George Shoahle

Board member

Mr Shoahle is a qualified chartered accountant with experience in accounting for financial instruments, finance and operating lease assets, revenue recognition and project management, to mention a few.



Ms Ertia Boitumelo Mokgatle

Board member

Ms Mokgatle is a risk management specialist and professional, having served on numerous boards in the public and private sectors. She has international work experience, which includes work done in Uganda and Botswana.



Mr Likotsi David Moriényane

Board member

Mr Moriényane is a registered professional engineer with the Engineering Council of South Africa and has extensive experience as an enterprise architect, having developed enterprise architecture blueprints and IT systems for various companies and government departments.



**Mr Vuyani Alexander
Magnus Magqabi**
Board member

Mr Magqabi is a lawyer, with experience in handling complex cases in the Supreme Court of Appeal and Constitutional Court. He is proficient in labour law, land claims litigations, contract and property law, criminal law and commercial law.



Mr Itumeleng Mosala
Board member

Mr Mosala is an accomplished professional with strong expertise in governing complex business operations, monitoring ongoing programmes and processes and modelling change management initiatives. He has held a number of strategic local government positions, including Chair of Chairs in the North West Provincial Legislature and a Member of Parliament.



Board composition

The previous Board was 40% male and 60% female, whereas the new Board is 50% male and 50% female, as shown in the tables below.

Table 1: Composition of the previous Board by race and gender to 30 June 2020

| Gender | Race | | | | Total | % |
|--------|---------|--------|----------|-------|-------|------|
| | African | Indian | Coloured | White | | |
| Male | 3 | - | - | 1 | 4 | 40% |
| Female | 6 | - | - | - | 6 | 60% |
| Total | 9 | - | - | 1 | 10 | 100% |

Table 2: Composition of the interim Board by race and gender from 01 July 2020

| Gender | Race | | | | Total | % |
|--------|---------|--------|----------|-------|-------|------|
| | African | Indian | Coloured | White | | |
| Male | 5 | - | - | - | 5 | 50% |
| Female | 5 | - | - | - | 5 | 50% |
| Total | 10 | - | - | - | 10 | 100% |

Board evaluation

IoDSA normally conducts an annual performance and effectiveness evaluation of the Board of Magalies Water, including individual Board members and Board committees. However, with the change of Board members, the performance and effectiveness evaluation process was postponed to 2020/21.

The Company Secretary will evaluate the performance and effectiveness of the newly appointed interim Board members, individual Board members, and Board committees after a full year of service.

Board Charter

The Board Charter sets out the roles and responsibilities of the Board, including its composition, meeting procedures, delegation and authority of Board members.

Shareholder Compact

The Shareholder Compact between the Board and the Executive Authority, the Minister of Human Settlements, Water and Sanitation, set the performance objectives, measures, indicators and annual targets for 2019/20. Key performance indicators were set in accordance with the PFMA. Each Board committee exercised oversight on the implementation of the Shareholder Compact according to designated responsibilities.

Board meetings

Members of the Board of Magalies Water made a valuable contribution to the sustainability of the organisation through their inputs, participation and time devoted to attending all scheduled committee meetings.

The tables below detail attendance of Board committee meetings for the period ending June 2020. The new Board did not attend meetings.

Table 3: Ordinary and special Board meetings attendance

| Board member | Ordinary | Special |
|---------------------------------------------------------------------------|----------|---------|
| Adv MM Petlane | 2/3 | 2/2 |
| Ms PN Nkwinika | 3/3 | 2/2 |
| Mr FP Vilakazi | 2/3 | 2/2 |
| Ms NM Mufamadi | 3/3 | 2/2 |
| Kgosi SV Suping | 3/3 | 2/2 |
| Mr RM le Roux | 3/3 | 2/2 |
| Ms YM Matolong | 3/3 | 2/2 |
| Ms DM Manamela | 3/3 | 1/2 |
| Ms KP Mokoena | 3/3 | 2/2 |
| Dr L Zitha | 3/3 | 2/2 |
| NEWLY APPOINTED INTERIM BOARD MEMBERS WITH EFFECT FROM 1 JULY 2020 | | |
| Ms RN Mokoto | n/a | n/a |
| Dr TG Twalo | n/a | n/a |
| Dr KL Sebego | n/a | n/a |
| Ms BE Mokgatle | n/a | n/a |
| Ms EMT Malaka | n/a | n/a |
| Mr VAM Magqabi | n/a | n/a |
| Mr LD Morienyane | n/a | n/a |
| Ms B Mahlutshana | n/a | n/a |
| Mr MG Shoahle | n/a | n/a |
| Mr I Mosala | n/a | n/a |
| Total overall attendance of Board members | 28/30 | 19/20 |

Board committees

Committees of the Board ensured that the Board operated effectively and efficiently.

Capital Investments Committee

The roles and responsibilities of the Capital Investments Committee include:

- Recommending to the Board for approval the capital expenditure programme to be undertaken for each of the five years of the corporate plan;
- Recommending to the Board for approval proposals for additional infrastructure expansion programmes;
- To appraise the Board members of any capital investment-related matters that warrant their attention;
- To ensure that the primary activities of Magalies Water in terms of Section 29 of the WSA are prioritised and achieved; and
- To ensure adherence to the secondary mandate of Magalies Water according to Section 30 of the WSA.

Table 4: Capital Investment Committee attendance by delegation – frequency per meeting

| Member | Attendance |
|----------------|------------|
| Mr FP Vilakazi | 4/4 |
| Mr RM le Roux | 4/4 |
| Ms NM Mufamadi | 2/4 |
| Ms Y Matolong | 4/4 |

Table 5: Capital Investment Committee attendance by invitation – frequency per meeting

| Member | Attendance |
|----------------|------------|
| Adv MM Petlane | 1/1 |
| Ms PN Nkwinika | 1/1 |

Finance Committee

The Finance Committee enables conformance and compliance to Magalies Water's performance-level commitments outlined in the five-year corporate plan and the annual Shareholder Compact. The Finance Committee recommends to the Board for approval:

- Financial information and key performance indicators;
- Annual budget and its adjustments;
- Financial assessment reports;
- Financial quarterly reports;
- Management advice on the entity's required investments,

- loans and any other banking-related facilities; and
- Recommended water tariffs for each financial year.

Table 6: Finance Committee attendance by delegation – frequency per meeting

| Member | Attendance |
|----------------|------------|
| Ms PN Nkwinika | 6/6 |
| Ms D Manamela | 6/6 |
| Mr RM le Roux | 6/6 |
| Ms KP Mokoena | 6/6 |

Risk Committee

The Risk Committee oversees the management of the key risks facing the organisation. The Strategic Risk Management Plan outlines the roles and responsibilities for implementation of risk management principles aimed at:

- Assisting the Board with the formulation of a robust risk policy and risk management framework;
- Recommending to the Board risk tolerance levels, and risk appetite and its mitigation;
- Providing assurance to the Board on effectiveness and relevance of the risk management process;
- Providing assurance that controls are in place, relevant and effective in addressing information technology risks.

Table 7: Risk Committee attendance by delegation – frequency per meeting

| Member | Attendance |
|-----------------|------------|
| Dr L Zitha | 4/4 |
| Ms KP Mokoena | 4/4 |
| Kgosi SV Suping | 4/4 |
| Mr FP Vilakazi | 4/4 |

Table 8: Risk Committee attendance by invitation – frequency per meeting

| Member | Attendance |
|----------------|------------|
| Ms PN Nkwinika | 2/2 |

Audit Committee

The roles and responsibilities of the Audit Committee are in accordance with the PFMA and Treasury Regulation 27.1. The committee oversees corporate governance, integrated reporting and management of internal controls.

It reports on its evaluation of financial statements and effectiveness of internal controls prior to the finalisation of the entity's annual sustainability and integrated report. Furthermore, it:

- Recommends risk areas of the entity to be covered in the scope of internal audit;
- Assesses the adequacy, reliability and accuracy of financials provided to users of financial information;
- Addresses accounting and auditing concerns identified during internal and external audit; and
- Ensures that the entity complies with legal and statutory provisions.

Table 9: Audit Committee attendance by delegation – frequency per meeting

| Member | Attendance |
|------------------------|------------|
| Ms NM Mufamadi | 6/6 |
| Mr SM Mamotheti #* | 6/6 |
| Ms PN Nkwinika | 6/6 |
| Ms K Moodley #* | 6/6 |
| Mr S Madikizela #*, ** | 3/5 |

#* External independent members

** Resigned as of 03 March 2020

Table 10: Audit Committee attendance by invitation – frequency per meeting

| Member | Attendance |
|-----------------|------------|
| Adv MM Petlane | 2/2 |
| Mr FP Vilakazi | 2/2 |
| Kgosi SV Suping | 2/2 |
| Mr RM le Roux | 2/2 |
| Mr YM Matolong | 2/2 |
| Ms D Manamela | 1/2 |
| Ms KP Mokoena | 2/2 |
| Dr L Zitha | 2/2 |

Human Resources, Social and Ethics Committee

The Human Resources and Remuneration Committee enhanced its scope of responsibility and was formally renamed Human Resources, Social and Ethics Committee from 12/13 September 2019.

The roles and responsibilities of the Human Resources, Social and Ethics Committee include:

- Overseeing implementation of remuneration policies that promote the achievement of strategic objectives and encourage individual performance;
- Promoting communication between the Board and the executive management team on remuneration matters;
- Recommending to the Board annual salary adjustments;
- Ensuring that appropriate processes are in place for training and succession planning;
- Reviewing and recommending the terms and conditions for Exco service agreements, including review of performance, recognition and rewards;
- Reviewing regularly human resource management policies to ensure compliance with labour-related legislation; and.
- Assisting the Board with the oversight of social, governance and ethics matters, thus being the organisation's social conscience and ensuring that it is seen as a responsible corporate social citizen.

Table 11: Human Resource, Social and Ethics Committee attendance by delegation – frequency per meeting

| Member | Attendance |
|-----------------|------------|
| Ms Y Matolong | 6/6 |
| Dr L Zitha | 6/6 |
| Ms D Manamela | 6/6 |
| Kgosi SV Suping | 6/6 |

Table 12: Human Resource, Social and Ethics Committee attendance by invitation – frequency per meeting

| Member | Attendance |
|----------------|------------|
| Adv MM Petlane | 1/1 |
| Ms PN Nkwinika | 4/4 |
| Ms NM Mufamadi | 1/2 |

Stakeholder Engagement Committee

During the Board induction session of 31 May 2019 the Stakeholder Engagement Committee was converted to Board Task Team: Stakeholder Engagement, meeting on an adhoc basis to improve organisational efficiencies.

Due to confusion in Board reports, the Stakeholder Engagement Committee was ultimately resuscitated.

The roles and responsibilities of the Stakeholder Engagement Committee include:

- Submitting details of material stakeholders and related material risks and opportunities for the Board's approval;
- Recommending the implementation of stakeholder engagement strategic plans and policies;
- Proposing constructive engagement mechanisms for all material stakeholders; and
- Recommending communication guidelines for stakeholders covering the content of the report, publication of policies and interaction programme/plan.

Table 13: Stakeholder Engagement Committee attendance by delegation – frequency per meeting

| Member | Attendance |
|-----------------|------------|
| Adv MM Petlane | 2/2 |
| Ms KP Mokoena | 2/2 |
| Kgosi SV Suping | 1/2 |
| Ms D Manamela | 2/2 |

Table 14: Stakeholder Engagement Committee attendance by invitation – frequency per meeting

| Member | Attendance |
|----------------|------------|
| Ms PN Nkwinika | 2/2 |

Chairpersons Coordinating Committee

The Chairpersons Coordinating Committee is a statutory compliance committee that ensures submission of the quarterly performance information report to the shareholder's office to comply with the legislative mandate of Paragraph 29 of PFMA Treasury Regulations and other frameworks pertaining to reporting Magalies Water's performance monitoring information.

The committee reviews and processes the quarterly performance information report to ensure that the statutory and compliance reporting duties of the organisation are efficiently and effectively processed and that good corporate governance practices are met.

The duties and responsibilities of the committee members are additional to those they have as members of the Board. Deliberations of the committee do not reduce the individual's Board fiduciary duties and responsibilities and he or she must exercise due care and judgment in line with legal obligations.

The committee, which has an independent role with accountability to both the Board and shareholder, has the authority to:

- Approve the quarterly performance information reports;
- Approve that the reports be submitted to the DWS; and
- Consider other mandates or undertake such duties and responsibilities as required from time to time by the Board.

Table 15: Chairpersons Coordinating Committee attendance by delegation – frequency per meeting

| Member | Attendance |
|----------------|------------|
| Adv MM Petlane | 3/3 |
| Mr FP Vilakazi | 3/3 |
| Dr L Zitha | 3/3 |
| Ms NM Mufamadi | 3/3 |
| Ms PN Nkwinika | 3/3 |
| Ms Y Matolong | 2/3 |

Table 16: Chairpersons Coordinating Committee attendance by invitation – frequency per meeting

| Member | Attendance |
|-------------------------|------------|
| Kgosi SV Suping | 1/2 |
| Mr RM le Roux | 0/2 |
| Ms D Manamela | 2/2 |
| Ms KP Mokoena | 1/2 |
| Mr SM Mamotheti #* | 1/1 |
| Ms K Moodley #* | 1/1 |
| Ms SM Madikizela #*, ** | 0/1 |

External independent members

** Resigned as of 03 March 2020

Board members

Table 17: Board members

| Board Member | Appointment Date | Gender | Finance Committee | Chairpersons Coordinating Committee | Human Resources, Social and Ethics Committee | Capital Investments Committee | Audit Committee | Risk Committee | Stakeholder Engagement Committee |
|-------------------------------------|------------------|--------|-------------------|-------------------------------------|----------------------------------------------|-------------------------------|-----------------|----------------|----------------------------------|
| Adv MM Petlane (Board Chairperson) | 01 May 2019 | Male | | X | | | | | X |
| Ms PN Nkwinika (Deputy Chairperson) | 01 May 2019 | Female | X | X | X | | X | | |
| Mr FP Vilakazi | 01 May 2019 | Male | X | X | | X | | X | X |
| Ms NM Mufamadi | 01 May 2019 | Female | | X | X | X | X | X | |
| Kgosi SV Suping | 01 May 2019 | Male | X | | X | X | | X | X |
| Mr RM le Roux | 01 May 2019 | Male | X | | | X | X | X | |
| Ms YM Matolong | 01 May 2019 | Female | | X | X | X | X | X | |
| Ms DM Manamela | 01 May 2019 | Female | X | | X | X | | | X |
| Ms KP Mokoena | 01 May 2019 | Female | X | | | X | X | X | X |
| Dr L Zitha | 01 May 2019 | Female | | X | X | | | X | |

The terms of independent external members of the Audit Committee ended in April 2020 and were extended pending the appointment of a new external Audit Committee, which was delayed by the Covid-19 pandemic.

Code of conduct and promotion of ethical culture

The Accounting Officer promoted the implementation of the Ethics Code of Conduct and the processes were delegated between the Risk Specialist and the Company Secretary. The Risk Specialist focused on internal operation and tactical levels, while the Company Secretary's focus was at strategic Board level. Declarations of financial interests, confidentiality, and conflict of interests and disclosures were made by employees as provided for in the government's 1997 Code of Conduct's set standards for the public service. The Company Secretary –

as the provider of advice to the Board and the organisation on any matter of ethics, conflict of interest and good governance – handled the Board members' declarations.

Magalies Water regards ethical conduct as mandatory for all employees. The Ethics Code of Conduct's objectives include:

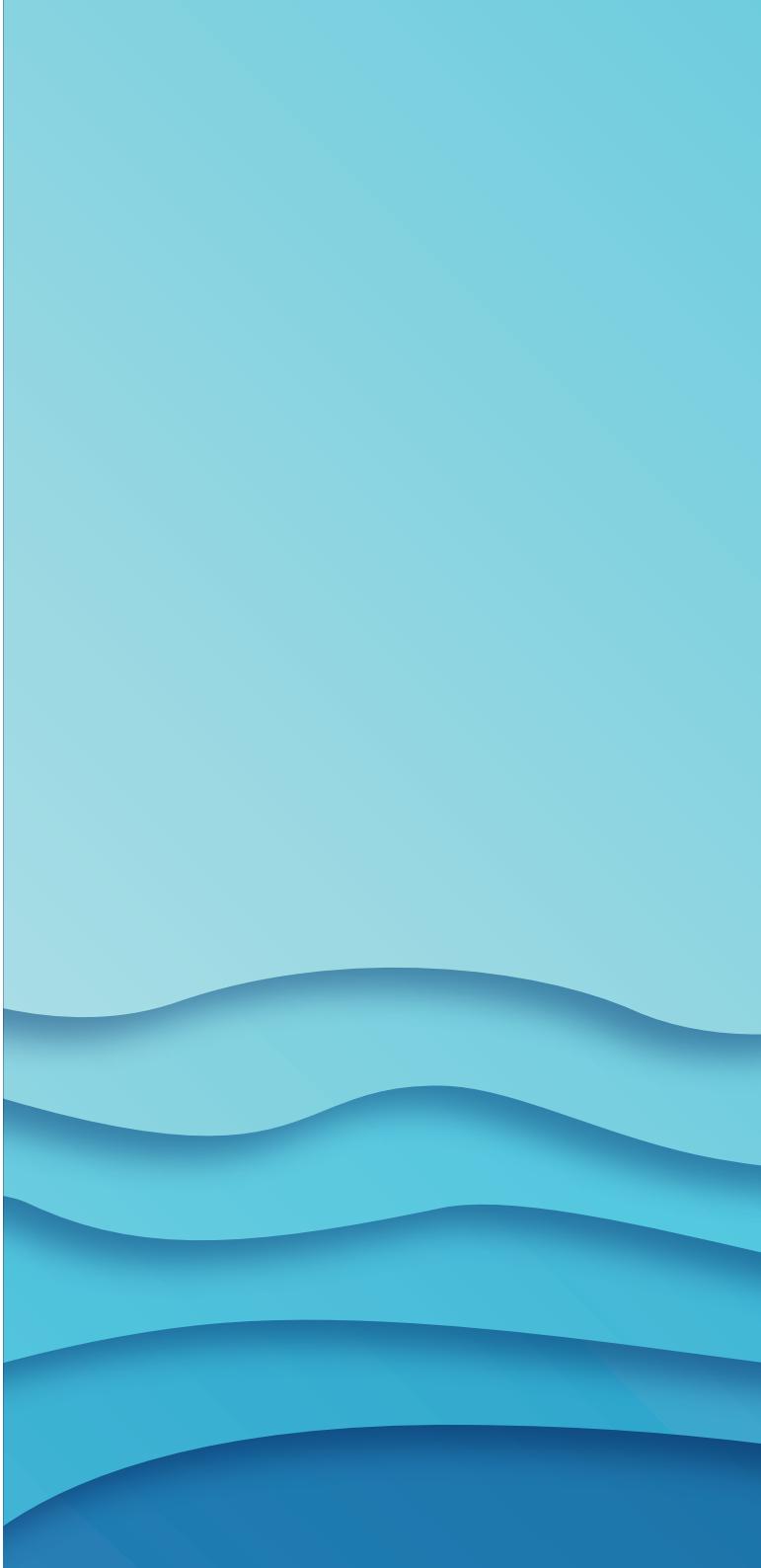
- Administrative management of remunerative work conducted by employees outside their delegated duties;
- Enforcing Regulation 13(c) of the Public Service Regulations, 2016 (PSR), which prohibits employees from contracting/conducting business with any South African organ of state, as of 07 August 2016;
- Promotion of transparency and prevention of conflicts of interest among all involved in bid evaluation and adjudication, even those drafting and/or sourcing services based on the specification;
- Managing errors in sourcing quotations from companies not on the National Treasury's Central Supplier Database;

- Referring to recorded portfolios of evidence to protect the company and individuals who may be implicated in or facing charges of misconduct;
- Enabling individuals always to be conscious of disclosure requirements as they acquire, practice or pursue personal financial interests; and
- Ensuring that employees execute the company's delegated duties and/or avoid improper influence/biased judgments etc. when acting on behalf of the company.

In summary, governance at Magalies Water is consistently kept in line with applicable legislation. The Company Secretary and Exco assist the Board to implement business plans and exercise executive control over day-to-day operations. Magalies Water is diligent in ensuring that it adheres to regulations and ensures synergies with other key role-players and statutory stakeholders.

The Magalies Water Board, supported by its committees, Exco and the Company Secretary, fully owns the governance responsibility and fiduciary duties for driving good corporate citizenship. The 2019/20 annual report was subjected to continuous review throughout the reporting period.

Magalies Water has a solid foundation that is premised on the strength of a permanent Chief Executive Officer whose oversight of the six operating divisions is supported by five general managers, the Chief Operations Officer and the Chief Financial Officer, who constitute Exco.



EXECUTIVE COMMITTEE MEMBERS



Mr Sandile Mkhize
Chief Executive Officer

Academic qualifications:

- MBA (Milpark Business School)
- M Tech: Environmental Biotechnology (Durban University of Technology)
- Management Advancement Programme (Wits Business School)
- BSc: Chemistry and Microbiology (University of KwaZulu-Natal)
- B Tech: Biotechnology (Durban University of Technology)
- Senior Executive Programme (Harvard Business School)
- Diploma in Advanced Project Management (Damelin)



Ms Matshidiso Tabane
Chief Financial Officer

Academic qualifications:

- Bachelor of Accounting Science (University of South Africa)
- Postgraduate Diploma in Applied Accounting Science (University of South Africa) CA(SA)



Mr Mahlomola Mehlo
Chief Operations Officer

Academic qualifications:

- Master of Technology: Civil Engineering (Vaal University of Technology)
- Master of Science: Project Management (University of Pretoria)
- Senior Executive Programme (Harvard Business School)
- MBA (University of Cape Town)



Ms Tsakane Zwane
General Manager:
Project Management Unit

Academic qualifications:

- National Diploma: Mechanical Engineering (University of Johannesburg)
- Bachelor of Technology: Mechanical Engineering (Vaal University of Technology)
- Middle Management Leadership Development Programme (University of Cape Town Graduate School of Business)
- Project Management Professional (Project Management Institute)
- Postgraduate Diploma in Business Administration (Gordon Institute of Business Science)
- Postgraduate Diploma in General Management (Gordon Institute of Business Science)
- Master of Business Administration Candidate (Gordon Institute of Business Science)



Ms Kelebogile Mogamisi
General Manager:
Stakeholder and Customer Services

Academic qualifications:

- MBA (Milpark Business School)
- BSc in Chemistry (Medunsa)
- BSc (Hons) in Water Utilisation (University of Pretoria)
- National Diploma in Water Care (Tshwane University of Technology)
- Senior Management Programme Certificate (University of Pretoria)
- Municipal Finance and Supply Chain Management (Wits School of Governance)



Ms Puleng Ratlابala
General Manager:
Corporate Services

Academic qualifications:

- Bachelor of Arts Honours (University of Limpopo)
- Bachelor of Arts (University of Limpopo)
- Senior Management Programme (Milpark Business School)
- Senior Executive Programme (Harvard Business School)
- MPhil in Management Coaching (University of Stellenbosch)



Mr Ofentse Nthutang
General Manager:
Engineering Services

Academic qualifications:

- Bachelor of Science in Engineering (Civil) (University of Witwatersrand)
- Certificate in Municipal Finance Management Programme (Kgolo Institute)
- Registered Professional Engineer (Engineering Council of South Africa)



Ms Lerato Morake
General Manager:
Water Services

Academic qualifications:

- BSc in Education (North-West University)
- Master's in Business Leadership (University of South Africa)
- Baccalaureus of Science Honours with specialisation in Applied Science: Water Utilisation (University of Pretoria)
- MPhil in Management Coaching (University of Stellenbosch)
- Senior Executive Programme (Harvard Business School)

STRATEGIC OVERVIEW

Vision

To be the leading provider of quality water services in South Africa

Mission

Magalies Water Board provides (bulk) water services to water services authorities, water services institutions and other users to positively impact the quality of life and economic growth for communities in our areas of operation.

Strategic Intent

To meet its mandate of sustainable water provision, which will be achieved through reliable provision of quality water services and contribution to the socio-economic development in the service areas.

Core Values

Magalies Water is guided by its values, which are anchor points to establish how it approaches its activities, and how staff relate to each other and to stakeholders.

Integrity - We do what we say we are going to do - ALWAYS!

Service quality - We endeavour to meet customer requirements in all that we do.

Competence - We deliver services with high level of professionalism.

Eco-efficiency - Our practices reflect our care for the natural environment.

Good corporate citizenship - We strive for the development of a sustainable economy and the wellbeing of our community.

Cultural Behaviours

Magalies Water relies on the commitment and dedication of each of its staff members to fulfil its vision and mission. This entity aspires to be both a leader in the delivery of quality services and employer of choice.

Development and retention of the best human capital are at the core of the Magalies Water strategy and underscore the worth it places on its most valuable asset – its people. An extensive exercise is underway to revive the spirit inherent in the organisational values to re-imagine the Magalies Water of the future, in which personnel thrive and excel in their areas of operation. During the management strategy workshop, staff members provided input on cultural behaviours that should be typical of Magalies Water, and a combination of novel and existing key themes emerged, as highlighted in Figure 1 below.

THEMATIC CORE VALUES OF THE MAGALIES WATER OF THE FUTURE

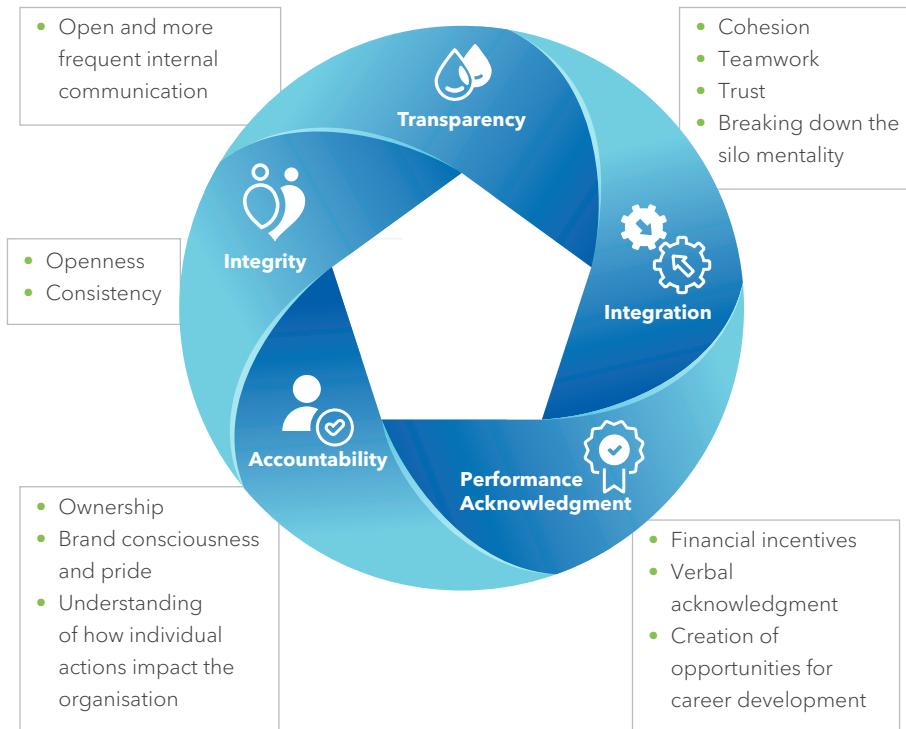


Figure 1: Turn the values to culture: Summary of behaviours at Magalies Water

Magalies Water is committed to reviving internal communication mechanisms to foster trust and ensure synergy/coherence between internally and externally disseminated information. The organisation will continue to maintain a responsive, timeous and proactive consumer-centric service approach to excel in customer service. Set standards and performance measures will strategically rebuild the Magalies Water brand, reputation and good standing and, in the medium- to long-term, assist in the expansion of the utility's footprint.

Purpose of the public entity

The mandate of Magalies Water is to provide water services in terms of Section 29 and ensure viable Section 30 initiatives as prescribed in the WSA. The organisation contributes to the socio-economic development within its service areas, as mandated.

Operating principles

Magalies Water is a Schedule 3B: State-owned entity and, as with all businesses operating in the Republic of South Africa, is governed by the country's legislation. Its operations and critical role are grounded in the legislative mandate imposed through the WSA i.e. to ensure that the state complies with Bill of Rights duties enshrined in Chapter 2 of the Constitution.

Overview of business activities

Legally, the Minister of the HSWS is the custodian of water resources, including the dams from which Magalies Water abstracts and channels water to its own water treatment plants for purification before distributing through pipelines to water service authorities and other users (customers).

Primary activities (Section 29)

The primary activity of a water board is to provide water services to other water services institutions within its service area (Section 29). Raw water is obtained through various intermediaries (e.g. dams, mining-associated sources) that are linked to the two major catchments of the Crocodile and the Pienaars rivers.

Magalies Water services span 42 000 km² (see Figure 2) that cuts across the North West, Limpopo and Gauteng provinces.

Magalies Water customers

Magalies Water provides bulk potable water to the following water service authorities, in terms of core customers (Section 29):

Table 18: Magalies Water core customers

| Water service authorities |
|-------------------------------------------|
| Rustenburg Local Municipality |
| Modimolle-Mookgophong Local Municipality |
| Moses Kotane Local Municipality |
| Bela Bela Local Municipality |
| Thabazimbi Local Municipality |
| City of Tshwane Metropolitan Municipality |
| Moretele Local Municipality |

Other (mostly Section 30) major customers receiving bulk water supply and/or direct provisions of water through servitude arrangements and/or non-availability of the local municipality infrastructure include the following:

Table 19: Other major customers

| Customers | Customers |
|--------------------------------------------|-------------------------------------------------|
| Royal Bafokeng Platinum Mine | Pilanesberg Platinum Mine Rhino Andalusite Mine |
| Bakubung Minerals | Royal Bafokeng Administration |
| Carousel Casino | SA Ferrochrome (Pty) Ltd Sun City |
| Cullinan Diamond Mine | Union Section Joint Venture |
| Impala Platinum Mine Northam Platinum Mine | PPC Dwaalboom |
| Siyanda Bakgatla Platinum Mine | Cronimet Chrome Mine |
| Glencore Smelter | |

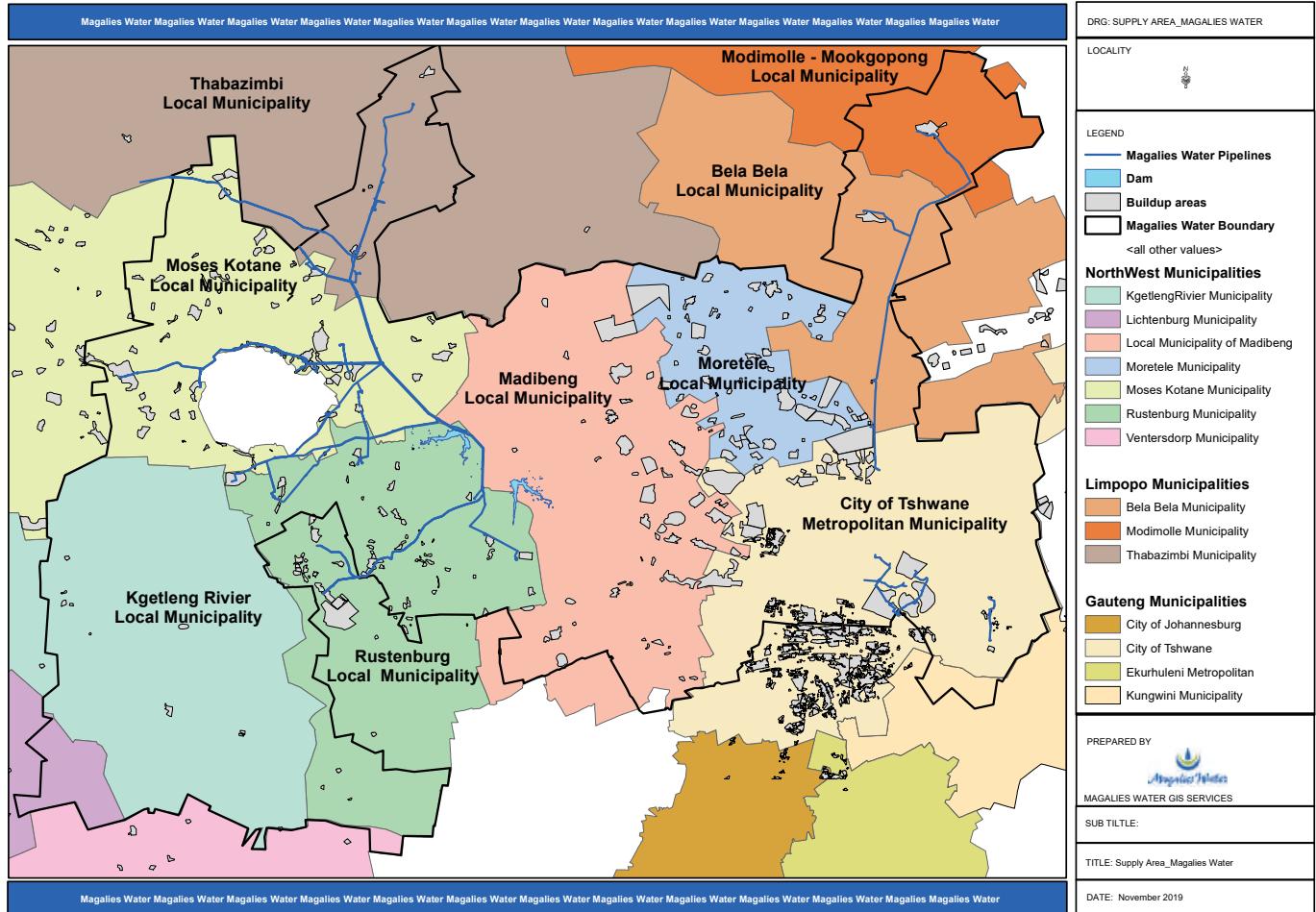


Figure 2: Magalies Water service area map

Section 30 customers

Table 20: Other customers under Section 30

| Water service authorities (Section 30 services) |
|-------------------------------------------------------|
| Moretele Local Municipality |
| Madibeng Local Municipality |
| Kgetlengrivier Local Municipality |
| Department of Human Settlements, Water and Sanitation |
| CoGHSTA North West |

Magalies Water owns and operates the following water treatment plants and associated pipelines:

Vaalkop Water Treatment Plant (VWTP)

VWTP, with a design capacity of 270ML/day, functions on raw water abstracted from the Vaalkop Dam in the Crocodile River catchment surface area. The treated potable water is distributed to the North West and Limpopo provinces.

Klipdrift Water Treatment Plant (KWTP)

KWTP has a design capacity of 42ML/day. The raw water abstracted from the nearby Roodeplaat Dam in the Pienaars River catchment surface runoff areas is treated and then supplied across Limpopo and Gauteng provinces.

Cullinan Water Treatment Plant (CWTP)

CWTP, which has a design capacity of 16ML/day, functions on raw water abstracted from the Bronkhorstspruit Dam in the Pienaars River catchment surface runoff areas. The treated potable water is supplied to Cullinan Diamond Mine and City of Tshwane.

Wallmannsthal Water Treatment Plant (WWTP)

WWTP, which has a design capacity of 12ML/day, with the KWTP, processes raw water abstracted from the Roodeplaat Dam in the Pienaars River catchment's surface runoff areas. WWTP supplies potable water to City of Tshwane and other customers.

Other activities (Section 30)

In partnership with the DWS and/or municipalities, Magalies Water concludes contracts or agreements to perform Section 30 duties, such as being the implementing agency, and as per Ministerial directive.

The organisation performs the secondary activities of optimising the value chain of South Africa's water services business, drawing on experience gained through past and current programmes.

Infrastructure and enabling tools facilitate seamless and compliant services, as follows:

- Infrastructure refurbishment.
- Potable water and wastewater treatment solutions, including consultancy services, treatment, monitoring and operation of potable water and wastewater treatment plants.
- Rapid response on critical interventions required on water and sanitation.
- Water conservation and demand management.
- Operations and maintenance of bulk water supply and bulk sanitation infrastructure.
- Magalies Water Scientific Services: The SANAS 17025 accredited laboratory offering chemical, environmental and microbiological analyses to the water industry.

Environmental scan

Magalies Water continues to assess external and internal factors to determine key risks and opportunities, and capabilities and competencies critical to the company's sustainability and growth. This exercise is useful to management and the Board in rationalising the strategic choices adopted annually and for the five-year planning period.

Through scenarios thinking, Magalies Water must envisage its biggest competition in bulk water supply services. The corporate plan does not provide answers, but the issue remains a company priority.

External environmental analysis

Magalies Water uses the PESTLE (political, economic, social, technological, legal and environmental) approach in the analysis of external environmental conditions and changes. Table 21 breaks down the macro operating environment.



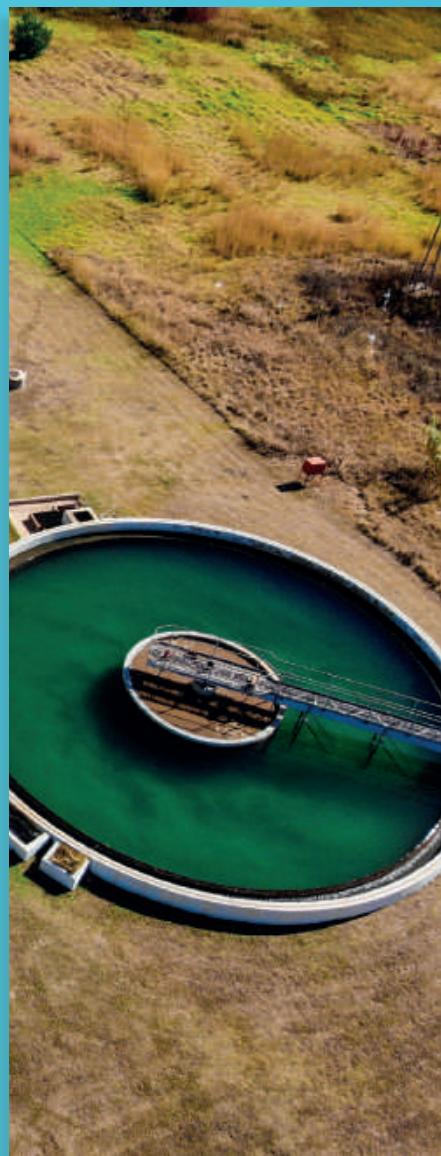
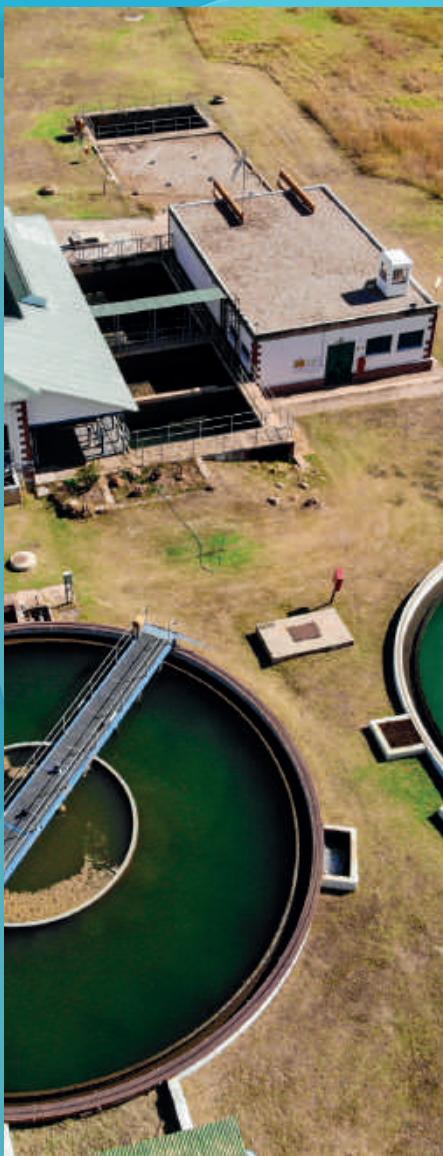
Table 21: Macro operating environment

| Aspect | Key outcome |
|-----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Political | <p>The political landscape, particularly the policy position on institutional reforms and realignment, provides a strategic imperative for Magalies Water to grow. The perception that municipalities' capabilities in water services delivery and operations of water and sanitation infrastructure are, generally, considered highly or extremely vulnerable, provides an opportunity for Magalies Water to grow through providing the necessary (Section 30) interventions.</p> <p>Different proposed approaches to land redistribution (e.g. land grab) call for Magalies Water's vigilance in ensuring that alternative plausible servitudes are necessary for its operations are kept intact/measured in line with growth (expansion) plans.</p> <p>The first two years of this five-year plan will be politically 'chaotic' due to the upcoming elections – election campaigns and the manifestos of the rivals for power tend to be associated with protests highlighting the weaknesses in the water service delivery promises. Magalies Water monitors these situations in its strategic planning.</p> <p>The dynamics in the local government political environment may lead to split-ruling constituencies. Political instability in municipalities poses a serious threat to Magalies Water, so do mineworkers' strikes and subsequent closures' adverse effects to the value chain of the water services industry.</p> <p>The Magalies Water role and its brand are not 'recognised' separately from the role of the municipalities to which it sells water, and this calls for intense marketing of the business and increased awareness that tap water is an easy 'road' to a great life. Magalies Water needs to consider how to engage and operate better with communities in which there may be a number of party political ideologies.</p> <p>The organisation needs to have clearly defined proactive response plans and needs to map its stakeholder segments to uniting everyone under a common service excellence banner.</p> |
| Economic | <p>South Africa weathers economic storms of varying intensity and went through an immensely difficult time during the first cycle of Magalies Water's five-year Business Plan 2018/2019 to Corporate Plan 2021/2022. Constrained economic growth, tight fiscal policies, effects of monetary policy and the recent sovereign credit rating downgrades have already shown their impact. Government may not be able to provide the required funding for the social component of projects. Magalies Water has to explore other areas to improve operational efficiencies (realise cost savings) and drive its growth by establishing itself in rural areas with high unemployment (the inability to pay).</p> <p>A funding mix will be required, including capital contributions by customers, grant funding and borrowings only to the extent of improved cash flows and bankable projects. Net cash flows will, therefore, need improvement to optimise investments within the constraints of the increase in VAT and the exchange rate (Rand volatility) affecting the cost of importing equipment.</p> |
| Social | <p>Changing spatial patterns, economic and population growth in the service areas provide Magalies Water with an opportunity to grow its business. Ongoing infrastructure upgrades address the demand and progressively reach areas that do not have access to water services. Magalies Water takes into account, during the tariff review process, affordability and income levels in the area serviced.</p> <p>The radical economic transformation theme articulated by the President is an opportunity for transformation at Magalies Water, which should give rise to inclusive socio-economic benefits in the targeted areas of operation as well. The current poverty, low-income levels and unemployment, however, continue to threaten the financial sustainability of Magalies Water – inability of consumers to pay for municipal services has a domino effect in the revenue of bulk water services.</p> <p>Further to this, Magalies Water should position itself as the service provider of choice through not only expanding its service footprint, but creating job opportunities and facilitating skills development and youth capacitation initiatives. Corporate social investment (CSI) needs to encourage 'innovation' and research publication-based industry specific views on the changing environment (best practices within and among water services and water boards). Learnership and internship programmes strive to grow the organisation's social licence to operate and expand the economic base of the municipalities in which it has presence. The net effect should improve the unemployment and affordability of rural and informal settlement consumers.</p> |

| Aspect | Key outcome |
|----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Technological | <p>Technology is a business enabler that doubles as a disruptor to most business models, e.g. the 'internet of things'. Globally, the water sector uses big data to optimise business models. Technological advancement requires enhancement of research and development capabilities. Operations must respond to the 'business unusual' model – for example, hackers pose a serious threat to business blueprints.</p> <p>As much as Magalies Water operates in a water scarce landscape, it is set to grow its customer base, raw water sources and spatial footprint. It, therefore, needs to adopt emerging diversification strategic trends. Its strategy growth plan already includes the use of boreholes and groundwater. Ultimately, a mix may be considered of, for example, innovative initiatives such as the zero effluent/zero discharge strategy; the re-engineering of brown water/sanitation water through a closed cycle process similar to Israel's greening or water reuse; desalination that may reduce fresh raw water use; and energy-efficient technologies to generate power from wastewater to lower the costs of production and increase competitiveness.</p> |
| Legal | <p>The current review of water sector legislation provides an environment conducive to business growth. Magalies Water will need to prepare for the DWS institutional reform and realignment processes.</p> <p>Furthermore, the department's establishment of an independent regulator for water and a national water infrastructure agency may change its interaction with the water boards, particularly the benefits associated with Section 30.</p> <p>These factors are debated and monitored to strengthen Magalies Water's business framework. Ministerial deployments are also keenly watched.</p> |
| Environmental | <p>Global warming and climate change require adaptation strategies as they have an adverse impact on hydrological systems. Groundwater diminishes faster than it can be naturally replenished, leading to surface water scarcity, a key business disruptor in the water-food-energy nexus.</p> <p>In keeping with Magalies Water's vision to be the leader in the delivery of bulk water services in the country, expansion of service plans must not add pressure to natural ecological systems.</p> <p>To understand human factors in the catchment areas, research and development efforts will include innovative technologies for the laboratories. Emerging 'strains' of contaminants from the pharmaceutical industry and other ecological disruptors may need smarter detection techniques.</p> <p>Magalies Water activities that could contribute negatively to the carbon footprint or potentially be legally constrained due to the surrounding natural environment's protection requirements fall within the organisation's eco-efficiency and -friendly values and present opportunities for initiatives based on water sources in closed mines and the 'raw' polluted water from disused mining facilities.</p> <p>In addition, critical environmental management threats arise from:</p> <ul style="list-style-type: none"> • Municipalities with weak internal control to deal with the quality of wastewater released to the environment, which increases Magalies Water's production costs. These could be addressed through partnerships that could redirect polluted water feedstock to electricity generation, ultimately driving tariffs down; and • Emerging trends in severe climatic conditions, including droughts and floods, which potentially cripple any water board's business continuity and are difficult to tackle. This encourages the organisation to work innovatively with other parties to detect and reduce water losses. |

PART B

BUSINESS MODEL AND PERFORMANCE INFORMATION



REPORT PROFILE

The business model of Magalies Water is anchored in the five-year Corporate Plan 2019/20 to 2023/24, which has evolved since the 2013/14 financial year. Depicted in Figure 3 are Magalies Water milestones over the years that have grown the business's primary and secondary activities and built the value proposition. The highlighted strategic progression was measured against a corporate planning cycle.

Magalies Water has evolved over the years, with synergies created between performance and business continuity. This annual report presents the journey from 2013/14 to 2019/20, including performance excellence, with challenges, which provided a baseline and reference points for the corporate plan.

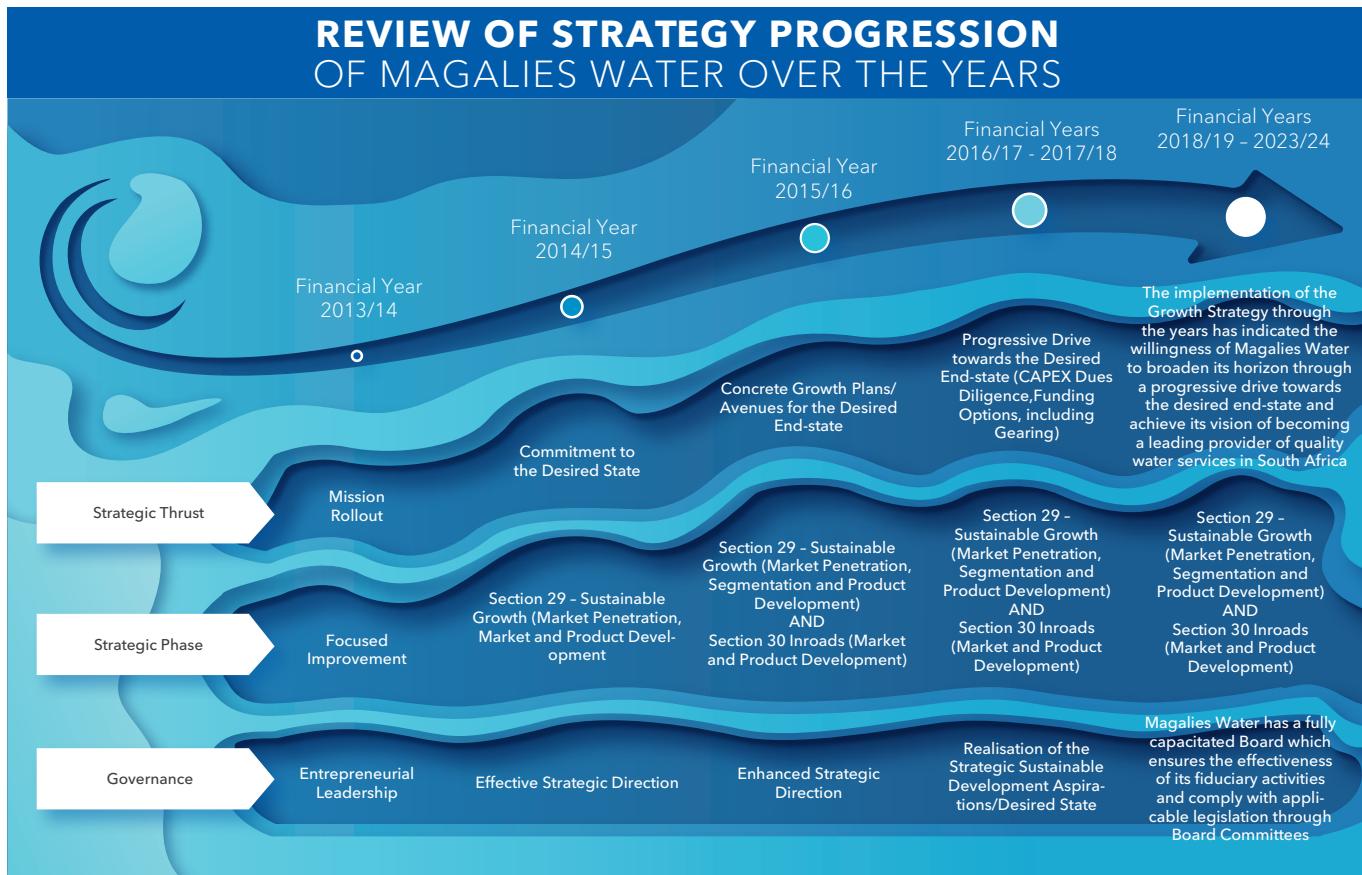


Figure 3: Magalies Water strategic progression and milestones over the years

Internal environmental analysis

The key outcomes of the internal environmental analysis, which was performed through a 7S framework, are as follows:

Table 22: The micro-environment

| Aspect | Key outcome |
|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Strategy | The organisational strategy is designed and the trajectory is well defined. Funding to implement capital expansions remains a key weakness to implementation of strategy. |
| Structure | The organisational structure is well designed for effective delivery of the primary core function of Magalies Water, being bulk potable water services delivery. Ability to deliver on secondary activities needs to be enhanced. |
| Skills | Provision of quality water services, including prodigious treatment and water supply, remains the core competence of Magalies Water. This competence needs to be enhanced for sustainable delivery of the mandate. This can be achieved through skills development initiatives linked directly to the primary mandate. |
| Style | Magalies Water's organisational style is geared to creating a learning organisation. This should be further defined considering the growth of infrastructure and complexity of operations to shape core competencies and distinct capabilities. |
| Staff | Institutional memory of the organisation still lies with the younger generation. Women representation and employment of people with disabilities need to be improved to advance employment equity. |
| Systems | Magalies Water has implemented an integration system across the entire business value chain. Continuous improvements are needed through automation of some critical business processes. Certain water treatment systems are not sufficiently resilient to treat the poor-quality input raw water from the abstraction sources. Treatment processes need to be continuously optimised. |
| Superordinate goals | Organisational goals have been developed that encompass all the above areas. Those goals are embedded throughout the organisation through performance contracting to align individual performance to that of the organisation. |



Processes and workflow

The diagram below (Figure 4) is a demonstration of Magalies Water processes and workflows for the next five years.



Figure 4: Processes and workflows

Enterprise enablers: This capability is responsible for management of supply chain, information technology and business systems, human resource management, management of finances and funding.

Enterprise managers: This capability supports the entire business, in terms of enterprise-wide risk management, strategy and business development, including setting appropriate parameters within agreed appetites. This capability also has a duty to safeguard the interests of the shareholder through policy execution and governance.

Enterprise operations: This capability is the operational core of Magalies Water, comprising operations and maintenance of bulk infrastructure in abstraction, treatment and conveyance of potable water through the distribution system to customers (Section 29). This also includes operations of customer-owned infrastructure in carrying out secondary activities (Section 30).

Board of Directors: Is an independent governing body comprising of elected individuals that represent shareholders. The board's key purpose "is to ensure the company's prosperity by collectively directing the company's affairs, while meeting the appropriate interests of its shareholders and relevant stakeholders" (Standards for Board, IoDSA). Principle 7 of King IV was carefully constructed to indicate that optimal board composition required a balance to be struck between knowledge, skills, experience, diversity and independence.

The Magalies Water policy statement encompasses established policies that ultimately support the abovementioned processes and workflows. These include:

- Asset Management Policy
- Borrowing Policy
- Human resources management policies (leave, overtime etc)
- Investment Policy
- Performance Management and Rewards Policy
- Long Service reward Policy
- Revenue and Receivables Policy
- Risk Management Policy and Risk Management Framework
- Safety, Health and Environment Policy
- Supply Chain Management Policy

The corporate plan is designed to enable continuous improvement activities (e.g. growth plans) to be identified and implemented annually (Shareholder Compact) across all key processes and workflows over the next five years.

Key performance areas

Magalies Water will continue to focus on the following key performance areas:

- Bulk potable water quality compliance
- Management of water losses
- Reliability of supply
- Financial sustainability
- Efficiency of capital expenditure
- Avoidance of reportable safety, health and environmental incidents

- Appropriate support for public policy: Rural development, broad-based black economic empowerment (BBBEE), skills development and job creation.

The diagram/illustration below consolidates Magalies Water's strategic objectives and the number of key performance indicators (KPIs) per perspective. In total, Magalies Water contracted 41 KPIs for the financial year 2019/20.

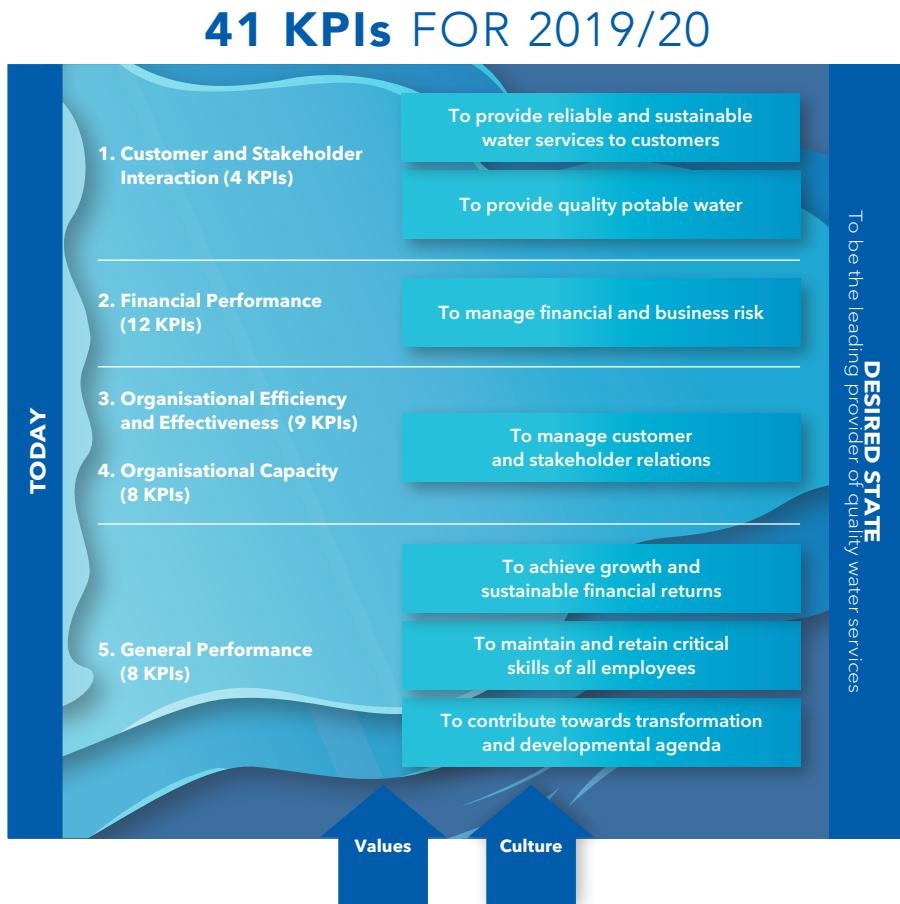


Figure 5: Magalies Water Strategic Objectives and Performance Perspectives

Table 23: Key performance indicators and overall performance

| Performance Expectation | Achieved | Not Achieved |
|-----------------------------------|----------|--------------|
| Number of KPIs | 38 | 3 |
| Percentage of overall performance | 93% | 7% |

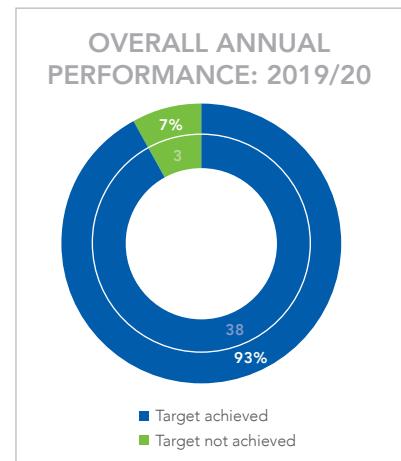


Figure 6: 2019/20 overall performance at end-June 2020

The table below provides details of the non-financial key performance indicators' status for annual performance for the achieved targets and the non-achieved targets.

Key:  Achieved  Not achieved

Table 24: Organisational efficiency and effectiveness against predetermined objectives

| Strategic objective | KPI | Annual target | Year-to-date actual performance | Reasons for non-/over-achievement and corrective actions |
|------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|-----------------------------|---------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| To provide quality potable water | Test results, SANS 241 | Compliance to SANS 241:2015 | | |
| | | Acute health 1 ≥ 97% | 99.91% |  Disinfection efficiency improved at all water treatment plants |
| | | Acute health 2 ≥ 97% | 100% |  Disinfection efficiency improved at all water treatment plants |
| | | Chronic health ≥ 95% | 99.58% |  There was an improvement in raw water quality on chronic determinants |
| | | Aesthetic ≥ 93% | 98.56% |  Water treatment processes and chemical dosing were optimised |
| To provide reliable and sustainable water services to customers | Avoidable water lost as a percentage of water produced at plants | Plants: ≤5% | 3.77% |  Recycling of supernatant took place at all plants |
| | Avoidable water lost as a percentage of water produced at distribution | Distribution: ≤7% | 1.24% |  Pipe breaks and leaks were identified and repaired on time |
| | Number of incidents of continuous service interruption exceeding 48 hours | ≤6 incidents | 1 |  Plant downtimes were within the limit due to completion of maintenance work within planned scheduled times |
| | Actual capital expenditure spend on expansion-related projects (initiatives by the Minister as % of budget) | 100% | 100% |  Target achieved. Water tankering budget spent as per directive issued to Magalies Water |

Table 25: Customer and stakeholder interaction against predetermined objectives

| Strategic objective | KPI | Annual target | Year-to-date actual performance | Reasons for non-/over-achievement and corrective actions |
|-----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| To manage customer and stakeholder relations | Municipalities/other customers with bulk supply agreements NB: This pertains to the 'Statutory and service level agreements in place' outcome/impact (balanced scorecard agreements) | 80% | 93% |  Target exceeded Over-achievement due to more interaction with municipalities and improved response to queries |
| | Progress against implementation plan. This pertains to the 'New Ministerial directives issued are implemented on time' outcome/impact. | 100% | 100% |  Target achieved Magalies Water implemented directive on intervention in Madibeng Local Municipality water and sanitation challenges as issued by the Minister |
| | Signed contracts, MoUs etc. This pertains to the 'Total number of identified municipalities supported' outcome/impact | 1 | 4 |  Q1- The offtake agreement signed with Rustenburg for more water to extend the local municipality's services to Pilanesberg and the additional MoU that was signed with the provincial authority |
| | % submission dates met | 100% | 100% |  Target achieved All submissions for the financial year met |

Detailed financial performance information

Below is detailed financial performance information as per the KPIs

Table 26: Financial performance against predetermined objectives

| Strategic objective | KPI | Annual target | Year-to-date actual performance | Reasons for non-/over-achievement and corrective actions |
|-----------------------------------------------------|------------------------------------------|----------------|---------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| To manage financial and business risks | Annual external audit | Unqualified | Unqualified |  Target achieved |
| To achieve growth and sustainable financial returns | Current ratio | 1.7:1 | 1.9:2 |  Target achieved Increase in current assets higher than current liabilities, hence the positive variance |
| | Gross profit margin % (primary activity) | 34% | 39% |  Savings in direct operating expense |
| | Gross profit margin (secondary activity) | Not contracted | | |
| | Net profit margin (primary activity) | 15% | 15% |  Target achieved |
| | Net profit margin (secondary activity) | Not contracted | | |
| | Debt/equity | ≤22% | 0% |  Target achieved Magalies Water is still applying for borrowing limit. No debt has been incurred |
| | Return on assets | 3% | 3% |  Target achieved |
| | Average debtors days | 50 days | 85 days | Target not achieved. The target was not achieved due to most Municipalities defaulting on the payment arrangements, resulting in an increase in the debt book. Several engagements were held with the Municipalities during the financial year to discuss and agree on a payment plan. Some municipalities have committed and signed payment agreement but did not honor the arrangement. The situation was worsened by the impact of COVID-19, whereby the debtor's collection significantly reduced. Some of the collection control measures such as water supply restrictions could not be implemented to defaulting customer during lock down period. |
| | | | | |

| Strategic objective | KPI | Annual target | Year-to-date actual performance | Reasons for non-/over-achievement and corrective actions | |
|------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|----------------|---------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|
| To achieve growth and sustainable financial returns (continued) | Repairs and maintenance as a % of property, plant and equipment and investment property (carrying value) | 1% | 1.45% |  Maintenance orders issued in the previous quarter were completed in Q4, resulting in a higher maintenance cost for Q4. | |
| | Staff remuneration as a % of total operational expenditure | ≤34% | 34% |  Actual in line with target performance | |
| To contribute towards transformation and developmental agenda | Spend | ≥30% | 39.44% |  Target achieved | |
| | New entrants (BBBEE) | 8 | 8 |  Target achieved | |
| | Actual expenditure compared with budgeted expenditure for the quarter (% increase per financial report) | Not contracted | | | |
| | Actual capital expenditure spend on expansion-related projects as % of total capital expenditure budget | ≥90% | 103% |  Target exceeded | Continuous monitoring of the contract schedule through team effort attributed to the target being exceeded. |
| | Overall project completion dates within targets | Not contracted | | | |
| | Overall project expenditure within R target | Not contracted | | | |
| | Percentage of total turnover | Not contracted | | | |

GOVERNANCE

Board and Committee meetings

The Board of Magalies Water drives corporate governance principles across the organisation. Board members have designated portfolio responsibilities reflecting particular strategic priorities. The table below shows Board meetings for Q4.

Table 27: Board meetings: Q4: 2019/20

| Board meetings | Board meetings directed: DWS policy regarding Board practices and the remuneration of Board (members) | Scheduled meetings for the quarter | Special meetings scheduled for the quarter | Total number of meetings held | Board member attendance of Board meetings | Ministerial approval (where required) |
|------------------------------|-------------------------------------------------------------------------------------------------------|---------------------------------------------------|--------------------------------------------|-------------------------------------|-------------------------------------------|---------------------------------------|
| Board and committee meetings | n/a | 7 out of 8 planned as per the Shareholder Compact | 0 | 7 | 10 out of 10 achieved | Not required |
| Attendance of Board members | n/a | 37 attendance out of 37 invitations | n/a | 37 attendance out of 37 invitations | (37/37)*100 = 100%, thus 100% performance | Not required |



Reporting on governance activities

The DWS's prescribed format for Table 28 on governance is similar to the previous table design. Due to the option to populate as per Shareholder Compact and Corporate Plan specific to each entity, Magalies Water's below reported information is in an adapted format.

Table 28: General perspective against predetermined objectives

| Strategic objective | KPI | Annual target | Year-to-date actual performance | Reasons for non-/over-achievement and corrective actions |
|----------------------------------------------|--------------------------------------------------------------------------------------------|---------------|---------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| To manage customer and stakeholder relations | Board member attendance of all Board/committee meetings | 85% | 95.25% |  Target exceeded |
| | Board and committee meetings held | 32 | 44 |  Target achieved The annual target for number of meetings was exceeded by 12 (year-to-date Q1: 15 + Q2: 12 + Q3: 10 + Q4: 7 = 44) |
| | Decision-making: % number resolutions taken by the Board vs number of resolutions required | 100% | 100% |  Target achieved |
| To manage financial and business risks | Number of repeat and unresolved internal audit findings | Repeat ≤2 | 5 | Target not achieved All repeat findings are related to debtors and were captured accordingly. A follow-up audit will be conducted to determine the implementation of agreed management corrective action |
| | | Unresolved ≤5 | 5 |  Target achieved |
| | Breaches of Materiality and Significance Framework | 0 | 0 | Target achieved No material misstatements nor errors were identified during the period under review. Policies and procedures were implemented to ensure compliance with internal processes |
| To manage customer and stakeholder relations | % compliance with the Stakeholder Engagement Plan | 80% | 124.75% |  Target exceeded Stakeholder engagement is more robust and focused on building a solid relationship with stakeholders |

ORGANISATIONAL CAPACITY: EMPLOYMENT REPORT

This section can be read with the Corporate Services Division's detailed reporting on the 2019/20 achievements.

Table 29: Organisational capacity performance against predetermined objectives

| Strategic objective | KPI | Annual target | Year-to-date actual performance | Reasons for non-/over-achievement and corrective actions |
|------------------------------------------------|----------------|---------------|---------------------------------|---------------------------------------------------------------------------------------------------|
| To maintain and retain skills of all employees | Staff turnover | ≤3% | 2.91 |  Target achieved |

Note: The Shareholder Compact breaks down reporting quarterly, yet this KPI can credibly be measured only at the end of each financial year. Quarterly reports are for compliance tracking and monitoring.

Table 30: Organisational capacity performance against predetermined objectives

| Strategic objective | KPI | Annual target | Year-to-date actual performance | Reasons for non-/over-achievement and corrective actions |
|---------------------------------------------------------------|-----------------------------------------------------|---------------|---------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| To contribute towards transformation and developmental agenda | Learnerships | 25 | 27 |  Target achieved |
| | Internships | 10 | 13 |  Target achieved |
| | Number of external bursaries awarded (annual cycle) | 5 | 13 |  Target achieved |
| | Bursaries for employees | 40 | 57 |  Target achieved Magalies Water provides study opportunities to staff |
| | Graduate programmes | 4 | 4 |  Target achieved |
| | Total number (direct) | 5 | 3 |  Target not achieved The target was not achieved due to most Municipalities defaulting on the payment arrangements, resulting in an increase in the debt book. Several engagements were held with the Municipalities during the financial year to discuss and agree on a payment plan. Some municipalities have committed and signed payment agreement but did not honor the arrangement. The situation was worsened by the impact of COVID-19, whereby the debtor's collection significantly reduced. Some of the collection control measures such as water supply restrictions could not be implemented to defaulting customer during lock down period. |
| | Total number (indirect) | 40 | 227 |  Target achieved |

CORPORATE SOCIAL INVESTMENT

In line with its corporate plan under the strategic objective of being "a responsible and contributing corporate citizen", Magalies Water undertakes CSI projects which aim at addressing basic service delivery within its area of supply.

Table 31: General performance perspective: CSI

| Strategic objective | KPI | Annual target | Year-to-date actual performance | Reasons for non-/over-achievement and corrective actions |
|---------------------------------------------------------------|----------------------------------|---------------|---------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| To contribute towards transformation and developmental agenda | Number of initiatives undertaken | 3 | 4 | Target exceeded City of Tshwane: Refurbishment of ablution facility at Hosea Kekana Secondary School completed during Q2. Two projects completed during Q3: Moretele Local Municipality Ga-Mocha School project and Modimolle Local Municipality house connections sewer line. Q4: Thabazimbi Municipality drilling and equipping of boreholes |

Table 32: Recovery plans for non-achieved KPIs (organisational efficiency and effectiveness against predetermined objectives)

| KPI | Reasons for non-achievement | Planned corrective measures to be implemented |
|------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Average debtors days | Covid-19 and implementation of lockdown had significant impact on collection during the last quarter. Most customers defaulted on the payment arrangement, which increased the debtors balance. | Payment agreements are signed with the municipalities to ensure that there is commitment to pay the outstanding balance when they receive equitable share. Monthly follow-ups are done to remind the municipalities of the amount due. |
| Number of repeat internal audit findings | All repeat findings are related to debtors and have been captured accordingly. | A follow-up audit will be conducted to determine the implementation of agreed management corrective action. |
| Total direct employment | The Covid-19 lockdown halted operations. | To be concluded in the first quarter of new financial year. |



High school educational plant tour - Vaalkop Stakeholder engagement - Vaalkop



▲ Stakeholder engagement - Vaalkop WTP ▲ Young Water Professionals Expo - Durban ICC



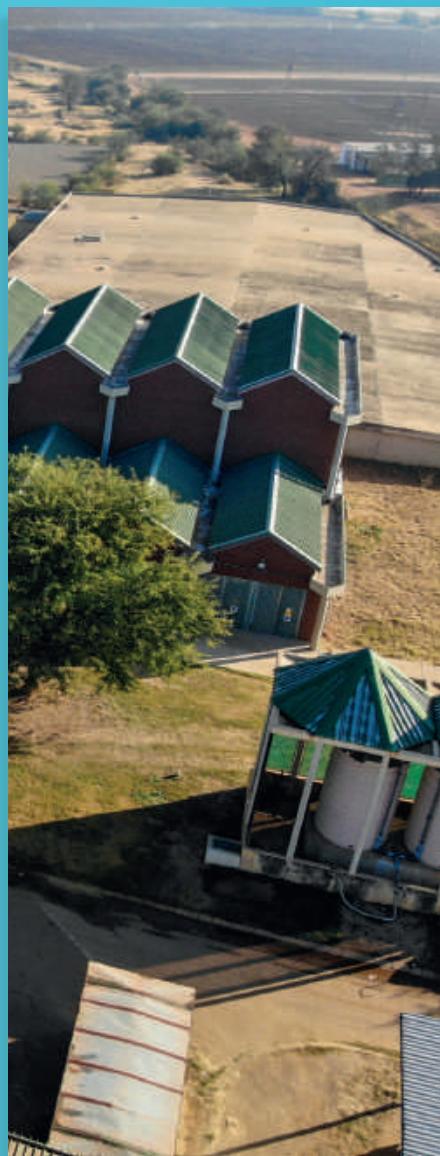
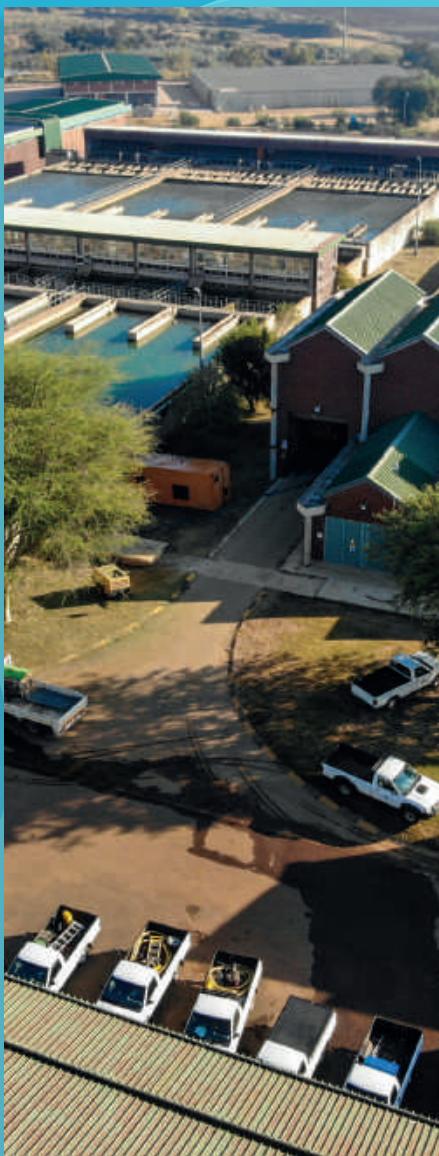
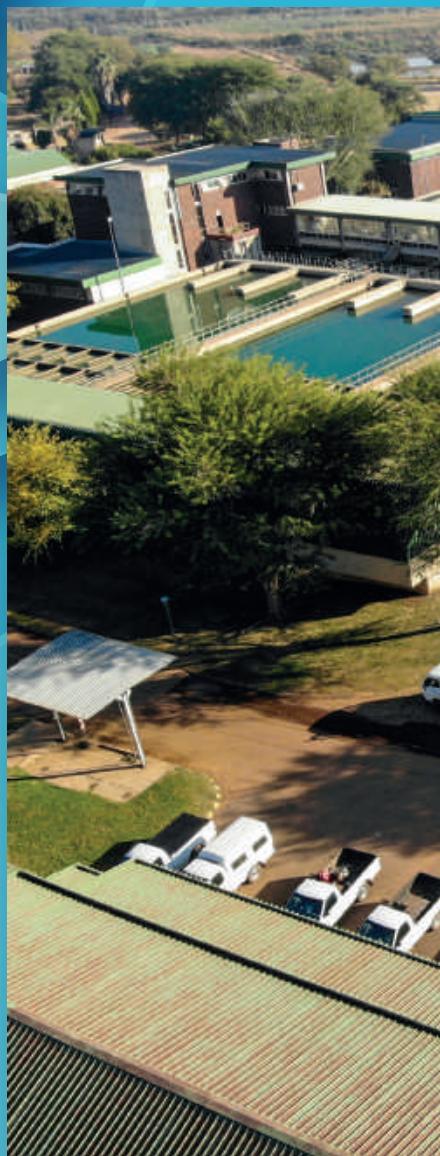
Board plant tour - Brits Scientific Laboratory Stakeholder engagement - Brits and Vaalkop WTP Mayoral Matric Awards - Bela Bela



▲ Board plant tour - Brits Lab & Cullinan WTW ▲ Deputy Minister, David Mahlobo, oversight visit - Vaalkop ▲ Mayoral Matric Awards - Bela Bela
▲ Handover of water tanks - Bela Bela

PART C

GENERAL PERFORMANCE AND ASSURANCE



GENERAL PERFORMANCE AND ASSURANCE

The Office of the Chief Executive

The Office of the Chief Executive (CE) includes the Company Secretary, Enterprise Risk Management, Finance Division, Internal Audit, Strategy Management Department, Corporate Services Division and Stakeholder and Customer Services Division.

Internal audit

Magalies Water's Internal Audit Department provides an independent, objective assurance and consulting activity designed to add value to and improve Magalies Water's operations. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Fraud and corruption

Magalies Water supports and fosters a culture of zero tolerance for concealment of fraudulent, corrupt and illegal acts, whether internal or external to the organisation. All allegations of fraud and corruption are investigated fairly and transparently, and appropriate actions are instituted against wrongdoers. Furthermore, employees of Magalies Water who do not comply with the organisation's code of business conduct and ethics face disciplinary action, including dismissal.

The reporting of suspected cases is handled through the independently hosted hotline administrators and other

internal arrangements for walk-ins. Magalies Water views whistleblowers as crucial in the detection and prevention of fraud and dishonest behaviour. The outsourcing decision enabled compliance with the provisions of the Protected Disclosures Act (Act No 26 of 2000) for whistleblowers and whistleblowing processes. As an SOE, Magalies Water acknowledges and commits to its duty to protect fraud and corruption whistleblowers.

Enterprise risk management

Magalies Water has a dedicated risk management function based in the Office of the Chief Executive. It coordinates and supports the overall organisational risk management process, which includes business continuity, fraud, corruption, related whistleblowing services and compliance management.

The organisation has an approved risk management framework, policy and strategy that guide the risk management process. It also has an effective Risk Committee of the Board, which provides oversight on risk and the organisation's control environment. The Audit Committee provides independent oversight on the adequacy and effectiveness of the risk management process.

The organisation's approach to risk management is based on established governance processes that rely on both individual responsibility and collective oversight, supported by comprehensive reporting. As acknowledgement of the complex and changing risk environment, continuous risk assessments are conducted to identify emerging risks that could have a negative impact on realisation of organisational goals.

Risk management (including Treasury risks)

Magalies Water had adopted an enterprise-wide approach to risk management. Risk assessments were continuously conducted during 2019/20 financial year to identify and manage potential risks that may negatively impact the achievement of the strategic and operational objectives of the organisation.

Table 33 depicts Magalies Water's strategic risks for the year ended 30 June 2020.

Table 33: Strategic risks

| No | Strategic objective | Description of risk | Residual risk | | | Root causes | Mitigation measures | Implementation progress at Q4 of the 2019/20 financial year |
|----|-----------------------------------------|-------------------------------------------|---------------|----------|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | | Likelihood | Impact | Risk exposure | | | |
| 1. | To achieve growth and financial returns | Inability to collect debt due effectively | Common | Critical | Critical | <ul style="list-style-type: none"> Customers not paying on time Delays by water services in resolving customer queries Non-billing of new customers Delays in payments by Department of Water and Sanitation Delays in payments by Section 30 customers | <p><u>Ensure effective implementation of the debt recovery strategy</u></p> <p><u>Section 30 customers</u></p> <ul style="list-style-type: none"> Send monthly invoices After 60 days, a reminder is issued to a customer on the outstanding debt After 90 days, the matter is referred to legal for collection Activate the withdrawal of services for Section 30 customers after engagements <p><u>Small customers</u></p> <ul style="list-style-type: none"> Implement water restriction after 90 days of non-payment Refer non-payment cases to legal for collection Charge penalty fee for reconnection <p><u>Bulk consumers</u></p> <ul style="list-style-type: none"> Chief Financial Officer follows up telephonically (monthly) with the municipalities to remind them of the outstanding debt Reduce water supply when there is no payment After 90 days of non-payment, a payment agreement should be entered into with the municipalities | <p><u>Section 30 customers</u></p> <ul style="list-style-type: none"> Section 30 customers were sent copies of invoices monthly. Follow-ups and reminders are done with these customers and they are currently referred to the debt collector. This includes laboratory analysis During Q4, Magalies Water could not implement water restrictions due to Covid-19 regulations <p><u>Small customers</u></p> <ul style="list-style-type: none"> Monthly restrictions for small customers over 90 days were concluded Customers with no payment arrangement have been referred to legal for collection A penalty fee is charged for reconnection Thirty-four summons were issued to long-outstanding debtors <p><u>Bulk consumers</u></p> <ul style="list-style-type: none"> Telephonic communication was undertaken with the municipalities and payment plans prepared for those that have defaulted. Other municipalities committed to pay outstanding accounts on receipt of equitable shares in July 2020 |

| No | Strategic objective | Description of risk | Residual risk | | | Root causes | Mitigation measures | Implementation progress at Q4 of the 2019/20 financial year |
|----|------------------------------------------------------|-------------------------------------|---------------|--------|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | | Likelihood | Impact | Risk exposure | | | |
| 2. | To provide quality potable water (raw water sources) | Deterioration of raw water quality. | Likely | Major | High | <ul style="list-style-type: none"> Droughts and floods. Water pollution – effluent Over-abstraction of natural resources | <p>Monitor and report on raw water quality</p> <p>Continuous engagement with DWS to ensure control upstream of abstraction</p> | <p>Monitoring and reporting of raw water quality is ongoing:</p> <ul style="list-style-type: none"> Vaalkop WTP is experiencing high microbial load, algae and chlorophyll Cullinan WTP is experiencing elevated levels of manganese and microbial contaminants. Research on the use of ferrate for the removal of manganese from Cullinan WTP is underway. Research and Development Department is fabricating a ferrate generator for pilot trials Wallmannsthal WTP is experiencing turbidity during rainfall, algae and ammonia from Roodeplaat Dam. Research is underway on ammonia removal using thermally activated cryptocrystalline magnesite Klipdrift WTP has turbidity and algae <p>DWS and stakeholder engagement and response:</p> <ul style="list-style-type: none"> Meetings were held with North West integrated regional water monitoring forum, Bronkhorstspruit catchment forum, Moreletaspruit catchment forum and DWS Gauteng and Mpumalanga regions. Water quality issues were highlighted |

| No | Strategic objective | Description of risk | Residual risk | | | Root causes | Mitigation measures | Implementation progress at Q4 of the 2019/20 financial year |
|----|------------------------------------------------------|-------------------------------------------------------------------|---------------|----------|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | | Likelihood | Impact | Risk exposure | | | |
| 3. | To achieve growth and sustainable financial returns | Insufficient financial resources to sustain and grow the business | Likely | Major | High | <ul style="list-style-type: none"> Capital expenditure budget not sufficient to ensure all planned projects are executed timeously Inadequate debt collection Non-adherence to cost containment measures | Conclude the application for borrowing limits with National Treasury and approach lenders for borrowing subsequent to National Treasury's approval Implementation of the debt collection policy/strategy - issuing of restriction letters, analysis and reconciliation of debts and reporting Robustness of cash flow management and reporting Investigate new revenue generation streams Develop the Magalies Water cost containment strategy as per National Treasury framework | Application was made for a borrowing limit and National Treasury approval is awaited Implementation of debt collection strategy is in progress. See risk 1. Cash flow reports are prepared on a weekly basis to monitor the cash balance Projects have been identified as growth strategies and will be implemented as soon as funding is available Supply Chain Management Policy is currently under review and will assist with cost containment |
| 4. | To provide quality potable water (raw water sources) | Insufficient raw water quantity | Likely | Moderate | Moderate | <ul style="list-style-type: none"> Low dam levels Infrastructure failure Augmentation system restriction or failure Dependency on infrastructure owned by external parties Raw water dam leaks Over-abstraction of raw water Droughts and floods Water pollution Inadequate maintenance of raw water infrastructure | Vaalkop raw water system Magalies Water to take over operations and maintenance of canal – DWS Maintain flow into the canal by controlling algal growth Prevent blockages by regular cleaning of canal Daily monitoring of canal flow in dam Cullinan raw water system Take over raw water supply system from Cullinan Diamond Mine (CDM) Repair raw water dam leak at Cullinan WTP Restore raw water supply system after flood damage | Vaalkop raw water system Engagements with DWS are ongoing. A costed operations and maintenance proposal has been submitted to DWS and feedback is awaited Additional application of herbicide will be administered to the dam by DWS when algal growth is significant Another round of cleaning of the canal by DWS is planned for July 2020 to improve flow rate into the dam Vaalkop: Dam level is 92.9% and increased due to rain in last quarter Application for raw water abstraction volume is in progress with DWS and has been fast tracked after a meeting with the department Cullinan raw water system Take over Wilge Dam raw water supply system: CDM. The General Manager reported that the issue was escalated to his executives. No progress in Q4 |

| No | Strategic objective | Description of risk | Residual risk | | | Root causes | Mitigation measures | Implementation progress at Q4 of the 2019/20 financial year |
|----|----------------------------------------------------------------|---------------------------------|---------------|----------|-----------------|-------------|---------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | | Likelihood | Impact | Risk exposure | | | |
| 4. | To provide quality potable water (raw water sources) continued | Insufficient raw water quantity | Possible | Moderate | Moderate | | | <p>Repair of leak at dam. Process has stalled, as the dam needs to be cleaned and sealed first. Culinan Diamond Mine (CDM) indicated that costs to dredge and seal are too high and, therefore, work stopped. Options for Magalies Water and CDM to jointly fund this project were explored, but stalled due to supply chain management issues</p> <p>Permanent solution: Feasibility study and financial evaluation complete. Option to construct a new pump station on the opposite side of river selected. CDM currently undertaking environmental studies and WULA. Construction planned to start in February 2021, with commissioning in June/July 2021.</p> <p><u>Temporary solution:</u></p> <ul style="list-style-type: none"> • Five pumps installed and operational • CDM advised that it has submitted a claim to insurers to stabilise bank on which submersible pumps and pipeline are mounted. Response awaited. • Water supply challenges experienced if any pump is removed for a week or more |

| No | Strategic objective | Description of risk | Residual risk | | | Root causes | Mitigation measures | Implementation progress at Q4 of the 2019/20 financial year |
|----|----------------------------------------|---------------------------------|---------------|----------|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | | Likelihood | Impact | Risk exposure | | | |
| 5. | To manage financial and business risks | Security breaches and incidents | Possible | Moderate | Moderate | <ul style="list-style-type: none"> * Lack of security procedures • Lack of management of security personnel • Inadequate access control measures and monitoring • Inadequate security systems and management • Lack of security training and awareness | <p>Enforce compliance to security measures and report non-compliance to managers for corrective actions</p> <p>Follow-up on the implementation of recommendations on security risks assessment report</p> <p>Finalise fencing for Klipdrift, Wallmannsthal and Cullinan</p> <p>Install Biometric access control at all Magalies Water areas</p> <p>Identification cards for all employees</p> <p>Improve management of security contractors</p> <p>Conduct safety and security awareness campaign</p> | <p>Non-compliance to security measures is addressed through monthly action plans submitted to line managers to address identified actions monthly. Non-compliances are also addressed through quarterly Safety, Health and Environment Committee meetings</p> <p>Follow-ups on security risk assessment are conducted monthly through action plans submitted to line managers and quarterly Safety, Health and Environment Committee meetings</p> <p>Fencing at Klipdrift has been partially completed and is planned to be finalised in 2020/21 FY. Fencing has been completed at Wallmannsthal and will be completed at Cullinan before the end of 2020/21. Electric fence has been installed at head office and at Brits laboratory</p> <p>A tender advert was planned, but the matter was put on hold to assess the impact of the Covid-19 pandemic.</p> <p>Printing of employee access card will be ongoing</p> <p>Security service provider monitored daily, weekly and monthly. Planned quarterly meeting for Q4 could not take place due to unavailability of members and the meeting was rescheduled for August 2020</p> <p>No security awareness conducted in Q4. Awareness will be conducted through monthly newsletter to avoid employee gatherings due to Covid-19</p> |

| No | Strategic objective | Description of risk | Residual risk | | | Root causes | Mitigation measures | Implementation progress at Q4 of the 2019/20 financial year |
|----|-----------------------------------------------------------------|------------------------------------|---------------|----------|---------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | | Likelihood | Impact | Risk exposure | | | |
| 6. | To manage customer and stakeholder interactions | Erosion of reputation | Possible | Moderate | Moderate | <ul style="list-style-type: none"> Inadequate stakeholder engagements Lack of communication procedure Ineffective internal and external communication Impact of negative publicity on the business | <p>Holistic implementation of the stakeholder and integrated marketing and communications plans and monitoring</p> <p>Develop, implement and monitor the communication procedure</p> <p><u>Internal stakeholders:</u></p> <ul style="list-style-type: none"> - Quarterly staff information sessions - Setting up of CEO@magalieswater.co.za - Online newsletter <p><u>External:</u></p> <ul style="list-style-type: none"> - Online newsletter - Public relations campaigns - Brand positioning - Social media platforms - Media relations - Implementation of Customer and Stakeholder Engagement Plan <p><u>Conduct issue and crisis management plans/workshops:</u></p> <ul style="list-style-type: none"> - Develop, implement and monitor the media strategy - Develop, implement and monitor the media policy <p>Conduct quarterly and monthly stakeholder engagement meetings as per the Stakeholder Management Plan</p> | <p>Staff information session postponed once more due to Covid-19 and rescheduled to Q2 of 2020/21 FY Communication procedure will be completed in Q1 of 2020/21</p> <p>Media monitoring is done in-house and a service provider will be appointed in Q1 of 2020/21</p> <p>Media policy was developed and awaiting Board approval</p> <p>Crisis communication plan (including issue and crisis management and media training) will be completed in Q1 of 2020/21 and a workshop will be conducted</p> |
| 7 | To provide reliable and sustainable water services to customers | Failure of critical infrastructure | Possible | Moderate | Moderate | <ul style="list-style-type: none"> Ageing infrastructure Delays in project implementation Dependency on infrastructure owned by external parties. Leaking dams. Unreliable electricity supply. | <p>Conclude the borrowing process with National Treasury.</p> <p>Update Bulk Water Infrastructure Master Plan and develop bulk sanitation master plan</p> <p>Ensure the implementation of minor capital expenditure projects</p> <p>Implementation of Bulk Water Infrastructure Master Plan</p> | <p>Refer to risk 2 above</p> <p>Vaalkop WTP is due for upgrade, which will add at least a second sedimentation tank and two filters in plant 4</p> <p>All projects below R500 000 implemented, those over R500 000 handed over to Project Management Unit (PMU)</p> |

| No | Strategic objective | Description of risk | Residual risk | | | Root causes | Mitigation measures | Implementation progress at Q4 of the 2019/20 financial year |
|----|-----------------------------------------------------------------------------|---------------------------------------------------------|---------------|----------|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | | Likelihood | Impact | Risk exposure | | | |
| 7 | To provide reliable and sustainable water services to customers (continued) | Failure of critical infrastructure | Possible | Moderate | Moderate | <ul style="list-style-type: none"> Poor asset management Delays in finalising procurement processes Inadequate financial resource Inadequate human resource capacity Regulatory interruptions Business interruptions Lack of planning software | | |
| 8. | To provide quality potable water (raw water sources) | Poor quality of potable water. (non-compliance to SANS) | Unlikely | Minor | Low | <ul style="list-style-type: none"> Droughts and floods Increased natural resource consumption Deteriorating quality of raw water Inadequate distribution system management Over-abstraction of natural water resource Pollution Inappropriate plant treatment processes and technologies Inadequate maintenance of canal | <p>Conduct annual technical process audit for each plant and implement recommendations</p> <p>An independent consultant has evaluated the plant and made recommendations to change to liquid chlorine at the existing facility to further increase the dosing rate</p> <p>The scientific study conducted by the consultant who is designing the new facility indicates it is not possible to obtain a satisfactory residual at the far ends of the system due to the long retention time and decay rate. An alternative will be proposed in the final report</p> <p>Concurrently, chlorine demand and decay studies by Scientific Services (research and development) are underway</p> | <p>Additional HTH disinfection by production team</p> |
| 9. | To maintain and retain critical skills of all employees | Inability to retain and develop critical skills | Unlikely | Moderate | Low | <ul style="list-style-type: none"> Lack of identification of critical and core skills Competition for skills | <p>Ensure approval and implementation of policies:</p> <ul style="list-style-type: none"> - Succession Planning Policy - Recruitment Policy. <p>Ensure that all human resource policies are published on the intranet and communicated during inductions</p> <p>Finalise the categorisation of critical and core skills</p> <p>Develop a retention policy</p> | <p>Implementation of all human resource policies is ongoing policies workshops are ongoing</p> <p>Critical and core skills identified and approved by CE</p> <p>Retention Policy approved by Board</p> |

ORGANISATIONAL EFFICIENCY AND EFFECTIVENESS

Operations

Magalies Water's operations are taken care of by the Chief Operations Officer, who is assisted by three Exco members, namely the General Manager: Water Services, General Manager: Project Management Unit, and General Manager: Engineering Services.

Water Services Division

The Water Services Division implements scientific service-related functions. The state-of-the-art laboratory remains the flagship enabler for analytical services on potable water supplied to customers.

Laboratory services

Until 01 July 2015, Magalies Water housed its scientific services laboratory at Vaalkop WTP and customer accessibility was, due to long distance and location, a challenge. It was then relocated to a more central facility in Brits, a move that was appreciated by customers.

The Brits laboratory provides a wide variety of world-class services to customers as an International Organisation for Standardisation/International Electrotechnical Commission 17025 (ISO/IEC 17025) organisation accredited in microbiology and chemistry. ISO/IEC 17025 demonstrates that laboratories operate competently and generate valid results, thereby promoting confidence in their work both nationally and around the world. Highly skilled staff conduct more than 40 000 analyses annually to ensure that water quality complies with the national drinking water standards set by SANS 241:2015. Magalies Water's Scientific Services laboratories conduct chemical, microbiological, hydrobiological and molecular biological analyses of environmental samples of both potable water and wastewater.

The sampling and monitoring programmes are compliant with the Blue and Green Drop requirements of SANS 241:2015 on wastewater discharge requirements.

Brits laboratory is run by 26 energetic professionals younger than 35. World-class equipment is used, and the laboratory has achieved 45 accredited methods – 36 for chemistry and nine for microbiology.

Water quality compliance

Magalies Water has set SANS 241:2015-compliant performance indicators to monitor and assess quality of water supplied to customers. Figure 7 below depicts compliance with SANS 241:2015 risk categories, which are key indicators of the quality of potable water for consumption.

The four water quality determinants referred to above are as follows:

- Acute health (both 1 and 2) refers to determinants that pose immediate and unacceptable health risk if specified contamination limits are exceeded.
- Aesthetic refers to determinants that taint water's taste, odour or colour but do not pose any unacceptable health risk even if specified contamination limits are exceeded.
- Chronic health refers to determinants that pose unacceptable health risk if ingested over an extended period, provided their presence exceeds specified SANS 241:2015 limits.
- Operational refers to determinants essential for the efficient operation of treatment systems and identification of risk to the infrastructure.

The above success levels are attributed to the ability of Magalies Water's laboratory to accurately analyse and timeously report on water quality so that key operational decisions may be taken and implemented at the WTPs.

A trend from 2015/16 to 2019/20 is highlighted in Figure 8. Compliance achievement levels for these years are attributable to the execution of water services targets as per the corporate plan. The audited annual reports for these years demonstrate uninterrupted and consistent compliance to SANS 241:2015.

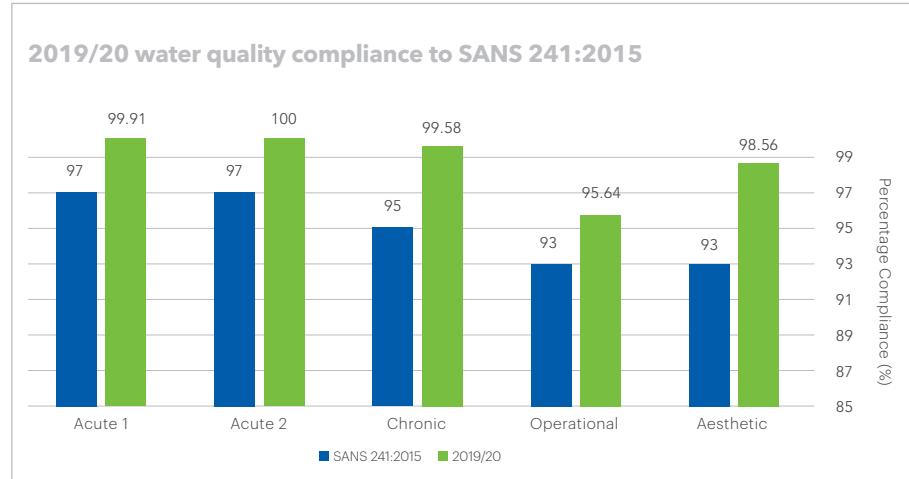


Figure 7: Magalies Water SANS 241:2015 compliance results for 2019/20

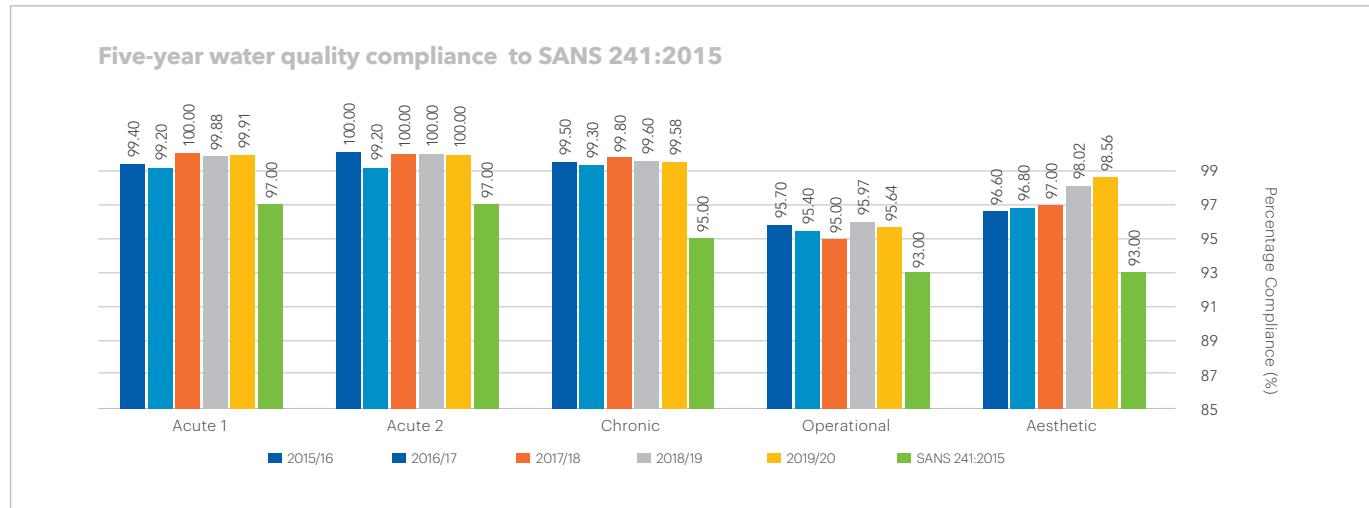


Figure 8: Magalies Water SANS 241:2015 compliance results for 2019/20

Water sales volumes

Sales volumes are the primary success factor that drive Magalies Water's revenue. Figure 9 shows the accumulated total potable water sales volumes against set targets or budgeted sales for the four WTPs.

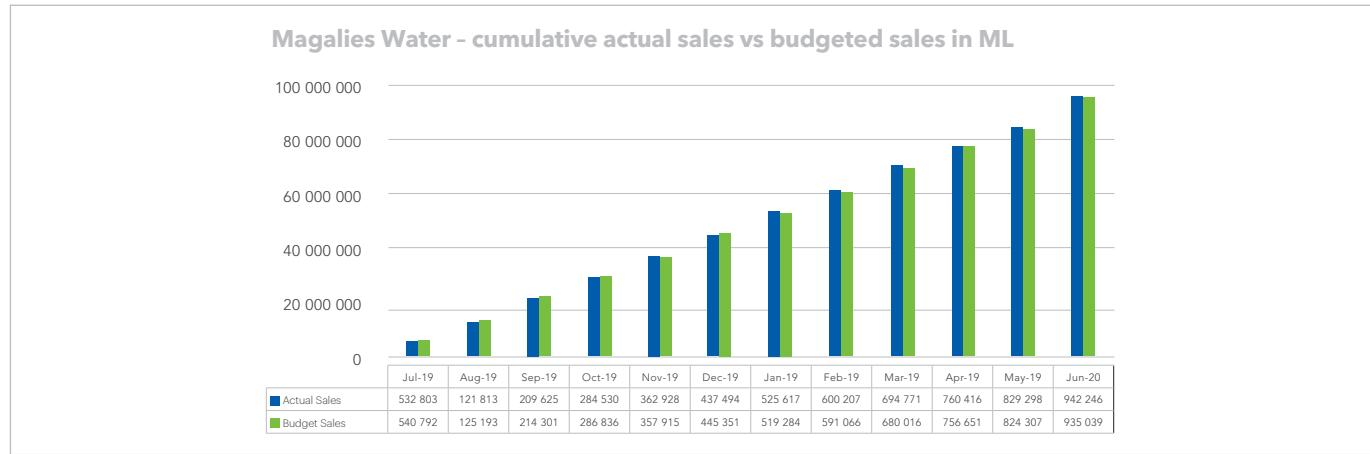


Figure 9: In 2019/20, Magalies Water exceeded its budgeted sales volumes by 0.77%.

Safety and management

ISO 45001 (2018) management system was implemented in 2019/20. System and safety operating procedures were developed and implemented, and the system was audited internally to evaluate its efficiency and effectiveness. All identified non-conformances were addressed and closed.

A health and safety compliance audit was conducted in 2019/20 to evaluate compliance to occupational health and safety legislation, regulation, local bylaws and best practices.

During the year, there were seven injuries on duty. The disabling injury frequency rate (DIFR) for the year was 9.98, as shown below.

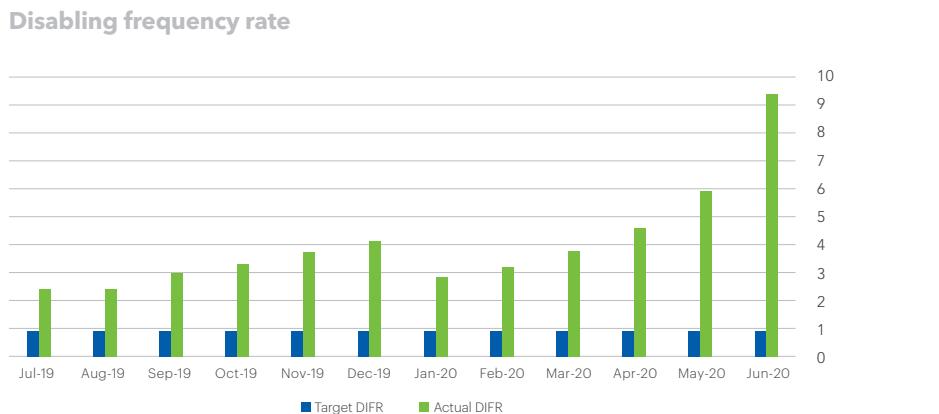


Figure 10: In 2019/20, Magalies Water exceeded its budgeted sales volumes by 0.77%

Environmental management

During 2019/20, a number of Environmental Management Implementation Plan initiatives were rolled out.

- **ISO 14001:2015 management system certification**

The ISO 14001 (2015) management system was certified in 2018/19, with an annual surveillance audit conducted by the South African Bureau of Standards in 2019/20 to ensure the system is still efficient and effective. All non-conformances were cleared within the required three months. The certification is valid until September 2021.

An environmental compliance audit was conducted in the year under review to evaluate compliance with environmental legislation, regulations and local bylaws.

- **Eradication of alien plant species**

Magalies Water understands that landowners are legally responsible for the control of invasive alien plants on their properties in terms of the Conservation of Agricultural Resources Act (Act 43 of 1983). As a result, during the 2018/19 financial year, surveys were conducted on alien invasive plants at the organisation's premises and the method of removal and maintenance plan of each identified species was documented. Subsequently, Magalies Water removed the identified species from all four plants. Monitoring and maintenance are conducted annually.

Engineering Services Division and the Project Management Unit

The PMU and Engineering Services Division focused on assisting divisions to successfully complete capital expenditure infrastructural upgrades, refurbishments, construction, monitoring, evaluation and quality compliance. The work included managing the outsourcing of work that Magalies Water is unable to do in-house.

PMU is also responsible for oversight of budgetary constraints, performance obligations and communication of progress and challenges to the Board.

The Capital Expansion Master Plan provided a trajectory for the organic growth of Magalies Water through implementation of water services infrastructure. Expansions of infrastructure were carried out to enhance operational capacity and resilience in response to the increasing demand for water supply. Completed projects enable Magalies Water to increase its asset base and geographical reach for water services provision.

During 2019/20, Magalies Water implemented six self-funded projects, as explained below.

Moretele South rising main and reservoir

This 30km bulk pipeline, which is 50% complete, will provide water from Klipdrift WTP to Moretele Local Municipality. It will cater for water demand of the City of Tshwane Metropolitan Municipality from Babelegi Reservoir in the greater Temba-Hammanskraal area. The overall project is 50% complete and is being rolled out in phases due to budgetary constraints. The tie-in for phase one, which connects to Carousel View, is 99% complete. Cathodic protection and fibre optic installations are in progress. Phase two, the second tie-in to Bosplaas, is construction of 4.7km of pipeline and is 85% complete. Phase three, the tie-in to Mogogelo, is the construction of 16km of pipeline, which is 37% complete.

Sondela booster pump station

Construction of a booster pump station at Sondela and a 300mm-diameter pipeline to meet current and future water demand for both Bela Bela and Modimolle-Mookgophong Local Municipalities was commissioned and handed over in December 2019.

Wallmannsthal high-lift pump station

The upgraded high-lift pump station at the Wallmannsthal WTP was commissioned in February 2020. Two pump sets

were installed to improve efficiency and standby capacity.

Brits WTP upgrades

By the end of 2018/19, civils work for the Brits WTP upgrade was 60% complete. The contractors had completed the rerouting of the raw water pipeline, and almost completed the flocculation channels, the chlorine contact tanks, dissolved air floatation (DAF) recycle bypass and DAF chambers.

Works carried over to 2019/20 included:

- Sludge dams – 79% complete
- Chlorine contact tank and control room – 70%
- Granular activated carbon filters – 65%
- DAF chamber – 73%
- DAF recycle basin – 40%
- Ozone – 23%
- Flocculation – 94%
- Sand filters – 49%
- Clear water and pump gallery – 20%

The mechanical and electrical contractors were appointed, and the project is due to end September 2020 depending on DWS funding.

Raw water supply system to the raw water pump station is 99% complete and the project reached practical completion on 26 March 2020. The anticipated completion date is end-September 2020.

Koster WTP

The work that was 99% complete at the end of the year under review entailed the construction of a new 3ML/day wastewater treatment works and associated outfall sewers. The plant is designed for a future upgrade of operational processes and construction of an additional clarifier to a capacity of 6ML/day.

The civil works are complete, and the electrical and mechanical contractors are working through the snag lists in preparation for commissioning.

Implementation readiness studies

The status of the implementation readiness studies reported in 2018/19 remained static for certain projects due to financial constraints. The programme entails construction of the following:

- A bulk pipeline from La Patrie Reservoir to Moruleng to address the increasing water demand of Moses Kotane Local Municipality.
- A pipeline and pump station between Padda junction and Thabazimbi to augment the current bulk supply to Thabazimbi Local Municipality.
- A gravity pipeline from La Patrie Reservoir to Sandfontein to replace the current pipeline to meet existing and future water demand.
- A pipeline that connects Padda junction to Swartklip to replace the currently stressed and aged pipeline.
- Another pipeline and pump station from Mafenya to Tlhabane Reservoir to meet the long-term water demand of Rustenburg Local Municipality and the Royal Bafokeng Administration.



CORPORATE SERVICES DIVISION

The Corporate Services Division's purpose is to strengthen the dynamism of Magalies Water for continuous improvement in the human capital management and corporate support functions. In coordinating human resource development, legal services, records management and information communication technology (ICT), the division balances technology and human capital inputs to ensure effective and efficient business operations.

The division creates and maintains an environment that is supportive of employees through targeted high-impact interventions that can enhance performance. The interventions include advancing skills development – namely internships, learnerships, graduate trainee and (internal and external) bursary programmes – to prepare employees for the changing world of work and for potential career advancement and to preserve a high-performance culture.

As the wellbeing of staff is a fundamental pillar in the human capital value chain, the organisation provides an employee wellness programme that includes health testing and counselling services, managing employee psychosocial challenges and productivity and monitoring and managing employee absenteeism.

The Employee Relations Unit focuses on maintaining healthy internal stakeholder relationships, engagement plans and consultation with the unionised labour force, among others.

Annually, the division also manages compliance to the labour relations related legislative frameworks and implements initiatives to be integrated into corporate plans. This enables the organisation to achieve the following:

- Recruitment and selection of skilled employees;
- Continuous improvement of the organisation's employment equity profile;
- Training and development of employees;
- Retention of skilled and technical staff; and
- Implementation of benchmarked employment best practices and policies.

Human capital management

The Human Capital Management Department comprises three units: Employee Relations Management, Human Resources Management and Human Resources Development.

Human Resources Management assists the organisation on matters relating to remuneration and rewards, absenteeism management, workforce profiling, employment equity, staff turnover and staff retention.

Human Resources Development is responsible for performance management, employee wellness programmes and transformational projects such as bursaries, internships, learnerships and graduate programme.

Overall, the department attracts, develops and retains an effective workforce, which Magalies Water regards as key to achieving its strategic objectives. Hence, this section focuses on human resource planning, which is crucial in ensuring the right people, with the right skills, at the right place and at the right time.

Workforce profile

Magalies Water executes employment equity plans diligently in line with the Employment Equity Act. The Employment Equity Forum provides critical oversight of employment equity processes.

Table 34: Employment report

| Employment group | Baseline (at start of the financial Year) | Total (end of Q4) | Reasons for variances |
|-------------------------------------------------------------------------------------------------------------------|-------------------------------------------|-------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Top management (Exco) | 6 | 8 | The number of employees increased between the start and the end of the financial year due to the absorption of Madibeng employees against permanent vacant positions |
| Senior management | 3 | 3 | |
| Professional qualified | 53 | 55 | |
| Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents | 69 | 70 | |
| Semi-skilled and discretionary decision-making | 96 | 83 | |
| Unskilled and defined decision-making | 50 | 69 | |
| Total permanent | 277 | 288 | |

Table 35: Employee report by race and gender

| Filled posts per race and gender | | | | | |
|----------------------------------|--------|---------------------------|------------|------|-------------|
| Race | Gender | Total per gender per race | % | Male | Female |
| African | Male | 153 | 53.13 | | |
| | Female | 112 | 38.90 | | |
| Indian | Male | 2 | 0.69 | | 57.99 42.01 |
| | Female | - | - | | |
| Coloured | Male | 2 | 0.69 | | |
| | Female | 3 | 1.04 | | |
| White | Male | 10 | 3.47 | | |
| | Female | 6 | 2.08 | | |
| Total male and female | | 288 | 100 | | |

Table 36: Employment equity status – male

| Occupational level | Male | | | | | | | |
|--------------------------|------------|--------|----------|----------|----------|----------|-----------|--------|
| | African | | Coloured | | Indian | | White | |
| | Current | Target | Current | Target | Current | Target | Current | Target |
| Top management | 3 | - | - | - | - | - | - | - |
| Senior management | 2 | - | - | - | 1 | - | - | - |
| Professionally qualified | 31 | - | 1 | 1 | 1 | - | 2 | - |
| Skilled technical | 28 | - | - | 1 | - | 1 | 7 | - |
| Semi-skilled | 42 | - | 1 | 1 | - | 1 | 1 | - |
| Unskilled | 47 | - | - | 1 | - | 1 | - | - |
| Total | 153 | - | 2 | 4 | 2 | 3 | 10 | - |

Table 37: Employment equity status – female

| Occupational level | Female | | | | | | | |
|--------------------------|------------|----------|----------|----------|---------|----------|----------|----------|
| | African | | Coloured | | Indian | | White | |
| | Current | Target | Current | Target | Current | Target | Current | Target |
| Top management | 5 | - | - | - | - | 1 | - | - |
| Senior management | - | 1 | - | - | - | - | - | - |
| Professionally qualified | 17 | 2 | - | 1 | - | 1 | 3 | 1 |
| Skilled technical | 32 | - | 1 | 2 | - | 1 | 2 | - |
| Semi-skilled | 36 | - | 2 | 2 | - | - | 1 | - |
| Unskilled | 22 | - | - | 1 | - | - | - | - |
| Total | 112 | 3 | 3 | 6 | - | 3 | 6 | 1 |

Two Coloured females at skilled and semi-skilled levels – one living with disability – improved the demographics, enabling Magalies Water to advance its drive to attract underrepresented groups to its workforce.

Table 38: Employees with disabilities

| Levels | Employees with disabilities | | | |
|------------------------|-----------------------------|----------|----------|----------|
| | Male | | Female | |
| | Current | Target | Current | Target |
| Top management | - | - | - | - |
| Senior management | - | - | - | - |
| Professional qualified | 1 | - | - | - |
| Skilled | - | - | - | 1 |
| Semi-skilled | 2 | - | 1 | 1 |
| Unskilled | - | 1 | - | - |
| Total | 3 | 1 | 1 | 2 |

One person living with disability joined the Call Centre, while another was appointed Administrative Assistant. Magalies Water's efforts to achieve the 2% national target for employees with disabilities was negatively impacted by one retirement and one death in this financial year. This brought down the representation of people living with disability from 2% to 1.4%. Magalies Water management is committed to employing more people living with disabilities.

Employee relations management

The Employee Relations function oversees implementation of mandatory and statutory compliance imperatives specified in

the labour laws of the Republic as well as any other binding government instruments. Unionised staff members belong to either the National Education, Health and Allied Workers Union or the South African Municipal Workers Union. The function handles the disputes and grievances of both unionised and non-unionised staff.

By the end of 2019/20, the organisation had recorded eight disciplinary and/or misconduct-related cases. Six were resolved, while two were carried over to 2020/21 (see graph below).

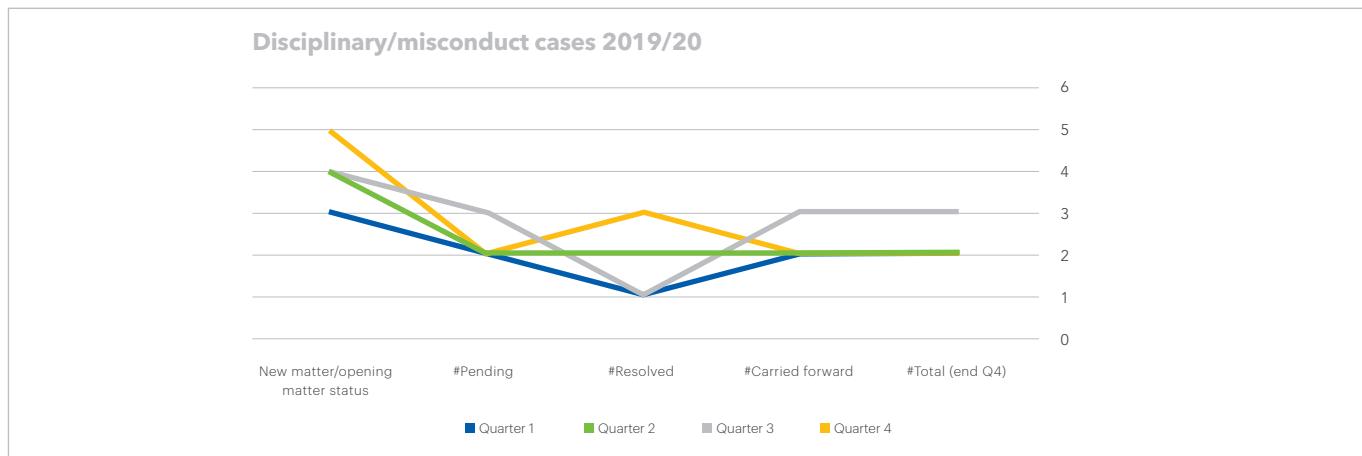


Figure 11: Disciplinary/misconduct cases 2019/20

Figure 12 and Table 39 below provides a summary of sanctions imposed.

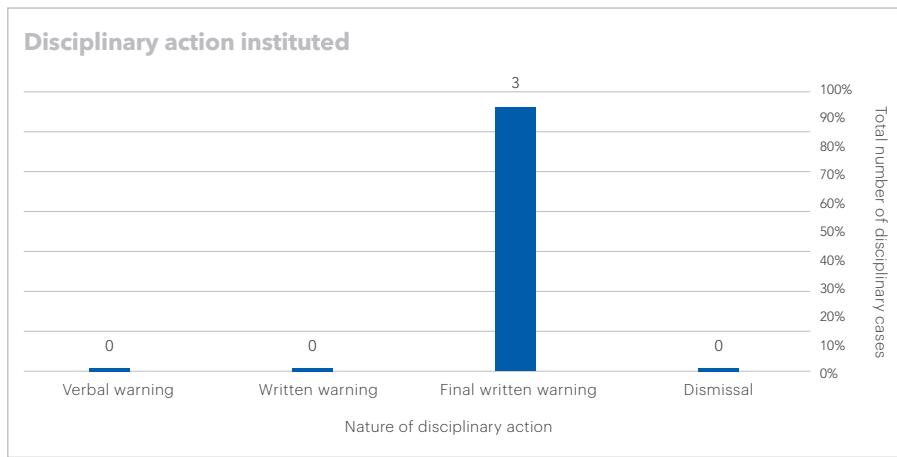


Figure 12: Disciplinary/misconduct cases 2019/20

The table below provides a summary of personnel costs.

Table 40: Personnel costs by item

| Item | Total expenditure | Staff expenditure | Staff expenses/total expenses | Employees | Average staff costs |
|-----------------------|-------------------|-------------------|-------------------------------|------------|---------------------|
| Measure unit | R000 | R000 | % | Number | R000 |
| Direct employee costs | 194 111 | 102 482 | 52.80% | 186 | 551 |
| Support services | | 91 629 | 47.20% | 102 | 898 |
| Total | 194 111 | 194 111 | 100% | 288 | 674 |

Table 41: Personnel costs by salary band

| Level | Staff expenditure | Staff expenditure/total Staff | Employees | Average staff costs |
|--------------------------------------------------------------------------------|-------------------|-------------------------------|------------|---------------------|
| Measure unit | R000 | % | Number | R000 |
| Top management | 13 491 | 6.95% | 8 | 1 686 |
| Senior management, professional qualified, skilled, semi-skilled and unskilled | 180 620 | 93.05% | 280 | 645 |
| Total | 194 111 | 100% | 288 | 674 |

Table 39: Disciplinary/misconduct cases 2019/20

| Nature of disciplinary action | Number |
|-------------------------------|--------|
| Verbal warning | - |
| Written warning | - |
| Final written warning | 3 |
| Dismissal | - |

Table 42: Personnel costs by salary band

| Item | Performance rewards | Personnel expenditure | Performance rewards to total personnel costs |
|-------------------------------------|---------------------|-----------------------|----------------------------------------------|
| Measure unit | R000 | R000 | % |
| Top management | 1 891 | | |
| Senior management | 482 | | |
| Professionally qualified | 3 010 | | |
| Skilled, semi-skilled and unskilled | 4 847 | | |
| Total | 10 032 | 208 852 | 4.8% |

Staff turnover monitoring and management

The 2019/20 percentage staff turnover was, as in the past years, lower than the 3% target. The 2019/20 financial year closed at 2.91% compared to 1.31% in the 2018/19 financial year.

Additional alignment: Ministerial outcomes, DWS strategic goals and water objectives

In terms of Ministerial outcomes 5 and 12 focusing on an efficient, effective and development-oriented public service and an empowered, fair and inclusive citizenship (National Development Plan) and job creation: A skilled and capable workforce to support an inclusive growth path, Magalies Water continued to strive for its transformation and developmental agenda objectives. This section of the report highlights performance-related achievements for a skilled, capable and capacitated workforce.

Organisational capacity/job creation management

This section provides a breakdown of alignment initiatives from both an external (communities in which Magalies Water has a presence) and an internal (own employees' career growth) perspectives.

Direct jobs

During the 2019/20 financial year, Magalies Water had planned to recruit and appoint five additional employees, but appointed 26, including people living with disabilities.

Indirect/temporary jobs

For the reporting period ending 30 June 2020, Magalies Water created 227 indirect jobs through Section 30 contracts against a planned 40.

Human Resources Development Department

The Human Resources Development Department implements skills development initiatives in compliance with the Skills Development Act and supports government skills development programmes for young South Africans. For the year under review, the organisation submitted the workplace skills plan and the annual training report to the Energy and Water Sector Education and Training Authority, detailing various programmes to be implemented during 2019/20 to build capacity and capabilities.

Skills development programmes

The Human Resources Development Department's objectives are aligned to the strategic objectives to achieve a high-performance culture by building internal skills and capacity and to positively engage stakeholders through the promotion and implementation of initiatives that have a socio-economic development impact. The organisation prioritises capacity-building initiatives that add value and improve business efficiencies and effectiveness.

Internal bursaries

Magalies Water awards bursaries to internal permanent and fixed-term-contract employees to enhance business productivity, promote individual career aspirations and facilitate a high-quality, reliable, dependable and ethical staff performance aligned to the desired culture of the organisation.

Table 43: Approved internal bursaries

A TOTAL OF
57
INTERNAL
BURSARIES
AWARDED



In the year under review, the target of 40 bursaries was exceeded, with the organisation awarding 57, 37 of which were carried over from the previous year, including 20 new bursaries as of Q3 of 2018/19.

Below are the approved internal bursaries by department and study fields.



- Office management and technology
- Business administration
- Honours: Strategic brand communications
- Public administration



- MPhil Management coaching
- MBL
- Information technology
- People management



- Environmental management
- Mechanical engineering
- Civil engineering
- Project management
- Electrical engineering
- MPhil management coaching
- Water care
- Technology
- Management development programme
- Biotechnology
- Geographical information
- Public administration
- Chemistry
- Master's: Engineering management
- Applied science
- Supervisory management
- Business administration
- Administration

Contribution to the national capacity-building programme/skills development

Through Magalies Water's commitment to providing much-needed opportunities to unemployed graduates and potential entrants to the labour market, candidates apply their acquired skills and gain work experience that the job opportunities often require.

During 2019/20, all the indicators for the following skills development initiatives were either met or exceeded.

Internships

A target of 10 interns for 2019/20 was exceeded by three. The table below shows the business functional areas in which candidates were placed.

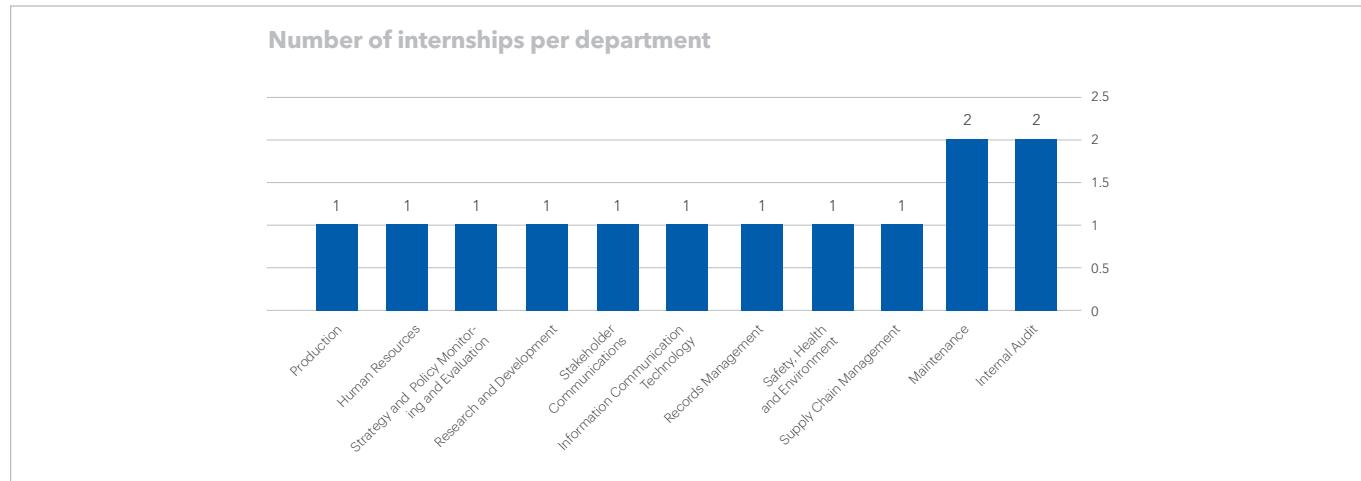


Figure 13: Internships allocation by department

The internship programme is in line with the Skills Development Act, 1997 (Act No 97 of 1998), which states that every employer should use the workplace as an active learning environment and that employers should provide young people with workplace experience to enter the job market. During this financial year, management approved the extension of the internship programme to 24 months for all candidate to better achieve these objectives. Four interns were appointed into permanent positions.

Learnerships

Magalies Water has two external learnership programmes. In the year under review, 12 learners were placed on the process control learnership at National Qualifications Framework (NQF) level 4 and 15 on the water treatment and process control learnership at NQF level 2. The qualifications enabled the learners to find job opportunities in the water sector. The achievements shown below are also in line with the Skills Development Act, which requires employers to provide opportunities for new labour market entrants to gain work experience and/or, when practical, to employ persons who find it difficult to find jobs.

Learnership programme

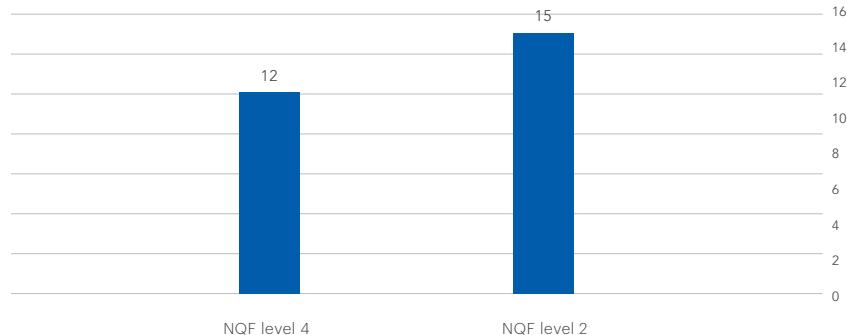


Figure 14: Learnership programme

Graduate capacity-building programme (engineering)

During the 2019/20 financial year, four graduates underwent active learning in accordance with the annual target aimed at exposing youth to practical engineering work experience and to address scarce and critical skills in the water sector. These graduates were recruited by and placed at different water treatment plants. A breakdown is provided in the figure below.

Graduate programme streams

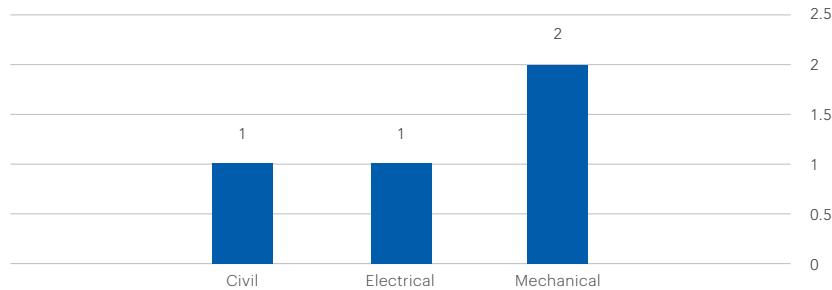


Figure 15: Personnel costs by item

The graduate participants were coached and mentored by Magalies Water's qualified and skilled professionals.

External bursaries

Magalies Water has 13 external bursars studying through universities – all carried over from the previous financial years. The bursaries are in the following fields:

- Mechanical engineering (two)
- Electrical engineering (two)
- Chemical engineering (two)
- Civil engineering (two)
- Water care (five)

External bursaries are awarded to individuals who want to pursue studies in line with Magalies Water's core business, the aim being to build a medium- to long-term pipeline of qualified candidates from which the organisation can recruit scarce skills.

Employee wellness programme

The employee wellness programme (EWP) scope includes a health risk assessment and is made available to all employees and their immediate family members on a 24-hour basis throughout the financial year. It is outsourced for ease of access to private service providers.

The EWP offers several services, individually or in combination, including:

- Face-to-face or telephonic counselling (self-referral or managerial referrals).
- Group trauma intervention.
- Awareness and education workshops.

The Magalies Water utilisation rate is 8.3% compared to 14.9% average of the service provider. The Employee Wellness unit consistently communicates to employees the benefits of the programme.

Magalies Water held its first men's health event in November 2019. The following month, it held a World Aids Day event attended by Board members and staff. Activities included employee health and wellness basic screening and testing.

Information, Communication and Technology Department

The ICT Department gives effect to the Board's function in terms of Principle 12 of the King IV Report on Corporate Governance, which states that 'The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives'.

- King IV highlights the following key focus areas for the Board:
 - ▶ Addressing ICT governance in a manner that moves beyond intimidating technical language
 - ▶ Setting the foundation – an overview of the nature of ICT and the rapid advances in technology
 - ▶ Align strategy from board level to information technology (IT) technical level
 - ▶ Discussing methodologies to achieve ICT governance
 - ▶ Discuss key IT governance issues relating to ICT assurance and reporting
 - ▶ Address key technology issues and challenges facing organisations and topical areas such as disruptive technologies, cloud-computing and cyber-crime, among others.

Magalies Water leveraged on the organisation's ICT Department to address stakeholder expectations so that multiple business divisions or departments could use only a company-wide 'owned' set of services rather than applications that are separately 'owned' or procured by individual business units when controlling budget and staff leave, holding virtual meetings etc.

The ICT function bolstered the ability of the Board to evaluate, direct and monitor the use of the enterprise's technology and information resources to achieve strategic objectives. The Board

and executive managers, even during the Covid-19 lockdown, continued to be mindful of the implications of fuzzy business boundaries that usually result in ICT governance responsibilities extending beyond the traditional corporate boundaries. Magalies Water did not experience these challenges because ICT governance is already integrated and applied in the organisation's value chain.

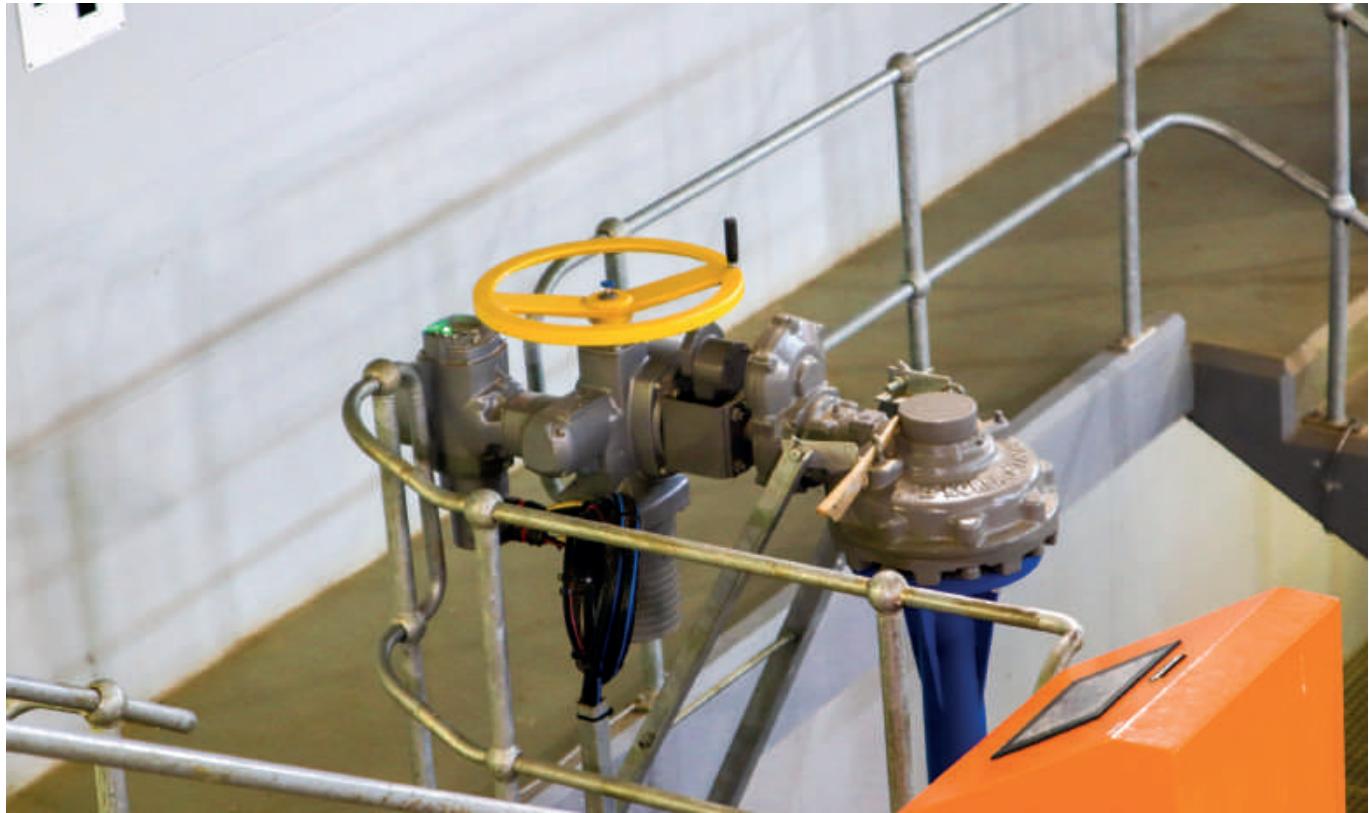
The ICT Department, staffed by dedicated specialists, effectively monitored and measured the business-enabling tool in terms of, among others:

- Systems availability, which was sustained at 96.22%, 1.6% above the target of 95%.
- Area wide availability, which was at 98.68%, 3.68% above the target of 95%.

- Measures to address emerging cybersecurity risks and threats, which included intrusion detection system and intrusion prevention system.

Further improvements to physical security and internet protocol-based closed-circuit television camera systems were rolled out to all WTPs.

Both the dashboard reporting tool integrated with supervisory control and data acquisition and the Android- and iOS-based mobile app built with Survey123 for Arc geographic information system (ArcGIS) were developed and implemented. The app collects maintenance-related fieldwork data and posts it to the ArcGIS server for non-GIS professionals to analyse and generate trends and dashboards.



STAKEHOLDER AND CUSTOMER SERVICES DIVISION

Stakeholder engagement is an integral part of corporate governance. King IV Report on Corporate Governance requires that the governing body, in its execution of governance roles and responsibilities, adopt a stakeholder-inclusive approach into corporate decision-making. In view of this prescript, Magalies Water acknowledges and appreciates that balancing the needs, interests and expectations of material stakeholders is an imperative key aspect of integrated reporting in strategic business and reporting decisions. Thus, it adopted a deliberate and meaningful annual engagement programme that allows stakeholders to raise their concerns and opinions (at meetings and in focus groups) and ensures that their views are considered when making strategic decisions.

Partnerships and collaboration with key stakeholders are nurtured in planning and delivery of Magalies Water's mandate to support government's service delivery programme (eradicate service delivery backlogs), deliver on socio-economic developments and support local government ('back to basics').

The approach to stakeholder engagement includes:

- Identifying stakeholders and objectives/focus areas for engagement.
- Identifying and facilitating crucial relationships at different levels of the organisation.
- Analysing stakeholder and customer frames of reference, available information and assumptions.
- Developing channels for each influencer group.
- Developing a detailed systematic engagement programme (calendar programme).
- Analysing feedback from engagements.

Magalies Water Stakeholder Groups



Figure 16: Magalies Water stakeholder groups

Media

Magalies Water informs, engages, educates and mobilises stakeholders through traditional and new media communication channels, which are customised to stakeholders to ensure that accurate and reliable information from the organisation is shared. Optimisation of media communication includes development and management of communication plans, including end-to-end digital projects as well as coordination and management of all media processes (i.e. liaison with media houses, content management and development, and media monitoring etc).

Communication of various messages, developments and events on Magalies Water's social media platforms included messages from President Ramaphosa's speeches to the nation on Covid-19 and the lockdown, Magalies Water's response to the call-to-action by the Minister of HSWS for the provision of water tanks and tankers to communities as well as the handover of water tanks by Magalies Water. The aim was to assist with water shortages during the lockdown and, in turn, minimise the spread of the infection in vulnerable communities.



Marketing and Communication Department

The role of the Marketing and Communications Department is to ensure that there is continued sound stakeholder relations management, positive organisational profiling and marketing through proactive internal and external communications, public relations campaigns and interactive media relations.

Furthermore, the Marketing and Communications Department has a strategic and supportive role it plays to other departments within the organisation in coordinating all Magalies Water corporate brand initiatives, which encompass its mandate, vision and mission.

Communication initiatives seek to elevate the brand of Magalies Water to greater levels of visibility and accentuate messages that communicate the organisational vision to its stakeholders.

Communication is done through the following channels:

- Internal and external publications, generic marketing brochures and outdoor advertising tools for brand elevation
- Internal and external publications through brochures, website, intranet and outdoor advertising tools for brand elevation
- Events to include stakeholder engagements for and exhibitions at key sector events
- Interviews and programme features on local and community radio stations on topics relevant to water
- Supporting national, provincial and local government initiatives and programmes



Figure 17: Personnel costs by item



11/19-01/20

Campaign run on different community radio stations at peak times during allocated slots



PURPOSE: To educate the public about the importance of saving water, especially during the current pandemic. To create awareness of water conservation, especially during the current pandemic.

TARGET AUDIENCE

- Magalies Water stakeholders and the public

20/10/2019

Conference and exhibition



PURPOSE: The aim of the conference is to bring together researchers, consultants, water services authorities, service providers and young water professionals to address water sector challenges and find solutions.

TARGET AUDIENCE

- Researchers, consultants, water entities, service providers and young water professionals

29/11/2019

Commissioning of Sondela booster pump station



PURPOSE: Commissioning of the newly installed booster pump station to boost water provisioning to municipality.

TARGET AUDIENCE

- Bela Bela Local Municipality
- Bela Bela community
- Modimolle Local Municipality
- Magalies Water Board, Exco and staff
- DWS

06/12/2019

Workshop
Motivational speaking
Wellness programme



PURPOSE: Celebration of 16 Days of Activism Against Gender-based Violence and World Aids Day 2019.

TARGET AUDIENCE

- All Magalies Water employees

03/04/2020

Visit to Vaalkop WTW and Madibeng by Deputy Minister David Mahlobo



PURPOSE: Deputy Minister's oversight visit to check progress on Covid-19 water-related matters.

TARGET AUDIENCE

- DWS
- Magalies Water
- Rustenburg Local Municipality
- Madibeng Local Municipality

24/04/2020

Visit to Madibeng Local Municipality by the Deputy Minister



PURPOSE: Follow-up impromptu visit to Madibeng Local Municipality by Deputy Minister David Mahlobo and his team, accompanied by Magalies Water representatives.

TARGET AUDIENCE

- DWS
- Magalies Water
- Madibeng Local Municipality

08/05/2020

Communities receive water tanks



PURPOSE: DWS and Magalies Water handover water tanks and buckets to the communities of Tsakane and Vaalwater in Limpopo.

TARGET AUDIENCE

- DWS: Limpopo
- Magalies Water
- Modimolle-Mookgophong Local Municipality
- Bela Bela Local Municipality

Business Development and Customer Services Department

The Business Development and Customer Services Department, part of the Stakeholder and Customer Service Division, operates two customer-centric and customer-facing 'contact' points, namely the contact centre and business development interface. This department supports the growth strategy through stakeholder interventions, assisting in the management of disputes and concerns and stakeholder expectations. It is instrumental in stakeholder classification/segmentation to allow Magalies Water to select appropriate objectives and messaging easily, to set contact timeframes and to analyse feedback such as that gathered through regular stakeholder perception surveys.

Corporate social investment (CSI)

The key fundamentals of Government's development agenda, among others, are founded on a better life for all its citizenry. Annually, Magalies Water commits funding to give practical effect to the agenda premised on corporate strategic thrust of being a responsible and contributing good corporate citizenship.

To support national, provincial and, especially, local municipalities to resolve water and sanitation backlogs in line with Millennium Development Goals – Magalies Water has a CSI framework to assist and empower disadvantaged communities within its area of operation.

The CSI Framework and methodology is informed by proposals advanced by Local Municipalities including interaction with councillors in each of the six beneficiary municipalities, who provide lists of requirements. Project proposals are followed by

joint planning with Municipalities which involves site verifications, scoping, project case, project registration and prioritization based on available funding, potential impact (Both practically and from a social-economic perspective. A budget of R4 million was allocated to CSI for the 2019/20 financial year. The focus was on innovative and creative value-adding solutions to economical, societal and environmental challenges.

CSI initiatives were planned on the assumption that 2019/20 would be a full and normal financial year, but this was not the case as there was a delay in delivery due to the shutdown caused by Covid19. This challenge was further made worse by the following seasonal challenges:

- Developing contractors capacities and project understanding.
- Local municipalities requiring multiple administrator consultations.
- Insufficient programme monitoring and evaluation – although project managers made several site inspections to ensure standards were met, full-time onsite supervision can improve delivery.

Other issues included:

- Inadequate planning or timing of submission of critical input and feedback.
- Extended material delivery lead times.
- Contractor Cash flow problems.

A turnaround plan and strategy is being developed that looks at re-modification and redesigning of the planning and implementation of CSI projects to counter most if not all of the above challenges by the end on the 2020/21 financial year.

Table 44:

| | |
|-------------------------------------------|-----------------------------------------------|
| Bela Bela Local Municipality | Groundwater optimisation |
| Thabazimbi Local Municipality | Groundwater optimisation |
| Modimolle Local Municipality | Household sewer connections |
| Moretele Local Municipality | Improving access to potable water at a school |
| City of Tshwane Metropolitan Municipality | Refurbishment of school ablution facility |

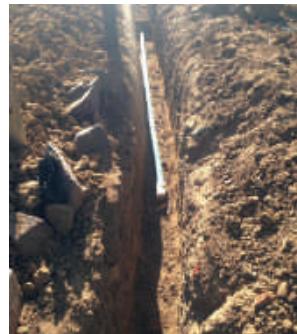
Magalies Water provides bulk potable water to the following water services authorities as core customers (Section 29)

Table 45:

| Customer | Memorandum of agreement expiry |
|---------------------------------------------------|--------------------------------------------------|
| Bela Bela Local Municipality | 2029 (10 years) |
| City of Tshwane Metropolitan Municipality | 2023 (three years) |
| Modimolle-Mookgophong Municipality | 2021 (three years) |
| Moses Kotane Local Municipality | 2023 (10 years) |
| Rand Water (Vaalkop Southern Water Supply Scheme) | Open-ended contract |
| Royal Bafokeng Administration | 2021 (10 years) |
| Rustenburg Local Municipality | 2018 (under negotiation) month-to-month contract |
| Thabazimbi Local Municipality | March 2020 (new agreement in progress) |



▲ Thabazimbi borehole in Regorogile Ext 6



▲ Bela-Bela Local Municipality: Ground Water Optimisation - boreholes



▲ Rustenburg Local Municipality: Ground Water Optimisation



▲ City of Tshwane: Refurbishment of school ablution facility and construction of storm water drainage

FINANCIAL PERFORMANCE PERSPECTIVE

THE CFO'S STATEMENT

Introduction

Magalies Water is required in terms of the PFMA to prepare financial statements in accordance with Generally Accepted Accounting Practice and must submit those statements within two months of the end of the financial year to the auditors of the public entity. The statements for the 2019/20 financial year were prepared and presented as guided by the PFMA, the Preferential Procurement Policy Framework Act (Act No 5 of 2000 and its Preferential Procurement Regulations of 2017), the Supply Chain Management Framework, the Water Services Act (Act No 108 of 1997 as amended) and other related prescripts.

The organisation has seen growth in financial performance over the years and that trend continued in the review year, with an increase in revenue, cost of sales, gross profit, operating expenses and net profit. Magalies Water is committed to good governance and to operating sustainably.

Supply chain management

Magalies Water ensures that its supply chain management processes are aligned and compliant with legislation, policies and National Treasury directives

Financial performance

Surplus for the year

Profits have increased over the last five years in line with increase in revenue and reasonable increase in operating cost and cost of sales. Demand charge was implemented on consumers abstracting more than their allowed quota. Surplus earned during the year is invested in future capital projects and refurbishment of the current infrastructure.

Surplus for the year comparisons in R000

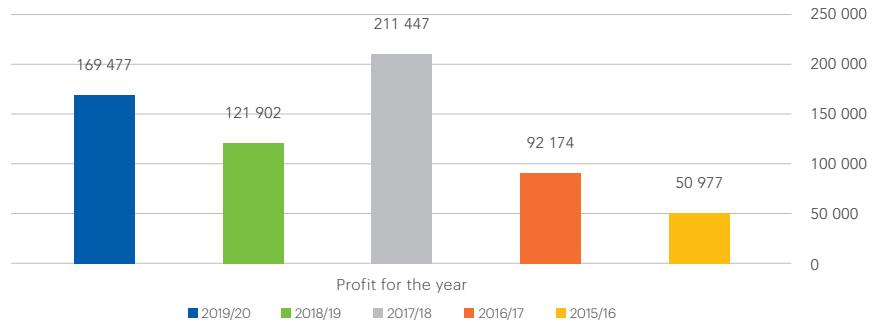


Figure 18: Surplus

Revenue

The entity achieved 19% increase in revenue during the year under review. This was due mainly to a 3% increase in water sales volumes and an increase in demand charge implemented on consumers abstracting more than the allowed quota.

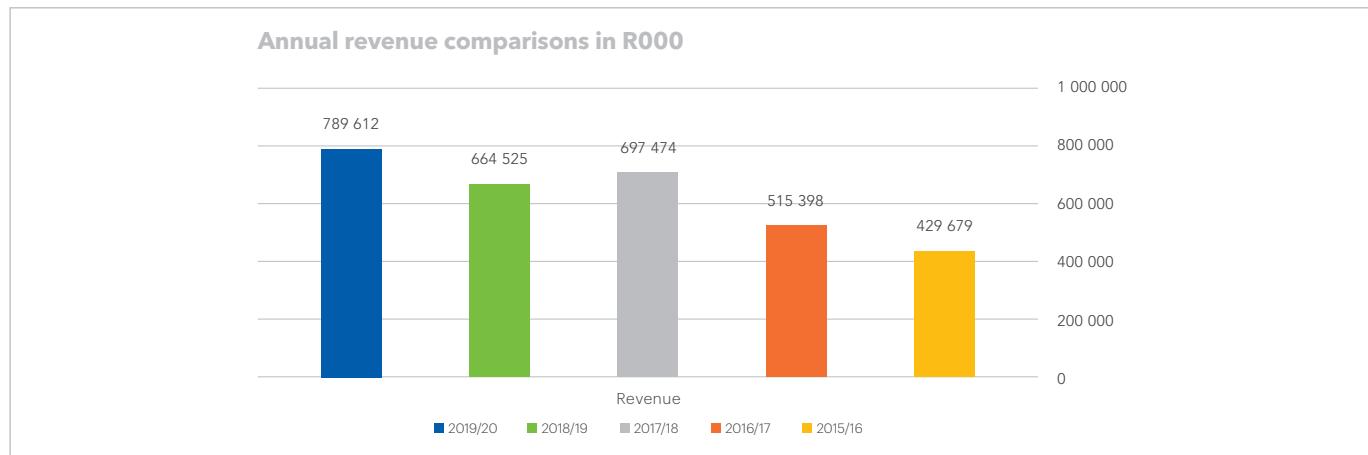
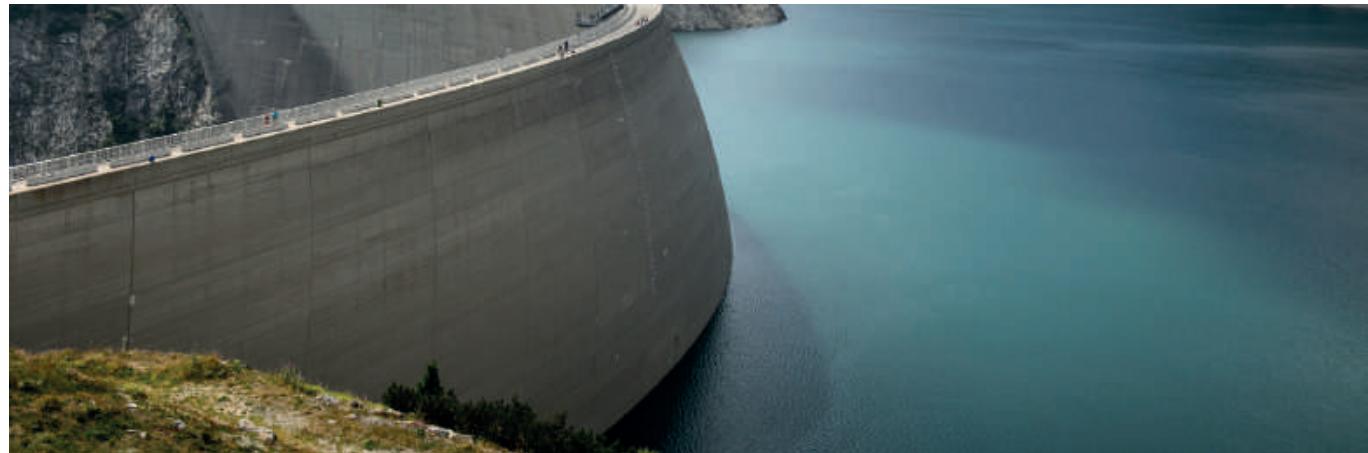


Figure 19: Revenue



Cost of sales

Cost of sales has increased steadily over the last five years, which correlates with an increase in revenue as a result of an increase in volumes sold. Cost of sales increased by 9% compared to the previous financial year. Cost saving remains a Finance Division priority, with ongoing initiatives implemented to reduce costs and enhance service provision efficiency at a reasonable cost.

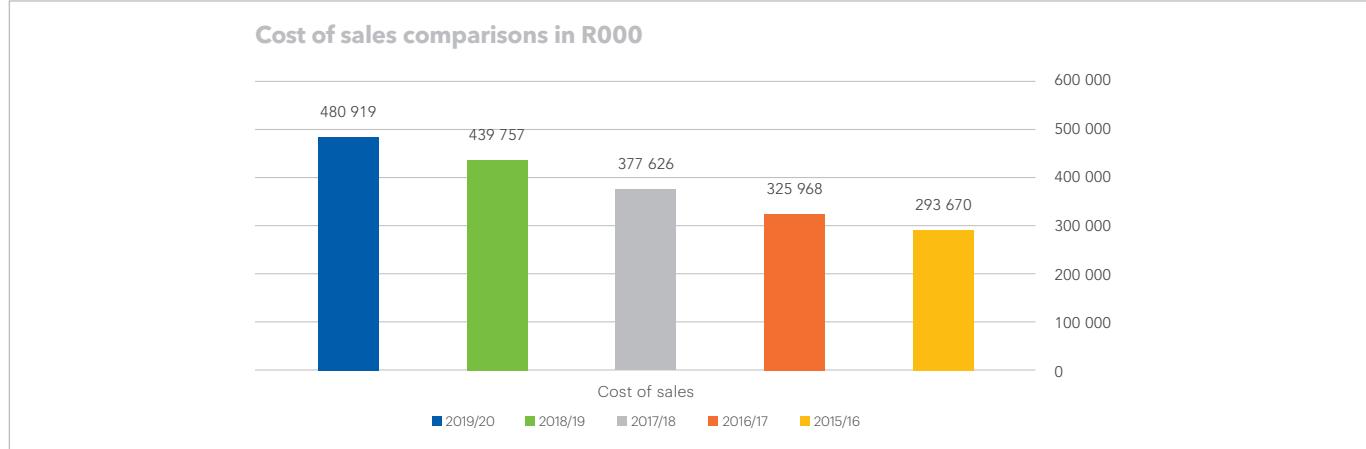


Figure 20: Cost of sales

Statement of financial position

Non-current assets

Property, plant and equipment expenses have increased steadily over the last five years, due to regular investment in the organisation's infrastructure. During the review year, R159.9 million was invested in property, plant and equipment.

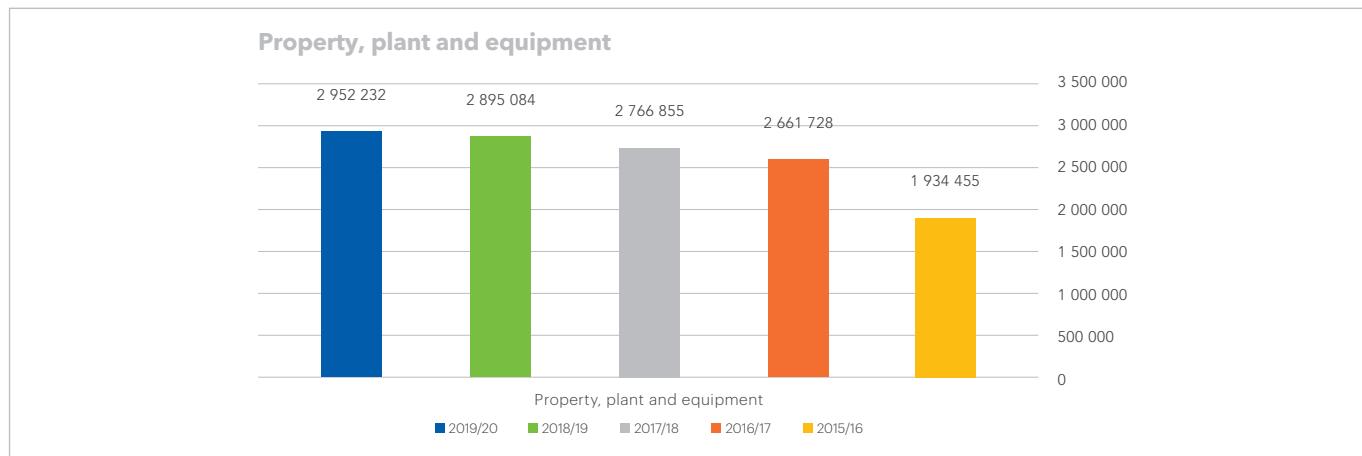


Figure 21: Non-current assets

Current assets

Receivables from exchange transactions at 30 June 2020 were R363 million, which was 9% higher than in the previous year. Non-payment of debt has been a concern for the past five years, with some municipalities having debts outstanding for more than three years. Revenue collection from municipalities deteriorated during the last quarter of the financial year, resulting in a slight increase in trade and other receivables balance compared to 2018/19. Plans are in place to improve debt collection, including payment agreements made with defaulting bulk water customers, which are monitored monthly. Enhancements to systems and policy and procedure reviews are ongoing to improve revenue collection.

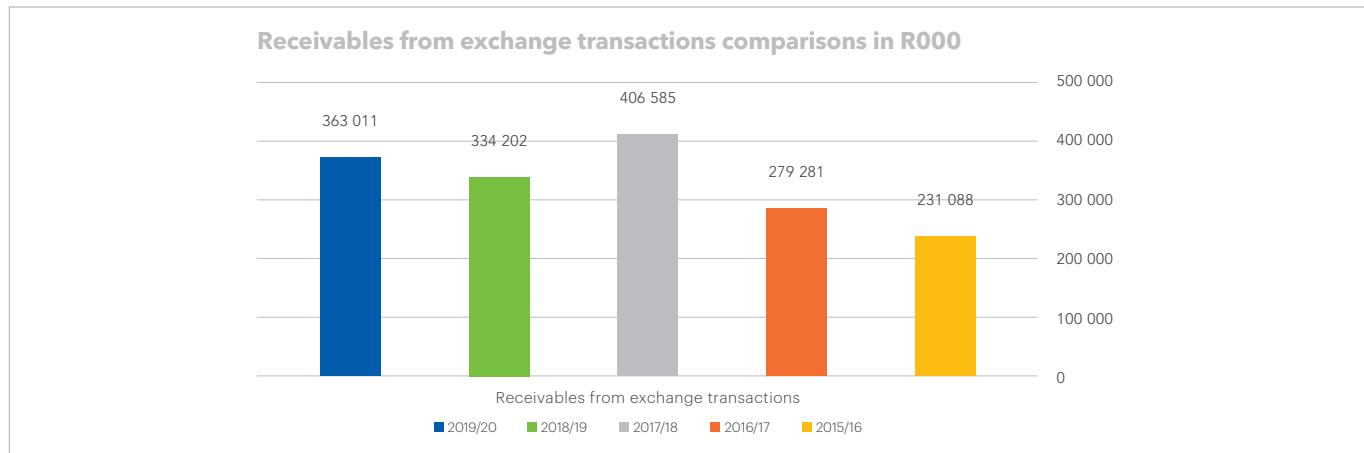


Figure 22: Receivables

Cash flows

Cash and cash equivalents reported at 30 June 2020 totalled R177.2 million (2018/19: R142.3 million). Liquidity is closely managed daily in line with available cash reserves to ensure that the entity has sufficient reserves to pay debts when they fall due in the ordinary course of business.

Ms M Tabane

Chief Financial Officer



AUDIT COMMITTEE REPORT

Audit Committee

The Audit Committee (the Committee) hereby presents its report for the year ended 30 June 2020. The Committee is an independent statutory body appointed by the Board in compliance with the Public Finance Management Act, 1999 (Act 1 Of 1999 as amended) (PFMA) as well as the Treasury Regulations.

Responsibilities of the Audit Committee

In addition to the PFMA prescripts referred to above, the roles and responsibilities of the Committee are set out in the Treasury Regulation 27.1 and the principles of the KING IV Report on Corporate Governance (King IV) were adequately entrenched. The Committee plays an independent role in Corporate Governance, Integrated Reporting and management of internal controls. The Committee has a charter in place, which regulates both its statutory duties and those assigned to it by the Board. It has, during the year under review, regulated its affairs in compliance with this Charter and has discharged all its responsibilities as contained therein, and the related policies and practices.

The Committee is also accountable to the Board to which they report on their evaluation of Financial Statements and effectiveness of internal controls during the financial year, in order to ensure credibility of the audit outcomes that are incorporated to the Annual Report 2019/20.

Furthermore, the roles of the Committee comprise of, but not limited to, the following:

- Review the annual financial statements, interim reports and ensure compliance with Generally Recognised Accounting Practice (GRAP);
- Review and approve the appropriateness of accounting policies, disclosure policies and the effectiveness of internal financial controls;
- Review the effectiveness of internal audit; the risk areas of the Magalies Water's operations to be covered in the scope of internal and external audits;
- Review the accuracy, reliability and adequacy of financial information provided to management and other users of such information;
- Review and recommend the annual report and financial statements for approval by the Board;
- Review any accounting and auditing concerns identified as a result of internal and external audits;
- Review Magalies Water's compliance with legal and regulatory provisions; and
- Review where relevant, the independence and objectivity of the internal and external auditors.
- Approve the annual internal audit plan; and
- Ensure the internal audit function is subject to independent quality review as appropriate.
- Ensure that the IT Charter and Policies are developed and implemented;
- Ensure that IT risks are addressed;
- Consider the use of technology to improve audit coverage;
- Ensure that an IT control framework is adopted and implemented;
- Receive independent assurance on the effectiveness of the IT internal controls;
- Ensure that IT plans are aligned to Magalies Water's strategy;

- Ensure that there is a process in place to identify and exploit opportunities to improve the performance and sustainability of Magalies Water through the use of IT;
- Ensure that the intellectual property contained in the IT systems is protected;
- Ensure that management has put in place adequate business resilience arrangements through business continuity plans in the event of a disaster;
- Ensure that an information security system is developed and implemented; and
- Obtain an understanding of the extent of IT in relation to the evaluation of controls by internal and external audit.
- Approve the terms of engagement and remuneration of the external auditor;
- Ensure a process is in place for the committee to be informed of any reportable irregularities identified by the external auditor.

The Committee hereby reports that it has complied with its responsibilities in accordance to Section 51 of the PFMA, the provisions of Treasury Regulation 27.1 and the principles of the KING IV Report on Corporate Governance (King IV). The Committee plays an independent role in Corporate Governance, Integrated Reporting and management of internal controls. The Committee also reports that it has discharged its responsibilities and regulated its affairs in accordance to its Charter.

The Committee has assisted the Board in fulfilment of its oversight role through review of financial reporting processes, internal controls, audit processes, monitoring compliance with accounting policies, compliance to applicable Legislation and Regulations.

Composition and Attendance to Meetings

The Committee consists of a majority of independent non-executive members. The Committee meets at least four times per year in line with its charter.

The following Independent External Audit Committee Members served on the Committee during the period under review:

Table 46: Independent external Audit Committee members

| Member | Qualifications |
|------------------|-------------------------------------------------------------------------------------|
| Mr SM Mamotheti | MBA, B Compt, Post Grad Dip Accounting Science, Higher Dip Taxation, Certified CIA. |
| Mr S Madikizela* | B Compt, B Acc (Hons), B Bcompt (Hons), CA (SA) |
| Ms K Moodley | LLM, Labour Law, LLB, BA, MIS, Dip Advance Banking, University Computer Dip |

*Mr S Madikizela resigned on 03 March 2020

The Audit Committee held all the Meetings set for the 2019/20 financial year and attendance rate is set out in Table 47 below:

Table 47: Audit Committee attendance

| Member | Attendance |
|------------------------------|------------|
| Ms NM Mufamadi (Chairperson) | 6/6 |
| Ms PN Nkwinika | 6/6 |
| Mr SM Mamotheti | 6/6 |
| Mr S Madikizela | 3/5 |
| Ms K Moodley | 5/6 |

Mr S Madikizela resigned on 03 March 2020

In Table 48 below are other Board Members who attended by invitation the Meetings.

Table 48: Audit Committee attendance by invitation - frequency per meeting

| Member | Attendance |
|-----------------|------------|
| Adv. MM Petlane | 2/2 |
| Mr FP Vilakazi | 2/2 |
| Kgosi SV Suping | 2/2 |
| Mr RM Le Roux | 2/2 |
| Ms Y Matolong | 2/2 |
| Ms KP Mokoena | 2/2 |
| Ms DM Manamela | 1/2 |
| Dr L Zitha | 2/2 |

In addition, also by invitation only, the Chief Executive, Chief Finance Officer, Chief Operations Officer, Chief Audit Executive, Office of the Auditor-General, Strategy Manager and the Risk Specialist attended the Audit Committee Meetings.

Effectiveness of internal control

The systems of controls are designed to provide cost effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. In accordance with the PFMA and corporate governance requirements of King IV, Internal Audit provided the Committee, management and the Board with assurance that the internal controls are appropriate and effective. This has been achieved by ensuring that risk management processes identified corrective actions and led to the enhancements of controls wherever various reports of Internal Audit, the Audit Report and the Management Letter of the Auditor-General could note gaps. During the 2019/20, Management and the Committee also upped the response capacity to mitigate control weaknesses that used to be of concern and are content with the continuous improvements planned for the 2020/2021 financial year.

Evaluation of Financial and Performance Information

The Audit Committee has reviewed and evaluated Financial Information and Performance Information reports on a quarterly basis. Nothing came to the attention of the committee to suggest that any material breakdown in the financial controls has occurred during the financial year under review. The Committee was continuously satisfied with the content and quality of Magalies Water reports.

Evaluation of Annual Financial Statements

The Committee:

- Reviewed and discussed the draft Annual Financial Statements to be included in the integrated Annual Report with the Auditor-General, Management and the Accounting Authority;
- Reviewed changes in accounting policies and practices;
- Reviewed the external auditor's management letter and managements' response thereto;
- Reviewed adjustments resulting from the audit process;
- Reviewed compliance with legal and regulatory provisions, amongst others

The Committee concurs with and accept the Auditor-General's Report on the Annual Financial Statements and all other governance related internal controls applicable to the performance report for 2019/20.

Evaluation of the expertise and experience of the Chief Financial Officer and the finance function.

The Committee has satisfied itself that the Chief Financial Officer has appropriate expertise and experience. The Committee has considered and has satisfied itself of the appropriateness of the expertise and adequacy of resources of the finance function and experience of the senior members of management for the financial function.

Internal Audit

The Internal Audit Plan was approved during the financial year and the Audit Committee provided its oversight to the Internal Audit function and approved the Internal Audit Plan and Charter. The Audit Committee is satisfied that the Internal Audit function is effectively operating and that the function is sufficiently resourced. The Internal Audit function has been open to the idea of subjecting it to independent quality reviews, had the Audit Committee deemed it appropriate.

External Audit

The Audit Committee has studied the report of the Auditor General of South Africa (AGSA) and concurs with and accepts the conclusion and audit opinion of the external auditors on

the annual financial statements. The external audit function, performance by the AGSA is independent from the entity. The Committee has met with the external auditors to ensure that there are no unresolved issues and acknowledges the diligence and cooperation of the external audit team. The Committee recommends that the audited annual financial statement be accepted and read together with the report of the external auditors.



Ms EB Mokgatle

Interim Chairperson of the Audit & Risk Committee

INTERNAL AUDIT OPINION

The overall opinion by Internal Audit on governance, risk management and internal control is a function of this risk based audit programme and contributes to the picture of assurance available to the Board in reviewing effectiveness and supporting our drive for continuous improvement, for the year 2019/20.

The scope of the opinion is confined to those areas examined in the risk based audit plan which was agreed with senior management and approved by the Audit and Risk Committee. The Internal Audit assessment should be interpreted in this context when reviewing the effectiveness of the system of

internal control and be seen as an internal driver for continuous improvement. The Internal Audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management, and internal control is set out below.

The Board can take "Reasonable Assurance" that arrangements to secure governance, risk management and internal control, within those areas that were reviewed, are suitably designed and applied effectively. Some matters require management attention in control design or compliance with low to moderate impact on residual risk exposure until resolved.



MG Dhladhlala
Chief Audit Executive

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON MAGALIES WATER

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of Magalies Water, set out on pages 111 to 142, which comprise the statement of financial position as at 30 June 2020, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of Magalies Water as at 30 June 2020, and its financial performance and cash flows for the year then ended, in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No 1 of 1999) (PFMA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the public entity in accordance with sections 290 and 291 of the Code of ethics for professional accountants and part 1 and 3 of the International code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics

Standards Board of Accountants (IESBA code), as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Restatement of a corresponding figure

7. As disclosed in note 27 to the financial statements, the corresponding figures for 30 June 2019 were restated as a result of an error in the financial statements of the public entity at, and for the year ended, 30 June 2020

Responsibilities of the accounting authority for the financial statements

8. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP and the requirements of the PFMA and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
9. In preparing the financial statements, the accounting authority is responsible for assessing the public entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON MAGALIES WATER

going concern basis of accounting unless the appropriate governance structure either intends to liquidate the public entity or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

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

Report on the audit of the annual performance report

Introduction and scope

12. In accordance with the Public Audit Act of South Africa (Act No 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected

objectives presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

13. My procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators / measures included in the planning documents. My procedures do not examine whether the actions taken by the public entity enabled service delivery. My procedures also do not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
14. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the public entity's annual performance report for the year ended 30 June 2020:

| Objective | Pages in the annual performance report |
|------------------------------------------------|----------------------------------------|
| Objective 1 – To provide quality potable water | 46 |

15. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators

and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

16. I did not identify material findings on the usefulness and reliability of the reported performance information for this objective.

Other matter

17. I draw attention to the matter below.

Achievement of planned targets

18. Refer to the annual performance report on pages 45 to 53 for information on the achievement of planned targets for the year.

Report on the audit of compliance with legislation

Introduction and scope

19. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the public entity's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

20. I did not identify any material findings on compliance with the specific matters in key legislation set out in the general notice issued in terms of the PAA.

Other information

21. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.

22. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.

23. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

24. If based on the work I performed, I conclude that there is a material misstatement in this other information, I am required to report that fact.

25. I have nothing to report in this regard.

Internal control deficiencies

26. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON MAGALIES WATER

I did not identify any significant deficiencies in internal control.

Other reports

27. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the public entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
28. Several investigations arising from allegations were conducted and completed by either the internal audit unit or an independent consulting firm. Some of the completed investigations resulted in recommendations for disciplinary action and proceedings to be instituted against the officials concerned.



Pretoria

30 January 2021



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

ANNEXURE – AUDITOR-GENERAL’S RESPONSIBILITY FOR THE AUDIT

- As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected objectives and on the public entity's compliance with respect to the selected subject matters.

Financial statements

- In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the public entity's internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting authority
 - conclude on the appropriateness of the use of the going concern basis of accounting by the board of directors, which constitutes the accounting authority, in the preparation of the financial statements. I also

conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of Magalies Water to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a public entity to cease operating as a going concern

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

- I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
- I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, the actions taken to eliminate threats or the safeguards applied.

PART D

FINANCIAL PERFORMANCE PERSPECTIVE

GENERAL INFORMATION

| | |
|----------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Country of incorporation and domicile | South Africa |
| Nature of business and principal activities | Provision of water services |
| Members | Ms P Mokoto Mr S Mkhize Dr T Twalo Dr L Sebego Ms B Mokgatle Ms E Malaka Mr V Magqabi Mr D Morienyane Ms B Mahlutshana Mr G Shoahle Mr I Mosala |
| Business address | 38 Heystek street Rustenburg 0300 |
| Controlling entity | Department of Human Settlements, Water and Sanitation |
| Bankers | Standard Bank |
| Auditors | Auditor-General South Africa Registered Auditors |

INDEX

| | |
|------------------------------------------------------|-----|
| Boards' Responsibilities and Approval | 112 |
| Statement of Financial Position | 113 |
| Statement of Financial Performance | 114 |
| Statement of Changes in Net Assets | 115 |
| Cash Flow Statement | 116 |
| Statement of Comparison of Budget and Actual Amounts | 117 |
| Accounting Policies | 118 |
| Notes to the Annual Financial Statements | 124 |

The following supplementary information does not form part of the annual financial statements and is unaudited:

| | |
|---------------------------|-----|
| Detailed Income Statement | 144 |
|---------------------------|-----|

BOARD'S RESPONSIBILITIES AND APPROVAL

The members are required by the Water Services Act No 108 of 1997 and the Public Finance Management Act (Act 1 of 1999), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the members to ensure that the annual financial statements fairly present the state of affairs of the entity as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The members acknowledge that they are ultimately responsible for the system of internal financial control established by the entity and place considerable importance on maintaining a strong control environment. To enable the members to meet these responsibilities, the board of members sets standards for internal control aimed at reducing the risk of error or deficit 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 entity and all employees are required to maintain the highest ethical standards in ensuring the entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the entity is on identifying, assessing, managing and monitoring all known forms of risk across the entity. While operating risk cannot be fully eliminated, the entity endeavours to minimise it by ensuring that



Ms P Mokoto
Interim Chairperson of the Board

appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

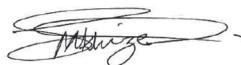
The members have reviewed the entity's cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, they are satisfied that the entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

The entity is wholly dependent on the entity for continued funding of operations. The annual financial statements are prepared on the basis that the entity is a going concern and that the entity has neither the intention nor the need to liquidate or curtail materially the scale of the entity.

Although the board of members are primarily responsible for the financial affairs of the entity, they are supported by the entity's external auditors.

The external auditors are responsible for independently reviewing and reporting on the entity's annual financial statements. The annual financial statements have been examined by the entity's external auditors and their report is presented on page 105 to 109.

The annual financial statements set out on pages 113 to 144, which have been prepared on the going concern basis, were approved by the board of members on 29 January 2021 and were signed on its behalf by:



Mr S Mkhize
Chief Executive Officer

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

Figures in Rand thousand

| | Note(s) | 2020 | 2019 Restated* |
|----------------------------------------|---------|------------------|-------------------|
| Assets | | | |
| Current Assets | | | |
| Inventories | 5 | 35 402 | 32 019 |
| Receivables from exchange transactions | 6 | 363 011 | 334 202 |
| Cash and cash equivalents | 7 | 177 247 | 142 321 |
| | | 575 660 | 508 542 |
| Non-Current Assets | | | |
| Property, plant and equipment | 2 | 2 952 232 | 2 895 084 |
| Intangible assets | 3 | 28 068 | 32 493 |
| | | 2 980 300 | 2 927 577 |
| Total Assets | | 3 555 960 | 3 436 119 |
| Liabilities | | | |
| Current Liabilities | | | |
| Payables from exchange transactions | 10 | 303 412 | 347 298 |
| Deferred income | 8 | 13 909 | 13 909 |
| Capital contributions | 9 | 2 124 | 1 564 |
| | | 319 445 | 362 771 |
| Non-Current Liabilities | | | |
| Deferred income | 8 | 539 022 | 552 932 |
| Capital contributions | 9 | 72 394 | 64 794 |
| | | 611 416 | 617 726 |
| Total Liabilities | | 930 861 | 980 497 |
| Net Assets | | 2 625 099 | 2 455 622 |
| Accumulated surplus | | 2 625 099 | 2 455 622 |

STATEMENT OF FINANCIAL PERFORMANCE

Figures in Rand thousand

| | Note(s) | 2020 | 2019 Restated* |
|-----------------------------|-----------|----------------|-------------------|
| Revenue | 11 | 789 612 | 664 525 |
| Cost of sales | 14 | (480 919) | (439 757) |
| Gross surplus | | 308 693 | 224 768 |
| Other income | 12 | 23 466 | 41 481 |
| Operating expenses | 15 and 17 | (184 080) | (170 904) |
| Operating surplus | | 148 079 | 95 345 |
| Investment revenue | 18 | 21 398 | 26 557 |
| Surplus for the year | | 169 477 | 121 902 |

STATEMENT OF CHANGES IN NET ASSETS

Figures in Rand thousand

| | Accumulated surplus | Total net assets |
|---------------------------------------------|---------------------|------------------|
| Opening balance as previously reported | 1 930 819 | 1 930 819 |
| Adjustments | 402 901 | 402 901 |
| Correction of errors | | |
| Balance at 01 July 2018 as restated* | 2 333 720 | 2 333 720 |
| Changes in net assets | | |
| Surplus for the year | 121 902 | 121 902 |
| Total changes | 121 902 | 121 902 |
| Restated* Balance at 01 July 2019 | 2 455 622 | 2 455 622 |
| Changes in net assets | | |
| Surplus for the year | 169 477 | 163 173 |
| Total changes | 169 477 | 163 173 |
| Balance at 30 June 2020 | 2 625 099 | 2 618 795 |

CASH FLOW STATEMENT

Figures in Rand thousand

| | Note(s) | 2020 | 2019 Restated* |
|-------------------------------------------------------------|---------|------------------|-------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Sale of goods and services | | 716 219 | 754 166 |
| Grants | | 51 424 | 8 749 |
| Interest income | | 21 398 | 26 557 |
| Other receipts | | 1 105 | 762 |
| Capital contributions | | 9 796 | - |
| | | 799 942 | 790 234 |
| Payments | | | |
| Employee costs | | (199 165) | (185 727) |
| Suppliers | | (404 866) | (356 863) |
| | | (604 031) | (542 590) |
| Net cash flows from operating activities | 19 | 195 911 | 247 644 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 2 | (159 919) | (219 093) |
| Proceeds from sale of property, plant and equipment | 2 | - | 7 |
| Purchase of other intangible assets | 3 | (1 066) | (3 829) |
| | | (160 985) | (222 915) |
| Net increase/(decrease) in cash and cash equivalents | | 34 926 | 24 729 |
| Cash and cash equivalents at the beginning of the year | | 142 321 | 117 592 |
| Cash and cash equivalents at the end of the year | 7 | 177 247 | 142 321 |

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

BUDGET ON ACCRUAL BASIS

Figures in Rand thousand

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|------------------------------------------------------------------------------------------------------|------------------|-------------|------------------|------------------------------------|--------------------------------------------|-----------|
| Statement of Financial Performance | | | | | | |
| Revenue | | | | | | |
| Revenue from exchange transactions | | | | | | |
| Sale of goods | 743 683 | - | 743 683 | 738 188 | (5 495) | 30 |
| Management fees | 6 940 | - | 6 940 | 5 411 | (1 529) | 30 |
| Tender fees | 324 | - | 324 | 369 | 45 | 30 |
| Cost recovery income | 1 980 | - | 1 980 | 524 | (1 456) | 30 |
| Other income | 386 | - | 386 | 736 | 350 | 30 |
| Lab analysis | 1 449 | - | 1 449 | 880 | (569) | 30 |
| Deferred income recognised | 15 000 | - | 15 000 | 15 546 | 546 | 30 |
| Finance income | 18 280 | - | 18 280 | 21 398 | 3 118 | 30 |
| Total revenue from exchange transactions | 788 042 | - | 788 042 | 783 052 | (4 990) | |
| Revenue from non-exchange transactions | | | | | | |
| Transfer revenue | | | | | | |
| Government grants and subsidies | 15 000 | - | 15 000 | 51 424 | 36 424 | 30 |
| Total revenue | 803 042 | - | 803 042 | 834 476 | 31 434 | |
| Expenditure | | | | | | |
| Personnel | (107 880) | - | (107 880) | (96 682) | 11 198 | 30 |
| Depreciation and amortisation | (17 088) | - | (17 088) | (9 201) | 7 887 | 30 |
| Sale of goods/Inventory | (471 563) | - | (471 563) | (480 919) | (9 356) | 30 |
| General Expenses | (100 975) | - | (100 975) | (77 367) | 23 608 | 30 |
| Total expenditure | (697 506) | - | (697 506) | (664 169) | 33 337 | |
| Operating surplus | 105 536 | - | 105 536 | 170 307 | 64 771 | |
| Loss on disposal of assets | - | - | - | (830) | (830) | |
| Surplus before taxation | 105 536 | - | 105 536 | 169 477 | 63 941 | |
| Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement | 105 536 | - | 105 536 | 169 477 | 63 941 | |

MAGALIES WATER ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

ACCOUNTING POLICIES

1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Water Services Act No 108 of 1997 and the Public Finance Management Act (Act 1 of 1999).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand, rounded to the nearest thousand, unless stated otherwise.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the entity.

1.2 New and amended standards not yet effective and not adopted

GRAP 32 on Service Concession Arrangements: Grantor
 GRAP 108 on Statutory Receivables
 GRAP 109 on Accounting by Principals and Agents
 GRAP 110 on Living and Non-living Resources

1.3 Going concern assumption

These annual financial statements have been prepared based on the expectation that the entity will continue to operate as a going concern for at least the next 12 months.

1.4 Significant judgments and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgment is

inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

Significant judgments include:

Depreciation methods, residual values, impairment of assets and provision for doubtful debt.

Trade receivables

The entity assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the entity makes judgments as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, short term cash investments and bank balances and are initially measured at fair value and subsequently measured at amortised cost.

Payables from exchange transaction

Payables from exchange are initially measured at fair value and subsequently measured at amortised cost.

1.5 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

ACCOUNTING POLICIES

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value.

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

| Item | Depreciation method | Average useful life |
|--------------------------------------|---------------------|---------------------|
| Buildings other infrastructure | Straight line | 40 - 55 years |
| Plant and machinery | Straight line | 18 - 55 years |
| Furniture and fixtures | Straight line | 6 - 30 years |
| Mobile equipments and motor vehicles | Straight line | 4 - 35 years |
| Office equipment | Straight line | 3 - 35 years |
| IT equipments and accessories | Straight line | 3 - 10 years |
| Pipelines and Reservoirs | Straight line | 45 - 85 years |
| Laboratory equipment | Straight line | 5 - 10 years |

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The entity assesses at each reporting date whether there is any indication that the entity expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the entity revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from entity or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
- the cost or fair value of the asset can be measured reliably.

MAGALIES WATER ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

ACCOUNTING POLICIES

Acquired computer software is capitalised on the basis of costs incurred to acquire and bring into use the specific software. Costs associated with maintaining computer software programs and acquisition of licences are recognised as an expense when they are incurred.

Servitudes are rights granted to Magalies Water for an indefinite period of time. The life of the servitude will remain in force as long as the relevant infrastructure is still in use. A servitude will only become impaired if the infrastructure to which the servitude is derecognised.

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

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

| Item | Amortisation method | Average useful life |
|-------------------|---------------------|---------------------|
| Computer software | Straight line | 3 - 15 years |
| Servitudes | | Indefinite |

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

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

- a. Financial assets measured at amortised cost.
- b. Financial liabilities measured at amortised cost.

Classification depends on the purpose for which the financial instruments were obtained/incurred and takes place as initial recognition. The entity classifies the financial instruments, or their components parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available for sale financial assets.

Subsequent measurement of financial assets and financial liabilities

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

The entity subsequently measures financial liabilities at amortised cost, using the effective interest method.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired.

For amounts due to the entity, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default on payments are all considered indicators of impairment.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit. Where such assets are written off, the write off is made against the relevant allowance account. The amount of reversal is recognised in surplus or deficit.

Derecognition

Financial assets

The entity derecognises financial assets when the right to receive cash flows from the financial asset have expired or have been transferred and the entity has transferred substantially all risks and rewards of ownership.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

ACCOUNTING POLICIES

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating lease.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost, determined on the weighted average cost basis, and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution. The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Inventories held by the entity comprise of water, chemicals and maintenance spares.

1.10 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within twelve months after the end of the period in which the employees render the related service.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when absence occurs.

The expected cost of performance bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plan

The entity contributes towards Magalies Water Retirement Fund and the fund is registered and controlled in terms of the Pension Fund Act 24 of 1956. The entity is under no obligation to cover any unfunded benefits.

ACCOUNTING POLICIES

1.11 Contingent liability

A contingent liability is a possible obligation that arises from past events and whose events will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within control of the entity.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 20.

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners. An exchange transaction is one in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.13 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an entity, which represents an increase in net assets, other than increases relating to contributions from owners.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the entity.

1.14 Cost of sales

Cost of sales includes the cost of raw water, chemicals, electricity and all other direct operating costs associated with the production of water.

1.15 Transfer of assets from customers

Transferred assets from customers are recognised and initially measured at fair value. The corresponding amount is recognised as deferred income. Revenue is recognised on a systematic basis over the useful life of the asset.

1.16 Capital contribution

The contributions are recognised as revenue on a systematic basis over the useful life of the assets when the assets are brought into use.

1.17 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

ACCOUNTING POLICIES

1.18 Comparative figures

Where necessary, comparative figures have been restated or reclassified to conform to changes in presentation in the current year.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Irregular expenditure

For the purposes of determining whether irregular expenditure has taken place, there must have been a transgression of a provision contained in any applicable legislation which shall include PFMA, Treasury Regulations, National Treasury Instructions and Supply Chain Management Policy.

All instances of irregular expenditure are investigated, and disciplinary action is taken against the employees who have transgressed the regulations.

1.21 Budget information

The approved budget is prepared on an accrual basis and presented by functional classification.

The approved budget covers the fiscal period from 2019/07/01 to 2020/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.22 Related parties

Magalies Water is a state controlled entity and has related party relationships with all other entities within the sphere of government. Unless otherwise disclosed, all transactions with related parties are on arm's length basis at market related prices.

1.23 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The entity will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The entity will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.24 Offsetting

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

1.25 Expenditure

Expenditure is recognised when Magalies Water is deemed to have been supplied or has control of the goods supplied

MAGALIES WATER ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020
NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. Property, plant and equipment

Figures in Rand thousand

| | 2020 | | | 2019 | | |
|-------------------------------------|------------------|-----------------------------------------------------|------------------|------------------|-----------------------------------------------------|------------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 4 564 | - | 4 564 | 4 564 | - | 4 564 |
| Buildings and other infrastructure | 295 872 | (79 626) | 215 246 | 292 811 | (72 880) | 219 931 |
| Plant and machinery | 734 787 | (206 714) | 528 073 | 697 492 | (173 076) | 524 416 |
| Furniture and fixtures | 18 037 | (8 682) | 9 355 | 16 783 | (7 479) | 9 304 |
| Mobile equipment and motor vehicles | 30 431 | (24 324) | 6 107 | 29 218 | (21 939) | 7 279 |
| IT equipment and accessories | 23 603 | (16 498) | 7 105 | 22 733 | (12 431) | 10 302 |
| Pipelines and reservoirs | 2 264 044 | (489 285) | 1 774 759 | 2 262 032 | (439 280) | 1 822 752 |
| Capital work in progress | 406 023 | - | 406 023 | 296 536 | - | 296 536 |
| Total | 3 777 361 | (825 129) | 2 952 232 | 3 622 169 | (727 085) | 2 895 084 |

Reconciliation of property, plant and equipment - 2020

| | Opening balance | Additions | Disposals | Transfers | Depreciation | Total |
|--------------------------------------|------------------|----------------|--------------|-----------|------------------|------------------|
| Land | 4 564 | - | - | - | - | 4 564 |
| Buildings and infrastructure | 219 931 | 3 300 | (138) | - | (6 847) | 216 246 |
| Plant and machinery | 524 416 | 14 763 | (529) | 26 364 | (36 941) | 528 073 |
| Furniture and fixtures | 9 304 | 1 566 | (27) | - | (1 488) | 9 355 |
| Mobile equipments and motor vehicles | 7 279 | 1 212 | - | - | (2 384) | 6 107 |
| IT equipment and accessories | 10 302 | 1 196 | (136) | 17 | (4 274) | 7 105 |
| Pipeline and reservoirs | 1 822 752 | 497 | - | 1 517 | (50 007) | 1 774 759 |
| Capital work in progress | 296 536 | 137 385 | - | (27 898) | - | 406 023 |
| Total | 2 895 084 | 159 919 | (830) | - | (101 941) | 2 952 232 |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Reconciliation of property, plant and equipment - 2019

| | Opening balance | Additions | Reclassification | Disposals | Transfers | Depreciation | Impairment loss | Total |
|-------------------------------------|------------------|----------------|------------------|------------|-----------|-----------------|-----------------|------------------|
| Land | 4 564 | - | - | - | - | - | - | 4 564 |
| Buildings and infrastructure | 179 278 | 1 312 | (3 152) | - | 48 197 | (5 704) | - | 219 931 |
| Plant and machinery | 361 816 | 15 414 | 1 | (7) | 178 253 | (31 021) | (40) | 524 416 |
| Furniture and fixtures | 5 558 | 1 414 | 3 151 | - | 2 | (819) | (2) | 9 304 |
| Mobile equipment and motor vehicles | 8 522 | 1 096 | - | - | - | (2 339) | - | 7 279 |
| IT equipment and accessories | 11 029 | 1 868 | - | - | 1 128 | (3 723) | - | 10 302 |
| Pipelines and reservoirs | 1 582 933 | - | - | - | 284 298 | (44 479) | - | 1 822 752 |
| Capital work in progress | 610 425 | 197 989 | - | - | (511 878) | - | - | 296 536 |
| | 2 764 125 | 219 093 | | (7) | - | (88 085) | (42) | 2 895 084 |

Pledged as security

Property, plant and equipment is not pledged as security.

3. Intangible assets

Figures in Rand thousand

| | 2020 | | | 2019 | | |
|--------------------------|------------------|-----------------------------------------------------|----------------|------------------|-----------------------------------------------------|----------------|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software, other | 49 282 | (22 403) | 26 879 | 48 216 | (16 912) | 31 304 |
| Servitudes | 1 189 | - | 1 189 | 1 189 | - | 1 189 |
| Total | 50 471 | (22 403) | 28 068 | 49 405 | (16 912) | 32 493 |

Reconciliation of intangible assets - 2020

| | Opening balance | Additions | Amortisation | Total |
|--------------------------|-----------------|--------------|----------------|---------------|
| Computer software, other | 31 305 | 1 066 | (5 492) | 26 879 |
| Servitudes | 1 189 | - | - | 1 189 |
| | 32 494 | 1 066 | (5 492) | 28 068 |

MAGALIES WATER ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020
NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. Intangible assets (continued)

Reconciliation of intangible assets - 2019

| | Opening balance | Additions | Amortisation | Total |
|--------------------------|------------------------|------------------|---------------------|---------------|
| Computer software, other | 32 276 | 3 829 | (4 800) | 31 305 |
| Servitudes | 1 189 | - | - | 1 189 |
| | 33 465 | 3 829 | (4 800) | 32 494 |

4. Employee benefit obligations

Defined contribution plan

The entity contributes towards Magalies Water Retirement Fund which is controlled in terms of the Pensions Fund Act 24 of 1956.

The entity is under no obligation to cover any unfunded benefits.

| | 2020 | 2019 |
|-----------------------------------------------------------------------|-------------|-------------|
| The total economic entity contribution to such schemes | 28 404 | 22 582 |
| The amount recognised as an expense for defined contribution plans is | 28 404 | 22 582 |

Other employee benefits

Magalies Water provide long-term service awards to employees but no provision was raised in the financial statement, as the figure is immaterial. The total expenditure incurred for 2019/20 financial year amount to R299 750 (2018/19: R418 250).

5. Inventories

| | | |
|--------------------|---------------|---------------|
| Spare, consumables | 25 199 | 23 823 |
| Water inventory | 2 321 | 2 076 |
| Chemicals | 7 882 | 6 120 |
| | 35 402 | 32 019 |

Inventory pledged as security

Inventory was not pledged as security.

MAGALIES WATER ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020
NOTES TO THE ANNUAL FINANCIAL STATEMENTS

6. Receivables from exchange transactions

| | 2020 | 2019 |
|---------------------------|----------------|----------------|
| Prepayments | 1 671 | 958 |
| Trade receivables | 372 879 | 339 609 |
| Impairment of receivables | (30 736) | (25 233) |
| Sundry debtors | 15 196 | 15 015 |
| Deposits | 4 001 | 3 853 |
| | 363 011 | 334 202 |

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2020, R 41 365 028 (2019: R 51 056 947) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

| | | |
|---------|--------|--------|
| 30 days | 19 787 | 22 223 |
| 60 days | 21 578 | 28 834 |

Trade and other receivables impaired

As of 30 June 2020, trade and other receivables of R 228 618 110 (2019: R 185 277 362) were outstanding for more than 3 months and were assessed for impairment and an allowance for impairment was provided for.

The amount of the provision was R 30 736 215 as of 30 June 2020 (2019: R 25 232 779).

The ageing of these loans is as follows:

| | | |
|---------------|---------|---------|
| 3 to 6 months | 65 870 | 35 661 |
| Over 6 months | 162 748 | 149 616 |

Reconciliation of provision for impairment of trade and other receivables

| | | |
|--------------------------|---------------|---------------|
| Opening balance | 25 233 | 38 869 |
| Provision for impairment | 5 503 | - |
| Unused amounts reversed | - | (13 636) |
| | 30 736 | 25 233 |

7. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---------------------|----------------|----------------|
| Cash on hand | 15 | 15 |
| Bank balances | 42 954 | 27 447 |
| Short-term deposits | 134 278 | 114 859 |
| | 177 247 | 142 321 |

MAGALIES WATER ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020
NOTES TO THE ANNUAL FINANCIAL STATEMENTS

7. Cash and cash equivalents (continued)

Short-term deposits consist of investment held with financial institutions for capital growth. Cash and cash equivalents are not pledged as security

8. Deferred income

| | 2020 | 2019 |
|---------------------------|----------------|----------------|
| Non - current liabilities | 539 022 | 552 932 |
| Current liabilities | 13 909 | 13 909 |
| | 552 931 | 566 841 |

Deferred income consist of assets transferred by the mines to Magalies Water. These assets consist of pipelines and reservoir contributed by the Platinum Mine in line with the off-take agreement that was signed in 2008 for R 123,4 million and R 457,3 million received from Barrick, Maseve and Wesizwe mines in the 2016/17 financial year.

Transferred assets from customers are measured on initial recognition at fair value. The corresponding amount is recognised as deferred income. Revenue is recognised on a systematic basis over the useful life of the assets.

9. Capital contributions

| | | |
|-------------------------|---------------|---------------|
| Non-current liabilities | 72 394 | 64 794 |
| Current liabilities | 2 124 | 1 564 |
| | 74 518 | 66 358 |

Capital contributions consist primarily of contributions received from Maseve Investments R59.4M and Bakubung Minerals R44.9M. These contributions are recognised as revenue when the assets are brought into use over the useful life of the assets as per the agreement.

10. Payables from exchange transactions

| | | |
|------------------------------|----------------|----------------|
| Trade payables | 234 932 | 277 848 |
| Amounts received in advanced | 10 421 | 16 742 |
| Accrual for bonuses | 14 883 | 14 323 |
| Retentions | 28 930 | 24 518 |
| Deposits received | 2 940 | 2 212 |
| Accrual for leave | 11 210 | 10 903 |
| Other payables | 96 | 752 |
| | 303 412 | 347 298 |

Trade and other payables are carried at amortised cost and the carrying amount approximates fair value. Trade payables are normally settled within 30 days from the date of receipt of invoice.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

11. Revenue

| | 2020 | 2019 |
|------------------------------------------------------------------------------------------------|---------|---------|
| Total revenue | 789 612 | 664 525 |
| The amount included in revenue arising from exchanges of goods or services are as follows: | | |
| Sale of water | 738 188 | 655 776 |
| The amount included in revenue arising from non-exchange transactions is as follows: | | |
| Transfer revenue | | |
| Government grants and subsidies | 51 424 | 8 749 |

12. Other operating income

| | | |
|----------------------------|---------------|---------------|
| Management fees | 5 411 | 7 573 |
| Tender fees | 369 | 297 |
| Rental income | 227 | 247 |
| Debt impairment recovered | - | 13 636 |
| Cost recovery income | 524 | 1 830 |
| Other income * | 509 | 599 |
| Lab analysis | 880 | 1 825 |
| Deferred income recognised | 15 546 | 15 474 |
| | 23 466 | 41 481 |

* - Other income comprise water connections fees, administration fees and other sundry income.

13. Repairs and maintenance (included in cost of sales and other expenses)

| | | |
|--------------------------|---------------|---------------|
| Buildings | - | 247 |
| Plant and machinery | 25 345 | 22 079 |
| Motor vehicles | 2 505 | 2 321 |
| Pipelines and reservoirs | 8 900 | 6 988 |
| | 36 750 | 31 635 |

MAGALIES WATER ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

14. Cost of sales

| | 2020 | 2019 |
|--------------------------------------------------|----------------|----------------|
| Sale of goods | | |
| Raw water purchases | 82 315 | 86 226 |
| Chemicals | | |
| Employee costs | 34 729 | 31 062 |
| Electricity | 102 482 | 94 084 |
| Depreciation and impairments | 114 070 | 99 130 |
| Repairs and maintenance | 98 242 | 84 438 |
| Other production overheads | 35 460 | 30 636 |
| Portable water costs (City of Tshwane Augmented) | 4 916 | 4 583 |
| | 8 705 | 9 598 |
| | 480 919 | 439 757 |

15. Employee related costs

| | | |
|--------------------------------------------------------------------|---------------|---------------|
| Basic | 62 044 | 56 909 |
| Bonus | 13 410 | 11 298 |
| Medical aid - company contributions | 896 | 883 |
| Settlement allowance | 293 | 757 |
| Company contributions | 14 279 | 12 228 |
| Travel, motor car, accommodation, subsistence and other allowances | 520 | 580 |
| Overtime payments | 623 | 734 |
| Acting allowances | 935 | 1 062 |
| Car allowance | 92 | 92 |
| Housing benefits and allowances | 1 576 | 1 384 |
| Cellphone allowance | 1 044 | 993 |
| Other salary expenses | 838 | 4 562 |
| Standby allowance | 132 | 161 |
| | 96 682 | 91 643 |

16. Depreciation and amortisation

| | | |
|------------------------|--------------|--------------|
| Buildings | 206 | 239 |
| Furniture and fixtures | 515 | 975 |
| Motor vehicle | 14 | 63 |
| IT equipment | 2 887 | 2 761 |
| Intangible assets | 5 492 | 4 405 |
| Plant and machinery | 87 | 40 |
| | 9 201 | 8 483 |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

17. General expenses

Admin overheads
 Advertising
 Auditors remuneration
 Bad debts
 Bank charges
 Catering
 Cleaning
 Computer expenses
 Consulting and professional fees
 Consumables
 Corporate social responsibility
 Donations
 Electricity
 Flowers
 Insurance
 Lease rentals on operating lease
 Legal expense
 Licence fees
 Membership fees
 Other operating expenses
 Promotions and publication
 Recruitment costs
 Repairs and maintenance (admin)
 Security
 Telephone and fax
 Training and conferences
 Travel and accommodation

| | 2020 | 2019 |
|----------------------------------|---------------|---------------|
| Admin overheads | 3 312 | 2 007 |
| Advertising | 648 | 853 |
| Auditors remuneration | 2 389 | 2 288 |
| Bad debts | 5 503 | - |
| Bank charges | 172 | 166 |
| Catering | 452 | 542 |
| Cleaning | 83 | - |
| Computer expenses | 696 | 211 |
| Consulting and professional fees | 10 718 | 8 066 |
| Consumables | 2 678 | 2 499 |
| Corporate social responsibility | 1 527 | 4 796 |
| Donations | 541 | 50 |
| Electricity | 717 | 579 |
| Flowers | - | 37 |
| Insurance | 4 826 | 2 735 |
| Lease rentals on operating lease | 1 076 | 857 |
| Legal expense | 1 765 | 2 087 |
| Licence fees | 2 488 | 3 090 |
| Membership fees | 291 | 257 |
| Other operating expenses | 5 015 | 5 664 |
| Promotions and publication | 5 056 | 6 619 |
| Recruitment costs | 424 | 543 |
| Repairs and maintenance (admin) | 1 290 | 998 |
| Security | 9 336 | 6 249 |
| Telephone and fax | 3 822 | 4 544 |
| Training and conferences | 7 779 | 9 938 |
| Travel and accommodation | 4 763 | 5 101 |
| | 77 367 | 70 776 |

MAGALIES WATER ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020
NOTES TO THE ANNUAL FINANCIAL STATEMENTS

18. Investment revenue

| | 2020 | 2019 |
|-------------------------------------------------|---------------|---------------|
| Interest revenue | | |
| Interest on short-term deposit | 8 404 | 10 003 |
| Interest on bank balance | 1 460 | 1 386 |
| Interest charged on trade and other receivables | 11 534 | 15 168 |
| | 21 398 | 26 557 |

19. Cash generated from operations

| | | |
|--------------------------------------------------|----------------|----------------|
| Surplus | 169 477 | 121 902 |
| Adjustments for: | | |
| Depreciation and amortisation | 107 432 | 92 921 |
| Loss on sale of assets | 830 | - |
| Finance income | - | - |
| Impairment | - | 42 |
| Movements in operating lease assets and accruals | - | (6) |
| Changes in working capital: | | |
| Inventories | (3 383) | (5 923) |
| Receivables from exchange transactions | (28 809) | 72 382 |
| Payables from exchange transactions | (43 886) | (8 222) |
| Unspent conditional grants and receipts | - | (9 978) |
| Deferred income | (5 750) | (15 474) |
| | 195 911 | 247 644 |

20. Contingencies

Contingent Liabilities

| | | |
|---------------------------------------|--------------|--------------|
| Guarantee issued by the Standard Bank | 512 | 512 |
| Litigations by ex-employees | 540 | 870 |
| Ya Rena Civils (Pty) Ltd | 3 276 | 3 276 |
| | 4 328 | 4 658 |

Guarantees of R512 378 were issued by Standard Bank in respect of payments to Eskom.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Legal proceedings have been instituted against Magalies Water by ex-employees. Magalies Water has reasonable defence and the probability of the loss is minimal. The amount claimed by the plaintiffs is R540 000. The matter has been dragging for numbers of years caused by the applicants (being ex-employees). The applicants have failed to set the matter down for trial and arguments. Magalies Water has instructed its attorneys to apply to Court to have the matter struck off the roll due to the delays caused by the applicants.

Ya Rena Civils was contracted to build a 20 mega liter reservoir for the Pilanesburg Scheme. The contractor failed to complete the work on time and penalties were imposed by Magalies Water. The contractor is suing Magalies Water for payment of the last invoice submitted; despite penalties imposed for the delays being higher than the invoice submitted. Ya Rena issued summons against Magalies Water, in turn Magalies Water raised a counter claim. The application by Ya Rena was dismissed. Ya Rena appealed against the decision of the High Court. The appeal was dismissed with costs. The matter is currently at the Appellate Division at the instance of Ya-Rena of which Magalies Water is opposing.

Contingent assets

Magalies Water has servitudes that are not yet registered in the entity's name. The process to negotiate the value of the land with the owners is in progress. As at 30 June 2020, this process was not finalised. As a result, Magalies Water is uncertain as to the amount of these servitudes. These servitudes have not been accounted for in the annual financial statements.

21. Commitments

| | 2020 | 2019 |
|-----------------------------------------|----------------|----------------|
| Capital commitments | | |
| Already contracted but not provided for | | |
| Property, plant and equipment | 162 991 | 275 695 |
| Other commitments | | |
| Operational commitments | 39 986 | 28 834 |
| | 202 977 | 304 529 |

Other commitments not disclosed in the disclosure balance relates to contractual agreements determined on the hours spent on a project and/or rate of items or services procured. The total contractual obligation could not be determined.

Operating lease commitments

| | | |
|-------------------------------------|------------|------------|
| Minimum lease payments due | | |
| - Within one year | 133 | 449 |
| - In second to fifth year inclusive | 10 | 151 |
| | 143 | 600 |

Operating lease payments represent rentals payable by the entity for office equipments. Leases are negotiated for an average term of three years. The rental periods are in accordance with the contracts per service provider.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

22. Fruitless and wasteful expenditure

| | 2020 | 2019 |
|---------------------------------------|------|------|
| Opening balance as restated | - | - |
| Add: Expenditure identified - current | 2 | - |
| Less: Amounts recoverable - current | (2) | - |
| Closing balance | - | - |

Fruitless expenditure of R 1 979,76 was incurred due to interest charged for late payment of Telkom account. The responsible official acknowledged and committed to pay, the transaction was transferred to receivables for recovery.

23. Irregular expenditure

| | | |
|--------------------------------------------------------|--------------|--------------|
| Opening balance as previously reported | 5 824 | 5 417 |
| Opening balance as restated | 5 824 | 5 417 |
| Add: Irregular expenditure identified during the audit | - | 407 |
| Closing balance | 5 824 | 5 824 |

Included in the opening balance is an amount of R 4 616 000 relating to the previous financial year irregular expenditure which was referred to National Treasury for condonation. The balance of R 1 208 000 will be referred to the Board for approval.

24. Financial instruments disclosure

Categories of financial instruments

The carrying values of financial assets and liabilities are presented by class in the tables below:

2020

Financial assets

| | At amortised cost | Total |
|--------------------------------------------------------|-------------------|----------------|
| Trade and other receivables from exchange transactions | 363 011 | 362 986 |
| Cash and cash equivalents | 177 247 | 177 247 |
| | 540 258 | 540 233 |

Financial liabilities

| | At amortised cost | Total |
|-----------------------------------------------------|-------------------|---------|
| Trade and other payables from exchange transactions | 303 412 | 303 412 |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2019**Financial assets**

| | At amortised cost | Total |
|--------------------------------------------------------|-------------------|----------------|
| Trade and other receivables from exchange transactions | 334 202 | 334 202 |
| Cash and cash equivalents | 142 321 | 142 321 |
| | 476 523 | 476 523 |

Financial liabilities

| | At amortised cost | Total |
|-----------------------------------------------------|-------------------|---------|
| Trade and other payables from exchange transactions | 347 298 | 347 298 |

25. Risk management

Capital risk management

Magalies Water's objective for managing capital is to enhance shareholder value and generated sufficient surplus to meet the required capital expenditure programmes, thus sustaining future development of the entity and its ability to continue as a going concern. This objective has remained consistent with the previous years.

Financial risk management

The principal financial risks to which Magalies Water is exposed as a result of its financial instruments are liquidity risk, credit risk and market risk (interest rate risk).

The entity's overall risk management strategy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the entity's financial performance. Risk management is carried out by the entity's investment advisors under policies approved by the Board. The investment policy provides guidelines for overall risk management, as well as investment of excess liquidity.

Liquidity risk

Liquidity risk is the risk that the entity will encounter difficulties in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Magalies Water's approach to managing liquidity risk is to ensure that the entity will always have sufficient liquidity to meet its liabilities when they fall due.

Magalies Water monitors its risk to shortage of funds using projected cash flows from operations and has provision for cash buffer investment. The entity also manages liquidity risk through an ongoing review of future commitments. Cash flow forecasts are prepared.

The table below reflects Magalies Water's maximum exposure to liquidity risk, which equals the carrying value of trade and other payables at reporting date:

MAGALIES WATER ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020
NOTES TO THE ANNUAL FINANCIAL STATEMENTS

25. Risk management (continued)

| | 0 to 30 days | 30 to 120 days | over 120 days | Total |
|--------------------------|-----------------|-------------------|------------------|---------|
| Trade and other payables | 139 877 | 70 527 | 93 008 | 303 412 |

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, financial instruments and trade debtors. The entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Magalies Water minimizes loss by default of customers through implementation of policies and procedures relating to debt collection. All known risks are disclosed to the Board. Interest is charged at prime rate on debt over 30 days from the date of invoice.

The Board does not expect any of the counterparties to fail to meet their obligations, hence no investment has been impaired during the current and prior year.

Financial assets exposed to credit risk at year end were as follows:

| Financial instrument | 2020 | 2019 |
|-----------------------------|---------|---------|
| Trade and other receivables | 363 011 | 334 202 |
| Cash and cash equivalents | 177 247 | 142 321 |

Market risk

Interest rate risk

As the entity has no significant interest-bearing assets, the entity's income and operating cash flows are substantially independent of changes in market interest rates.

Magalies Water is exposed to interest rate as a result of investments held with various institutions. The entity has variable interest rate facilities which are reset on changes in prime interest rate, and therefore exposed to cash flow interest risk.

A sensitivity analysis to a change in interest rate has been performed based on the exposure to interest rates on investments at reporting date. A 1% increase or decrease has been used and represent management's assessment of the reasonable possible change in interest rates. The sensitivity analysis has been performed on the same basis as the previous year.

The following table illustrates the sensitivity of the entity to interest rate changes by 1%:

1% decrease

| | | |
|----------------------------------|----------------|----------------|
| Decrease in financial assets | (1 343) | (1 148) |
| Decrease in comprehensive income | (1 343) | (1 148) |
| | (2 686) | (2 296) |

1% increase

| | | |
|----------------------------------|--------------|--------------|
| Increase in financial assets | 1 343 | 1 148 |
| Increase in comprehensive income | 1 343 | 1 148 |
| | 2 686 | 2 296 |

MAGALIES WATER ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020
NOTES TO THE ANNUAL FINANCIAL STATEMENTS

26. Related parties

Relationships

| | |
|-----------------------------|------------------------------------|
| Ultimate controlling entity | National Government |
| Controlling entity | Department of Water and Sanitation |

| | 2020 | 2019 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|----------|
| Related party balances and transactions | | |
| Amounts included in trade and other receivables | | |
| Department of Water and Sanitation | 30 777 | 15 873 |
| Rand Water | 22 906 | 20 169 |
| Amounts included in trade payables | | |
| Department of Water and Sanitation | 119 890 | 125 959 |
| Amounts included in revenue | | |
| Department of Water and Sanitation | 51 424 | 8 749 |
| Rand Water | 168 035 | 161 177 |
| Amounts included in other operating income | | |
| Department of Water and Sanitation | 4 240 | 4 024 |
| Amounts included in cost of sales | | |
| Department of Water and Sanitation | 82 560 | 85 908 |
| During the financial year ended 30 June 2019, a liability of R90 957 128,76 for grants received was incorrectly accounted for in the annual financial statements. Based on new accounting framework, the liability does not exist and revenue should be recognised. A total of R8 748 835,44 was received during 2018/19 financial year and should have been recorded as non-exchange revenue and not a liability, and the balance of R82 208 293,32 should have been realised in the previous period and included in accumulated surplus. The correction of prior period error resulted in decrease in liability for unspent conditional grant and a decrease in revenue from non-exchange transactions. | | |
| Restatement of related party balances | | |
| Amounts included in unspent conditional grants | | |
| Department of Water and Sanitation - as previously reported | - | 90 957 |
| Prior period error - refer to note 27 | - | (90 957) |
| Department of Water and Sanitation unspent conditional grants - as restated | - | - |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

26. Related parties (continued)

| | 2020 | 2019 |
|---------------------------------------------------------------------------|------|-----------|
| Restatement of related party transactions | | |
| Amounts included in revenue | | |
| Department of Water and Sanitation -as previously reported | - | 323 426 |
| Prior period error - refer to note 27 | - | (314 677) |
| Department of Water and Sanitation amounts included revenue - as restated | - | 8 749 |

Emoluments

Emoluments: Board members

2020

| Name | Board fees | Committee fees | Other fees ^ | Expenses ^^ | Total |
|---------------------------------------|------------|----------------|--------------|--------------|--------------|
| Adv. M.M. Petlane (Chairperson) | 60 | 92 | 377 | 679 | 1 208 |
| Ms P.N. Nkwinika (Deputy Chairperson) | 34 | 149 | 243 | 511 | 937 |
| Mr F.P. Vilakazi | 44 | 102 | 108 | 170 | 424 |
| Ms M.M. Mufamadi | 43 | 105 | 63 | 192 | 403 |
| Mr S.V. Suping | 31 | 57 | 133 | 327 | 548 |
| Ms Y.M. Matolong | 41 | 97 | 143 | 238 | 519 |
| Mr R.M. Le Roux | 36 | 71 | 87 | 227 | 421 |
| Ms K.P.N Mokoena | 33 | 81 | 127 | 225 | 466 |
| Ms L. Zitha | 33 | 90 | 70 | 196 | 389 |
| Ms D.M. Manamela | 34 | 76 | 97 | 221 | 428 |
| | 389 | 920 | 1 448 | 2 986 | 5 743 |

The minister appointed an interim board for Magalies Water, refer to page 23 for a list of interim board members appointed. The previous board served until end of the 2020 financial year.

^Other fees consist of compensation for other meeting attended by the Board members

^^ Expenses comprise of stipend, travel and accommodation and general refunds.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2019

| Name | Board fees | Committee fees | Other fees ^ | Expenses ^^ | Total |
|-----------------------------------------|------------|----------------|--------------|--------------|--------------|
| Adv. M.M. Petlane (Chairperson)* | 55 | 34 | 226 | 484 | 799 |
| Ms P.N. Nkwinika (Deputy Chairperson)* | 9 | 142 | 123 | 505 | 779 |
| Mr D.R. Sibanda*** | 13 | 47 | 10 | 117 | 187 |
| Ms T.F. Zondi** | 18 | 96 | 64 | 174 | 352 |
| Ms T.D. Monewe** | 22 | 92 | 76 | 185 | 375 |
| Mr T.T. Mohapi** | 15 | 82 | 44 | 246 | 387 |
| Ms. F. Saloojee** | 15 | 54 | 34 | 181 | 284 |
| Mr F.P. Vilakazi* | 18 | 119 | 103 | 206 | 446 |
| Ms M.M. Mufamadi* | 11 | 53 | 23 | 165 | 252 |
| Mr S.V. Suping* | 13 | 60 | 69 | 264 | 406 |
| Ms M.S. Ratlhagane** | 22 | 97 | 53 | 237 | 409 |
| Ms Y.M. Matolong* | - | - | 17 | 25 | 42 |
| Mr R.M. Le Roux* | - | - | 19 | 30 | 49 |
| Ms K.P.N Mokoena* | - | - | 17 | 23 | 40 |
| Ms L. Zitha* | - | - | 17 | 27 | 44 |
| Ms D.M. Manamela* | - | - | 17 | 25 | 42 |
| | 211 | 876 | 912 | 2 894 | 4 893 |

The Minister issued letters of appreciation for service to the members of Magalies Water's Board on 30 June 2020. An interim Board was then appointed from 01 July 2020.

*New Board members were appointed effective from 1 May 2019, comprising of MR R.M Le Roux; Ms Y.M Matolong; Ms K.P.N Mokoena; Ms L Zitha and Ms D.M Manamela. The following members were re-appointed to the Board: Adv M.M Petlane; Ms P.N Nkwinika; Mr F.P Vilakazi, Ms M.M Mufamadi, MR S.V Suping.

** Ms T.D Monewe, Mr T.T Mohapi, Ms F Saloojee, Ms M.S Ratlhagane and Ms T. F Zondi - The term ended 30 April 2019.

***Mr D.R Sibanda resigned on 15 January 2019.

^ Other fees consist of compensation for other meeting attended by the Board members.

^^ Expenses comprise of stipend, travel and accommodation and general refunds.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

26. Related parties (continued)

Emoluments: Executive staff members

2020

| | Salary | Acting allowance | Expenses^ | Performance bonus | Expenses | Total |
|-------------------------------------------------------|---------------|------------------|------------|-------------------|--------------|---------------|
| Name | | | | | | |
| Mr S. Mkhize - Chief Executive | 1 952 | - | 226 | - | 372 | 2 550 |
| Mr M. Mehlo - Chief Operating Officer | 1 667 | - | 255 | - | 341 | 2 263 |
| Ms M. Tabane - Chief Financial Officer* | 1 388 | 87 | 62 | 64 | 296 | 1 897 |
| Ms P. Ratlabala - GM Corporate Services | 1 456 | - | 50 | - | 280 | 1 786 |
| Ms T. Zwane - GM PMU | 1 454 | - | 82 | - | 285 | 1 821 |
| Ms L. Morake - GM Water Services | 1 454 | - | 101 | - | 323 | 1 878 |
| Ms F. Mogamisi - GM Stakeholder and Customer Services | 1 138 | - | 75 | - | 191 | 1 404 |
| Mr J. Leburu - Acting GM Engineering** | 608 | 317 | 63 | 59 | 121 | 1 168 |
| Mr O. Nthutang - GM Engineering*** | 445 | - | 17 | - | 76 | 538 |
| | 11 562 | 404 | 931 | 123 | 2 285 | 15 305 |

* Ms M. Tabane was Acting CFO from July to August then appointed as CFO from 01 September 2019.

**Mr J. Leburu was Acting GM Engineering until February 2020

***Mr O. Nthutang was appointed GM Engineering from 01 March 2020

2019

| | Salary | Acting allowance | Expenses^ | Performance bonus | Expenses^^ | Total |
|-------------------------------------------------------------|---------------|------------------|--------------|-------------------|--------------|---------------|
| | | | | Other | | |
| Name | | | | | | |
| Mr S. Mkhize - Chief Executive | 1 937 | - | 212 | 551 | 335 | 3 035 |
| Mr M. Mehlo - Chief Operating Officer | 1 621 | - | 53 | 474 | 305 | 2 453 |
| Mr P. Moseki - Chief Financial Officer* | 1 491 | - | 83 | - | 303 | 1 877 |
| Ms P. Ratlabala - GM Corporate Services | 1 436 | - | 116 | - | 249 | 1 801 |
| Mr L. Mushayanyama - GM Stakeholder and Customer Services** | 1 150 | - | 542 | - | 326 | 2 018 |
| Ms K. Mogamisi - GM Stakeholder and Customer Services*** | | | | | | |
| Ms T. Zwane - GM PMU | 1 444 | - | 69 | 210 | 242 | 1 965 |
| Ms L. Morake - GM Water Services | 1 444 | - | 114 | 420 | 290 | 2 268 |
| Mr P. Lebogo - Acting GM Stakeholder and Customer Services | 1 055 | 167 | 82 | 75 | 220 | 1 599 |
| Mr J. Leburu - Acting GM Engineering | 814 | 457 | 146 | 58 | 157 | 1 632 |
| | 12 392 | 624 | 1 417 | 1 788 | 2 427 | 18 648 |

*Mr P.I. Moseki resigned on 30 June 2019.

** Mr L. Mushayanyama resigned on 31 March 2019.

*** Ms K. Mogamisi was appointed GM Stakeholder and Customer Services in September 2019.

^ Expenses comprise of cellphone allowance, travel and accommodation, refunds and settlements.

^^ Other expenses comprise of leave pay-out and company contribution.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Emoluments: Independent Audit Committee Members

2020

| Name | *Committee fees | ^Other fees | ^^Expenses | Total |
|--------------------|-----------------|-------------|------------|------------|
| Mr S.M Mamothethi | 68 | 11 | 13 | 92 |
| Mr S.P Madikizela* | 29 | - | 4 | 33 |
| Ms K Moodley | 69 | 11 | 13 | 93 |
| | 166 | 22 | 30 | 218 |

*Mr S.P Madikizela resigned from the committee on 03 March 2020.

**Committee fees consist of all audit committee meetings.

^Other fees comprise of induction meeting and other non committee meetings.

^^Expenses comprise of travel and accommodation costs.

2019

| Name | *Committee fees | ^Other fees | ^^Expenses | Total |
|-------------------|-----------------|-------------|------------|------------|
| Mr S.M Mamothethi | 38 | 34 | 34 | 106 |
| Mr S.P Madikizela | 14 | 32 | 21 | 67 |
| Ms K Moodley | 51 | 38 | 39 | 128 |
| | 103 | 104 | 94 | 301 |

*Committee fees consist of all audit committee meetings.

^Other fees comprise of induction meeting and other non committee meetings.

^^Expenses comprise of travel and accommodation costs.

27. Prior period errors

During the June 2017 financial year, plant and machinery with a cost of R27 821 624.04 was installed and brought into use, however the assets were not transferred work in progress to plant and machinery. The error resulted in understatement of depreciation and accumulated depreciation for plant and machinery.

The entity changed accounting framework from International Financial Reporting Standards (IFRS) to Standards of Generally Recognised Accounting Practice in the previous financial year ending 30 June 2019. The entity discovered that during transition from IFRS to GRAP conditional grants were not recognized in the correct accounting period. Revenue of R314,6 million was accounted in the 2019 financial year while conditions of government grants had been met in previous financial years prior to 2018/19 financial year. The error resulted in overstatement of revenue from non-exchange transactions.

During the financial year ended 30 June 2019, there was a liability for R90.9 million for grants received but not yet spent or conditions of the grant not met yet. Based on new accounting framework that liability does not exist and revenue should be recognised. During the previous year, R8.7 million was received and should have been recorded as non-exchange revenue and not a liability, and the balance of R82.2 million should have been realised to accumulated surplus.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

27. Prior period errors (continued)

| | 2020 | 2019 |
|------------------------------------------------|------|-----------|
| Statement of financial position | | |
| Cost of plant and machinery | - | 27 822 |
| Cost of Capital work in progress | - | (27 822) |
| Unspent Conditional Grant | - | 90 957 |
| Opening Accumulated Surplus | - | (402 901) |
| Accumulated depreciation - Plant and Machinery | - | (4 269) |
| Statement of financial performance | | |
| Depreciation expense - Cost of Sales | - | 1 536 |
| Government Grants and Subsidies | - | 314 677 |

28. Going concern

These Annual Financial Statements have been prepared based on the expectation that the entity will continue to operate as a going concern for at least the next 12 months.

The going concern assessment was undertaken, taking into consideration the cash flow, budget projections, key financial performance indicators, risks and mitigating controls.

The non-payment of debt by Municipalities for bulk water sales remain a concern for the entity, resulting in significant increase in the receivable from exchange transaction. The risk has escalated due to the impact of COVID 19 and lock-down announced by the President.

We draw attention to the fact that as at 30 June 2020, Magalies Water had an accumulated surplus of R2,6 billion. The entity's current assets exceed its current liabilities by R256 million and a net surplus of R169 million was realised for the current financial year.

The basis assumes that sufficient funds will be available to finance future operational needs that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

29. Events after the reporting date

No subsequent events were identified by management.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

30. Budget differences

Material differences between budget and actual amounts

Management Fees - Actual expenditure of Madibeng projects were lower than proposed budget resulting in lower management fees.

Tender fees - There were few tenders during the last quarter of the year due to COVID-19 resulting in decrease in tenders fees for the quarter and tender fees for the year being less than budgeted fees.

Cost recovery income - Services required on Swartodam were reduced considerably during the year, resulting in cost recovery income being lower than budgeted.

Other Income - Variance is due to an increased number of new connections, for both bulk water and individuals, than budgeted for.

Lab analysis - There was a decrease in demand for the Scientific Services laboratory analysis resulting in a negative variance.

Government grants and subsidies - The department provided grants that had not been budgeted for resulting in a positive variance.

Finance Income - The main contributor is interest receivable from debtors with long outstanding accounts, attributable mainly to defaulting municipalities.

Depreciation and amortization - A large number of projects capitalized at year, after the budgeting processes having been completed, resulting in under-estimation of the costs.

Impairment loss - Impairment of assets emanating from de-recognition of assets which was not budgeted for.

General Expenses - This variance is due to a saving on some cost budgets including consultants' fees, board expenses, and training and computer expenses.

Personnel/Employee cost - Expenditure on employees cost was below budgeted. The entity budgeted for employee cost including positions there were going to be filled in, however there were vacancies not filled or only filled towards the end of the year.

Cost of sales - Expenditure on cost of sales exceeded budgeted expenditure. This is attributable to an increase in depreciation expense caused by increase in fixed assets during the year.

Loss on disposal of assets - Disposal of assets was not budgeted for in the current year.

MAGALIES WATER ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

DETAILED INCOME STATEMENT

Figures in Rand thousand

| | Note(s) | 2020 | 2019 Restated* |
|-------------------------------------------------|---------|------------------|-------------------|
| Revenue | | | |
| Revenue from exchange transactions | | | |
| Sale of goods | | 738 188 | 655 776 |
| Management fees | | 5 411 | 7 573 |
| Tender fees | | 369 | 297 |
| Cost recovery income | | 524 | 15 466 |
| Other income | | 736 | 846 |
| Lab analysis | | 880 | 1 825 |
| Deferred income recognised | | 15 546 | 15 474 |
| Interest received - investment | 18 | 21 398 | 26 557 |
| Total revenue from exchange transactions | | 783 052 | 723 814 |
| Revenue from non-exchange transactions | | | |
| Transfer revenue | | | |
| Government grants and subsidies | | 51 424 | 8 749 |
| Total revenue | 11 | 834 476 | 732 563 |
| Expenditure | | | |
| Employee related costs | 15 | (96 682) | (91 643) |
| Depreciation and amortisation | 16 | (9 201) | (8 443) |
| Impairment of assets | | - | (42) |
| Loss on disposal of assets | 2 | (830) | - |
| Sale of goods/Inventory | 14 | (480 919) | (439 757) |
| General Expenses | 17 | (77 367) | (70 776) |
| Total expenditure | | (664 999) | (610 661) |
| Surplus for the year | | 169 477 | 121 902 |

ACRONYMS

| | |
|---------------|---------------------------------------------|
| AGSA | Auditor-General South Africa |
| ArcGIS | Arc Geographic Information System |
| ASB | Accounting Standards Board |
| BBBEE | Broad-Based Black Economic Empowerment |
| CEO | Chief Executive Officer |
| CDM | Cullinan Diamond Mine |
| CSI | Corporate social investment |
| CWTP | Cullinan Wastewater Treatment Plant |
| DAF | Dissolved Air Flotation |
| DWS | Department of Water and Sanitation |
| Exco | Executive Committee |
| GRAP | Generally Recognised Accounting Practice |
| HSWS | Human Settlements, Water and Sanitation |
| ICT | Information and Communications Technology |
| IT | Information Technology |
| IoDSA | Institute of Director of Southern Africa |
| KPI | Key Performance Indicators |
| KWTP | Klipdrift Water Treatment Plan |
| NDP | National Development Plan |
| NQF | National Qualifications Framework |
| NWA | National Water Act |
| PFMA | Public Finance Management Act |
| PMU | Project Management Unit |
| SOE | State-owned Entity |
| SANAS | South African National Accreditation System |
| SANS | South African National Standards |
| VWTP | Vaalkop Water Treatment Plant |
| WSA | Water Services Act |
| WWTP | Wallmannsthal Water Treatment Plant |



Tel: 014 597 4636
Email: info@magalieswater.co.za
customerservices@magalieswater.co.za

Customer Care Line: 0860 000 720
Whatsapp Number: 060 966 7994
Physical Address: 38 Heystek St, Rustenburg, 0300

RP Number: RP348/2020
ISBN: 978-0-621-48846-3