



Financial Review Report

Project Title:

Contract No. VILP/I/035: Technical Support to the iLembe District Municipality for specific Siza Water Concession Contract Activities

Contract No.: VILP/I/035

Date: 19 May 2023

Version 4 - Final

Prepared By: SMEC South Africa & CAPIC

Contents

1 EXECUTIVE SUMMARY	4
2 OBJECTIVES OF THE ASSIGNMENT AS PER THE TOR	6
3 FINANCIAL MODEL REVIEW	7
3.1 A Review of the Robustness and Accuracy of the Base Financial Model	7
3.2 A review the financial provisions of the proposed Base Financial Model	7
3.2.1 A review the Water Tariffs	7
3.2.2 A review the Sewerage Tariffs	8
3.3 A review of the cost elements, expenditure drivers, and expenditure of the concessionaire’s funds, either self-funded or derived from the IDM’s annual budget	8
3.4 Insight into streams of immediate gains for the municipality	11
3.5 Impact of the COVID-19 pandemic on the financial projections	11
3.6 An investigation into the Financial Performance of the Concession Contract to date	12
3.7 A review of the Concession Tariff Structure;	12
3.8 An analysis of projected capital expenditure	12
3.9 An analysis of the estimated Internal Rate of Return (IRR) year on year till expiry of the contract (in terms of percentages versus monetary values)	12
3.10 A review of underlying documentation and assumptions to ensure that elements contained within the Base Financial Model are consistent with the underlying documentation	13
3.11 Assess the concessionaire’s audited annual financial statements for the last five years; quarterly financial reports; income reports; contribution reports; such reports and statements related to tariffs, services, service areas, SMME development, support of the Youth, contractors appointed and insurance documents	13
3.12 Develop a detailed expenditure and financial model analysis. For each Contract element identified, provide a detailed analysis of existing expenditure. Demonstrate a clear understanding of the flow of funds and historical expenditure trends based on data from previous Concessionaire’s AFS and Annual Services Report.	16
3.13 Based on cost drivers identified in the above analysis, and the understanding of costs of similar services in non-government environment, baseline needs, and delivery standards, develop a costing model and revised and updated financial model as per the current parameters. The calculations in this model must be visible and the model must be interactive and allow for various scenarios to be developed	16
3.14 Interrogate the base financial model, to review the actual inputs during the previous five-year period to determine the actual Internal Rate of Return (IRR) of the concessionaire.	16
3.15 Review impact of the current assumptions that are applied in the financial model for the five-year plan and compare with assumptions used in the base financial model and report on the impact as such.	16
3.16 Review the performance of the concessionaire against the planned performance as well as the projections in the financial model in the previous five-year plan and confirm when the profit-sharing target will be achieved.	17
3.17 • Focused expenditure reviews and economic research and analysis of Concession Contracts	18
3.18 The consultant shall review the financial provisions of the proposed Base Financial Model, and should specifically review the financial impact on the viability of the Concession and the sharing of gains of:	18
3.19 The Base Financial Model findings will be presented to the PSC and discussed in detail, including the consideration of aligning the model (where possible) in terms of current legislation, as per the minutes of the Inception Meeting	19
ANNEXURE A	24

Tables

Table 3-1 – Income Statement.....	13
Table 3-2 – Balance Sheet.....	15
Table 3-3 – Forecast Model Extract	17
Table 3-4 - Water Tariff Increases.....	20
Table 3-5 – Sewerage Tariff Increases	21
Table 3-6 - Operating Cost Inflation Increases	22

Figures

Figure 3-1 - Distributions and IRR	23
--	----

Acronyms and Abbreviations

AFS	Annual Financial Statement
BBEE	Broad-based Black Economic Empowerment
BEE	Black Economic Empowerment
CPI	Consumer Price Index
CPI	Consumer Price Index
IFRS	International Financial Reporting Standard
IRR	Internal Rate of Return
KZN	Kwa-Zulu Natal
NERSA	National Energy Regulator of South Africa
NERSA	National Energy Regulator of South Africa
PCU	Vuthela Programme Project Coordinating Unit
PSC	Project Steering Committee
SDF	Spatial Development Framework
SME	Small and Medium-sized Enterprises
SMEC	SMEC South Africa
SP	Service Provider
SPLUMA	Spatial Planning and Land Use Management Act
SPV	Special Purpose Vehicle
SW	Siza Water
ToR	Terms of Reference
WSDP	Water Services Development Plan
WWTW	Waste Water Treatment Works

1 Executive summary

This financial report forms part of the assignment named : Technical Support to the iLembe District Municipality for Specific Siza Water Concession Contract Activities.

This report relates to the financial aspect of the scope of work which primarily relates to a financial model review, review of the financial aspects of the quarterly concession reports (as provided by Siza Water) as well as other financial related analysis and observation.

The financial model was provided, and a review was undertaken. One of the main purposes of the financial review relates to the assessment of the Profit Sharing Mechanism as contained in the PPP agreement and how this calculation is assessed within the financial model. It must be noted that the Profit Sharing is based on the ultimate profits of the concessionaire, and based on an IRR calculation, which relies on all elements of the financial model to be considered.

As part of the review, a number of queries, clarifications and recommendations were provided to the concessionaire. This was detailed in the Base Case Findings Report. Various interactions were held with the concessionaire and it was noted that the concessionaire was not minded to adopt the amendments/recommendations provided. As a result of this, it was then evident that not all of the respective scope items would be able to be completed, largely due to the inherent limitations of the financial model and the discussions held with the concessionaire.

Official engagements were held with the concessionaire following the issuance of a letter issued by the IDM on 16 February 2023. It was noted in this meeting that the concessionaire was aware of the limitations of the model based on the findings report provided, but the concessionaire did indicate that they would work with the IDM to ensure that the model was updated prior to the next review that would be conducted.

Where scope elements were able to be completed, these have been provided for in this report.

A key summary of the main elements is included below:

- The water operating costs allocation has remained relatively consistent over time, notwithstanding the respective change in the levels of service delivery and developments in the area. This area was highlighted as an area that required further consideration.
- A number of input assumptions included in the model do not appear to be consistent with what would be expected, these include inflation assumptions for both revenues and expenses, rates of taxation, Salary increases, electricity cost increases, management fees and consumables. A recommendation of a deep dive into these elements was recommended.
- The IRR was also investigated (as this has a bearing on the Profit-Sharing Mechanism) and several elements of discrepancy were identified. It was recommended that further clarification be sought from the concessionaire to ensure that this is in line with actual performance and expected performance going forward.
- Recommendations were made in respect of amendments to forecast assumptions relating to the financial model.

In summary, whilst the information provided by the concessionaire is quite comprehensive, it is recommended that further engagement is conducted with the concessionaire to ensure that the

respective elements of the financial function of the concessionaire (particularly with regards to the financial model and forecasts) be undertaken prior to the next review of the concession.

2 OBJECTIVES OF THE ASSIGNMENT AS PER THE TOR

The aim of this consulting assignment is to provide support to the iLembe District Municipality in accordance with the municipality's three principal obligations which are:

1. Monitoring the Siza Water Concession Contract
2. Legal Review of the Siza Water Concession Contract
3. Financial Review the Siza Water Concession
4. Customer Base Review

With regards to monitoring the contract, the consultant has to do an analysis of the contract performance and contract expenditure of the main policy initiatives, and further identify where improvement is needed in the concession contract. It will be important to ensure that this is in alignment with the iLembe District Municipality Regional Water and Sanitation Master Plan (2016), Water Services Development Plan (WSDP), Financial Performance of Siza Water, and Legislative and Industry Compliance. This will create opportunities for greater value for money in the municipal expenditure, and result in improved implementation of the policy initiatives and projects.

With regards to the financial model review, the tasks carried out by the consultant has revised the projections made in the draft proposal of the Base Case Financial Model and Sharing of Gains (May 2021). The intention of this report is to confirm that the Sharing of Gains is accurate, complete and robust. In order to meet the objectives of the assignment, the consultant reviewed the Base Financial Model, expenditure, analyses the impacts of the COVID-19 pandemic on financial projections, investigated the financial performance of the concession contract, review the current tariff structure and analysed the estimated internal rate of return year on year, until the contract expires.

3 FINANCIAL MODEL REVIEW

3.1 A Review of the Robustness and Accuracy of the Base Financial Model

A detailed review of the model was performed, presented findings to the PSC as well as the Concessionaire.

Responses received from the Concessionaire indicate that no further amendments will be made to the model.

Our Model Review Findings Report, which was presented to the PSC is provided for as an addendum to this report for the purposes of clarity under Annexure A.

3.2 A review the financial provisions of the proposed Base Financial Model

This has been performed in the analysis of the Financial Model above. The financial model is prepared on the basis of actuals up to December 2021, then utilising forecasts and assumptions to interpolate forward, future revenues and operating costs. These forecast projections are included in a set of financial statements, making up the income statement, balance sheet and cash flows. It must be noted that these are prepared on a simplified basis, and do not include the associated full disclosures as required by IFRS.

The purpose of this model is to ascertain, at a high level, the anticipated overall returns of the project concession from the start date to the end of the project.

3.2.1 A review the Water Tariffs

Water Operating Costs tied to percentage of total Water Tariff

It must be noted that there is no change in the allocation of costs (Bulk Water, Electricity, Salaries, Other costs, Operations and Capital Costs) over time. This then indicates that there is a fixed assumption relating to the level of service and operations, and this is only expected to increase on a pro rata basis to what has been provided.

The financial model does not provide this detailed information prior to 2020, but through analysis, it is reflected that this apportionment has remained relatively consistent since 2015. Given the level of developments and expansions in the area, including those elements described in the Customer Base review, it stands to reason that the allocation of this element requires further analysis and observation.

Indexation of Water Operating Costs

Furthermore, given that these respective costs are all considered to increase at differing indexation rates, it is expected that over time, the mix of costs relating to the allocation of these costs as a part of the Water Tariff Increase should be further investigated.

Impact on Profit Share

It is noted that the Water Tariff Increase is expected to increase in the region of 7% p.a to 8.15% p.a. over the remainder of the concession term. This tariff increase has a material impact on the projected profits (as well as IRR) and as such is a material driver in relation to the calculation of the profit share (being the amount in excess of 15%). The water tariff increases are tabulated in **Table 3-4**

Recommendation

Siza Water should conduct a full review of costing and ascertain the relative impact and cost mix of the operating costs versus the prescribed allocation to determine the accuracy thereof.

3.2.2 A review the Sewerage Tariffs

The Sewer Tariff increases as noted above are in line and consistent with the Water Tariff Increases. It is also noted that the same principles apply in respect of the allocation of costs to Sewer costs.

As a result of this, the recommendations remain consistent with the Water Tariffs above. Refer to **Table 3-5** for the sewerage tariff increases.

3.3 A review of the cost elements, expenditure drivers, and expenditure of the concessionaire's funds, either self-funded or derived from the IDM's annual budget

Scope of Work

In this phase, we will perform a review of the contracts and contracting structure of the financial model, including the revenue mechanisms in place. Our review would further investigate contractual compliance. As the service provider, we will perform a detailed analysis of the financial model to ensure that the expenditure assumptions provided are accurate and complete, conduct our own research into the cost base and engagement with stakeholders as to the interaction of the various cost elements within the project.

The financial model provided by Siza Water also includes a detailed assessment of costs and inflationary and macro-economic adjustments for the remainder of the concession. This is largely based on historical information (linked to the Annual Financial Statements) and forecasts costs and expenses going forward.

These costs and expenses are critical for the forward looking information as the net profit, subsequent cash flows available and dividends have a material impact on the IRR calculated and forecast in the financial model.

These profits and IRR, are then reflected into a profit sharing arrangement which must be considered and forecast to determine the extent to which the Concession profits will be shared.

Observations noted in Table 3-6 below are as follows.

CPI

CPI is forecast at 4.5% for 2022 and 2023, increasing to 5% for subsequent years. This is in line with expectation of the Reserve Bank, however it is noted that as current inflation (as of December 2022) is running higher than forecast (cicra 7%), there may be justification to increase this. It is however considered reasonable that the long term forecast of 5% is considered reasonable. We would recommend that the model is updated to reflect this increased inflation as this may have an impact on tariffs and revenues going forward.

Corporation Tax Rate

We note that the model assumes a 32% rate of taxation, however the actual rate of taxation is 27%. The justification provided for this is that the Concessionaire does not obtain full relief on all wear and tear items from a tax perspective. Note that the model does not consider a detailed taxation computation, and as such, it is not possible to verify the accuracy of this 5%. It is however noted that the effective tax rate contained in the Annual Financial Statements are as follows, 2021 – 24.7%, 2020 – 29.4% - 2019 – 34.17%. Note that the Annual Financial Statements do not reflect assessed losses, and as such, the taxable income of the forecast model (including 2020 and 2021) may be considered as overstated. The effect of this is that profits may be considered as understated for the periods going forward.

If there are non-tax deductible costs, these should be separately indicated and provided for rather than providing for an estimated tax rate, which whilst it may give a correct answer, does not provide necessary detail to provide meaningful review

Salary Costs

We note that Salary costs are consistently assumed to be well in excess of CPI. It is also noted that the Salary increases also cater for additional forecast staffing levels.

On a normalised basis, after taking into account the proposed staffing level increases, the salary cost increases (from an inflationary point of view) are in the region of 10.67% per annum from 2022 to 2026. From 2027 onwards, these salary cost increases normalise to 8%.

Given that CPI is expected to reflect 4.5% and 5% increases during this period. It is also noted that these salary increases are twice that of CPI, and as a result, there is a firm indication that these increases are significant. On average, the salary costs reflect between 25% and 30% of the total operating costs and as such, such indicators of forecast salaries may be contributing to a profit sharing arrangement that is potentially understated.

A detailed assessment of the salary costs should be undertaken to assess the existing quantum's as well as inflationary assumptions going forward is recommended.

Electricity Costs

Notwithstanding the electricity crisis in South Africa, as well as the substantial increases which have been approved by NERSA in the last few years, it is noted that the model assumes increases of 17% to 18.6% on a consistent basis until the end of the concession. This is of course considered potentially excessive and as such, it is necessary to consider the views of the client in this regard. It is of course necessary to note that the Electricity costs are less than 10% of the total operating costs, which implies

that these increases (which may be reasonable) will not have a material impact on the revenue sharing mechanism.

Management Fee increases

These are provided for at 9.5% per annum. These are not considered unreasonable, however in line with the Salary Costs above, it is necessary to consider these as they are at, or near double the CPI inflation assumption.

Insurance Costs

These are considered reasonable at an average of 10%. This is partly due to inflationary pressure as well as significant increases in the insurance market pricing since the July 2021 unrest, as well as the flooding that occurred in KZN in early 2022.

Subcontractor costs

As part of the Concession Agreement, there is a requirement for BEE and local community subcontracting. This is accounted for in the model. It is also noted that the expectation is that these subcontractor costs will increase at 14% for the foreseeable future, increasing to 15.5% from the 2026 year onwards. Given that this is considered to be towards the end of the Concession Agreement term, it is not considered unreasonable.

It could however be considered that a 10% increase is reasonable for the purposes of forecasting.

Chemicals

Chemical costs for the treatment of water is increasing at an inflationary amount of 16%. Considering the increased levels of water supply, and in order to meet the water quality standards, this is considered reasonable. It is also noted that the Chemicals are less than 2% of operating costs, and as such, is not considered material for the purposes of calculating the Profit sharing.

Other Operating costs

Other operating costs constitute approx. 12% of operating costs, and it is noted that the escalation is assumed at 10.5% per annum, with a 31% increase for 2021. It is noted that the 31% operating cost increase for 2021 does not reflect a decrease in 2022 or thereafter.

Representations from the Concessionaire in relation to the 2021 cost increase of 31% is as a direct result of COVID-19 epidemic related costs. Whilst the COVID-19 costs can be considered as necessary due to the unprecedented nature of the epidemic, it cannot be assumed that these costs will continue, and as such, these Other Operating Costs should reflect a decreasing amount going forward. This is not reflected in the model.

Furthermore, it is also considered that the increases of the Other Operating costs reflect increased inflationary costs well in excess of inflation.

Chemical costs for the treatment of water is increasing at an inflationary amount of 16%. Considering the increased levels of water supply, and in order to meet the water quality standards, this is considered reasonable. It is also noted that the Chemicals are less than 2% of operating costs, and as such, is not considered material for the purposes of calculating the Profit sharing.

3.4 Insight into streams of immediate gains for the municipality

In reviewing the data and financial model within the Municipality, the consultant has looked to seek to propose solutions whereby the Municipality could unlock further revenue, create an efficient water concession, improve security of water supply and improve service delivery. Potential mitigation measures may include:

- Refurbishment of dysfunctional meters;
- Data cleansing on debtors and application of the correct tariffs to users;
- Installation of new meters;
- Clearing the outstanding debtors book;
- Improvement of non-revenue water; and
- Conduct fielding audits in order to reduce leakage and losses.

From the financial impact and review, the collection of revenues remains a critical concern. The financial model forecasts that whilst bad debts has traditionally been in the region of 2.9 to 4.9% of Operating costs for the Concessionaire, it is expected to increase to 10% from 2021 through to the end of the concession. This amounts to amounts in the region of R18m to R27m, which is significant in relation to both operating costs and revenues.

A recommendation is that the collection of outstanding Debtors is prioritised in order to reduce this amount of revenue water revenue that is being assessed as being lost.

3.5 Impact of the COVID-19 pandemic on the financial projections

The Consultant has would reviewed the impacts of COVID-19 on the consumer base, project and the Municipality. The predominant impact will be attributable to the project macro-economic forecasts. As South Africa exits the fourth wave of COVID-19 and a somewhat normalisation of the world, our impact analysis will seek to determine if the long-term effects of the pandemic will result in a materially lower or increased return allocation.

From the information received, there has been an assessed increased cost of R5m (Other Operating Costs above), which has been stated by the Concessionaire as the primary reason for the 30% increase.

What has subsequently transpired is that the Republic has exited from a State of Disaster, and whilst COVID-19 precautions are still recommended, there is no ongoing legal requirement for the additional measures of prevention of spread and mitigation of impacts to be provided.

It has been noted in the financial assessment in 3.3 above that this additional cost has also not been considered to have a commensurate reduction in cost subsequent to 2021.

This has been noted as an issue and has been raised above

3.6 An investigation into the Financial Performance of the Concession Contract to date

Refer to 3.3 above for this scope of work element.

3.7 A review of the Concession Tariff Structure;

Refer to 3.2.1 and 3.2.2 above for this scope of work element.

3.8 An analysis of projected capital expenditure

As noted in the PSC meetings, given the lack of data and explanation provided to us by the Concessionaire, we have not been able to provide a detailed analysis of the forecast Capital Expenditure.

What we have been able to note is that the financial model forecasts a standardised Capital Expenditure assumption of R20m annually from 2021 onwards, increasing at varying inflation from 4.4% up to 7.25%, resulting in final payments of R30m from the R20m current forecast.

It is noted that this capital expenditure does not appear to be sculpted, note is there supporting documentation to support these assumptions.

It is also noted that there is a discrete payment of Capital Expenditure of R105m in the 2022 Financial Year.

It is noted that no further detail was provided other than was is presented above.

It is recommended that the concessionaire provides a detailed Capital Expenditure, which lists all the projects undertaken till 2022 and a forecast of projects to be implemented till expiry in order to track projects and to link them to the expenditure reflected in the model.

3.9 An analysis of the estimated Internal Rate of Return (IRR) year on year till expiry of the contract (in terms of percentages versus monetary values)

Calculation of IRR

It is noted in the financial model that the IRR is calculated by reference to investment as well as distributions (in the form of dividends) to determine the extent of the profits that are forecast.

It is noted that the model assumes that not all cash reserves and residual cash is distributed in the financial model. The effect of this is that it is forecast that by the end of the 2028 financial year, there is R74m in cash that is retained in the SPV. Of this amount, R9m is estimated to be relating to customer deposits, R12m is retained in relation to Developers Funds, and R53m is in relation to the maintenance bond / shareholder's cash. It is noted that the maintenance bond / shareholders cash is not separated to determine what cash is available to be refunded to shareholders, nor what will revert to the IDM at the conclusion of the concession. What is however noted, is that the Cash and Cash equivalents as per the 2021 Annual Financial Statements reflects an amount of R108m. The financial model however only reflects R64m, which then indicates that the financial model has potentially understated the financial model cash reserves by R44m. Clarity is required to be sought from the Concessionaire.

Estimation of IRR impact

By assessing the respective costs above, and incorporating assumed inflationary increases based on the commentary above, on a conservative basis, it is possible to note a potential IRR uplift from the assumed 16.32% real IRR to 16.72%. This is of course assuming inflationary assumptions that have not been discussed with the Concessionaire. In addition to this, this potentially considers that the IRR is understated in the forecast periods.

Note however that at present (considering 2021 and 2022), the Real IRR has only just breached the 15% threshold and as such, the profit sharing to date is not significant. Ongoing monitoring of this is recommended at each financial year to ensure that the financial model and commercial arrangements relating to the profit sharing are aligned. Refer to **Figure 3-1** for illustration of the distributions and IRR.

3.10 A review of underlying documentation and assumptions to ensure that elements contained within the Base Financial Model are consistent with the underlying documentation

Within the scope of work provided, we have performed, where possible the underlying tasks as per the TOR. It has however not always been possible to verify all information, partly due to lack of information being available, and secondly as a result of a lack of information and responses being provided by the concessionaire.

3.11 Assess the concessionaire's audited annual financial statements for the last five years; quarterly financial reports; income reports; contribution reports; such reports and statements related to tariffs, services, service areas, SMME development, support of the Youth, contractors appointed and insurance documents

Reviewed as a part of the assessment. Note that 3 years AFS have been provided.

It should also be noted that in terms of the quarterly financial reports, the following observations have been noted.

The Quarterly Concession Pack as provided by Siza provides for the summary financial information as included below.

Income Statement

Table 3-1 – Income Statement

IN - MONTH				DESCRIPTION	YTD 2022				YTD 2021	
JUN ACT R'000	JUN BUD R'000	VAR R'000	% Var BUD=100		YTD ACT R'000	YTD BUD R'000	VAR R'000	% Var BUD=100	YTD ACT R'000	% Var ACT21
18,026	19,984	(1,958)	(10%)	Turnover	122,024	122,407	(383)	(%)	113,746	7%
8,534	10,050	(1,516)	(15%)	Water	62,369	62,245	124	0%	57,713	8%
9,473	9,912	(439)	(4%)	Sewer	59,557	60,031	(474)	(1%)	55,904	7%
20	22	(3)	(11%)	Sundry Income	97	130	(33)	(25%)	129	(24%)
4,104	4,772	668	14%	Cost of Sales	27,524	29,507	1,982	7%	19,923	38%
3,843	4,578	734	16%	COS Water	26,130	28,340	2,209	8%	18,724	40%
261	195	(66)	(34%)	COS Chemicals	1,394	1,167	(227)	(19%)	1,199	(16%)
13,923	15,212	(1,289)	(8%)	GROSS PROFIT	94,499	92,900	1,599	2%	93,823	1%
21,993	11,744	#####	(87%)	Total Expenses	83,920	69,837	(14,083)	(20%)	55,547	(51%)
3,753	3,696	(57)	(2%)	Personnel Costs	22,035	22,177	141	1%	20,758	(6%)
589	945	356	38%	Electricity	5,598	5,671	72	1%	5,004	(12%)
638	623	(16)	(3%)	Repair & Maintenance	2,962	3,287	325	10%	3,314	11%
304	221	(84)	(38%)	Computer Costs	1,364	1,403	39	3%	1,090	(25%)
510	474	(36)	(8%)	Subcontractors	2,799	2,724	(75)	(3%)	2,299	(22%)
77	60	(17)	(28%)	Legal Fees	315	360	45	12%	464	32%
175	177	2	1%	Concession Fee	1,020	1,025	6	1%	975	(5%)
1,500	3,083	1,583	51%	Contractual Profit Sharing	21,500	18,500	(3,000)	(16%)	18,000	(19%)
383	392	9	2%	Management Fee	2,299	2,354	55	2%	2,200	(5%)
496	599	103	17%	Doubtful Debt	(5)	3,668	3,673	100%	(5,673)	100%
13,567	1,474	#####	(820%)	Other Expenses	24,032	8,668	(15,364)	(177%)	7,114	(238%)
(8,071)	3,468	#####	(333%)	EBITDA	10,579	23,063	(12,484)	(54%)	38,276	(72%)
1,095	1,231	136	11%	Depreciation	6,892	7,121	229	3%	7,677	10%
(9,165)	2,237	#####	(510%)	EBIT/PFO	3,687	15,941	(12,255)	(77%)	30,599	(88%)
440	53	388	735%	Net Interest Income	2,323	409	1,914	468%	1,700	37%
(8,725)	2,289	#####	(481%)	PROFIT BEFORE TAX	6,009	16,350	(10,341)	(63%)	32,299	(81%)
(2,680)	767	3,447	449%	Taxation	2,014	5,449	3,435	63%	10,810	81%
(6,045)	1,522	(7,568)	(497%)	NET PROFIT	3,995	10,901	(6,906)	(63%)	21,489	(81%)

The following observations have been noted below;

Revenue

The broad performance, from a revenue perspective is broadly in line with the Budget expectations for the year to date. The impact is reflecting a variance of R383,000 which given the turnover of R122m, is not considered material. It should however be noted that the revenue for the month of June is somewhat lower than expected, and this has been described as largely being in relation to the April floods, which has resulted in the closure of beaches, driving tourism lower. This is not considered unreasonable.

What this however does indicate is that the total revenue may be in excess of that budgeted, considering that the June revenue was R2m less than expected, but for the 6 months to date, the variance was much lower at only R383,000 below budget.

The implication of this is that the revenue budget may be somewhat understated, and a detailed assessment should be conducted for the 2023 year. It is noted that the financial model assumes a revenue of R265.5m for 2023, which would have estimated the 6 month budget at R132.8m as opposed to the R122.4m.

Cost of Sales

Cost of sales has traded relatively flat for the 6 month period, noting a saving in cost of water (partially due to the reduction in supply relating to the April floods, but also reflects an increase of R227,000 of chemicals, related directly to an increased cost of chemicals relating to market shortages and disruptions.

Total Expenses

Total Expenses appear relatively flat (excluding insurance discussed below), and whilst there are variances between the respective cost items, these are not considered material.

In relation to insurance however, there is a marked increase in the cost of insurance, and this includes over R13.7m in direct costs relating to the April floods. Once this amount is normalised out, the difference in the Total Expenses is less than R1m for the 6 months under review.

Further to this, there is an increased amount of Contractual Profit Sharing of R3m, which is offset by a reduction of the Doubtful Debts provisions.

Care must be taken to ensure that the reduction of doubtful debts provisions are not excluded from the budgets (however it does appear that these are included for June 2022).

Depreciation, Interest and Taxation

Depreciation, Interest received, and Taxation are considered reasonable given the quantum and variations noted.

Balance Sheet

Table 3-2 – Balance Sheet

	Actual as at 30 Jun 2022	Actual as at 31 Dec 2021	Actual as at 31 Dec 2020
	R'000	R'000	R'000
Non-Current Assets			
Property, plant and equipment	10,018	10,381	9,433
Intangible Assets	64,552	68,015	64,194
	74,570	78,396	73,627
Current Assets			
Trade Debtors	47,465	43,614	48,744
Doubtful Debt Provision	(15,039)	(15,125)	(19,069)
Other Debtors	6,442	9,302	10,499
Amount due from Related Parties	241	237	-
Inventory	6,727	6,357	4,917
Cash & Cash Equivalent	136,691	119,446	47,753
	182,528	163,830	92,843
Current Liabilities			
Trade Creditors	26,113	26,849	13,201
Other Creditors and accruals	55,627	26,918	18,584
Amount due to Related Parties	-	-	-
Provision For Income Tax	(2,402)	(4,326)	(5,947)
	79,337	49,441	25,838
Net Current Assets	103,192	114,389	67,006
Non-Current Liabilities			
Deferred Tax Liabilities	1,571	1,419	2,677
Developers Liabilities	26,488	24,076	1,952
Long Term Loan	3,777	3,359	-
	31,836	28,855	4,629
Total Net Assets	145,926	163,931	136,004
Ordinary Share Capital	8,529	8,529	8,529
Revenue Reserve	137,397	155,401	127,475
Total Shareholders' Equity	145,926	163,931	136,004

The Balance Sheet reflects a moderately stable growth, which would be expected given that the contract is in a mature state. There are modest increases in the respective account balances, however specific elements are highlighted below.

Of concern is the doubtful debt provision, which has remained consistently at approx. 30% of the total Trade Debtors for the last 2 years. It is however noted that this is decreased somewhat since December 2020. Ongoing debtor management policies will continue to manage this process.

Trade Creditors has increased since 2020, but we understand that this is in relation to an amount payable to Umgeni Water of R16.7m.

Accruals have increased significantly in 2022, and this must be investigated as it is R39m more than it was at December 2021. We would recommend a detailed assessment of this is carried out.

3.12 Develop a detailed expenditure and financial model analysis. For each Contract element identified, provide a detailed analysis of existing expenditure. Demonstrate a clear understanding of the flow of funds and historical expenditure trends based on data from previous Concessionaire's AFS and Annual Services Report.

Provided for above

3.13 Based on cost drivers identified in the above analysis, and the understanding of costs of similar services in non-government environment, baseline needs, and delivery standards, develop a costing model and revised and updated financial model as per the current parameters. The calculations in this model must be visible and the model must be interactive and allow for various scenarios to be developed

Based on the status of the model provided, including the lack of response to queries to update and enhance the model, it has not been possible to provide an updated costing model

3.14 Interrogate the base financial model, to review the actual inputs during the previous five-year period to determine the actual Internal Rate of Return (IRR) of the concessionaire.

Provided for above where information has been available, however not complete due to incomplete information being available.

3.15 Review impact of the current assumptions that are applied in the financial model for the five-year plan and compare with assumptions used in the base financial model and report on the impact as such.

Provided for above as well as an assessment of the assumptions utilised.

3.16 Review the performance of the concessionaire against the planned performance as well as the projections in the financial model in the previous five-year plan and confirm when the profit-sharing target will be achieved.

Within the previous 5 year review conducted ("SAWW Report Update 26.06.2020") the following performance parameters were considered (and compared to the current forecast)

Table 3-3 – Forecast Model Extract

		31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22	31-Dec-23	Total	Previous Assessment	Variance
P&L									
Tariff Revenue	R000s	189 673	191 191	224 902	244 621	265 585	1 115 972	1 137 783	98%
Miscellaneous Revenue	R000s	1 644	1 239	1 325	1 427	1 541	7 177	2 472	290%
Construction Revenue	R000s	25 841	17 206	15 000	15 000	15 000	88 047	220 107	40%
TOTAL REVENUE	R000s	217 159	209 636	241 228	261 048	282 126	1 211 196	1 360 362	89%
Operating Costs	R000s	125 849	86 120	165 031	171 825	189 748	738 572	844 263	87%
Construction Costs	R000s	25 841	17 206	15 000	15 000	15 000	88 047	220 107	40%
TOTAL OPERATING COSTS	R000s	151 690	103 326	180 031	186 825	204 748	826 619	1 064 370	78%
EBITDA	R000s	65 469	106 309	61 197	74 224	77 378	384 577	295 992	130%
Depreciation and Amortis	R000s	14 820	14 325	17 072	19 898	40 120	106 234	94 033	113%
EBIT	R000s	50 649	91 984	44 125	54 326	37 259	278 343	201 959	138%
Net Financing Costs	R000s	- 5 609	- 11 777	- 1 428	10 369	8 598	153	- 12 856	-1%
EBT	R000s	56 258	103 761	45 552	43 957	28 661	278 190	214 815	130%
Tax	R000s	19 226	30 535	15 032	14 066	9 172	88 031	69 348	127%
Net Profit	R000s	37 033	73 226	30 520	29 891	19 490	190 159	145 467	131%

From the above, it is evident that the following information is apparent;

- A significant reduction in Capital Expenditure has transpired, with an estimated R132m underspend in Capital Expenditure
- Water Tariff Revenue has remained relatively consistent with expectation, only reflecting a 2% variance from previous assessments.
- Operating costs are significantly reduced, noting an estimated R105m reduction in operating costs.
- As a result of the operating cost savings, the consequential impact on Financing costs and taxation, the current forecast model reflects an increase of Net Profit for the period of R45m over the 5 years.
- It must be noted that this includes an assessment of the cost of COVID-19 being included (noting our comments above).

On this basis, it is then reasonable to assume that the profitability of the project has been enhanced, and the consequential effect of enhanced profit sharing must be considered to be more likely than previously envisaged.

What we have however noted is that the financial model as provided does not lend itself to sensitivity analysis, noting that we would recommend that scenarios and stress testing assumptions are considered and provided, in order to assess the impact on a current and ongoing basis.

3.17 • Focused expenditure reviews and economic research and analysis of Concession Contracts

The financial assignment has not been able to address this element.

3.18 The consultant shall review the financial provisions of the proposed Base Financial Model, and should specifically review the financial impact on the viability of the Concession and the sharing of gains of:

Addressed in 3.3 above and below

- Ad hoc adjustments to the concession area (e.g. security estates);

Note that the concession model does not specifically provide for separate additions to the concession area. This was identified as a weakness in the model, and given that this level of detail is not provided, we recommend that the model be updated for any new estates that are included

- Arrangements regarding sharing of bulk WWTW;

The model does not provide for sharing of bulk WWTW facilities, this then does not permit for an adequate allocation of costs, operations and revenues associated with any facility sharing. This is considered to be a shortcoming in the financial model and we recommend that this is updated and amended going forward

- Alternative bulk water payment arrangements;

In line with the comments above, the model does include cash reserves relating to bulk contributions provided, but does not provide detail as to the allocation, payment or adoption of pricing strategies in terms of SPLUMA.

- Various procurement alternatives that promote BBEE and SMEs;

The model does provide for subcontracting costs, which has been addressed above, however this does not indicate that these activities are not conducted.

It is however noted that the Quarterly Concession monitoring reports (reviewed for Jan 2022 to March 2022) does not cater for work performed in order to promote BBEE and SMEs.

It is recommended that this is included in the concession monitoring reports to state, at a minimum, that the minimum requirements in terms of the Concession Agreement are maintained.

- Revised coverage and associated levels of services goals;

Insufficient information provided by Concessionaire to make informed observation

- A reduction in the management fees paid to the Concession, perhaps limited to a maximum of 2.5% of gross turnover;

As noted previously the management fees escalation is well in excess of CPI, it is recommended that these are (for the purposes of the profit sharing) limited to a Labour Index (as provided for by Stats SA) or CPI.

- Revised tariffs and tariff structure; and

Based on the information received and reviewed, the current tariff structures are considered reasonable, when compared to CPI and other tariff for other municipalities and metro's however the model does not consider new areas of supply and as a result, does not permit for new tariff areas to be included.

Because of this, the level of detail provided for multiple new connections and connection types cannot be ascertained given the information provided.

Given the capital expenditure estimated, also considering that this relates to the usage of bulk contributions, it would be expected that the relevant supply areas could be identified. Instead, an assumption has been provided for a general increase in water supply, rather than detailed usage via new connections.

- The adoption of the proposed change in the sharing of gains/surplus between the parties.

At present, the proposed gains do not reflect material cash flows, however based on the Inflation assumptions provided in the model, we recommend that these assumptions are interrogated and dialogued further with the Concessionaire to ensure that the forecast profit sharing arrangements are reasonable and that all available cash is utilised in the IRR calculation for the purposes of ensuring that the equitable share of profits is returned to the IDM.

3.19 The Base Financial Model findings will be presented to the PSC and discussed in detail, including the consideration of aligning the model (where possible) in terms of current legislation, as per the minutes of the Inception Meeting

This has been provided

Table 3-4 - Water Tariff Increases

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Bulk Water Increase (F1)	0,7915	1,0700	1,0950	1,0950	1,0950	1,0950	1,0950	1,0950	1,0950
% of Water Formula Tied to Bulk Water (a1)	33%	32,5%	32,5%	32,5%	32,5%	32,5%	32,5%	32,5%	32,5%
Electricity Increase	1,0950	1,1950	1,1660	1,1660	1,1660	1,1560	1,1500	1,1500	1,1500
% of Water Operating Cost Tied to Elec.	16%	16,2%	16,2%	16,2%	16,2%	16,2%	16,2%	16,2%	16,2%
Salary Increase	1,1074	1,0600	1,0600	1,0720	1,0720	1,0700	1,0720	1,0620	1,0620
% of Water Operating Cost Tied to Salary	43%	43,4%	43,4%	43,4%	43,4%	43,4%	43,4%	43,4%	43,4%
CPI Increase	1,0410	1,0320	1,0450	1,0450	1,0500	1,0500	1,0500	1,0500	1,0500
% of Water Operating Cost Tied to CPI	40,4%	40,4%	40,4%	40,4%	40,4%	40,4%	40,4%	40,4%	40,4%
Water Operating Costs Increase (F2w)	1,08	1,07	1,07	1,08	1,08	1,08	1,08	1,07	1,07
% of Water Formula Tied to Water op Costs (b1)	59%	59%	59%	59%	59%	59%	59%	59%	59%
Capital Cost Increase (F3)	1,0410	1,0320	1,0450	1,0450	1,0500	1,0500	1,0500	1,0500	1,0500
% of Water Formula Tied to Capital Costs (c1)	8,3%	8,3%	8,3%	8,3%	8,3%	8,3%	8,3%	8,3%	8,3%
Water Tariff Increase	7,00%	7,00%	7,67%	7,98%	8,14%	7,99%	7,99%	7,73%	7,73%

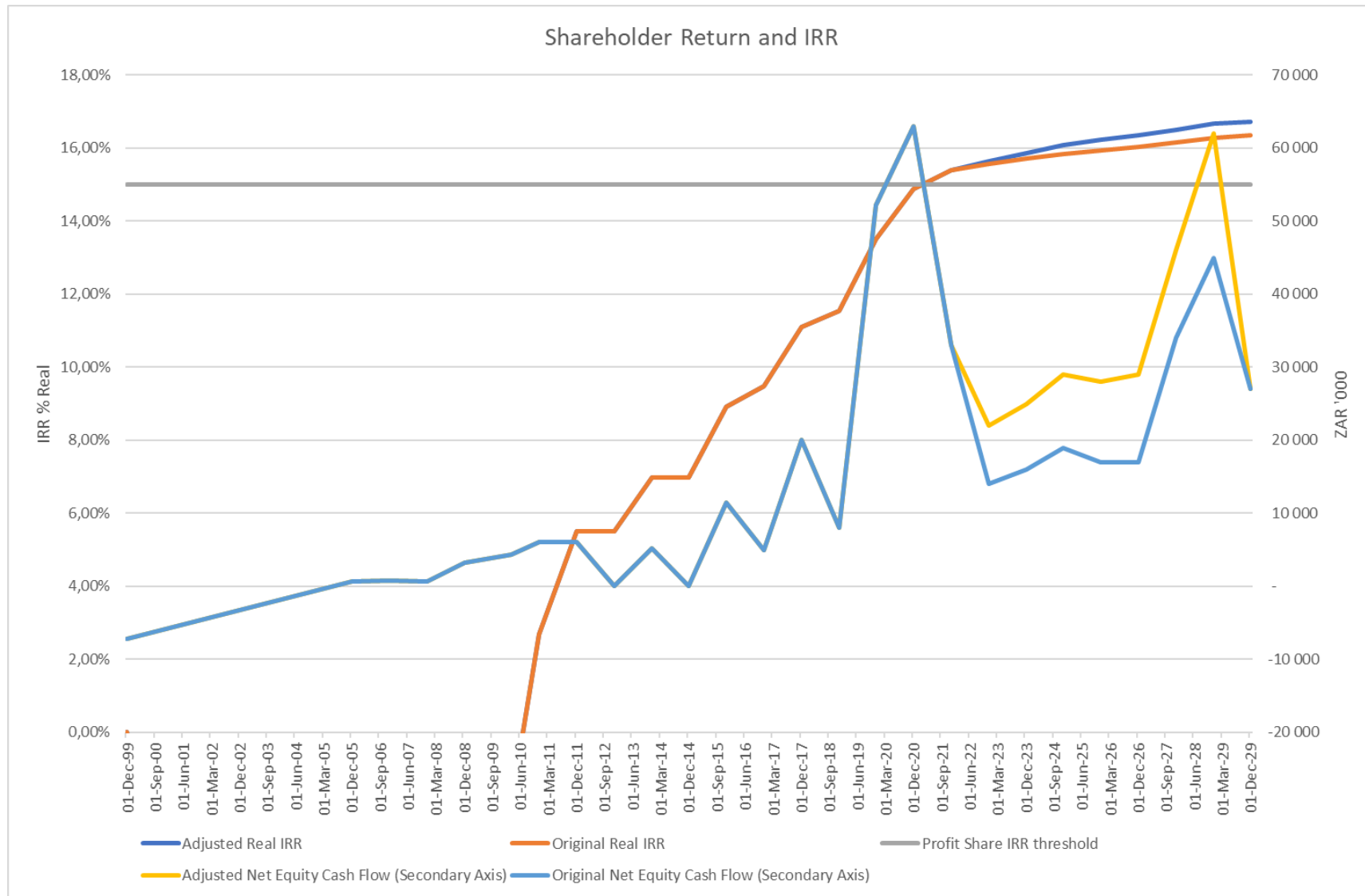
Table 3-5 – Sewerage Tariff Increases

<u>Sewerage Tariff Increase</u>	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Electricity Increase	1,0950	1,1950	1,1660	1,1660	1,1660	1,1560	1,1500	1,1500	1,1500
% of Sewer Operating Cost Tied to Elec.	16,2%	16,2%	16,2%	16,2%	16,2%	16,2%	16,2%	16,2%	16,2%
Salary Increase	1,1074	1,0600	1,0600	1,0720	1,0720	1,0700	1,0720	1,0620	1,0620
% of Water Operating Cost Tied to Salary	43,4%	43,4%	43,4%	43,4%	43,4%	43,4%	43,4%	43,4%	43,4%
CPI Increase	1,0410	1,0320	1,0450	1,0450	1,0500	1,0500	1,0500	1,0500	1,0500
% of Water Operating Cost Tied to CPI	40,4%	40,4%	40,4%	40,4%	40,4%	40,4%	40,4%	40,4%	40,4%
Sewer Operating Costs Increase (F2s)	1,08	1,07	1,07	1,08	1,08	1,08	1,08	1,07	1,07
% of Sewer Formula Tied to Sewer op Costs (b1)	70%	70%	70%	70%	70%	70%	70%	70%	70%
F3 - Increase in capital costs	1,0410	1,0320	1,0450	1,0450	1,0500	1,0500	1,0500	1,0500	1,0500
% of Sewer formula tied to capital costs	30%	30%	30%	30%	30%	30%	30%	30%	30%
Sewer Tariff Increase	7,00%	7,00%	6,33%	6,69%	6,98%	6,81%	6,80%	6,50%	6,50%
Average (Water and Sewer)		7,00%	7,00%	7,34%	7,56%	7,40%	7,39%	7,11%	7,11%

Table 3-6 - Operating Cost Inflation Increases

Global Variables		2021	2022	2023	2024	2025	2026	2027	2028	2029
Headcount		92	95	98	101	104	107	107	107	107
CPI	%	3,20%	4,50%	4,50%	5,00%	5,00%	5,00%	5,00%	5,00%	5,00%
Corporation Tax Rate	%	33,00%	32,00%	32,00%	32,00%	32,00%	32,00%	32,00%	32,00%	32,00%
Salary Increase	%	11,00%	11,00%	11,00%	11,00%	11,00%	11,00%	8,00%	8,00%	73,00%
Electricity Increase	%	19,50%	18,60%	18,60%	18,60%	18,60%	17,00%	17,00%	16,00%	16,00%
Management Fees Increase	%	9,50%	9,50%	9,50%	9,50%	9,50%	9,50%	9,50%	9,50%	9,50%
Concession Monitoring Fees	%	3,20%	4,50%	4,50%	5,00%	5,00%	5,00%	5,00%	5,00%	5,00%
Community Development & Marketing Costs	%	8,00%	8,00%	8,00%	8,00%	8,00%	8,00%	8,00%	8,00%	8,00%
Insurance Costs Increase	%	9,50%	11,00%	10,00%	10,00%	10,00%	10,00%	10,00%	10,00%	10,00%
Bad Debts	%	8,00%	8,00%	7,50%	7,50%	7,50%	7,50%	7,50%	7,50%	7,50%
Subcontractors Increase	%	17,00%	14,00%	14,00%	14,00%	14,00%	15,50%	15,50%	15,50%	15,50%
Chemical Cost Increase	%	16,00%	16,00%	16,00%	16,00%	16,00%	16,00%	16,00%	16,00%	16,00%
Bulk Water Price Increase	%	7,00%	9,50%	9,50%	9,50%	9,50%	9,50%	9,50%	9,50%	9,50%
Other Operating Costs Increase	%	31,00%	10,50%	10,50%	10,50%	10,50%	10,50%	10,50%	10,50%	10,50%
Capex Increase	%	56,98%	5,81%	4,40%	7,25%	7,25%	7,25%	7,25%	7,25%	7,25%
Inventory Increase	%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Non-Tariff Revenue		2021	2022	2023	2024	2025	2026	2027	2028	2029

Figure 3-1 - Distributions and IRR



ANNEXURE A

1. Model Review Base Case Findings Report



Siza Water (RF) Proprietary Limited

Vuthela Ilembe LED Programme

Base Case Findings Report 1

26 August 2022



Document Status

The current status of this document is shown below:

Document Type	Base Case Findings Report
Version	Version 1
Issue Date	Friday, 26 August 2022
Electronic File	Base Case Findings Report

Distribution

Copies of this document are distributed as follows:

Sent by	CAPIC
Sent to	SMEC

Document History

The history of changes made to this document is shown below.

Date	Filename	Author	Summary of Changes
Friday, 26 August 2022	Vuthela Model Review Base Case Findings 1.xlsm	CAPIC	Version 1 issued

Files and Models reviewed

The history of files and models reviewed is shown below.

Date Received	Filename	Author	Type of Document



Introduction

In accordance with our Service Level Agreement dated 7 June 2022 , we provide the Preliminary Findings report, in respect of the Siza Concession Financial Model review.

It must be noted that this document is to be distributed solely to the parties referred to in the Engagement Letter.

This document forms the initial Base Case report and contains our findings to date.

This document is prepared on the basis of our findings included in the relevant worksheets, and responses from yourselves will be incorporated accordingly.

This Report comprises the following elements:

- Cover Page
- Document Control
- Introduction
- Summary of Findings
- Scope of Work
- Key Findings
- General Comments
- Logic & Clarification Findings
- Tax Findings
- Contracts Findings

Each of the finding sheets include areas whereby the financial model author is able to respond to the queries raised and this forms a record of the discussions in relation to the queries.

Once the queries are cleared, they will be marked as such and will be eliminated from our outstanding findings



Findings Level

Our findings are graded on the following basis:

Level One - Clear errors of commission, omission or interpretation that cause a material misstatement within the base case or stated sensitivities.

Level Two - Clear errors of commission, omission or interpretation that do not materially affect the base case or stated sensitivities, but which may otherwise cause material misstatements.

Level Three - Minor points of good practice or compliance that may be of interest but are not likely to impact the Models materially.

Our findings are included in the respective worksheets, and responses are to be included in Column H.

Once responses and updates are received we will review these comments and clear them as appropriate.

Review points may relate to points of clarification to assist our review.

It is worth noting that at this stage that this is an interim Findings Report and some of our review points may relate primarily to items of clarification to assist in our overall understanding of the Project and the basis of calculations.

On this basis our comments should be regarded as preliminary.

Our summarised table of queries and clarifications are as follows:

Summary of Findings							
Query Type	Total Findings	Grade One Findings	Grade Two Findings	Grade Three Findings	Findings Responses	Findings Cleared	Remaining Findings
Logic & Clarification Findings	113	82	28	3	-	-	113
Accounting Findings	7	-	5	2	-	-	7
Tax Findings	4	2	2	-	-	-	4
Contracts Findings	13	12	1	-	-	-	13
General Comments	25	25	-	-	-	-	25
Total Findings	162	121	36	5	-	-	162



Work Performed

Summary of Work Performed to Date

	Complete
	In Progress
	Not Started

Review of the Robustness and Accuracy of the Base Financial Model

- > Investigation of mapping of formulae within the model;
- > Evaluation of unique formulae;
- > Evaluation of complexity of the model and formulae.
- > Evaluation of the structure and flow of the model;
- > Identification of circular references or unused inputs;
- > Identification of potential formula inconsistencies across the time periods presented;

- > High level analytical review including identification of key areas and workings;

- > Contractual compliance review;
- > Confirm structure and integrity of the Model and confirming that the Financial Model has been constructed in a robust manner to allow it to meet its objective as a financial and project evaluation financial model;
- > The model’s logic and calculations are materially arithmetically correct and that the results are accurate, complete and consistent with the assumptions; and

- > Confirming that the Financial Model is capable of projecting a cash flow cascade, profit and loss statement, balance sheet and other financial covenants in compliance with the Finance Documents and adequately treats tax and depreciation in the model as per the taxation advice received (if applicable).;

Status



Summary of Key Findings Identified

Finding Type	Finding Number	Findings Grade	Issue	Query
General Comments	G1	1	No distinction between inputs/calculations/outputs	We have noted that the model does not have separately identifiable sheets or section to delineate between outputs and inputs, as such, verify inputs and against source documents.
General Comments	G2	1	Annual timelines	We have noted that the model assumes annual timelines for all costs and revenues, a consequence of this is that it is difficult to ascertain the forecast of costs and revenues as the model lumps everything in one column.
General Comments	G3	1	External links in several places	We have noted that the model contains several external links, a consequence of this is that we cannot verify figures that are pulling values from external sources.
General Comments	G4	1	Hard coded values in formulas	We have noted that a lot of model calculations contain hardcoded values in the formulae, as we cannot ascertain the rationale of certain hardcoded values in formulae, we cannot confirm the veracity of a lot of the calculations. Furthermore, there is inconsistency in a lot of the hardcoded figures being used to calculate a figure in several periods, making it more difficult to verify the calculations.
General Comments	G5	1	Static Model will not be able to handle scenarios	We have noted that due to the static nature of the model (hard coded values/external links/inconsistent formulae across time periods), the Financial Model is not designed in a manner that will allow for the for the accurate estimation of any sensitivities and or scenario modelling.



Summary of Key Findings Identified

Finding Type	Finding Number	Findings Grade	Issue	Query
General Comments	G6	1	No checks to alert users of potential failures	<p>We note that the model does not contain any checks to alert users if there any problems in the calculations (i.e. a user can change any value and there would be no warning message or check to alert a user than something has gone wrong).</p> <p>This has been tested in several instances where inputs were changed and calculations removed and it was noticed that the there were no checks to alert users of any figures that might be incorrect.</p>
General Comments	G7	1	Calculations with no labels	We note that the model contains several calculations and inputs that have got no labels or units, a consequence of this is that as reviewers, it is difficult to know what an input is for or what a calculation is meant to be computing.
General Comments	G8	1	2 column gap in all calculations	We note that the model is currently set up in a way that that there is a gap of two columns between each year, we are not certain why this was done but this makes it difficult to verify the model outputs as this requires a reviewer to look at each cell individually, this, coupled with the fact that there formulae are also inconsistent across the time periods makes it difficult to verify the calculation , also, the in some instances, there are random values and calculations between the years that do not seem like they are used.
General Comments	G9	1	named ranges to external links	We note that all the named ranges in the model refer to external links, while these named ranges are not being used, this does have the consequence of slowing down the model.



Summary of Key Findings Identified

Finding Type	Finding Number	Findings Grade	Issue	Query
General Comments	G10	1	Clarity on year-ends	We note that the model does not clearly define what the applicable year ends are, when calculating revenue, there is an apportionment that is done to split revenue into prior year and current year, but there is no similar adjustment for debt repayments, as a result, we are not certain what the year ends are and we cannot verify the balance sheet as we are not certain of the measurement periods.
General Comments	G11	1	Working capital cannot be confirmed	Due to the way the model is set-up, it is not possible to know when revenue/costs are booked and when cash is received/paid out, as such, it is difficult to comment on working capital assumptions.
General Comments	G12	1	Depreciation not aligned to financial statements	We have noted that the model does not calculate the depreciation for different assets separately and assumes all assets are depreciated the same and have the same useful lives.
General Comments	G13	1	Hard coded debt repayments	We noted that in calculating the debt repayments, values, interest rates and debt repayments have all been hardcoded and we cannot confirm the veracity of these.
General Comments	G14	1	Values not tying up to AFS in actual periods	We have noted that several values in the model between 2019 - 2020 do not tie up to what is the AFS, we would have expected that all values in these periods would be the same.
General Comments	G15	1	Calculations referring to cells with no labels/units	We have noted that in several places, calculations refer to cells containing hardcoded inputs, as a result, we have no idea of verifying these calculations as we do not know what inputs are being used due to there being no labels or units.
General Comments	G16	1	No user guide	The model contains no user guide to guide users on what the different sections of the model, a brief description was found between rows 2 - 8 of the Notepad sheet, this is however not sufficient.



Summary of Key Findings Identified

Finding Type	Finding Number	Findings Grade	Issue	Query
General Comments	G17	1	Had coded values in Notepad.	The comparison in row 37:44 of the Notepad sheet was reviewed as all the values in the Current model column have been hardcoded and we have no way of verifying these, all other comments above have also not been reviewed for their veracity but rather treated as a guide to understand the project.
General Comments	G18	1	mapping of formulae	As required from the financial model review, an investigation of the mapping of formulae is required. Due to the way the model is structured (inconsistent formulae and gaps between columns), a mapping of the formulae indicated that in the Inputs (which houses most of the model's calculation), there was not a single row that contained a consistent formula.
General Comments	G19	1	Unique formulae evaluation	The unique formulae have been evaluated, in several instances, the formulae were found to contain hard coded inputs, the formulae were inconsistent, the model refers to external links that cannot be verified, the formulae refer to cells that contain no labels, making it difficult to confirm the accuracy of a calculation as we are uncertain of what inputs are beings used.
General Comments	G20	1	Structure of model	The structure of the model was evaluated and found to be deficient for the following reasons: <ul style="list-style-type: none"> - The model contains no section in which inputs are clearly delineated - The are a lot of inconsistent formulae in each row - The are hardcoded values in formulae - Hard coded values in formulae are also not consistent across different time periods - The model contains several external links - The model is static and contains no checks to alert users to any potential errors that might arise.



Summary of Key Findings Identified

Finding Type	Finding Number	Findings Grade	Issue	Query
General Comments	G21	1	Logic and arithmetic accuracy	We cannot confirm that the model's logic and calculations are materially and arithmetically correct as in many instances, there are inconsistent formulae and hard coded values and external links, and links to cells that have no labels or units, as such, we cannot confirm that the calculations are materially correct.
General Comments	G22	1	Structure of the model	We cannot confirm that the structure and integrity of the model have been constructed in a robust manner to allow it to meet its objective as a financial and project evaluation financial model.
General Comments	G23	1	IRR Cannot be confirmed	We have noted that the dividends Declared/forecast are all hardcoded figures that are determined separately, these are used to determine the IRR and as a result, we confirm the IRR calculations for the reasons listed below: - the IRR function is being used and as we are not sure of the exact measurement point at which the IRR is being measured, the IRR function might be skewed, we would expect XIRR to be used as this takes into account dates of cashflows. - The IRR is based on hardcoded dividends that are not derived from the financial statements.
General Comments	G24	1	No Version control	There is no version control contained within the model as well as no databook of relevant amendments (including the associated approvals for amendment in terms of the Concession Agreement) as well as track changes of the associated financial impacts of the changes to the assumptions.
General Comments	G25	1	No clearly defined escalation period	Page 4 of the document titles "Part 2 Attachment 3 Water and Sanitation Concession Agreement" seems to prescribe an escalation month of April, this has not been included in the model as the model seems to be assuming Jan-Dec timelines and that all costs and revenues are escalation at the beginning of each month.

General Comments

Query/ Comment No	Grade	Issue	Worksheet	Location	Query / Comment	Response	Cleared?
G1	1	No distinction between inputs/calculations/outputs	Inputs / Unit increase Fmodel /Loan Ilembe & Interest / Interest Payable sch		We have noted that the model does not have separately identifiable sheets or section to delineate between outputs and inputs, as such, verify inputs and against source documents.		
G2	1	Annual timelines	Inputs		We have noted that the model assumes annual timelines for all costs and revenues, a consequence of this is that it is difficult to ascertain the forecast of costs and revenues as the model lumps everything in one column.		
G3	1	External links in several places	Inputs		We have noted that the model contains several external links, a consequence of this is that we cannot verify figures that are pulling values from external sources.		
G4	1	Hard coded values in formulas	Inputs / Unit increase Fmodel /Loan Ilembe & Interest / Interest Payable sch		We have noted that a lot of model calculations contain hardcoded values in the formulae, as we cannot ascertain the rationale of certain hardcoded values in formulae, we cannot confirm the veracity of a lot of the calculations. Furthermore, there is inconsistency in a lot of the hardcoded figures being used to calculate a figure in several periods, making it more difficult to verify the calculations.		
G5	1	Static Model will not be able to handle scenarios	Inputs / Unit increase Fmodel /Loan Ilembe & Interest / Interest Payable sch		We have noted that due to the static nature of the model (hard coded values/external links/inconsistent formulae across time periods), the Financial Model is not designed in a manner that will allow for the for the accurate estimation of any sensitivities and or scenario modelling.		
G6	1	No checks to alert users of potential failures	Inputs / Unit increase Fmodel /Loan Ilembe & Interest / Interest Payable sch		We note that the model does not contain any checks to alert users if there any problems in the calculations (i.e. a user can change any value and there would be no warning message or check to alert a user than something has gone wrong). This has been tested in several instances where inputs were changed and calculations removed and it was noticed that the there were no checks to alert users of any figures that might be incorrect.		
G7	1	Calculations with no labels	Inputs / Unit increase Fmodel /Loan Ilembe & Interest / Interest Payable sch		We note that the model contains several calculations and inputs that have got no labels or units, a consequence of this is that as reviewers, it is difficult to know what an input is for or what a calculation is meant to be computing.		

General Comments

Query/ Comment No	Grade	Issue	Worksheet	Location	Query / Comment	Response	Cleared?
G8	1	2 column gap in all calculations	Inputs / Unit increase Fmodel /Loan Ilembe & Interest / Interest Payable sch		We note that the model is currently set up in a way that that there is a gap of two columns between each year, we are not certain why this was done but this makes it difficult to verify the model outputs as this requires a reviewer to look at each cell individually, this, coupled with the fact that there formulae are also inconsistent across the time periods makes it difficult to verify the calculation , also, the in some instances, there are random values and calculations between the years that do not seem like they are used.		
G9	1	named ranges to external links			We note that all the named ranges in the model refer to external links, while these named ranges are not being used, this does have the consequence of slowing down the model.		
G10	1	Clarity on year-ends	Inputs / Unit increase Fmodel /Loan Ilembe & Interest / Interest Payable sch		We note that the model does not clearly define what the applicable year ends are, when calculating revenue, there is an apportionment that is done to split revenue into prior year and current year, but there is no similar adjustment for debt repayments, as a result, we are not certain what the year ends are and we cannot verify the balance sheet as we are not certain of the measurement periods.		
G11	1	Working capital cannot be confirmed	Inputs / Unit increase Fmodel /Loan Ilembe & Interest / Interest Payable sch		Due to the way the model is set-up, it is not possible to know when revenue/costs are booked and when cash is received/paid out, as such, it is difficult to comment on working capital assumptions.		
G12	1	Depreciation not aligned to financial statements	Inputs / Unit increase Fmodel /Loan Ilembe & Interest / Interest Payable sch		We have noted that the model does not calculate the depreciation for different assets separately and assumes all assets are depreciated the same and have the same useful lives.		
G13	1	Hard coded debt repayments	Inputs / Unit increase Fmodel /Loan Ilembe & Interest / Interest Payable sch		We noted that in calculating the debt repayments, values, interest rates and debt repayments have all been hardcoded and we cannot confirm the veracity of these.		

General Comments

Query/ Comment No	Grade	Issue	Worksheet	Location	Query / Comment	Response	Cleared?
G14	1	Values not tying up to AFS in actual periods	Inputs / Unit increase Fmodel /Loan Ilembe & Interest / Interest Payable sch		We have noted that several values in the model between 2019 - 2020 do not tie up to what is the AFS, we would have expected that all values in these periods would be the same.		
G15	1	Calculations referring to cells with no labels/units	Inputs / Unit increase Fmodel /Loan Ilembe & Interest / Interest Payable sch		We have noted that in several places, calculations refer to cells containing hardcoded inputs, as a result, we have no idea of verifying these calculations as we do not know what inputs are beings used due to there being no labels or units.		
G16	1	No user guide	Inputs / Unit increase Fmodel /Loan Ilembe & Interest / Interest Payable sch		The model contains no user guide to guide users on what the different sections of the model, a brief description was found between rows 2 - 8 of the Notepad sheet, this is however not sufficient.		
G17	1	Had coded values in Notepad.	Inputs / Unit increase Fmodel /Loan Ilembe & Interest / Interest Payable sch		The comparison in row 37:44 of the Notepad sheet was reviewed as all the values in the Current model column have been hardcoded and we have no way of verifying these, all other comments above have also not been reviewed for their veracity but rather treated as a guide to understand the project.		
G18	1	mapping of formulae	Inputs / Unit increase Fmodel /Loan Ilembe & Interest / Interest Payable sch		As required from the financial model review, an investigation of the mapping of formulae is required. Due to the way the model is structured (inconsistent formulae and gaps between columns), a mapping of the formulae indicated that in the Inputs (which houses most of the model's calculation), there was not a single row that contained a consistent formula.		
G19	1	Unique formulae evaluation	Inputs / Unit increase Fmodel /Loan Ilembe & Interest / Interest Payable sch		The unique formulae have been evaluated, in several instances, the formulae were found to contain hard coded inputs, the formulae were inconsistent, the model refers to external links that cannot be verified, the formulae refer to cells that contain no labels, making it difficult to confirm the accuracy of a calculation as we are uncertain of what inputs are beings used.		

General Comments

Query/ Comment No	Grade	Issue	Worksheet	Location	Query / Comment	Response	Cleared?
G20	1	Structure of model	Inputs / Unit increase Fmodel /Loan Ilembe & Interest / Interest Payable sch		The structure of the model was evaluated and found to be deficient for the following reasons: <ul style="list-style-type: none"> - The model contains no section in which inputs are clearly delineated - There are a lot of inconsistent formulae in each row - There are hardcoded values in formulae - Hard coded values in formulae are also not consistent across different time periods - The model contains several external links - The model is static and contains no checks to alert users to any potential errors that might arise. 		
G21	1	Logic and arithmetic accuracy	Inputs / Unit increase Fmodel /Loan Ilembe & Interest / Interest Payable sch		We cannot confirm that the model's logic and calculations are materially and arithmetically correct as in many instances, there are inconsistent formulae and hard coded values and external links, and links to cells that have no labels or units, as such, we cannot confirm that the calculations are materially correct.		
G22	1	Structure of the model	Inputs / Unit increase Fmodel /Loan Ilembe & Interest / Interest Payable sch		We cannot confirm that the structure and integrity of the model have been constructed in a robust manner to allow it to meet its objective as a financial and project evaluation financial model.		
G23	1	IRR Cannot be confirmed	Inputs	row 274	We have noted that the dividends Declared/forecast are all hardcoded figures that are determined separately, these are used to determine the IRR and as a result, we confirm the IRR calculations for the reasons listed below: <ul style="list-style-type: none"> - the IRR function is being used and as we are not sure of the exact measurement point at which the IRR is being measured, the IRR function might be skewed, we would expect XIRR to be used as this takes into account dates of cashflows. - The IRR is based on hardcoded dividends that are not derived from the financial statements. 		



General Comments

Query/ Comment No	Grade	Issue	Worksheet	Location	Query / Comment	Response	Cleared?
G24	1	No Version control	Enitre model		There is no version control contained within the model as well as no databook of relevant amendments (including the associated approvals for amendment in terms of the Concession Agreement) as well as track changes of the associated financial impacts of the changes to the assumptions.		
G25	1	No clearly defined escalation period	Inputs		Page 4 of the document titles " Part 2 Attachment 3 Water and Sanitation Concession Agreement " seems to prescribe an escalation month of April, this has not been included in the model as the model seems to be assuming Jan-Dec timelines and that all costs and revenues are esclation at the beginning of each motnh.		

Logic & Clarification Findings

Query/ Comment No	Grade	Issue	Worksheet	Location	Query / Comment	Response	Cleared?
				Inputs			
Q1	1	Structure of model	Inputs	Entire sheet	We have noted that the model has got a gap of 2 columns between each year, can you please clarify why this is the case?		
Q2	1	hardcoded values and calculations in the same line	Inputs	D5:BE13	We have noted that this section contains both calculations and hardcoded figures in the same line, while we appreciate that year 2020 and all years prior have data and do not need calculations, however, it is generally accepted practice to separate hardcoded values from calculations, please consider introducing a new sheet or section that will house all the model's inputs and link calculations to these inputs.		
Q3	3	Unused figures	Inputs	AQ4:AR4 AT4:AU4 AW4:AX4 AZ4:BA4	We note there are inputs/calculations in these cells that are not consistent with adjacent cells, please consider amending.		
Q4	1	Unused calculations	Inputs	row 7 - 11	We have noted that rows 7 - 11 do not seem like they have dependent, can you please confirm if/how these are being used ? If not, please consider removing these if they are not being used.		
Q5	2	Clarity on inputs	Inputs	row 19	Can you please clarify what these inputs are (we noted the label reads Basic Sewer Caravan Park units), also, if these are units, can you please confirm why these drop in the last period?		
Q6	2	confirmation of year ends.	Inputs	row 14 row 21 row 33 row 39	We note that the values in this section are all year values, can you please clarify what the actual year-end periods are? Having all calculations yearly makes it difficult to know that revenues/costs have been reported for the correct periods.		
Q7	1	Hardcoded values in calculation	Inputs	row 29	We note that this row contains only hardcoded values in the formulae, as a result, we have no way of verifying this calculation, please consider amending this to have the calculation referring to clearly marked inputs and making the formula consistent.		

Logic & Clarification Findings

Query/ Comment No	Grade	Issue	Worksheet	Location	Query / Comment	Response	Cleared?
Q8	2	No calculation for borehole volumes	Inputs	AG30:BE30	Can you please clarify why there is no calculation for borehole volumes from 2021 onwards given that all periods in the past had a value?		
Q9	2	2019 vs 2020 base costs	Inputs	AG37, AG34	Can you please confirm why these cells are referring to the 2019 and not 2020 figures?		
Q10	2	Inconsistent formulas	Inputs	AG34:BE37	We note this section contains one set of formulae for the 2021 year and a different set of formulae from 2022 onwards, please consider amending these formulae and making them consistent.		
Q11	2	unclear timelines	Inputs	row 39	We note that the periods in this row contain 2 years(e.g 2020-2021), similar to a comment raised above, we are not sure of the applicable periods and whether everything has been allocated to the correct periods, please consider amending this such we can verify costs/revenues/volumes are allocated to the correct periods.		
Q12	2	Inconsistent formulae	Inputs	BC52:BD52	We note that these cells contain formula/values that are inconsistent with adjacent cells, please consider amending these to make them consistent or removing them if they are not being used.		
Q13	2	Inconsistent formulae	Inputs	BE57:BE70	We note that the formulae in this section are all different to the formulae in adjacent cells, we appreciate that this might be the last period that contains 3 months, however, from a structural point of view, it is not generally accepted modelling practice to have different formulae in the same row, please consider amending these formulae such that they are consistent with adjacent cells.		
Q14	2	Clarity on inventories	Inputs	row 128	Can you please confirm what is included/excluded from inventories, also, can you please confirm the source of the 10% increase in inventories every year?		
Q15	2	Clarity in inputs	Inputs	AD135	We note that the value in this cell is 986 compared ~41,000 on either side, can you please confirm if this is correct?		
Q16	1	Clarity of value being included in opex	Inputs	AG135	Can you please confirm what this value is, is this the R10m spoken of in the Notes sheet? If so, can you please confirm why this is being included in total operating costs?		

Logic & Clarification Findings

Query/ Comment No	Grade	Issue	Worksheet	Location	Query / Comment	Response	Cleared?
Q17	1	Salary increase73%	Inputs	BE117	We note a value of 73% salary increase in this cell, can you please confirm why this is significantly different to all the other years?		
Q18	1	Hardcoded values	Inputs	O153:AM153	We note that there are hardcoded inputs in this section (from year 2011 - Year 2023), can you please confirm why there are hardcoded values in a forecast period (and in the final period)?		
Q19	1	Clarity on increasing capex	Inputs	row 153	We note that the CAPEX increases every year and this is driven by the percentage in row 127, can you please confirm the source of this assumption?		
Q20	1	ROU Assets coming from external sources	Inputs	row 154	We note that the values in this row are all coming from external sources, please consider breaking these links. Also, can you please confirm why there are no values in Year 2028 and 2029?		
Q21	1	Clarity on loan amount	Inputs	row 155 (AJ 155)	We note a CAPEX amount of R 105 million that is coming from the Loan Ilembe & Interest worksheet, can you please confirm the nature of this amount.		
Q22	1	Inconsistency in depreciation formula	Inputs	row 156	We note that the formula in this row is not consistent (e.g formula in cell AG156 and all subsequent colounds are all different), as a result, we are not certain how the depreciation should be calculated and what has been included/excluded in the depreciation amounts due to the values all being hard coded, please clarify how this depreciation schedule should work?		
Q23	1	External link and inconsistent formula	Inputs	row 157	We note that the formulae in this row are all not consistent and all contain external links (i.e. the formula in AS157 is 9 * external link value and the formula in AV157 is 12 * external link value), please removing the external links and removing hard coded inputs from these formulas.		

Logic & Clarification Findings

Query/ Comment No	Grade	Issue	Worksheet	Location	Query / Comment	Response	Cleared?
Q24	2	Clarity on depreciation	Inputs	row 158	<p>Please confirm our understanding of this row, is this the Deprecation/ of the Ilembe Capex amount on a straight line basis?</p> <p>Please consider removing the hardcoded figures in this row and placing them in an inputs section to make the model more dynamic?</p>		
Q25	1	Clarity on Debts opening balance	Inputs	row 161:163	Can you please clarify what the "Debts Opening Balance" as we noted that the addition/reductions in this account are taken as the difference in non current liabilities and the non current liabilities are including deferred tax and lease liabilities.		
Q26	2	Clarity on Debts corkscrew	Inputs	row 161:163	Can you please clarify the purpose of this corkscrew account as it seems row 161 and 163 are not being used anywhere in the model?		
Q27	1	Debtors/Creditors days	Inputs	row 173:row 174	We note that the debtor and creditor days have been hardcoded, can you confirm the source of these assumptions and why the debtor days change each year?		
Q28	1	Debtors/Creditors days not being used	Inputs	row 173:row 174	Can you please confirm why these debtor's days are not being used anywhere in the model, we would have expected that for modelling and forecast purposes they would be used to determine the cash and accrual components, also, please consider amending the cell styles to make it easier for user to identify that these are inputs.		
Q29	1	External link and inconsistent formula	Inputs	row 165	We note the presence of external links is this, also, the formulae are inconsistent and we have no way of verifying what the actual figures should be (e.g. AJ has hardcoded values of (-63000*3) and AM 163 has (- 64000*3), this changes in each period and we are not certain what these hardcoded inputs or what the values being obtained from an external are/should be), please review this and consider amending this such that there are no hardcoded inputs in the formulae and the formulae are consistent in all periods.		

Logic & Clarification Findings

Query/ Comment No	Grade	Issue	Worksheet	Location	Query / Comment	Response	Cleared?
Q30	1	Cash balance at the end of concession	Inputs	BE172	We note there is a cash balance at the end of the concession that is not paid out, can you please confirm why this is the case?		
Q31	3	Clarity on calculations	Inputs	row 182	Can you please clarify what the purpose of this line is, is it to see the increase/decrease in operating costs?		
Q32	1	Clarity on year-ends and cost/revenue allocation	Inputs	Row 181	We note from this row that the year ends run from Jan - Dec and we have confirmed that this timeline aligns to the AFS, can you please confirm why the revenues and costs are being apportioned is all the inputs coming from the Unit increase FModel are already based of a Jan-Dec timeline?		
Q33	1	Clarity on Construction revenue	Inputs	row184	Can you please confirm what the nature of the Construction revenue is and why this is received in all periods up to the end of the concession?		
Q34	1	Corporate tax rate of 32%	Inputs	row 203 & 115	We note that the corporate tax rate has been assumed at 32%, the SA corporate tax rate is however 27%, please consider amending this		
Q35	1	No changes in deferred tax	Inputs		We note that the changes in deferred tax have not been included in this income statement, can you please confirm why that is the case?		
Q36	1	No assessed tax loss	Inputs	row 201 and above	We note that the Assessed tax loss limitation of 80:20 has not been modelled in, can you please confirm why that is the case?		
Q37	1	Hard coded dividends	Inputs	row 207 and row 260	We note that the dividends paid are hardcoded inputs in each period and are note driven by retained earnings or the cash that might be available for distributions, can you please confirm why this is the case?		
Q38	2	Clarity on changes in external debt	Inputs	row 237	We note this item called changed in external debt is referring referring to the row 162 which contains deferred tax, can you please clarify what is being calculated, is the calculation meant to calculate any loan advances or debt repayments?		

Logic & Clarification Findings

Query/ Comment No	Grade	Issue	Worksheet	Location	Query / Comment	Response	Cleared?
Q39	1	Clarity on cash available for distribution	Inputs	row 256	We note that the cash available for distribution is less than the distributions being made (row 245) as a result of reserving cash, but the IRR is being calculated based on the hard coded distributions, can you please confirm why this is the case		
Q40	1	Clarity on CPI assumptions	Inputs	row 269	Can you please confirm the source of the CPI assumptions being used in this row?		
Q41	1	Calculation of IRR	Inputs	row 274	We note that the IRR is being calculated using the IRR function and not XIRR, the IRR function does not necessarily take into account the timing of each cashflow so the result could be slightly skewed. Also, considering the fact that there are several blank columns, if a user inadvertently typed in a zero in any of the blank cells in row in row 272, the IRR answer would change.		
Q42	1	IRR calculation going up to year 20	Inputs	B274	We note that the IRR calculated here only goes up to 2020, is this intended to capture rolling IRR in actual periods? If so then this formula would potentially not work and require updates if there were to be any change in an actual period (i.e. if actual periods are updated to 2022 for example). Please review this formula and consider amending.		
Q43	1	Clarity on IRR	Inputs	row 274	Can you please confirm if the IRR is being reported anywhere in the model as we could not see this being reported anywhere.		
Q44	2	IRR calculation	Inputs	C274:F274 AB274:AC274	Please review these IRR calculations, they are currently giving errors due to them spanning multiple columns, including dates and all other inputs, please review and amend, also, please consider making this entire row consistent		

Logic & Clarification Findings

Query/ Comment No	Grade	Issue	Worksheet	Location	Query / Comment	Response	Cleared?
Q45	1	Inputs to IRR calculation	Inputs	row 274	We note that the IRR is being calculated based on the distributions that have been hardcoded in row 264 and not necessarily what has been paid out (i.e. the cash available for distributions in row 256 is less than the hard coded distributions in row 274) , can you please confirm why this is the case or how this is meant to work.		
Q46	1	Hard coded values	Inputs	row 275	We note that there are hardcoded values in these formulas, as a result, it is difficult to verify or know what is being calculated, please consider amending this.		
Q47	1	Hard coded values and inconsistent formulae	Inputs	Row 276:row278	We note there are hardcoded values in these formulae and several of them are inconsistent, as a result, it is difficult to verify what is being calculated, please consider amending these.		
Q48	1	management fee unadjusted for tax	Inputs	row 285	We note that the management fees have been added back to get to a consolidated profit excluding management fees, should there be no tax adjustment on these values given that this (i.e. Management fee * (1 - Tax rate)) ?		
Q49	1	Inconsistent formulae	Inputs	row 295	We note that the formulae in this row are not consistent, please (i.e. column AD refers to AG, column AG refers to refers to AG86, column AJ refers to AF, this makes it difficult to verify the calculations, please review this row and consider amending.		
Q50	1	Hard coded values in formulas, inconsistency in hard coded values	Inputs	row 297	We note that there are hard coded values in these formulae, and this is not consistent (i.e. AJ297 is subtracting 0.02 and AS is subtracting 0.03), as a result, we cannot verify the accuracy of these calculations, please consider amending these.		

Logic & Clarification Findings

Query/ Comment No	Grade	Issue	Worksheet	Location	Query / Comment	Response	Cleared?
Q51	1	Hard coded values in formulas, inconsistency in hard coded values	Inputs	row 299	We note that there are hard coded values in these formulae, and this is not consistent (i.e. AJ299 is subtracting 0.05 and AM is subtracting 0.038), this inconsistency continues till column BE, as a result, we cannot verify the accuracy of these calculations, please consider amending these.		
Q52	1	Constant tax receivable for the entire concession	Inputs	row 355	We note that the current Tax Payable is a fixed amount till the end of the concession, can you please confirm why this is the case?		
Q53	1	Balance sheet forecast	Inputs	row 352:354	We note that the Inventories and Trade receivables are being inflated every year (also, there are hardcoded values in some formulae), can you please confirm why the trade receivables are being inflated every year? Should this not be a function the actual sales/cost of goods sold?		
Q54	1	External links	Inputs	row 371	We note that the formulae in this row all contain external links, please consider breaking these links and using inputs from the model to calculate this.		
Q55	1	Clarity on debt repayment periods and year ends	Inputs	row 368,369, 377, 378	We note that the formulae in this cell are inconsistent and have all been directly linked to respective dates in their respective debt repayment schedules, its is a bit difficult to track that each period is referring to the correct debt repayment, please review this and consider amending.		
Q56	1	external links	Inputs	row 375, 380	We note that there are external links in this row, please consider breaking these links.		
Q57	1	Hard coded inputs	Inputs	row 376	We note that the formulae in this row contain hard coded values (e.g. all values are being multiplied by 0.8), can you please confirm why this is the case? Also, should the change in deferred tax not flow through the income statement?		
Q58	1	Deferred tax	Inputs	row 376	Can you please confirm why the deferred tax is being calculated this way? Should this not be calculated as a function of the temporary differences that arise from tax/accounting reporting?		

Logic & Clarification Findings

Query/ Comment No	Grade	Issue	Worksheet	Location	Query / Comment	Response	Cleared?
Q59	1	Clarification on tariff calculation	Inputs	Row 57:71	We note that the revenue is split 50:50 between current and prior year(i.e. the previous and current year's tariff and being used), can you please confirm why this is the case?		
Q60	2	Inputs not clearly highlighted	Inputs	row 19	We note there are hardcoded values in this row, please consider using cell styles to make it clear to users that these are inputs.		
Q61	2	Inconsistent formula	Inputs	BE16:BE18	We note that this cell contains an inconsistent formula, can you please confirm why this is different to the adjacent formula< Please consider amending this to make this consistent with the rest of the row.		
Q62	1	Financing cost and tax deductibility	Inputs	row 199	We note that interest costs in this line are referring to row 165 which contains external links, as such, we cannot verify this and whether or not the interest received/paid is deductible for tax purposes, please provide a description of what these finance costs are?		
Q63	1	Depreciation	Inputs	row 156	We have noted that the formulas in this row are all inconsistent, as such, we have no way of verifying them the actual depreciation methods being applied, please provide the depreciation schedule for assets?		
Q64	1	Adjustment to cashflow	Inputs	AD233	Can you please clarify what "Adjustments to cash flow" is, given that this is in the Year 2020 we would expect to find this in the AFS but we could not find it. Also, please consider placing this in a seperately indentifiable inputs and pulling the value from there.		
Q65	1	Clarity on CPI deflator	Inputs	row 270	We note that the CPI deflator is not taking into account the measurement period of April, can you please confirm why this is the case? A consequence of not adjusting to the exact measurement period is that the IRR could be skewed, please review this and consider amending, and		

Logic & Clarification Findings

Query/ Comment No	Grade	Issue	Worksheet	Location	Query / Comment	Response	Cleared?
Q66	1	Historical Period CPI different to PO141	Inputs	row 269:270	In an actuals period we would expect that the CPI assumptions used would be based on the PO141 published by STATS SA, can you please confirm why this is not being used?		
Q67	1	hard coded values	Inputs	row 277	We note that this formula contains hardcoded values and these are also inconsistent across the different years, as a result, we cannot verify accuracy of these figures, please consider amending this such that there are no hardcoded inputs in the formula.		
Q68	2	Clarity on line item	Inputs	row 277	Can you please confirm what this line item is?		
Q69	1	Min Cash Balance required clarity	Inputs	row 278	We note that cash is being reserved in this line, can you please confirm the source of this assumption? Is it in line with the dividend policy?		
Q70	3		Inputs	R278:X278	We note that there are formulas in this section, please consider removing these as it seems they are not being used.		
				Notes			
Q71	1	Clarity on R10m loan	Notes	B12	We note that there is a comment about a R10m loan advancement, can you please confirm where in the model this can be found?		
				Unit increase Fmodel			
Q72	1	Min Cash Balance required clarity	Inputs		We note that cash is being reserved in this line, can you please confirm the source of this assumption? Is it in live with the dividend policy?		
Q73	2	Clarity on inputs	Unit increase Fmodel	C2:C19	We noted that column C contains the number of units, can you please confirm what the source of these numbers are and if they are being used anywhere?		
Q74	2	No Labels	Unit increase Fmodel	F21:N22 R20	We note that there are calculations in this row with no labels, please consider removing these if they are not being used.		
Q75	1	Hardcoded values in formulae	Unit increase Fmodel	C25:C36	We note that the formulae in these sections contain hardcoded inputs, please consider linking these to input cells as we cannot verify what these figures are.		

Logic & Clarification Findings

Query/ Comment No	Grade	Issue	Worksheet	Location	Query / Comment	Response	Cleared?
Q76	2	Inputs with no accompanying labels	Unit increase Fmodel	M24:Q36	We note there are inputs in this section with no accompanying labels, can you please clarify what these are? Also, please consider adding cell styles so that user know that these are inputs as it would be very easy for a user to amend or delete a value in this section without noticing the impact.		
Q77	2	Calculations with no labels	Unit increase Fmodel	I23	We note there is a calculation in this cell with no label, please consider adding a label.		
Q78	2	Calculations with no labels	Unit increase Fmodel	G25:H36	We note that there are calculations in this section without a label, can you please confirm what these calculations are? Please also consider adding a label to make it easier for a reviewer to see what is being calculated.		
Q79	2	Inputs with no labels	Unit increase Fmodel	G23:I24	We note there are hard coded values in these cell with no accompanying labels, furthermore, these values are being used in calculations in G25:H36, can you please confirm what these number? Also, please consider adding labels.		
Q80	2	clarity on calculation	Unit increase Fmodel	R25:V37	Can you please clarify what is being calculated here and why all these figures are based on the anchored values in row 24? Is this calculation consumption * number of units?		
Q81	2	Clarity on calculations	Unit increase Fmodel	J23:L27 L29	Can you please confirm what the purpose of these values/calculations are and if they are being used anywhere?		
Q82	1	Clarity on inputs	Unit increase Fmodel	B24	Can you please confirm the source of this input as we could not tie it back to any document and this is being used as a base in calculating the increase.		
Q83	1	Inputs with no labels	Unit increase Fmodel	B39, B57, B74, B91, B108, B125, B142, B159, B179	Can you please confirm what these values are and if they are being used anywhere?		
Q84	1	Calculation with no label	Unit increase Fmodel	D39	We note that there is a calculation in this cell, can you please confirm what this is being used for? If this is not being used, please consider removing it.		
Q85	1	Calculations/inputs not visible	Unit increase Fmodel	E40	Please consider amending the formatting of this cell as it contains a value and is not blank, please also consider adding a label as this is being used.		

Logic & Clarification Findings

Query/ Comment No	Grade	Issue	Worksheet	Location	Query / Comment	Response	Cleared?
Q86	1	Hard coded values, no label	Unit increase Fmodel	F40,H40	We note that there are hardcoded values in these cells, can you please clarify what these values are and as they are being used to calculate the increases, please also consider adding a label.		
Q87	1	Calculations/inputs not visible	Unit increase Fmodel	F25:F36 F43:F55 F60:F71 F70:F88 F94:F108 F111:F122 F128:F138 F144:F156 F161:F173	We note that there are calculations in these cells that contain hardcoded values and these are being used to determine the cumulative consumption increase per month, please consider amending these such that there are no hardcoded inputs, please also consider changing the formatting/fonts in these cells to make it clear to users that these cells contains values/calculations, they currently look blank.		
Q88	1	Inputs with no labels	Unit increase Fmodel	G23:H23 G41:H41 G58:H58 G75:H75 G92:H92 G109:H109 G126:H126 G144:H144	Can you please clarify what these values are? Please also consider adding labels		
Q89	1	Clarity on calculations	Unit increase Fmodel	G23:H36 G41:H54 G58:H71 G75:H88 G92:H105 G109:H122 G126:H139 G144:H157	Can you please confirm what is being calculated in these sections, please also consider adding labels.		
Q90	2	Clarity on calculations/inconsistencies	Unit increase Fmodel	G106, G123, G140, G157,	We note that this sum formula is including row 92 and 93 (beginning value and value in the same line as the heading), can you please confirm if this is intended given that all other totals above are not being calculated this way (e.g. G89)?		

Logic & Clarification Findings

Query/ Comment No	Grade	Issue	Worksheet	Location	Query / Comment	Response	Cleared?
Q91	1	Incorrect cell references	Unit increase Fmodel	R43:S54	We note that the formulas in these cells are referring to the opening values in row 24, should these not be referring to what the values in M42 and N42 respectively? Please consider amending these		
Q92	1	Incorrect cell references	Unit increase Fmodel	R60:S71	We note that the formulas in these cells are referring to the opening values in row 24, should these not be referring to what the values in M59 and N59 respectively? Please consider amending these.		
Q93	1	Incorrect cell references	Unit increase Fmodel	R77:S88	We note that the formulas in these cells are referring to the opening values in row 24, should these not be referring to what the values in M76 and N76 respectively? Please consider amending these.		
Q94	1	Incorrect cell references	Unit increase Fmodel	R94:S105	We note that the formulas in these cells are referring to the opening values in row 24, should these not be referring to what the values in M93 and N93 respectively? Please consider amending these.		
Q95	1	Incorrect cell references	Unit increase Fmodel	R111:S122	We note that the formulas in these cells are referring to the opening values in row 24, should these not be referring to what the values in M110 and N110 respectively? Please consider amending these.		
Q96	1	Incorrect cell references	Unit increase Fmodel	R127:S140	We note that the formulas in these cells are referring to the opening values in row 24, should these not be referring to what the values in M127 and N127 respectively? Please consider amending these.		
Q97	1	Incorrect cell references	Unit increase Fmodel	R145:S156	We note that the formulas in these cells are referring to the opening values in row 24, should these not be referring to what the values in M144 and N144 respectively? Please consider amending these.		
Q98	1	Incorrect cell references	Unit increase Fmodel	R162:S164	We note that the formulas in these cells are referring to the opening values in row 24, should these not be referring to what the values in M161 and N161 respectively? Please consider amending these.		
Q99	1	Inconsistent formula	Unit increase Fmodel	L162:L173	We note that there is no sum function in this section as is the case for all the years above, can you please confirm why this is the case?		
Q100	1	Inconsistent formula	Unit increase Fmodel	O174:P174	Can you please confirm the purpose of the sum formulas given that all the other years do not have a similar aggregation?		

Logic & Clarification Findings

Query/ Comment No	Grade	Issue	Worksheet	Location	Query / Comment	Response	Cleared?
Interest Payable sch and Loan Ilembe & Interest							
Q101	1	Hard coded dates	Interest Payable sch and Loan Ilembe & Interest	Column B	We note that the dates in these repayment schedules have both been hardcoded and both end on the 25th of each month? Can you please confirm if this is intentional? <i>Also, if it is then this might be slightly misaligned to the financial</i>		
Q102	1	Clarity on Ilembe Loan	Loan Ilembe & Interest	column E	Can you please provide a source document for the loan advanced amount in the Loan Ilembe & Interest sheet as we could not tie it back to any of the documents received.		
Q103	1	No labels and no cell styles	Interest Payable sch and Loan Ilembe & Interest	column L and M	We note that there are calculations in these columns that seem to consolidate the annual debt repayments, these have no labels and a user can accidentally delete them without knowing, please consider adding labels and introducing cell styles to make these more visible and to ensure that users understand that these cells contain calculations.		
Q104	1	hard coded debt repayments	Interest Payable sch and Loan Ilembe & Interest	column D	We note that these debt payments have all been hardcoded, as a result, we cannot confirm the veracity of the figures without supporting schedules, can you please confirm the source of these repayments or how these were calculated?		
Q105	1	Clarity on fixed interest rates	Interest Payable sch and Loan Ilembe & Interest	Column H	We note that the interest rates are constant, can you please provide supporting documentation showing that the interest rates are constant for the entire period?		

Logic & Clarification Findings

Query/ Comment No	Grade	Issue	Worksheet	Location	Query / Comment	Response	Cleared?
Q106	1	Clarity on loan advances and interest	Interest Payable sch and Loan Ilembe & Interest	Column E	<p>We note that there are several loan advances in different periods, and the rate is the same on all these loans, can you please confirm several things below:</p> <p>1) Are all these loan advances tied to different loan agreements? 2) Should all these loan advances have the same interest rates? 3) We assume there would have been additional costs accompanying these loans (e.g. upfront fees etc.), we did not see this in any of the financial statements, can you please confirm why that the case?</p>		
Q107	1	Accounting treatment of vehicles	Interest Payable sch	E15 in Interest Payable sch	<p>We note that there is a comment in this cell that 4 vehicles were replaced, we assume this means there were 4 existing vehicles that have been disposed of, if so, can you please confirm how this was treated in the model as we could not find this?</p>		
Q108	1	Clarity on the nature of the loans	Loan Ilembe & Interest		<p>We assume that the loans in the Interest Payable Sch sheet are for vehicle finance, can you please confirm if that is the case?</p> <p>Can you please also confirm the nature of the loan in the Loan Ilembe & Interest worksheet?</p>		
Q109	1	Days in period for loans advanced	Interest Payable sch and Loan Ilembe & Interest		<p>We note that due to the way these sheets have been setup, the interest calculation will assume a full month for any loan advance even when the loan is not advanced at the beginning/end of the month, please confirm if this is intended?</p>		
Q110	1	Hard coded values	Loan Ilembe & Interest Interest Payable sch	G67:G101	<p>We note that the days in this section have been hardcoded, can you please confirm why this is the case?</p> <p>Please consider amending this to be formula driven.</p>		



Logic & Clarification Findings

Query/ Comment No	Grade	Issue	Worksheet	Location	Query / Comment	Response	Cleared?
Q111	2	Change in dates	Loan Ilembe & Interest Interest Payable sch	B67:B101	We note that the dates in this section move from month end dates of of the 25th to the 30th/31st, can you please confirm why this is the case.		
				Simbithi Leak and Simbithi			
Q112	2	Clarity on sheets in model			Can you please clarify the purpose of these sheets as we could not find any dependents on them.		
Q113	1	Clarity on Actuals period	Inputs		We have noted that the actuals period only goes up to year 2020, can you please confirm why 2021 has not been updated?		

Contracts Findings

Query/ Comment No	Grade	Issue	Worksheet	Location	Query / Comment	Response	Cleared?
D1	1	Revenue in model not typing up to financial statements	Inputs	AD183, AG183, AJ183	We note that the revenue values in the model in these periods (2019, 2020, 2021) do not tie up to what is in the audited AFS, can you please clarify why this is the case as we would expect that in an actuals period, the values in the model would match what is in the AFS?		
D2	1	Clarity on Miscalenous	Inputs	row 184	We note there is a line item called Miscellaneous revenue in the model, we could not find this in the AFS (we initially presumed this might be other income but it seems other income has already been included in total revenue that has been captured in the model), can you please confirm what this revenue is and why it does not tie up to the AFS?		
D3	1	Model vs AFS differences in operating costs	Inputs	Financial Statements section	We note that the costs in the model in these periods (2019, 2020, 2021) do not tie up to what is in the audited AFS, can you please clarify why this is the case as we would expect that in an actuals period, the values in the model would match what is in the AFS?		
D4	1	PPE in model not aligning to PPE in AFS	Inputs		We note that the AFS contain a cash outflow for PPE and acquisition of intangible assets, can you please where in the model such an entry can be found?		
D5	1	Depreciation not aligned to AFS	Inputs	row 156	We have noted that for the 2020 year Depreciation is a combination of several values, these could not be tied back to the AFS, can you please confirm if depreciation in the years 2019 and 2020 have been fully included in the model and why these do not tie up to the AFS?		
D6	1	No disposal of assets in model	Inputs		We have noted that the AFS contain disposal of certain assets, this could not be found in the model, can you please confirm if this has been included and where this can be found?		

Contracts Findings

Query/ Comment No	Grade	Issue	Worksheet	Location	Query / Comment	Response	Cleared?
D7	1	Balance sheet not clearing to zero at the end	Inputs		We presume the concession ends in 2029, however, the model is showing balances in all accounts (i.e share capital/Non Current Assets etc.), we would have expected there to be no value at the end, can you please confirm why the balance sheet does not go to zero?		
D8	1	Clarity on outstanding debt	Interest Payable sch		We noted that the document titled Vehicle 7 financing is specifies that the repayment period for the R 1,037m loan is March 2026, we noted that this does not get repaid at the end of 2026 (this could be owing to the fact that there are several other loan advances). Can you please confirm why this loan does get repaid (assuming it does not) and that the Nedbank is happy with this arrangement?		
D9	1	Clarity on opening balance	Interest Payable sch	E5	We note purchase price balance according to the document titled Vehicle 7 financing is R 1,217,412, should the model also not be displaying this?		
D10	1	Unreconciled items	Interest Payable sch		We have reviewed the documents tiled Vehicle 1 - 7 financing (we presume these documents contain the actual loan balances for these vehicles), we could only identify the loan amount of R 1,037m in the codument titled Vehicle 7 financing , all other values from these documents could not be reconciled to any figures in the model, can you please confirm why this is the case?		



Contracts Findings

Query/ Comment No	Grade	Issue	Worksheet	Location	Query / Comment	Response	Cleared?
D11	2	differences in CPI between five year review and model	Inputs	row 114	We note that according to the document titled "SAWW Report2020-2024_Update_Reviewed by Vuthela KEs", the average CPI from 2019 - 2023 is 5.2%, the model is not showing this assumption, it is instead showing an average of ~4.5%, can you please confirm why this is tehe case and if this needs amending to align to the Five year review.		
D12	1	Salary increase assumptions	Inputs	row 116	We note the salary increase asumption in the Five Year Review ("SAWW Report2020-2024_Update_Reviewed by Vuthela KEs") is 11.5%, the model is not using this assumption, can you please confirm why? Also, in the final period, the model is assuming a salary increase of 73%, can you please confirm if this is correct?		
D13	1	Electricity increase assumptions	Inputs	row 117	We note the electricity increase asumption in the Five Year Review ("SAWW Report2020-2024_Update_Reviewed by Vuthela KEs") is 15% from 2019 - 2023, the model is not using this assumption, can you please confirm why? Also, in the final period, the model is assuming a salary increase		

Accounting Findings

Query/ Comment No	Grade	Issue	Worksheet	Location	Query / Comment	Response	Cleared?
A1	2	Presentation of financial statements	Inputs		We note that the Model does not comply with the main presentation and disclosure requirements of IAS 1 and that it is not the intention for the Model to be designed to comply with presentation and disclosure requirements. This is a standard caveat to the accounting treatment which will be raised in the review letter.		
A2	2	Accounting Standards	Inputs		<p>The Model assumes that current International Financial Reporting Standards ('IFRS') are adopted in the preparation of the forecast cash flows and financial statements. We note that there are a number of relevant extracts of IFRS Standards that have not been complied with. A significant portion of these standards relate to the accounting treatment, classification and valuation of their relevant accounting categories, we note that the cashflows, and as a result the calculation of the Cash Flow Available for Debt Service ('CFADS') are not likely to be materially affected. We have confirmed this with the Company. Although not intended to be an exhaustive list, a summary of non-modelled standards include:</p> <ul style="list-style-type: none"> o IFRS 2 – Share Based Payments o IFRS 3 – Business Combinations o IFRS 4 – Insurance Contracts o IFRS 5 – Non-current assets held for sale and discontinued operations. o IFRS 7 – Financial Instruments o IFRS 10 – Consolidated Financial Statements o IFRS 13 – Fair Value Measurement o IAS 7 –Statement of Cash Flow o IAS 33 – Earnings per share <p>We will make note of the point in the audit review letter that the intention of the model is a cashflow model and not meant to be fully IFRS compliant.</p>		

Accounting Findings

Query/ Comment No	Grade	Issue	Worksheet	Location	Query / Comment	Response	Cleared?
A3	2	Accounting Standards	Inputs		The Model does not provide a cash flow statement consistent with the International Accounting Standard 7 (Cashflow Statements), and it is difficult to ascertain the cash position of the project in forecast periods. We will make note of the point in the audit review letter that the intention of the model is a cashflow model and not meant to be IFRS compliant.		
A4	2	IFRS 9 - Expected Credit Losses	Inputs		<p>We note subsequent to initial recognition of receivables, there needs to be a determination of whether there is substantial credit risk in order for the entity to incur expected credit losses and an impairment of the receivable. Please consider the appropriateness of whether credit losses have been considered with regard to sales and whether there is sufficient ground to apply expected credit losses any receivables due to the SPV. We will make note that expected credit losses have not been modelled however there is no expectation that receivables will be impaired in the current period.</p> <p>A further requirement of expected credit losses is that management makes assessment on an annual basis. Management should take cognisance of this and the % of receivables should be updated on an annual basis and should be added to manual protocol.</p>		
A5	3	Presentation of financial statements	Inputs		We note that the Model does not comply with the main presentation and disclosure requirements of IAS 1 and that it is not the intention for the Model to be designed to comply with presentation and disclosure requirements. We note the intention of the model is an operating model for tracking actuals and forecasting future operations. We will make note of the point in the audit review letter that the intention of the model is a cashflow model and not meant to be IFRS compliant.		

Accounting Findings

Query/ Comment No	Grade	Issue	Worksheet	Location	Query / Comment	Response	Cleared?
A6	3	Other Comprehensive Income	Inputs		The financial statements do not consist of an other comprehensive income section to comply with Financial Statement presentation standards. The model is thus not complaint with presentation of Annual financial Statements. Please confirm if the intention of the model is too comply with IFRS presentation standards. We will make note of the point that the intention of the model is a cashflow model and not meant to be IFRS compliant.		
A7	2	No liability raised for tax payable	Inputs		We note that there is no liability raised for income tax payable in the 6 months before each payment is made. We appreciate this is maybe cashflow model, however, this will be noted in the review letter.		



Tax Findings

Query/ Comment No	Grade	Issue	Worksheet	Location	Query / Comment	Response	Cleared?
T1	1	Corporate tax rate	Inputs	row 115	We have noted that the tax rate change of 27% has not been modelled in, the model is assuming corporate tax of 32%, please consider amending this.		
T2	2	Application of VAT	Inputs		We have noted that VAT and VAT receipts/payments have not been modelled in, please consider including this functionality in the model.		
T3	2	No deferred tax computation.	Inputs		We have noted that the model does not have a computation for deferred tax assets/liabilities, please consider adding this.		
T4	1	Assessed Loss Limitation	Inputs		We have noted that the Assessed loss limitation has not been modelled, please consider including this.		