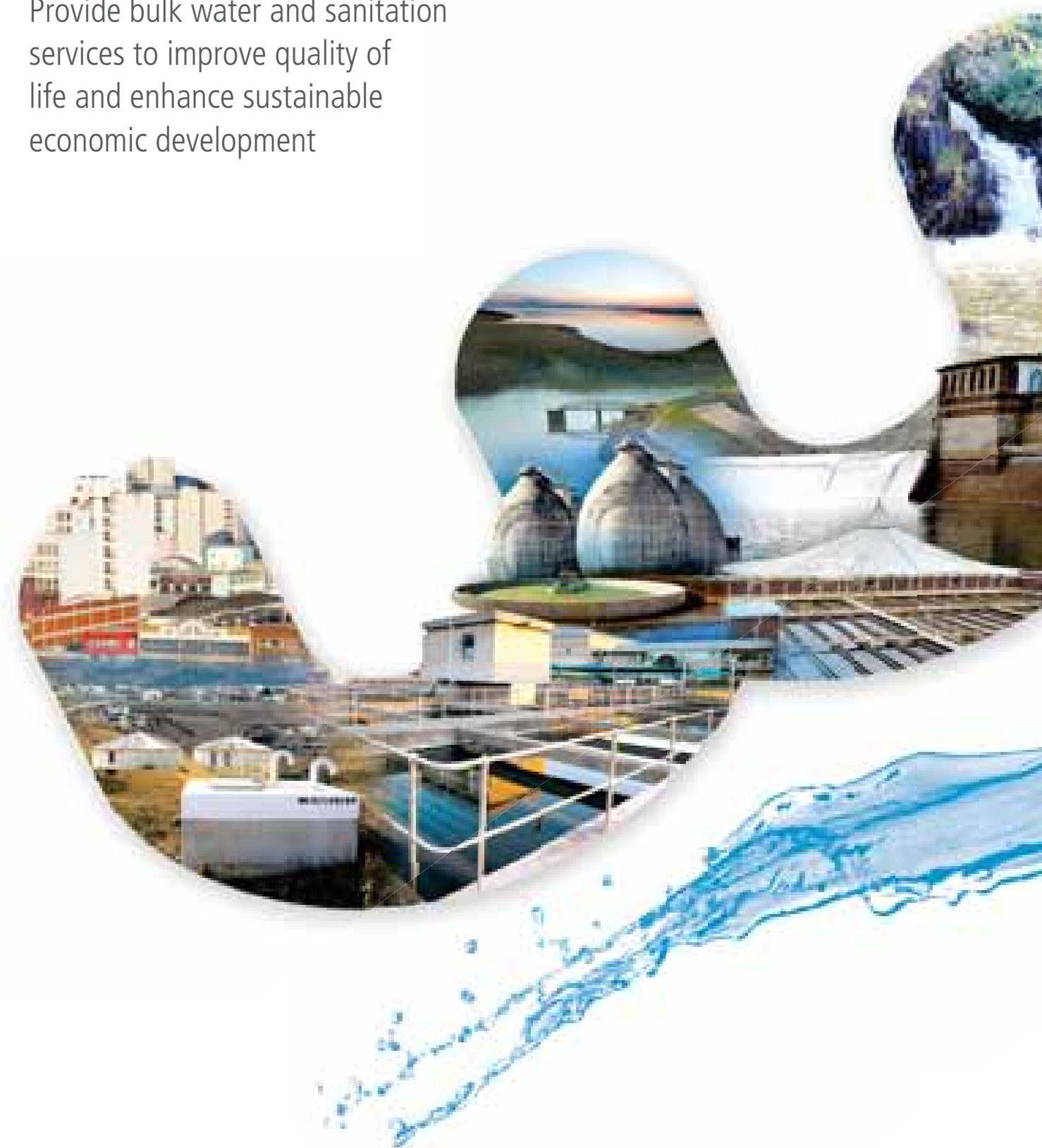




ANNUAL REPORT

2017/2018

Provide bulk water and sanitation services to improve quality of life and enhance sustainable economic development

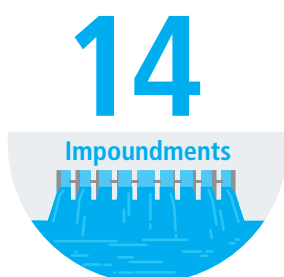
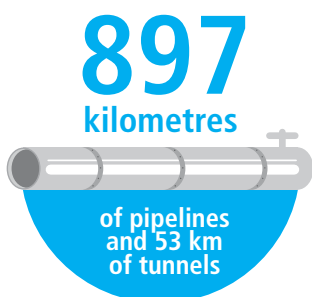




LOWER THUKELA BWSS

UMGENI WATER IN NUMBERS

AN EFFICIENT, INNOVATIVE AND RESPONSIBLE ORGANISATION ON THE MOVE

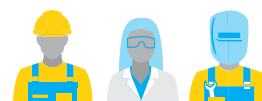


94 359 km²

Umgeni Water gazetted supply area



58

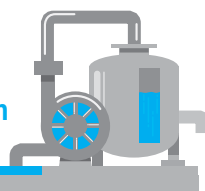


APPRENTICES TRAINED

in Mechanical Engineering, Electrical Engineering and Instrumentation fields

435 MILLION

cubic metres of potable water per annum (1191 Ml/d) provided to 6 customers



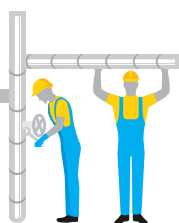
1 231

Umgeni Water Group employees



599

CAPEX Programme Jobs in the 2017/2018 financial year with



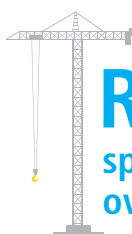
R20 MILLION

paid in wages to local labourers



R918 MILLION

spent on maintenance over the past five years



260 000

analytical results generated from the entity's laboratory in 2017/2018



VISION

Leading water utility that enhances value in the provision of bulk water and sanitation services

We strive to be an effectively run, public-oriented and socially accountable water utility, which has its heart and mind, focused on the provision of bulk water services. We will achieve leadership based on our performance and the sustainable value we co-create with our customers and stakeholders and continue to leave a positive legacy in our communities, region and country.



MISSION

Provide innovative, sustainable, effective and affordable bulk water and sanitation services

Our business is the provision of bulk water services – both potable and wastewater – to support government service delivery to the people of South Africa and providing water for life. This includes providing all bulk water services to our customers, facilitating integrated planning in the region, supporting municipalities and contributing to water knowledge that will lead to sustainability from source-tap-source.



STRATEGIC INTENT

Key Partner that enables government to deliver effective and efficient bulk water and sanitation services

Umgeni Water intends to be recognised as a strategic and sustainable partner of government, co-creating value through providing bulk water and sanitation services as a catalyst for local economic development and government's developmental agenda.



BENEVOLENT INTENT

Provide bulk water and sanitation services to improve quality of life and enhance sustainable economic development

Umgeni Water intends to be recognised as an organisation that has legitimate leadership and cultivates accountability. Through this people-centred approach Umgeni Water will achieve water services delivery. Bulk water services will be provided for both health and economic benefits, which contribute to addressing poverty, under-development and inequality.



Umgeni Water Supply Area

KwaZulu-Natal has a total geographical area of 94 359 km² and is home to 11.1 million people and 2.9 million households.

The province has a total of 54 municipalities of which 14 are Water Services Authorities (WSAs): 1 Metro; 10 DMs; and 43 LMs of which 3 are WSAs.



Legend

- Newly Added Customer, Operations to start in 2019
- UW's 6 WSA Customers

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PLEASE
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1.0 REPORT PROFILE

Umgeni Water's Annual Report complies with statutory disclosure requirements of the Public Finance Management Act (Act 1 of 1999) and Water Services Act (Act 108 of 1997), as well as relevant regulations. In addition, Umgeni Water's Annual Report is significantly aligned to the requirements of King IV regarding integrated reporting. Integration is achieved through the entity having in place an integrated strategy and value creation model based on the balanced scorecard that straddles four sustainability perspectives, together with Umgeni Water ensuring complete alignment with government's outcomes approach for performance reporting by State-Owned Entities (SOEs).

This report further contains Standard Disclosures that are 'in accordance with' the GRI Guidelines – fulfilling the GRI Comprehensive criteria. Information is included in the GRI Content Index at the end of this report.

Umgeni Water has prepared Annual Reports every year since its establishment in 1974. This report covers the twelve-month period from 1 July 2017 to 30 June 2018. Information on Umgeni Water's subsidiaries is also included in the report.

The performance content of this Annual Report highlights Umgeni Water's progress on meeting predetermined objectives and performance indicators as per its approved Corporate Plan and Shareholder Compact and contains an audited performance scorecard for 2017/2018. The financial content of the Annual Report further contains the audited financial statements for 2017/2018. Over the years, Umgeni Water has developed and embedded in-house processes for identifying, collecting, collating, validating and storing information used in managing its performance and continues to enhance these.

The assurance of the Annual Report for both financial and performance information is provided by Internal Audit and the Audit Committee of the Board. In addition, as a

state-owned entity, Umgeni Water is audited by the Auditor-General of South Africa for financial, compliance and performance information.


Further information on the scope covered by Internal and External Auditors is provided in the Corporate Governance chapter of this report. In addition to assurance via these routes, core business processes, namely water treatment works operations, monitoring programmes and analytical laboratories are externally certified or accredited in accordance with relevant ISO and other nationally recognised standards.


The Annual Report content is structured to provide sufficient information to all stakeholders including customers, regulatory bodies, investors, employees and civil society, regarding Umgeni Water's annual performance and on-going progress towards sustainable development. Specific stakeholder engagement information is contained in the Stakeholder Understanding and Support chapter of this report, as well as throughout the report.

Additional information concerning all aspects of the report and its contents can be obtained from:

Umgeni Water

PO Box 9, Pietermaritzburg, 3200 or at the entity's head office, 310 Burger Street, Pietermaritzburg, 3201

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 +27 (33) 341 1084

 info@umgeni.co.za

 www.umgeni.co.za

 www.facebook.com/umgeniwater.com

 [@umgeniwater](https://twitter.com/umgeniwater)

 youtube.com/UWA1974

 [@UmgeniWater](https://www.instagram.com/UmgeniWater)

0 unplanned supply disruptions

that exceeded
24 hours across
all 17 supply
systems



MIDMAR DAM

ORGANISATIONAL PROFILE

2.1 LEGISLATIVE MANDATE

Umgeni Water is a state-owned entity (SOE) established in 1974 to provide water services - water supply and sanitation services - to other water services institutions in its service area. The entity operates in accordance with the Water Services Act (Act 108 of 1997) and the Public Finance Management Act (Act 1 of 1999), amongst others, and is categorised as a National Government Business Enterprise. Umgeni Water reports directly to the Department of Water and Sanitation (DWS), through the Board (Accounting Authority) and through its functionaries, the Chairperson of the Board and the Chief Executive. The Minister of Water and Sanitation is the Executive Authority for Water Boards.

2.2 ACTIVITIES OF UMGENI WATER

The primary activities of Umgeni Water, as pronounced in section 29 of the Water Services Act, is to provide water services (water supply and sanitation services) to other water services institutions in its service area.

In addition, section 30 of the Water Services Act, enables Umgeni Water to undertake other activities, provided these do not impact negatively on the entity's ability to perform its primary activity. These include:

- Providing management services, training and other support services to other water services institutions, in order to promote co-operation in the provision of water services;
- Supplying untreated or non-potable water to end-users who do not use the water for household purposes;

- Providing catchment management services to or on behalf of the responsible authority;
- With the approval of the water services authority having jurisdiction in the area, supplying water directly for industrial use, accepting industrial effluent and acting as a water services provider to consumers;
- Providing water services in joint venture with water services authorities; and
- Performing water conservation functions.

2.3 SUPPLY AREA AND CUSTOMERS (SHOWN ON MAP)

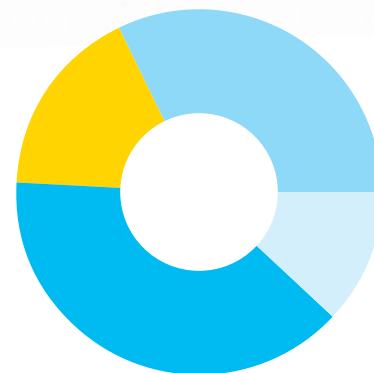
KwaZulu-Natal is the gazetted supply area of Umgeni Water and Mhlathuze Water and straddles a total geographical area of 94 359 km², which is home to 11.1 million people and 2.9 million households.

The KwaZulu-Natal Province comprises one (1) Metropolitan Municipality, ten (10) District Municipalities and forty-three (43) Local Municipalities. Fourteen (14) of these municipalities are Water Services Authorities as defined in the Water Services Act.

In the reporting period, Umgeni Water focused its service delivery and derived revenue largely from six (6) customers:

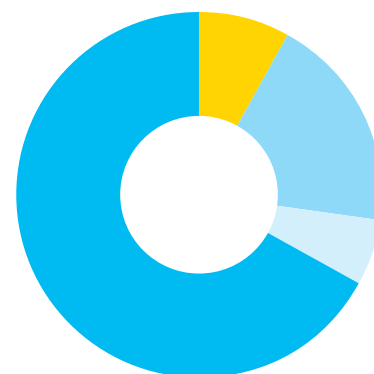
- eThekweni Metropolitan Municipality;
- iLembe District Municipality;
- Ugu District Municipality;
- Harry Gwala District Municipality;
- uMgungundlovu District Municipality; and
- Msunduzi Local Municipality.

Supply Area Contribution to KZN



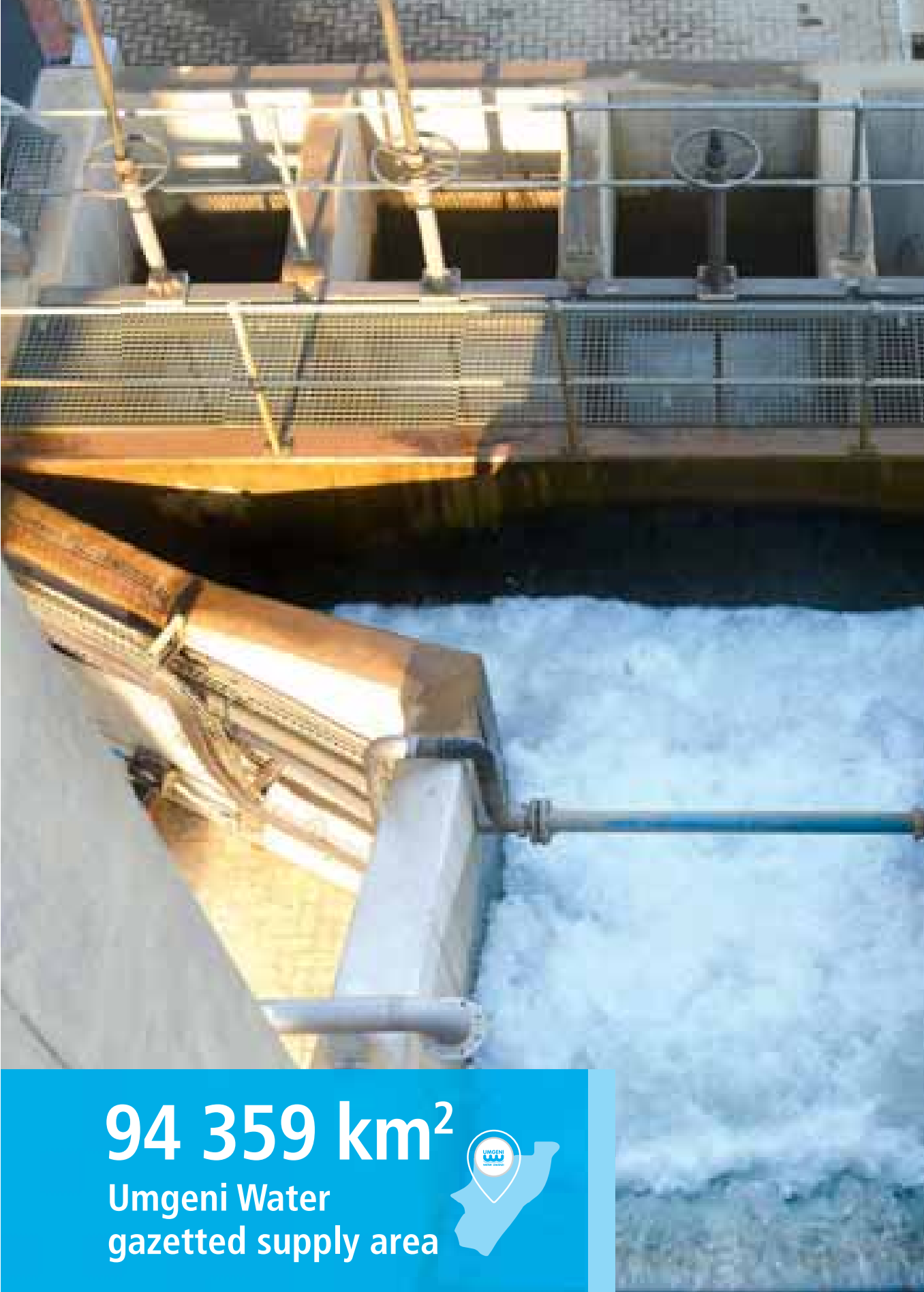
- Mhlathuze Water, **39%**
- uThukela Water (Pty) Ltd, **17%**
- Umgeni Water (6 WSAs), **32%**
- uThukela DM, **12%**

Households Distribution



- Umgeni Water (6 WSAs), **67%**
- uThukela Water (Pty) Ltd, **8%**
- Mhlathuze Water, **19%**
- uThukela DM, **6%**

In November 2017, Umgeni Water successfully concluded a supply agreement with an additional municipality (uThukela District Municipality) for implementation in 2019.



94 359 km²
Umgeni Water
gazetted supply area



LOWER THUKELA BWSS

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Umgeni Water's traditional six (6) customers cover 32% of the KZN geographical area and are home to 67% of households. With the organisation's newly acquired customer number seven (7), uThukela DM; the focus area in 2019 will increase to cover 44% of the KZN geographical area and 73% of households.

Umgeni Water's infrastructure assets in support of its bulk water services business comprise of:

- Approximately 897 kilometres of pipelines and fifty-three (53) kilometres of tunnels;
- Fourteen (14) impoundments;
- Seventeen (17) water treatment works; and
- Nine (9) wastewater treatment works.

2.4 STRUCTURE OF UMGENI WATER

The Umgeni Water Group comprises a parent entity with two small subsidiaries.

The Executive Committee is the top management structure of Umgeni Water Parent and for the reporting year comprised a Chief Executive and four Executives, namely for Operations, Engineering and Scientific Services, Finance and Corporate Services. The Chief Executive guides the daily operations of the entity with powers delegated to him by the Board.

The non-executive Board is the Accounting Authority and provides strategic leadership to the Executive. The Board is appointed by the Minister of Water and Sanitation.

With respect to the subsidiaries, Umgeni Water has 100% shareholding in both Msinsi Holdings SOC Ltd. and Umgeni Water Services SOC Ltd. The latter holds an 18.5% investment in Durban Water Recycling (Pty) Ltd.

The Umgeni Water Group as at 30 June 2018 comprised:

- A head count of 1 231 employees;
- Revenue for the year of R2.90 billion with R1.19 billion net surplus generated; and
- Balance-sheet asset value of R11.54 billion of which reserves totalled R8.09 billion.



MIDMAR WTW



PARLIAMENT OF SOUTH AFRICA



MINISTER OF WATER AND SANITATION



UMGENI WATER GROUP

UMGENI WATER
SUBSIDIARIES



Msinsi Holdings
SOC Ltd. (100%)



Umgenti Water Services
SOC Ltd. (100%)



Chief Executive and
Executive Committee

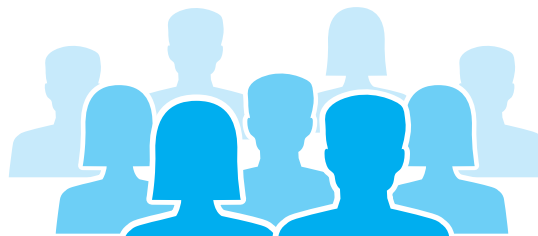


Msinsi Board



Durban Water Recycling
(Pty) Ltd. (18.5%)

UMGENI WATER
PARENT



Umgenti Water Board

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**SPRING GROVE
DAM PUMP STATION**

UMGENI WATER'S STRATEGY¹

Umgeni Water's strategy, which is effective for the 2018/2019 reporting year, comprises five (5) goals and ten (10) long-term sustainability outcomes. The strategy map succinctly illustrates the manner in which sustainable value is created by integrating seven (7) strategic objectives through five (5) balanced scorecard perspectives in support of the mission and mandate.

STRATEGIC GOAL 1:

Provide reliable, responsive and affordable services and expand infrastructure to increase access, whilst ensuring stable water resources to meet current and future needs.

STRATEGIC GOAL 2:

Develop strategic partnerships, increase support to customers, improve visibility and be a regional leader in the provision of bulk water and sanitation services.

STRATEGIC GOAL 3:

Ensure sufficient operating cash flows, manage key cost drivers and leverage debt and assets to provide for future expansion, whilst supporting socio-economic development.

STRATEGIC GOAL 4:

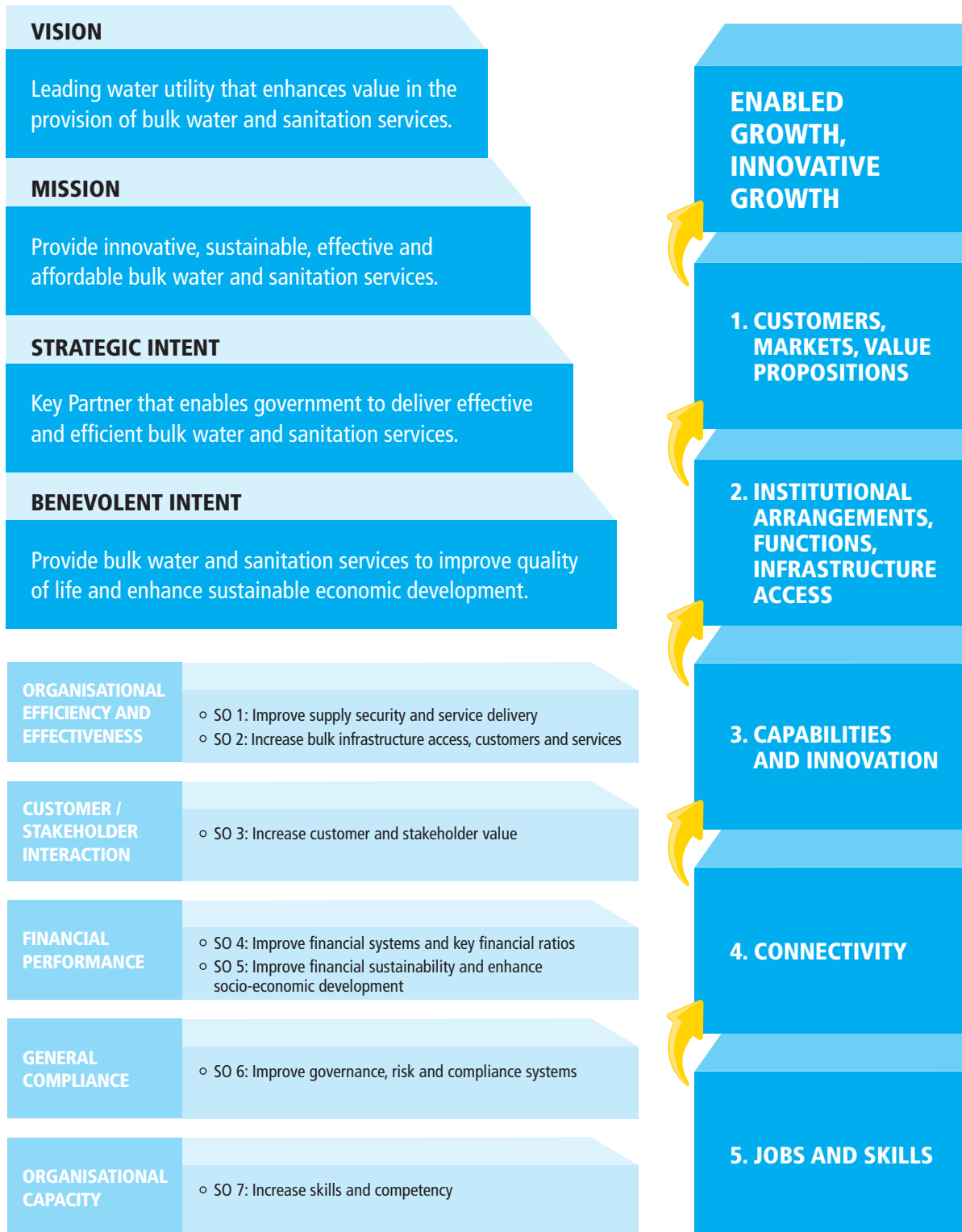
Ensure a well-governed and resilient entity that innovates, educates and supports community development and contributes to environmental sustainability.

STRATEGIC GOAL 5:

Strengthen and develop quality human resources and ensure a participatory, collaborative organisation dedicated to continual learning and improvement.

¹ Strategy was updated in April 2018 and is effective for the 2018/2019 reporting year.

STRATEGY MAP



We will be an entity that:

- Invests in its people/skills;
- Invests in technology and innovation;
- Invests in its relationships and partnerships;
- Adapts its culture and increases its commitment; and
- Positions itself through an aggressive and agile growth strategy.

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UMGENI WATER STRATEGY OUTCOMES

PRODUCT QUALITY (WATER AND WASTEWATER)

Achieved when Umgeni Water produces potable water and wastewater in full compliance with statutory and reliability requirements and consistent with customer and environmental needs.



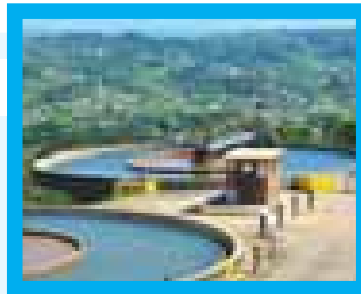
WATER RESOURCES ADEQUACY

Achieved when Umgeni Water assesses the scarcity of fresh water resources; investigates sustainable alternatives; manages water abstractions assiduously; and has access to stable raw water resources to meet current and future customer needs.



OPERATIONAL OPTIMISATION

Achieved when Umgeni Water has on-going, timely, cost-effective, reliable and sustainable performance improvements in all facets of its operations; minimises resource use, loss, and impacts from day-to-day operations; and maintains awareness of information and operational technology developments to anticipate and support timely adoption of improvements.



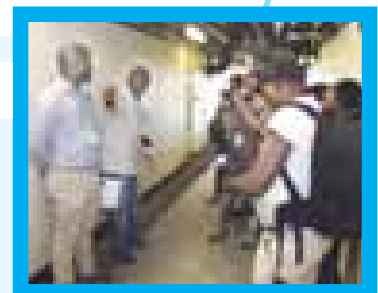
CUSTOMER SATISFACTION

Achieved when Umgeni Water provides reliable, responsive and affordable services in line with explicit, customer-agreed service levels; and receives timely customer feedback to maintain responsiveness to customer needs and emergencies.



STAKEHOLDER UNDERSTANDING AND SUPPORT

Attained when Umgeni Water engenders understanding and support from statutory, contracted and non-contracted bodies for service levels, tariff structures, operating budgets, capital improvement programmes, risk management decisions and water resources adequacy.





FINANCIAL VIABILITY

Achieved when Umgeni Water understands the organisational life-cycle costs and maintains a balance between debt and assets while managing operating expenditures and increasing revenues. In addition, the organisation aims for a sustainable tariff that is consistent with customer expectations, recovers costs and provides for future expansion.



INFRASTRUCTURE STABILITY

Achieved when Umgeni Water understands the condition and costs associated with critical infrastructure assets; and maintains and enhances the condition of all assets over the long-term. This is done at the lowest possible life-cycle cost and acceptable risk levels; consistent with customer service and statutory-supported service levels; and consistent with anticipated growth and system reliability goals. The organisation further assures that asset repair, rehabilitation and replacement efforts are coordinated to minimise disruptions and other negative consequences.



OPERATIONAL RESILIENCY

Achieved when Umgeni Water's leadership and staff work together to anticipate and avoid problems; and proactively identify, assess, and establish tolerance levels for effectively managing a full range of business risks, consistent with industry trends and system reliability goals.



COMMUNITY AND ENVIRONMENTAL SUSTAINABILITY

Achieved when Umgeni Water is explicitly cognisant of and attentive to the impacts it has on current and future community sustainability; supports socio-economic development; and manages its operations, infrastructure and investments to protect, restore, and enhance the natural environment, whilst using energy and other natural resources efficiently.



LEADERSHIP AND EMPLOYEE DEVELOPMENT

Achieved when Umgeni Water is a participatory, collaborative organisation dedicated to continual learning and improvement; recruits and retains a workforce that is competent, motivated and adaptive; works safely, ensuring institutional knowledge is retained and improved; provides opportunities for professional and leadership development; and creates an integrated and well-coordinated senior leadership team.

STRATEGIC STATEMENTS OF UMGENI WATER AND ITS FUNCTIONAL DIVISIONS

UMGENI WATER:

We will lead the process of providing solutions via an innovative, vigorous growth path, to increase sustainable water supply, in order to satisfy the developmental water services requirements in our region, which contribute to government objectives.

BOARD:

We will consider internal and external factors, consult with stakeholders, develop a strategy, authorise implementation, manage resources, manage risks and oversee implementation to produce a valid and approved strategic plan, deliver on strategic objectives and provide sound corporate governance to achieve our vision and mission, in order to contribute towards government's objectives.

CHIEF EXECUTIVE OFFICE:

We will position and lead the organisation, plan activities and allocate resources, implement strategy, manage risk, champion corporate governance and partner with

stakeholders to deliver organisational objectives to achieve a well governed, vibrant, committed, sector-relevant and engaged organisation that delivers on its mandate.

OPERATIONS:

We will position ourselves, plan, structure, mobilise resources, source, specify, operate and maintain our infrastructure, abstract, treat, sell, distribute, monitor, conserve and re-use water, to deliver quality, effective and affordable water services to our stakeholders, which will deliver on organisational objectives.



LOWER THUKELA WTW

SCIENTIFIC SERVICES ¹:

We will undertake water sampling and laboratory analysis, assess water quality and environmental health, leverage technology, optimise water treatment processes to achieve sustainability and public health and provide innovative and optimal scientific solutions, in order to meet organisational objectives.

INFRASTRUCTURE DEVELOPMENT ¹:

We will reconcile water demand and water resources, plan infrastructure, provide optimal and innovative engineering solutions, implement capital infrastructure

programmes to deliver water infrastructure in an environmentally sustainable manner, in order to meet organisational objectives.

FINANCE:

We will plan, mobilise, account for and report on resources, manage financial risk, proactively implement procurement strategies and maintain internal control and systems, which result in funding, control, efficient, effective and economical supply of requisites, support and monitoring of the business to deliver sound financial management and corporate governance, to contribute towards organisational objectives.

CORPORATE SERVICES:

We will provide a specialised, diverse and essential enabling service through the provision of holistic human capital management, property and security management, management of information, communication and technology systems and computing infrastructure and legal services to enhance organisational service delivery capacity.

¹ Previously part of Engineering and Scientific Services Division.

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MINISTER'S FOREWORD



MR. GUGILE NKWINTI
MINISTER OF WATER
AND SANITATION

In response to the challenges experienced with water management and services over the recent period the Department has

“Umgeni Water has contributed to job creation and transformation during this reporting period, through its successful capital infrastructure development programme and implementation of several other programmes that are developing young professionals and women employees.”

developed a Five Pillar Turnaround strategy, aspects of which will take effect in the 2019 to 2024 Medium Term Strategic Framework (MTSF). These Pillars are:

A NATIONAL WATER RESOURCES AND SERVICES AUTHORITY:

This Authority will be established to finance, develop, manage and operate national water resource infrastructure and sanitation.

A NATIONAL WATER RESOURCES AND SERVICES REGULATOR:

The possibility of an independent economic regulator to regulate tariffs, standards and

performance in the water services sector has been proposed and processes are underway to consult on the appropriateness of such an institution.

A WATER RESOURCES AND SERVICES VALUE CHAIN:

The water and sanitation sector is currently comprised of a large number of institutions with a complex suite of functions divided amongst them, which creates an overly complex value chain (currently 428 entities) which we need to streamline.

SPRING GROVE DAM

A WATER RESOURCES A WATER RESOURCES AND SERVICES MASTER PLAN:

A Plan which sets out prioritised actions and investments we must implement between now and 2030 to overcome challenges and ensure a water secure future supporting inclusive development across the country, and also to ensure that universal sanitation coverage protects the health of our people.

INSTITUTIONAL RATIONALISATION AND ORGANISATIONAL ALIGNMENT:

An early action will be to establish a business case for streamlined institutional rationalisation and organisational alignment in the water sector in accordance with the outcomes of the Presidential review of State Owned Enterprises (SOEs).

These Five Pillars are fully embedded in the National Water and Sanitation Master Plan and the more detailed implementation plans will be finalised through an intensive round of stakeholder engagements which will take place during the latter half of this year. They are further aligned to the National Development Plan (NDP), and the National Water Resources Strategy (NWRS), amongst other key national documents.

The Department and Water Boards are responsible for the delivery of bulk water services to municipalities, which in turn have been mandated by legislation to reticulate

and deliver basic services to communities. This model continued to experience challenges in the past year. The Department proposed collaborative and structured interventions in support of target municipalities with the Departments of Cooperative Governance and Traditional Affairs.

During 2016/2017 Umgeni Water completed construction of the Lower Thukela Regional Bulk Water Scheme and successfully commissioned the scheme in 2017/2018. This scheme is funded by the Department as a key Regional Bulk Water Supply Scheme in support of water security to the coastal and inland areas of KwaDukuza Local Municipality, northern parts of Durban and will later serve Mandeni Local Municipality.

Other key water projects being implemented by Umgeni Water include: the construction of the Mshwathi Bulk Water Supply Scheme, construction of the Greater Mpofana Regional Scheme Phase 1, the design of the Impendle Bulk Water Supply Project, planning of the Maphumulo Bulk Water Supply Project Phase 3, construction of the Midmar Raw Water Pipeline Augmentation and Midmar Water Treatment Works Upgrade, as well as the raising of the Hazelmere Dam and detailed feasibility for the Upper uMkhomazi Water Project.

The devastating drought period, reported to be the worst in 100 years has fortunately been broken in KwaZulu-Natal with some good rains falling in this reporting period.

A turnaround in the capacity of major dams in the region is being observed, but levels will continue to be closely monitored in the coming years of the recovery period.

Pollution by sewage remains a big problem in our catchments countrywide. During this reporting period, Umgeni Water progressed further with the upgrade of the Darvill Wastewater Treatment Works. This will sustainably serve the Msunduzi Municipality, as part of a strategy to ensure there is sustainable bulk sanitation into the future, whilst ensuring integrity of the water value chain.

Water and sanitation serve as an important means of uniting South Africa through alleviating poverty and creating jobs. Umgeni Water has contributed to job creation and transformation during this reporting period, through its successful capital infrastructure development programme and implementation of several other programmes that are developing young professionals and women employees.

Umgeni Water is commended for the manner in which they achieved these results.



Mr. Gugile Nkwinti
Minister: Water and Sanitation
19 September 2018

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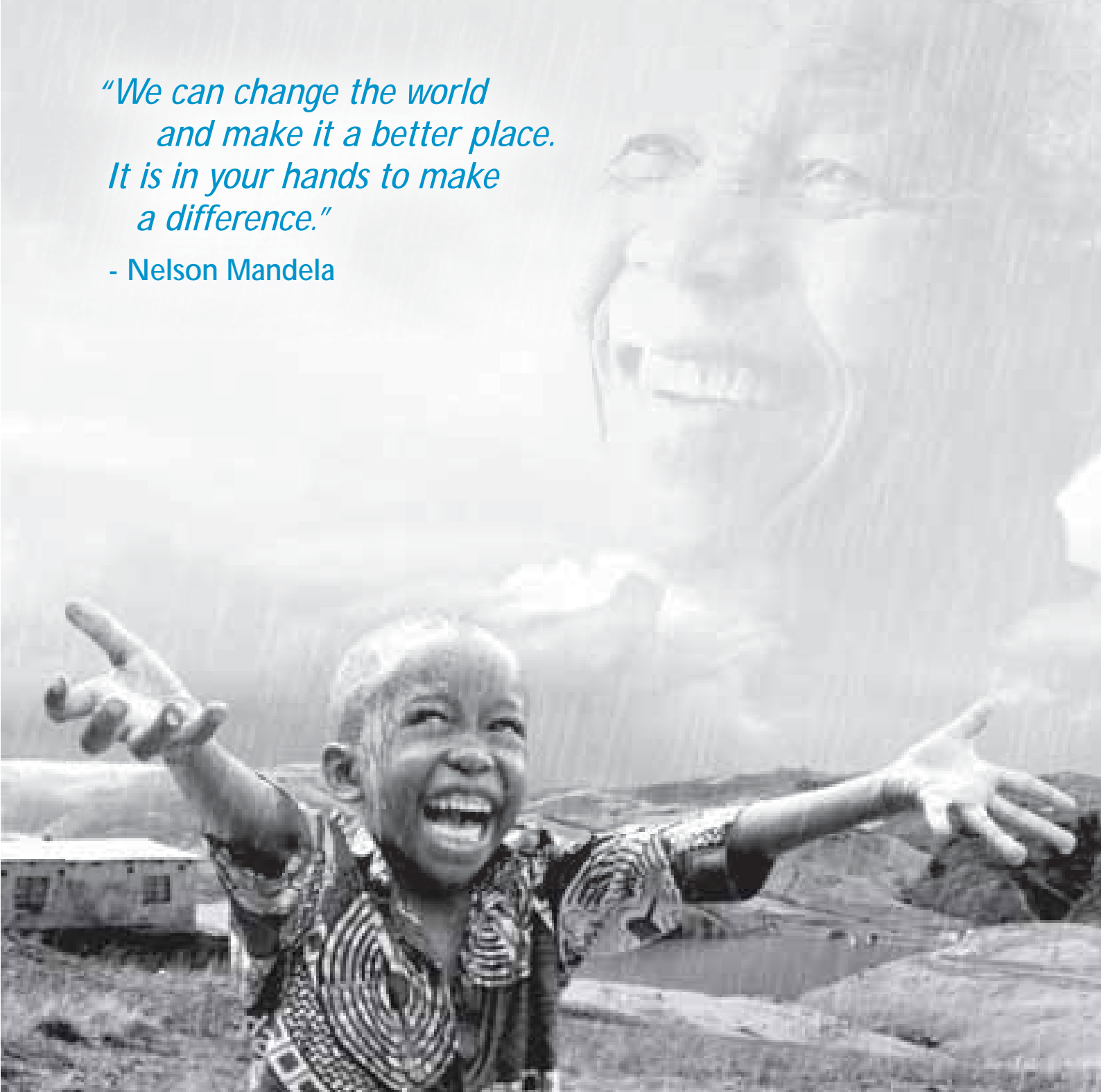


“Women are the people who are going to relieve us from all this oppression and depression. The rent boycott that is happening in Soweto now is alive because of the women. It is the women who are on the street committees educating the people to stand up and protect each other”

ALBERTINA
SISULU
Centenary
1918 - 2018

*"We can change the world
and make it a better place.
It is in your hands to make
a difference."*

- Nelson Mandela



With a heart full of hope and determination, Nelson Mandela envisaged a better life for all.

Emulating Nelson Mandela, Umgeni Water aims to improve the lives of the people through delivery of water and sanitation services, thereby sustaining and developing communities.

Umgeni Water's benevolent intent is to be recognised as an organisation that

has legitimate leadership and cultivates accountability. Through this people-centred approach, Umgeni Water will achieve water services delivery that contributes to addressing poverty, under-development and inequality.

In celebrating 100 years of Nelson Mandela, Umgeni Water aspires to uphold Mandela's humility, compassion and dedication by improving the quality of life and enhancing sustainable economic development.

100 Nelson Mandela
Centenary
2018
Be the legacy



Umgeni Water aims to sustain and develop communities and improve the lives of the people through delivery of water and sanitation services.





CHAIRPERSON'S REPORT



**MS. ZIPHOZETHU
MATHENJWA**
CHAIRPERSON OF THE BOARD

“The work of Umgeni Water, particularly infrastructure development, is closely aligned to the new deal to make increased access to basic services possible and to Thuma Mina which propagates a better quality of life for all.”

particularly infrastructure development, is closely aligned to the new deal to make increased access to basic services possible and to Thuma Mina which propagates a better quality of life for all. This Annual Report contains details about the core activities of Umgeni Water that illustrate its contribution to socio-economic development and to the creation of an enabling environment that allows reduction of the triple challenges of unemployment, poverty and inequality.

drinking water is enshrined in South Africa's Constitution while adequate and decent sanitation allows for restoration of human dignity. Rights and human dignity are unfortunately being compromised by slow progress in extending water services to the estimated three (3) million people who do not have it, and in provision of an acceptable quality of toilet facilities to the estimated fourteen (14) million people who are still dependent on rudimentary sanitation. There are many constraints that have influenced this situation, including limited financial resources. It is therefore imperative that innovative solutions are invented by the sector to assist Government to increase the pace of sanitation roll-outs.

OVERVIEW

It is with a sense of pride that this strategic review of the 2017/2018 financial year is presented to Umgeni Water's stakeholders. Before key highlights and challenges are examined in this narrative, it is important to reflect briefly on political changes that have occurred during the reporting period which are intended to create a new dawn for the South African water sector. The Board of Umgeni Water wishes to express its full confidence in the initiatives of the Honourable Minister of Water and Sanitation, Mr. Gugile Nkwinti, MP, to transform the sector and position water firmly on the Government's developmental agenda.

The path Mr. Nkwinti has chartered, and focus areas and strategic outcomes identified by him, will undoubtedly produce results required to give impetus to the Thuma Mina Campaign. The work of Umgeni Water,

The year 2018 marks the centenary of the birth of former President Nelson Mandela and Mama Albertina Sisulu. This provides a unique opportunity for all South Africans and people around the globe to reflect on their lives and promote their legacies. It is an uncontested reality that the South African and indeed Southern African water and sanitation sector is currently facing many major challenges as an unwanted legacy from a past that was fraught with neglect and inequality. Central to these challenges is persistent large-scale absence of access or difficult access to safe drinking water, prevalent on our doorstep in KwaZulu-Natal and in many other parts of South Africa. Provision of proper sanitation is another area that requires urgent attention.

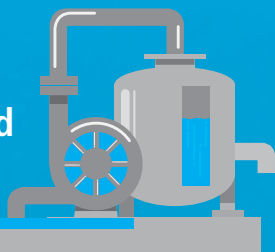
Juxtaposed against the challenges our Government, municipalities and water sector institutions face, are Constitutional rights and human dignity. Access to safe

ANNUAL PERFORMANCE: 2017/18 SIGNIFICANT OUTCOMES AND ALIGNMENT

Key performance results from the financial year 2017/18 (July to June) are contained in this report and are significant contributors to *Enabled and Innovative Growth*, a strategic theme adopted by Umgeni Water. *Enabled and Innovative Growth* illustrates the momentum and manner in which Umgeni Water's growth initiatives will be pursued in the coming months.

435 MILLION M³

of potable water
per annum
(1191 ML/d) provided
to 6 customers



MIDMAR WTW

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The period under review was defined by positive results in crucial areas of the business, however, this was tinged by reduced sales volumes in the first half of the financial year, caused by protracted low rainfall in the catchment areas feeding into the main and largest Mgeni System. In the third quarter of the 2017/18 financial year, this system began recovering and the go-ahead was given by the Mgeni System Drought Joint Operations Committee for Umgeni Water to lift constraints on supply from its water treatment plants. Financial results contained in this report reflect the impact of drought, and the fact that hard decisions had to be taken about implementation of prudent cost containment and reprioritising of some infrastructure projects.

At the time of preparation of this Annual Report, there was a marked improvement in the Mgeni System's water resource storage, and a request had been made to the Ministry of Water and Sanitation to lift mandatory water restrictions of 15% for commercial, industrial and residential and 50% for irrigation gazetted two years earlier. The upside of this turnaround is that the municipalities of eThekweni, uMgungundlovu and Msunduzi will now be able to quicken implementation of projects that had been affected by water shortages and industry can similarly revert to normal production due to the end of curtailments in water supply.

It is hoped that while consumers begin to again enjoy the benefits of improved water resource availability in the major systems, the unambiguous messages that emerged from the four-year drought are not forgotten. The most profound of these messages is that water is not an infinite resource, reckless use now will result in future production constraints leading to restricted economic activity growth and overall forced consumption curtailment measures being introduced.

In everything Umgeni Water does, it seeks to ensure that it remains relevant to its mandate and that there is synergy between its work and the programmes of Government. Performance results contained in this Annual Report are deliverables identified in the organisation's Five-Year Corporate Plan and in the Shareholder Compact it has signed

with the Minister of Water and Sanitation. Infrastructure projects implemented by Umgeni Water are closely linked and intended to provide value to the key strategic plans of the Government. These strategic plans and programmes include:

- The Medium-Term (2014/19) Strategic Framework (MTSF) or first five-year implementation phase of the National Development Plan;
- MTSF outcomes pertaining to health, economic growth and employment, skills development and infrastructure provision. Umgeni Water makes a contribution to these outcomes in numerous ways;
- Socio-economic development, water and water sector-related priorities of Government;
- National Water Resources Strategy (NWRS); and
- National Water Resources and Sanitation Master Plan.

Umgeni Water's business units collectively contributed to a positive set of results that defied often-difficult trading conditions created by a multitude of factors in the macro and micro economic environments. Of concern at this stage is the pace of recovery of Albert Falls, the largest dam in Umgeni Water's operational area. While combined storage in the Mgeni System is currently in excess of 70% – the level required to avert prolonged water supply failures over the next two years – at the end of summer, the level of Albert Falls Dam remained below 60%. This dam is strategically important as it provides the water storage needs of a significant part of Durban, and it is dependent on releases from Midmar Dam to augment its resources. As we moved into winter, the level of Midmar Dam began dropping, making prospects for a sharp increase in the level of Albert Falls Dam remote. The impact of Albert Falls Dam's resource inadequacy will continue to be felt across economic spheres in eThekweni and in the cost of producing potable water because of resultant use of energy-intensive augmentation from Inanda Dam.

CORPORATE GOVERNANCE: BOARD PERFORMANCE, AUDIT AND RATINGS

Governance at Umgeni Water has been comprehensively strengthened following the appointment of a Board in the first quarter of the 2017/18 financial year. The appointment of a Board closed a gap that had resulted in questions and concerns being raised by investors. The current Board was appointed for a fixed period until a permanent Board takes office. It has full powers of an Accounting Authority and conducts its business with diligence and commitment. In the reporting period, Board and Board Committee meetings were held according to the organisational Business Cycle and were well attended. (Full details are provided in the Corporate Governance chapter of this Annual Report). Due process for the appointment of a permanent Board has begun. It is hoped that the permanent Board will occupy office in November or December 2018 after this process has been completed.

The appointment of a permanent Chief Executive in May 2018, effective from July 2018, has also added strength to governance. The Chief Executive is Mr. Thami Hlongwa, who acted as Chief Executive from August 2017 until his permanent appointment. Mr. Hlongwa, was Executive in charge of Finance until he was appointed Acting Chief Executive, has well-rounded knowledge and understanding of the water sector and the business of Umgeni Water. He brings to the position of Chief Executive a refreshing approach to organisational sustainability, strategies for business expansion and growth and an uncompromising approach to strict adherence to all tenets of good governance. In the year ahead, Mr. Hlongwa will steer the organisation through an exciting future when it is positioned as the first choice Water Services Provider in KwaZulu-Natal.

All Corporate Governance requirements were adhered to, including compliance with the Water Services Act (Act 108 of 1997) and the Public Finance Management Act (Act 1 of 1999), internal policies and King IV Code of

Governance Principles. As a significant outcome, following a rigorous auditing exercise, Umgeni Water received an unqualified audit opinion from the Auditor-General.

Fitch Ratings affirmed Umgeni Water's long-term ratings at AA+ and short-term rating at F1+, while Standard & Poor's concluded Umgeni Water rating and national scale calibrating process which resulted in the national scale rating for Umgeni Water being AAA for long-term and A-1+ for short-term. The outlook in relation to long-term rating is stable. The affirmation by rating agencies reflects stability in Umgeni Water's stand-alone profile due to cost-effective tariffs and relatively stable funds from operations. These positive ratings continue to signal confidence that will put at ease any concerns that investors and general stakeholders may have regarding the sustainability of Umgeni Water.

In the financial year under review, Umgeni Water's commitments as per Bulk Supply Agreements with its customers were met through provision of an uninterrupted supply of safe drinking water and commissioning of new and upgraded infrastructure that enhanced assurance of supply and made it possible for Water Services Authorities to extend water provision to formerly un-served areas. Water supplied between July 2017 and June 2018 again complied with South African National Standards 241 for drinking water quality. This means that consumers should have no concerns about the quality of water that they receive and, importantly, unlike in many other parts of the world, it is safe to drink directly from a tap.

Some of the other key performance outcomes: Umgeni Water again illustrated its strong financial resiliency. In the reporting year, Group revenue totalled R2.90 billion and a net surplus of R1.19 billion was achieved, partly as a result of cost containment measures through optimisation of water production process and recovery from the drought in the second half of the financial year. The surplus is crucial to implementation of infrastructure that is required by customers to improve assurance of supply and extend provision to communities that do not have or have difficult access to safe drinking water. It will also be used to repay debt

and ensure that Umgeni Water is able to maintain its bulk potable water tariffs at affordable levels and in turn, making it possible for municipalities to supply water to consumers at an affordable cost.

REFORM AND RE-ALIGNMENT OF INSTITUTIONALISED KWAZULU-NATAL WATER SECTOR

A crucial development in the 2017/18 financial year occurred when the Minister of Water and Sanitation withdrew an earlier decision to disestablish Mhlathuze Water and transfer its assets, liabilities and staff to Umgeni Water. The Minister's decision to review at this juncture will allow both entities to consolidate and pursue individual growth plans in the short term.

The Minister has identified Institutional Rationalisation and Realignment as one of the Five Pillars to streamline and take the water sector forward as part of the next MTSF. The Board of Umgeni Water therefore will continue to provide input into national water policy development and, as a key entity of state, we remain committed to implementing the vision and plans of government.

In the short-term to medium-term, Umgeni Water will continue efforts to expand its coverage in KwaZulu-Natal through provision of services and products to municipalities that are facing service delivery challenges, or when requested by the Provincial Government or Department of Water and Sanitation.

ACCOLADES AND ACHIEVEMENTS

The 2017/2018 financial year rounded off with some proud moments when Durban Heights Water Treatment Works was the selected winner of the prestigious Amanzi Award, made by the Water Institute of Southern Africa (WISA) in recognition of consistent provision of good quality water in a metropolitan area or a city. The award, made at the WISA biennial conference in June, is a tribute to the hard work, dedication and

resourcefulness of staff at Durban Heights Water Treatment Works and to colleagues who provide support in ensuring the plant is well managed. Durban Heights Water Treatment Works is situated within eThekweni Metropolitan Municipality that extends supply to a vast number of consumers, industries and businesses that contribute to significant GDP growth for the country.

THE ROAD AHEAD: RISKS, CHALLENGES AND OPPORTUNITIES

In June, as the financial year drew to a close, the upgrade of Midmar Water Treatment Works was completed, after construction that began in 2015. It was a happy occasion as increase in production capacity from 250 ML/d to 375 ML/d will ensure partial demand of eThekweni's Western Aqueduct and full demands of Msunduzi and uMgungundlovu municipalities are met for the next ten (10) years.

Against this backdrop of welcomed assurance of supply, a lurking concern in raw water capacity is gaining intensity. This concern centres on the inability to further augment the Upper Mgeni System; therefore, the need to go ahead with implementation of the uMkhomazi Water Project without further delay has become imperative. The uMkhomazi Water Project is strategically important for eThekweni Metropolitan Municipality as it is required for the optimal use of its Western Aqueduct which supplies Outer Western areas of the City. Further delays will result in risk of regular water shortages and accompanying water restrictions in eThekweni, as the Midmar System is already operating at its maximum capacity.

Umgeni Water will begin to explore potential short-term to medium-term growth opportunities in KwaZulu-Natal in the coming period. An immediate focus area arises from the contractual partnership that has been established between Umgeni Water and uThukela District Municipality. In terms of this agreement, Umgeni Water will operate and manage uThukela District Municipality's bulk potable infrastructure and also plan future infrastructure. In mid-2019, operation and management of this municipality's wastewater treatment works is also expected

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to become a part of the bouquet of services provided by Umgeni Water. This signals a positive move for both Umgeni Water and the municipality as it opens up a new area of operation for Umgeni Water and it allows the municipality access to the resources and expertise that reside within Umgeni Water.

High-level engagements with all categories of stakeholders were successfully concluded in 2017/18 and existing relations cemented and new relations established. Opportunities for engagement with all major stakeholders at national, provincial and local government spheres are now immense and this will be followed through with enthusiasm in an effort to identify new areas for co-operation, partnerships and support.

Other engagements will take place in the context of South Africa's Nine-Point Plan, which requires, among others, that water and sanitation be positioned as catalysts for economic growth. The water and sanitation component of the Nine-Point Plan will be

explored with the aim of securing collaboration to give impetus to economic growth. As part of its strategic initiatives, Umgeni Water is already giving meaning to the aspect of the Nine-Point Plan that deals with economic empowerment. In this regard, and as part of its commitment to fast track radical economic transformation, the organisation continues to vigorously implement Contract Participation Goals which requires that main contractors on projects allocate a minimum of 35% of contract value to Black-owned enterprises. This strategy was crafted to promote, entrench and sustain Black economic development and also allow Black-owned business enterprises – both emerging and established – to flourish and ultimately become leading service providers in the water and sanitation sector. In the coming period, the entity will further ensure this allocation extends to be more inclusive of all designated / previously disadvantaged groups.

STRATEGIC PRIORITIES IN THE YEAR AHEAD

Since the release of the previous Annual Report, in October 2017, significant developments have occurred in the water sector, including appointment of a new Minister (referred to earlier in this strategic review) and formulation of a water sector turnaround strategy that is underpinned by the Five Pillars. The turnaround strategy and its five pillars, intended to create a new path and direction for the Department of Water and Sanitation and the water sector, will have deep-seated relevance to state entities involved in water and sanitation services provision, such as Umgeni Water.

These pillars, as articulated by the Minister of Water and Sanitation, are: **National Water Resources and Services Authority; National Water Resources and Services Regulator; Water Resources and Services Value Chain; Water**

LOWER THUKELA BWSS

Resources and Services Master Plan; and Institutional Rationalisation and Organisational Alignment.

Clearly, the water sector of the future will look vastly different, once the five pillars are embedded and taken forward as part of government's next Medium-Term Strategic Framework (MTSF) period. This is envisaged to form the basis for promotion of sector-wide co-ordination and collaboration in planning and implementation of infrastructure, enhancement of potable water production and quality, increased coverage of water services provision and will serve as a catalyst for economic growth and job creation.

It is difficult to dispute that changes are required to reduce the extent of fragmentation, improve effectiveness and efficiencies and achieve economies of scale across the sector. The Board of Umgeni Water assures the Minister that when the Department of Water and Sanitation embarks on implementation of the five pillars, it will

provide the required support. Personnel of Umgeni Water will participate in planning, monitoring and information provision as an entity of state. The changes envisaged for the water sector will contribute to the achievement of national strategic priorities and a better quality of life.

ACKNOWLEDGEMENTS

It is with a sense of appreciation that the following stakeholders are acknowledged:

- The previous Minister of Water and Sanitation, Ms. Nomvula Mokonyane, for her leadership;
- The Minister of Water and Sanitation, Mr. Gugile Nkwinti, for his leadership;
- The Deputy Minister of Water and Sanitation, Ms. Pamela Tshwete, for her leadership;
- The Premier of KwaZulu-Natal, Mr. Willie Mchunu and MECs of the Provincial Government for their constructive and valuable engagement with Umgeni Water;

- The Portfolio Committee on Water and Sanitation for oversight and direction;
- The Department of Water and Sanitation for support, oversight and direction;
- Umgeni Water's seven (7) customers: eThekweni Metropolitan Municipality; iLembe, Ugu, Harry Gwala, uMgungundlovu and uThukela District Municipalities and Msunduzi Local Municipality for their support and collaborative engagements; and
- Umgeni Water Management and employees for the manner in which the organisation's strategies were executed in the reporting year and for their dedication and hard work in realising these impeccable results.



Ms. Ziphazethu Mathenjwa
Chairperson of the Board
19 September 2018

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CHIEF EXECUTIVE'S REPORT



MR. THAMI HLONGWA CA(SA)
CHIEF EXECUTIVE

The past year has been transformational for South Africa and the water sector as a whole. Umgeni Water has demonstrated its resilience by ending the year successfully. Supported by the Board and Executive that provided focussed leadership and decision-making during this period, the entity delivered plans, strategic initiatives, projects and programmes during the year that yielded successful results and outcomes. These are summarised at a high level per outcome in this report with more detail provided in the various chapters of this Annual Report.

PRODUCT QUALITY

Umgeni Water's core business of providing potable water to customers and providing water supplies fit for drinking and domestic use, as well as for industry, performed excellently during this period. Of the seventeen (17) Water Treatment Works (WTW), barring one (1) small site, all achieved 100% compliance with the SANS

"Supported by the Board and Executive that provided focussed leadership and decision-making during this period, the entity delivered plans, strategic initiatives, projects and programmes during the year that yielded successful results and outcomes."

241 standard. The one WTW, Mhlabatshane WTW, achieved less than 100%, solely due to a slight variance with the operational category for which it achieved 97% compliance. Aside from this, all seventeen (17) works met the Excellent SANS 241 standard for the three (3) crucial health water quality categories of acute microbiology health, acute chemical health and chronic chemical health.

The entity further ensured that wastewater was treated to safe levels for discharge back into water resources for social, environmental and other downstream uses. Of the nine (9) Wastewater Treatment Works (WWTW) managed by the entity, six (6) achieved greater than 90% compliance, one (1) achieved more than 80% compliance and two (2) works achieved over 70% compliance. The Darvill Wastewater Treatment Works capacity upgrade project continued to advance further during this reporting period and is anticipated to be completed in 2019, leading to improvements in the quality of treated wastewater from this site.

In order to maintain and enhance the condition of core infrastructure that supports customer service levels, the entity invested a total of R213 million (R190 million in 2017) in maintenance of water and wastewater treatment assets during this period. Maintenance investment has been

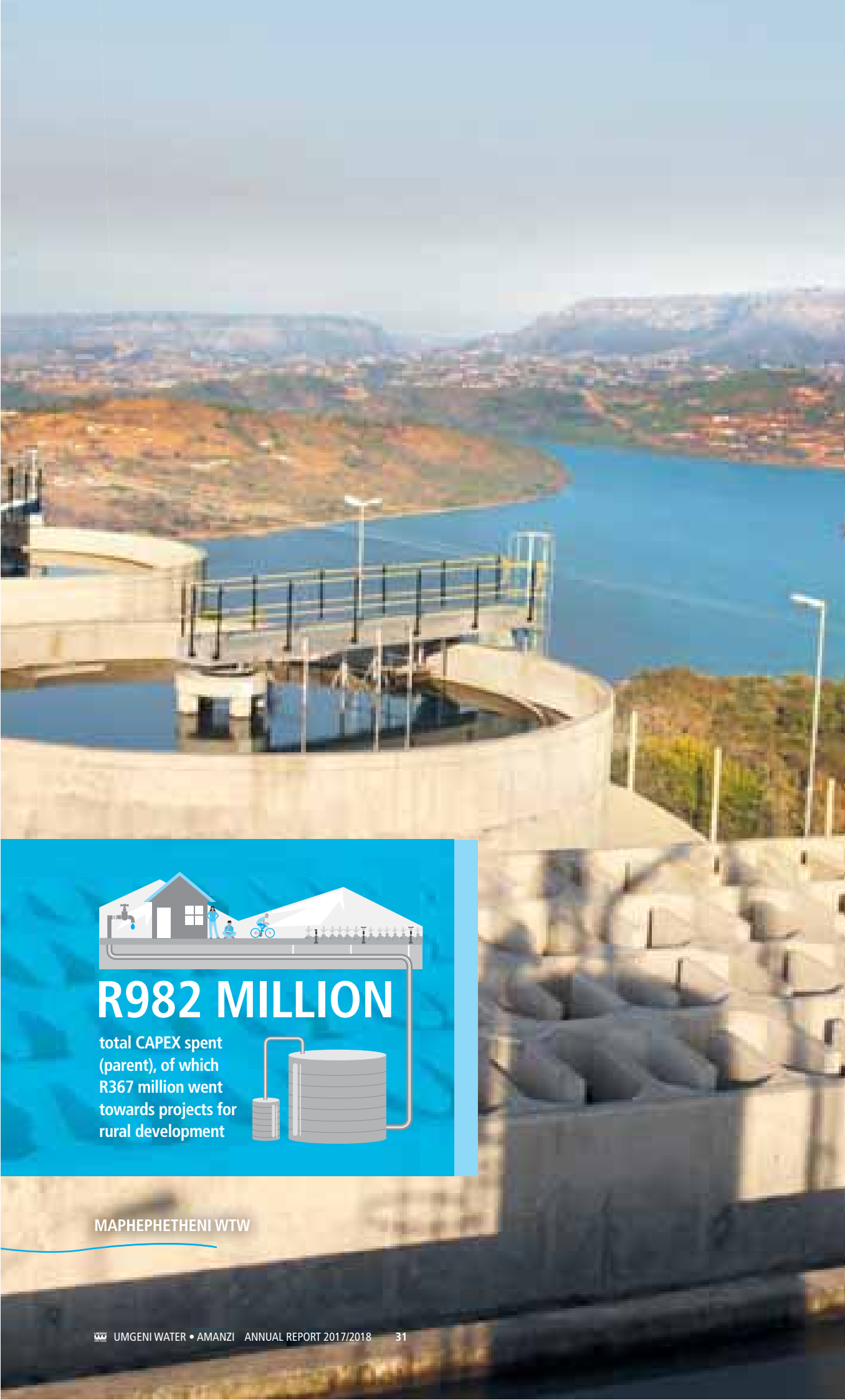
consistent over the years, with greater than 7% of revenue and 2.5% of Property, Plant and Equipment spent, thereby continuing to assure system reliability.

CUSTOMER SATISFACTION

This financial year under review coincided with an improvement in sales growth, albeit from a low base associated with the previous year's drought. Bulk potable water treated and supplied from seventeen (17) water treatment works systems, totalled 435 million cubic metres (1 192 Ml/d) for the year, a 6% increase from the prior year (410 million cubic metres in 2017).

Bulk wastewater treated over this period was 32 million cubic metres per annum (87 Ml/d), which are at levels similar to the prior year.

The entity is delighted to report that during this period, there were zero (0) unplanned service disruptions to customers that exceeded the targeted 24 hours. This was achieved by effectively managing operations and assets to quickly restore unplanned supply disruptions through the planning of adequate supply capacity and by ensuring flexibility and alternate supply options were available, to maintain continuous supply to customers.



R982 MILLION

total CAPEX spent
(parent), of which
R367 million went
towards projects for
rural development



MAPHEPHETHENI WTW

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STAKEHOLDER UNDERSTANDING AND SUPPORT

There was regular engagement with a wide range of stakeholders in the year. In particular, information on performance post the drought and water curtailment period, including dam levels, water volumes, water quality, supply pressure and service interruption intervals, was provided. Stakeholders were also interested in future assurance of supply, asset management, capital infrastructure plans and future tariff charges, as well as, opportunities for growth, jobs and partnerships.

The past year saw a significant strengthening in customer relations resulting in the entity signing its seventh (7th) customer bulk supply agreement with new customer, uThukela District Municipality, in November 2017. This is a milestone achievement and provides Umgeni Water with the opportunity to grow its footprint to 44% of KZN (from 32%) and potential to serve 73% of KZN households (from 67%).

Umgeni Water remains closely aligned to the agenda of government and engaged with the Minister and Department of Water and Sanitation, amongst others, on multiple

occasions in the year for policy development, strategy alignment and statutory reporting purposes. Of significance, by reporting year end, the Minister communicated the Department's need to gather more data in order to better inform the KZN water board merger decision. In this regard, Umgeni Water will keep a watching brief on government's institutional realignment impetus, while it focuses resources on serving current and new customers.

COMMUNITY AND ENVIRONMENTAL SUSTAINABILITY

Umgeni Water remains cognisant of and attentive to the impact it has on community and environmental sustainability. The entity therefore strives to manage its operations, infrastructure and investments to support socio-economic development, whilst using water, energy and other natural resources effectively.

Leveraging off its capital expenditure and other programmes, Umgeni Water continued to facilitate participation of targeted enterprises in the economy. Its Contract Participation Goal target of $\geq 35\%$ for construction contracts and

professional services was well met in the reporting year, with 39% (R174 million of R451 million) orders made to Black-owned enterprises, of which 55% benefited women-owned enterprises. It is unfortunate that some of the projects intended to strengthen and extend delivery of water and sanitation services have been disrupted by disgruntled "business forums" and other formations demanding contracting outside of the legislated processes. The resultant delays have had significant impact on completion of projects in time and within budget.

A total of 599 temporary CAPEX Programme jobs were created in the year (1 258 in 2017) with R20 million paid in wages to local labour (R28 million in 2017). The decrease from the previous year is due to a decrease in the past year's capital expenditure programme.

Umgeni Water successfully developed a community programme – themed "Be the legacy" – that will be implemented early in 2018/2019 to celebrate the centenary of former President Nelson Mandela. The programme, comprising over 20 initiatives straddling aspects of leadership, health, education, poverty, youth and unemployment, will both benefit communities and build social cohesion within the entity in the coming period.

DARVILL WWTW

INFRASTRUCTURE STABILITY

During this reporting period, fifteen (15) strategic projects, targeting five (5) water service authority customers were at various stages of planning, design and construction. These comprised eight (8) bulk water supply scheme projects, three (3) pipeline projects, three (3) wastewater treatment works projects and one (1) water treatment works project.

Spend performance for the year of just over R982 million was achieved, of which R927 million (R1.2 billion in 2017) was spent on infrastructure expansion, augmentation, upgrades and rehabilitation. Of this R367 million (40%), was spent on projects specifically extending access to rural areas. Overall, 72% of target water infrastructure project milestones were met for these strategic projects. Details of target customers, infrastructure projects and milestones during the reporting period are as follows:

(1) uMshwathi Regional Bulk Water Supply Scheme

Serves uMgungundlovu District Municipality and iLembe District Municipality.

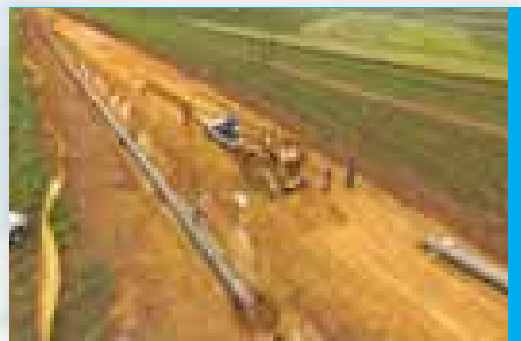
This phased infrastructure development comprises four pipelines with a total length of 91 km, two booster pump stations and three reservoirs of total storage 30 MI. Construction of the 26 km pipeline from Claridge to Wartburg was completed in 2015/2016. In 2017/2018, construction of the next phase was underway. This comprised of three pipelines, totalling 63 km, linking Wartburg to Ozwathini via Dalton, Efaye and Fawn Leas, two booster pump stations and two reservoirs sized 8 MI and 10 MI at Wartburg and Dalton respectively and were successfully completed by May 2018. A further 12 MI reservoir is in construction at Ozwathini and is scheduled for completion in March 2019.



(2) Wartburg to Bruynshill Pipeline and Pump Station

Serves uMgungundlovu District Municipality.

The infrastructure development includes construction of a 10.5 km potable water pipeline and a pump station. 75% (60% in 2017) of the construction was completed during 2017/2018. The project is behind schedule due to a change in the scope. The target date for full completion is December 2018.



(3) Greater Mpofana Bulk Water Supply Scheme

Serves uMgungundlovu District Municipality.

The infrastructure development comprises of construction of a water treatment works, two storage reservoirs and two bulk pipelines. The construction of the 20 MI/d Rosetta Water Treatment Works – adjacent to Spring Grove Dam – commenced in 2016/2017, was 70% complete in 2017/2018 and is scheduled for completion in 2019/2020. Construction of the 5 MI and 12 MI reservoirs feeding Nottingham Road and Bruntville, respectively, is complete and commissioning is 70% complete. The construction of the Nottingham Road pipeline – from the WTW to Nottingham Road Reservoir – is complete and the Bruntville pipeline – from the WTW to Bruntville Reservoir – was 70% complete in 2017/2018 and is scheduled for completion in December 2018.



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(4) Vulindlela Bulk Water Supply Scheme Upgrade



Serves Msunduzi Local Municipality.

In 2016/2017, the infrastructure design was in progress. Phase 1 includes a new 20 ML reservoir, 6 km of pipelines (rising main and gravity pipelines) and new pump station and for which a detailed design was completed in 2017/2018. The detailed design of Phase 2 is in progress. Construction is planned for completion in 2023/2024.

(5) Impendle Bulk Water Supply Scheme



Serves uMgungundlovu District Municipality and Impendle Local Municipality.

The scheme comprises a 1.6 ML/d Bulk Water Supply Scheme at Stepmore and 10 ML/d Bulk Water Supply Scheme at Nzinga. The detailed design commenced in 2017/2018. Construction of the Stepmore scheme is scheduled for 2021 and Nzinga scheme by 2024.

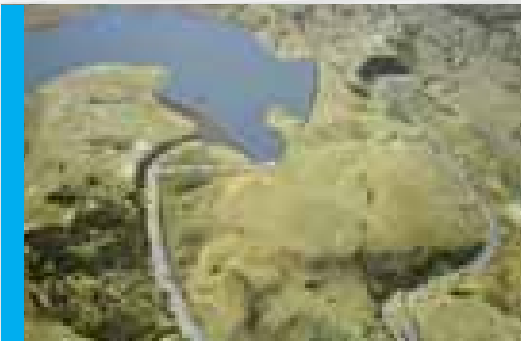
(6) Maphumulo Bulk Water Supply Scheme Phase 3



Serves iLembe District Municipality, which includes KwaMaphumulo, Ndwedwe, and KwaDukuza Local Municipalities, and will serve 150 000 people in Maqumbi, Ashville, Maphumulo, Masibambisane, KwaSizabantu and Ngcebo supply areas.

Phase 1, completed in 2013, comprised the iMvutshane River abstraction, 6 ML/d Water Treatment Works (WTW), potable water pipelines, booster pump stations and reservoirs. Phase 2, construction of the iMvutshane Dam, was completed in 2015. Phase 3 includes the upgrade of the WTW from 6 to 12 ML/d and upgrade of the raw water and booster pump stations. Upgrade of the pump stations was in progress in 2017/2018.

(7) uMkhomazi Water Project



Serves eThekweni Metropolitan Municipality, uMgungundlovu District Municipality, Msunduzi Local Municipality, Ugu District Municipality and iLembe District Municipality.

Phase 1 of the infrastructure development includes a dam on the uMkhomazi River, raw water tunnel to Baynesfield, balancing dam, raw water pipeline, water treatment works and bulk potable storage reservoir at Baynesfield and bulk potable water pipeline to Umlaas Road. Phase 2 includes a further dam higher up on uMkhomazi River at Impendle, raw water tunnel, raw water pipeline, water treatment works capacity and reservoir storage upgrades and a second bulk potable water pipeline. In 2016/2017, the detailed feasibility study and an Environment Impact Assessment (EIA) for phase 1 were in progress. In 2017/2018, the detailed feasibility study was complete. The EIA is in progress and is targeted for completion and authorisation in 2018/2019.

(8) Lower uMkhomazi Bulk Water Supply Scheme

Serves eThekweni Metropolitan Municipality and Ugu District Municipality and will augment the coastal areas from Amanzimtoti to Hibberdene via the South Coast Pipeline.

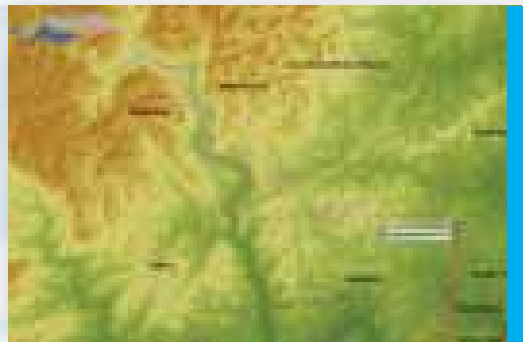
The planned infrastructure comprises a dam at Ngwadini and two raw water abstraction systems together with pipelines, raw water pump stations and raw water reservoir, a water treatment works (100 ML/d), storage reservoir and bulk potable water pipeline. In 2016/2017, the detailed feasibility and preliminary design was completed. The detailed design is planned for completion in 2018/2019.



(9) Nungwane Pipeline

Serves eThekweni Metropolitan Municipality and Ugu District Municipality along the coastal strip from South of Durban to upper South Coast.

The construction stage of the 13.5 km raw water pipeline from Nungwane Dam to Amanzimtoti Water Treatment Works commenced in 2016/2017, was 65% complete in 2017/2018 and is scheduled for completion in 2018/2019.



(10) South Coast Pipeline Phase 2B

Serves Ugu District Municipality, including Pennington, Kelso, Malangeneni and Shayamoya.

The pipeline is designed to supply approximately 16.7 ML/d and will link Scottburgh South to Pennington and then to Malangeneni Reservoir. Construction will commence in 2018/2019 and is expected to be completed in 2019/2020.



(11) Mhlabatshane Bulk Water Supply Scheme Phase 2 - Mzimkhulu River Abstraction

Serves Ugu District Municipality and will reach and provide potable water access for over 100 000 inhabitants in ten tribal authority areas.

The infrastructure development comprises an abstraction works on the Mzimkhulu River, pump station and pipeline to deliver water to the Mhlabatshane Water Treatment Works and upgrade of the Water Treatment Works from 4 ML/day to 8 ML/day. Phase 1, the commissioning of the Bulk Water Supply Scheme, was completed in 2014/2015. Planning of Phase 2 was completed in 2016/2017. Detailed design is scheduled to commence in 2018/2019.



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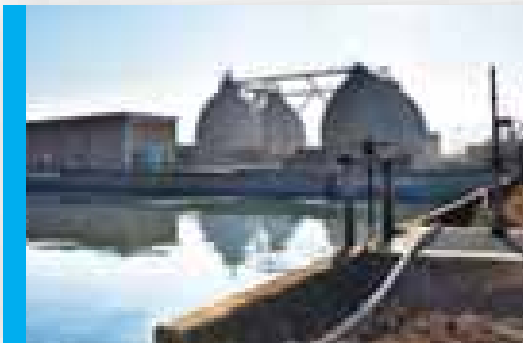
(12) Midmar Raw Water Pipeline Augmentation, Raw Water Pump Station and WTW Upgrade



Serves eThekweni Metropolitan Municipality, uMgungundlovu District Municipality and the Msunduzi Local Municipality.

The planned infrastructure development includes duplication of the raw water pipeline and Water Treatment Works upgrade. The construction of the 1.6 km raw water pipeline was completed in 2016/2017. The Midmar Water Treatment Works upgrade, from 250 MI/d to 375 MI/d was in construction in 2016/2017 and completed in 2017/2018. Commissioning is in progress.

(13) Darvill WWTW Capacity Increase



Serves Msunduzi Local Municipality.

The works capacity is being upgraded from 65 MI/d to 100 MI/d. Construction is in progress and includes a new inlet works, primary and secondary settling tanks, pumps and pump station, reactor, chlorination house and anaerobic digesters, amongst other components. Completion is scheduled for 2018/2019.

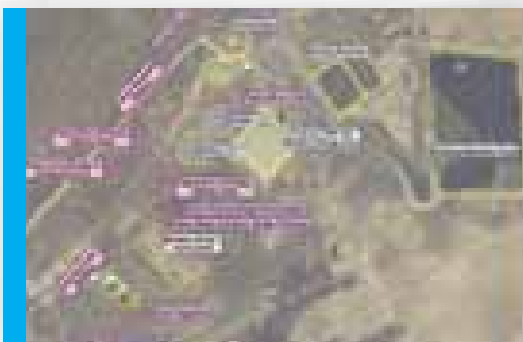
(14) Trustfeeds WWTW



Serves uMgungundlovu District Municipality and iLembe District Municipality.

The infrastructure development comprises a 1 MI/d Wastewater Treatment Works, 4.5 km bulk sewer outfall pipeline and a 1.5 km gravel access road. Planning and design were completed at the end of 2016/2017. Construction of the bulk sewer and gravel access road is in progress and scheduled for completion in 2018/2019. Construction of the Wastewater Treatment Works is in progress and scheduled for completion in 2019/2020.

(15) Mpophomeni WWTW



Serves uMgungundlovu District Municipality and uMngeni Local Municipality.

The infrastructure development comprises a 6 MI/d Wastewater Treatment Works and a 6 km bulk sewer outfall pipeline. The preliminary design of the works is complete and design for sewer outfall scheduled for completion by December 2018. Following this, the project will move into construction phase planned for completion by 2022/2023.

WATER RESOURCES ADEQUACY

Umgeni Water requires access to stable raw water resources to meet future customer needs and continues to investigate regional integrated water resources plan to match growth and development forecasts. In this regard, collaboration with the Department of Water and Sanitation remains essential to ensure there is intersection of national and regional water resource development priorities.

In the reporting period, progress was made with the following water resource dam developments:

- Smithfield Dam (DWS) as part of the uMkhomazi Water Project for which the feasibility study was completed and construction anticipated to be completed by 2030;
- Hazelmere Dam raising (DWS) for which construction is in progress and is expected to be completed in 2019; and
- Ngwadini Dam (UW), as part of the Lower uMkhomazi Scheme, for which the detailed design commenced in 2017/2018, is planned for completion in 2018/2019 and construction to start thereafter.

LEADERSHIP AND EMPLOYEE DEVELOPMENT

Umgeni Water's goal is to strengthen and develop quality human resources and ensure a participatory, collaborative organisation dedicated to continuous learning and improvement.

In the reporting year, partnership with Duke Corporate Education was secured for coordination and implementation of the Management Development Programme (MDP) for thirty (30) Umgeni Water Young Professionals. The programme commenced in 2017/2018 and will be completed in 2018/2019. The programme will contribute to the building of future leadership, management and functional competence that is needed to ensure the long-term sustainability of the entity.

Technical competencies are an important source of the entity's competitive advantage and during the reporting year, these were further developed, enhanced and retained through a wide range of training and development programmes.

The Umgeni Water Learnerships and Apprenticeships programmes provided fifty-eight (58) apprentices with training, development and exposure in Mechanical Engineering, Electrical Engineering and Instrumentation.

Umgeni Water's graduate trainee programme, aligned to guidelines provided by professional registration bodies, ensured development of a total of twenty-four (24) graduates in engineering, science and other required professional fields, as well as provided sixty-two (62) in-service trainees with experiential training.

In the reporting year, Umgeni Water funded ten (10) bursary students who were enrolled at various universities in disciplines of civil, mechanical and electrical engineering; chemistry; microbiology; and finance.

Umgeni Water is committed to skills development that will benefit municipalities and the water sector as a whole. In this regard, partnership with National Treasury's graduate development programme for engineers, technologists, process support and technicians continued, with thirty (30) graduates in the programme during the year. By year-end, a total of eighteen (18) Certification Submissions for Candidate Engineers was made, while four (4) candidates (from the previous year's programme) were successfully registered as Professional Engineers.

The membership of the Umgeni Water Young Professionals (UWYP) forum, established in 2014, totalled 163 at the end of this reported period. This forum has also created an enabling environment for professional growth of youth through affiliation and registration with professional bodies.

OPERATIONAL RESILIENCY

The entity's risks are well aligned to strategy and there are a total of seven (7) strategic risks, of which six (6) risks (86%) have been managed to a level equal to or above reasonable (> 55%) response effectiveness.

Umgeni Water continues to maintain the quality of its laboratories at a level that ensures they provide a world-class service 365 days a year. These facilities are ISO/IEC 17025 accredited in chemistry, microbiology, hydrobiology and soil testing and have highly skilled and dedicated technical staff.

OPERATIONAL OPTIMISATION

Water efficiencies have been ensured in the bulk business through careful water balancing per system. In the reporting period, water loss was maintained well below the entity's target level of 5%, with a total of 2.17% recorded for the year (2.29% in 2017).

Energy is a crucial resource for water and wastewater treatment processes. Optimal pumping and other strategies remain inherent parts of the business mind-set from planning, design and construction through to operation.

FINANCIAL VIABILITY

The entity has maintained its reputation as a financially viable entity, creating significant value for customers and shareholders. Strong results were achieved due to sound financial management in the year, notably:

- Revenue (Group) of R2.90 billion was generated (R2.51 billion in 2017);
- Net surplus (Group) was R1.19 billion (R746 million in 2017); and
- Balance sheet reserves were strengthened to R8.1 billion (R6.8 billion in 2017).

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The earned surplus for the year will be invested in support of the future five-year R9.8 billion (not escalated) capital investment programme, as well as used for debt reduction. As at 30 June 2018, a significant portion of capital investments were already committed.

The strength of the balance sheet and access to other strategic financial resources remain vital to Umgeni Water for expanding services to new areas and implementing the strategy of enabled and innovative growth.

OUTLOOK

A combination of solid enterprise-wide systems, backed by highly competent employees and robust leadership provided by the executive team and Board ensured that Umgeni Water's performance was maintained at a high level during this reporting period. The outlook is positive. The position of strength that has been carefully maintained within the entity provides a stable base that can be leveraged by Umgeni Water to implement its strategy of enabled and innovative growth. In so doing, Umgeni Water will serve its customers

and the people of KwaZulu-Natal in a more effective manner, while braving the challenges and taking the opportunities presented by a changing future and an almost certain changing world of work.



Mr. Thami Hlongwa CA (SA)
Chief Executive
19 September 2018

LOWER THUKELA BWSS



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CORPORATE GOVERNANCE

6.1 COMPOSITION AND FUNCTIONING OF THE BOARD

BOARD

The Board of Umgeni Water was appointed in September 2017 on an interim basis, whilst the process of appointing a permanent Board was underway. The nomination process and the appointment of a new Board is being concluded. The new Board is expected to be in place within the second quarter of the 2018/2019 reporting year. The current Board comprises of seven (7) non-executive Board members and one (1) Executive Board member, namely the Chief Executive.

The Chairperson of the Board and all Board members (with the exclusion of the

Chief Executive), are independent non-executive directors in the manner described in the King IV Report on Corporate Governance (hereinafter referred to as "King IV") to ensure the independence of the two positions and the clear definition of roles and responsibilities. All Board members execute their legal duties in a professional manner, with integrity and enterprise.

The Board is accountable for the leadership and control of Umgeni Water. Its responsibilities include the development, review and monitoring of strategic objectives; the approval of major capital expenditure; risk management and monitoring of operational and financial performance. The government of the Republic of South Africa, represented by the Minister, and the Department of Water and Sanitation, is the sole shareholder of Umgeni Water.

The Board contracts with the Executive Authority, the Minister, through an annually approved Shareholder Compact and will continue to actively engage with the shareholder through various forums during the year.

During the reporting period, the Board was assisted with discharging its responsibilities through the following four (4) committees:

- Audit Committee;
- Capital Projects, Fixed Assets and Procurement Committee;
- Human Resources and Remuneration Committee; and
- Governance Committee.

Umgeni Water Board and Committee Memberships during the reporting period are shown in **Table 6.1**.

Table 6.1: Board and Committee Memberships for the 2017/2018 Reporting Period

Board Member	Gender	Audit	REMCO	CAPEX
1. Ms. Z. Mathenjwa ¹	F			
2. Ms. Z. Manase ²	F	√		
3. Adv. M. Hashatse ³	F			√
4. Ms. N. Chamane ⁴	F	√	√	
5. Mr. V. Reddy	M		√	√
6. Mr. M. Tshivhase	M	√	√	
7. Mr. M. Dikoko	M		√	√
8. Mr. T. Hlongwa ⁵	M		√	√

√ Denotes Committee Member

¹ Board Chairperson

² Audit Committee Chairperson

³ CAPEX, Fixed Assets and Procurement Committee Chairperson

⁴ Human Resources and Remuneration Committee Chairperson

⁵ Chief Executive

"The government of the Republic of South Africa, represented by the Minister, and the Department of Water and Sanitation, is the sole shareholder of Umgeni Water."

1 231
Umgeni
Water Group
employees

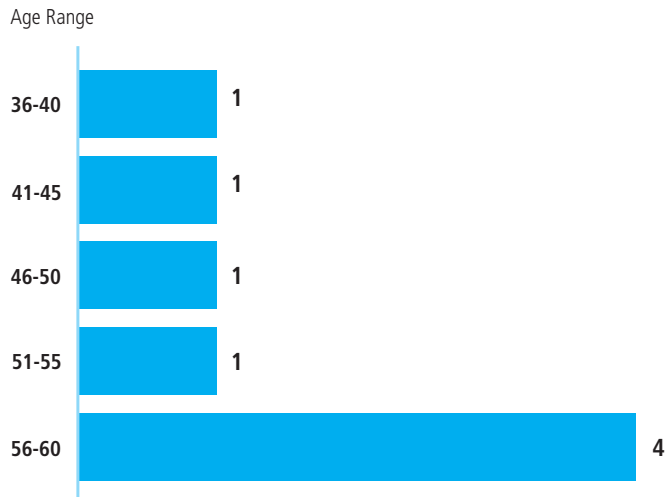


SPRING GROVE WTW

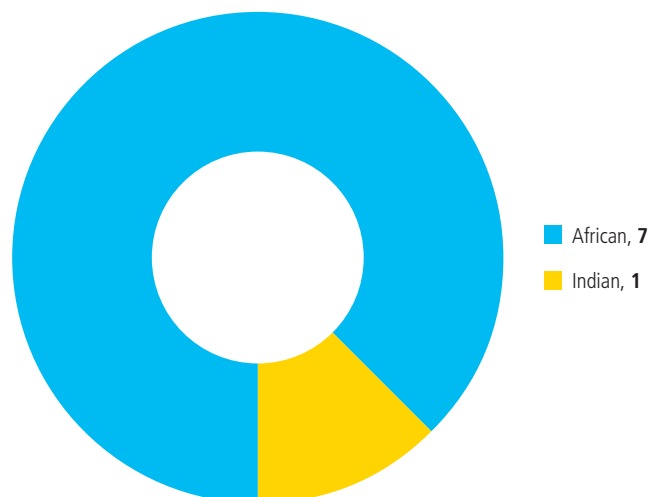
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Figure 6.1: Board Member (a) Age, (b) Race and (c) Gender Profiles

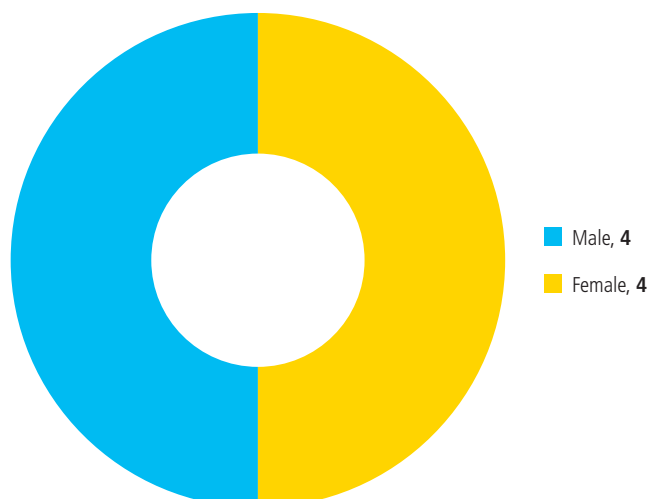
(a) Board Member Age Profile



(b) Board Member Race Profile



(c) Board Member Gender Profile



A Board Charter (reviewed in 2017) provides a framework for fiduciary duties, responsibilities and overall functioning of the Board. The Board Charter is read in conjunction with:

- The Public Finance Management Act (Act 1 of 1999), as amended by the Public Finance Management Amendment Act (Act 29 of 1999), hereinafter referred to as the PFMA;
- Treasury Regulations (GG 27338) as amended from time to time;
- The Water Services Act (Act 108 of 1997), as amended; and
- The King Code of Governance Principles, 2016 (King IV).

As recommended by King IV, the Board evaluates the performance of all divisions, including the finance division. This is planned for twice in the reporting year. The Members of the Board have skills that were put to good use in providing leadership, guidance and directing strategy during the reporting period. Overall, the Board functioned at a strategic level and delivered outputs in line with its mandate.

Non-executive Board members receive remunerative benefits and fees as determined by the Minister on an annual basis and in line with their terms of appointment. Therefore, no Board member is involved in determining his/her own remuneration. Board Members' remuneration is fully disclosed in Umgeni Water's Annual Report (Page 144).

SUMMARY OF BOARD AND COMMITTEE MEETINGS AND ATTENDANCE IN 2017/2018:

The attendance at Board and Committee meetings in the reporting period was:

- 95% for Board: Five (5) normal meetings, two (2) special meetings;
- 93% for Audit Committee: Six (6) normal meetings;
- 95% for HR and Remuneration Committee: Four (4) normal meetings;
- 94% for Procurement, Fixed Assets and Capital Projects Committee: Four (4) normal meetings; and
- 100% for Governance Committee: Two (2) normal meetings.

Table 6.2: Board Meeting Attendance in 2017/2018

Board Member	Normal Meetings						Special Meetings	
	Gender	16-Oct-17	17-Oct-17	29-Nov-17	13-Mar-18	24-Apr-18	29-Jan-18	03-Apr-18
Ms. Z. Mathenjwa ¹	F	✓	✓	✓	✓	✓	✓	✓
Ms. Z. Manase ²	F	✓	✓	✓	✓	≠	✓	✓
Adv. M. Hashatse ³	F	✓	✓	✓	✓	✓	✓	✓
Ms. N. Chamane ⁴	F	✓	✓	✓	✓	✓	✓	✓
Mr. V. Reddy	M	✓	✓	✓	✓	✓	✓	✓
Mr. M. Tshivhase	M	✓	✓	✓	✓	✓	✓	✓
Mr. M. Dikoko	M	✓	✓	✓	✓	≠	✓	✓
Mr. T. Hlongwa ⁵	M	✓	✓	✓	✓	✓	✓	-

✓ Denotes Attendance

≠ Denotes absence with apology

- Excused from the meeting

¹ Board Chairperson² Audit Committee Chairperson³ CAPEX, Fixed Assets and Procurement Committee Chairperson⁴ Human Resources and Remuneration Committee Chairperson⁵ Chief Executive

BOARD COMMITTEES

The Board Committees are formally constituted and are chaired by non-executive Board members. The Board Committees assist the Board in the performance of duties and enable effective decision-making by providing more detailed attention to matters within the terms of reference. The committees report to the Board on activities at every meeting. In terms of the Water Services Act, the Board is authorised to delegate powers to the Committees established by the Board. The functions and powers delegated to Committees are set out in the written Terms of Reference which are formally approved by the Board.

AUDIT COMMITTEE

The Committee, since 28 September 2017, consists of three (3) non-executive Board members. The Chairperson is Ms. Z. Manase. For the period 01 July 2017 to 27 September 2017, the Audit Committee comprised of the following Independent Non-Executive Members: Dr. B. Mkhize (Chairman), Mr. S. Shabalala and Mrs. M.T.B. Ndlovu.

Table 6.3: Audit Committee Meeting Attendance 2017/2018

Members	Committee Meeting					
	12-Sep-17	19-Sep-17	06-Nov-17	21-Feb-18	20-Apr-18	20-Jun-18
Dr. B. Mkhize ¹	✓	✓	-	-	-	-
Mr. S. Shabalala ²	✓	✓	-	-	-	-
Mrs. M.T.B. Ndlovu ²	✓	✓	-	-	-	-
Ms. Z. Manase ³	-	-	✓	✓	✓	✓
Ms. N. Chamane ⁴	-	-	✓	✓	✓	✓
Mr. M. Tshivhase ⁴	-	-	✓	≠	✓	✓

✓ Denotes Attendance

≠ Denotes absence with apology

- Not a member

¹ Audit Committee Chairman from 1 Jul to 27 Sep 2017² Members of the Audit Committee from 1 Jul to 27 Sep 2017³ Audit Committee Chairperson from 28 Sep 2017 to date⁴ Members of the Audit Committee from 28 Sep 2017 to date

The Committee is mandated to achieve the highest level of financial management, accounting and reporting to the shareholder and to meet the requirements prescribed in section 51(1)(a)(ii) and 76(4)(d) of the Public Finance Management Act (Act 29 of 1999), as well as Treasury Regulations, 2005 (Chapter 27.1). The Audit Committee further performs a critical function of risk management by ensuring the effectiveness, quality, integrity and reliability of Umgeni Water's risk management processes.

The terms of reference of the Audit Committee takes into account the recommendations in King IV, the Companies Act (Act 71 of 2008), the Public Finance Management Act (Act 1 of 1999) as amended and Treasury Regulations, 2005, to ensure alignment to best practice and legislation.

ETHICS COMMITTEE

Umgeni Water has formally adopted best practice principles as contained in King IV

with respect to fraud prevention planning. The change to King IV will enable, amongst other aspects, greater accountability and transparency as a broader stakeholder within society; an integrated approach to corporate governance in view of economic, social and environmental spheres; and proposed greater integration between the role and function of the Social and Ethics Committee and other Board Committees.

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In line with this, the Board acknowledges its responsibility to ensure that Umgeni Water is a fair, transparent and ethical entity and will continue to exercise oversight through its already fully functional Ethics Committee as prescribed in Section 29.1.1 of the Treasury Regulations in the PFMA, as well as in line with the requirements of section 72 (4) of the Companies Act (Act No.71 of 2008).

The Ethics Committee ensures the implementation of the Integrated Fraud Management Framework and accounts to the Board through the Audit Committee. The Committee provides assurance to the Board that there is effective institutional-wide prevention of fraud and corruption and that complaints are effectively managed, appropriately followed-up and efficiently investigated. The Committee is satisfied that it has fulfilled all its statutory duties and duties assigned to it by the Board, through the Audit Committee, during the reporting period.

The Ethics Committee has an Independent Chairman - who is neither a member of management nor a member of the Board. The Chairman, Mr. S. Shabalala, is a qualified Chartered Accountant and has extensive public and private sectors experience in Financial Management and Corporate Governance matters. He is currently a Managing Director of Ukukhanya Advisory Services, an Accounting and Auditing company based in Durban. The Ethics Committee reports matters within its scope of mandate to the Board through the Audit Committee which include environmental, financial and social ethics.

A code of ethics provides guidelines for ethical decision-making by all employees, Board members and stakeholders. The code formally acknowledges the organisation's intent to undertake business in an ethical manner and is communicated to all employees through various awareness and communication forums and programmes.

The Ethics Committee met four times during the year to execute its role and responsibility

as prescribed by applicable legislation and included monitoring the entity's activities against legal or best practice requirements relating to:

- Social and economic development, including, EE and B-BBEE;
- Good corporate citizenship, including the promotion of equality, prevention of unfair discrimination, Corporate Social Investment and reduction of corruption, sponsorship, media and advertising;
- Environment, health and public safety, including the impact of the organisation's activities, products and services, biodiversity management, waste management, energy efficiency and carbon footprint reduction;
- Consumer relationships, including advertising, public relations and consumer protection;
- Labour and employment, including the organisation's standing in terms of the International Labour Organisation Protocol on decent work and working conditions, employment relationships and contribution toward education and development of its employees and disciplinary handling;
- Financial ethics, including irregular, wasteful and fruitless expenditure; and
- Fraud and hotline call management.

Umgeni Water uses its external whistle-blowing hotline service, managed by an external service provider, as a means of fraud detection and as a means of encouraging an ethical culture. This 24 hour/365 day facility provides an anonymous and confidential communication channel for all stakeholders to report suspicions of fraud or otherwise unethical conduct.

All hotline calls are investigated and appropriately followed through using a hotline protocol which ensures that all calls received are dealt with in a transparent and consistent manner. Trends and information of the hotline calls are further used to improve internal controls. Umgeni Water endeavours to create and maintain awareness of this facility and ensures that the phone number is adequately advertised by means of posters,

intranet, staff information and induction sessions, supplier forums, and other means deemed effective and appropriate.

INTERNAL AUDIT

Internal Audit is an independent assurance function, the purpose, authority and responsibility of which is formally defined in a charter approved by the Board in line with stipulations of the Institute of Internal Auditors. In line with the requirements of the Public Finance Management Act (PFMA) and Good Governance, the internal auditors give the Audit Committee and management assurance on the appropriateness and effectiveness of internal controls.

The internal auditors report regularly to the Audit Committee and have unrestricted access to the Committee Chairperson. An Internal Audit charter has been approved by the Committee.

As at 30 June, Umgeni Water had a total of seven (7) unresolved Internal Audit Findings:

- One (1) of these findings is due to wastewater quality compliance. Umgeni Water is currently upgrading the capacity of the Darvill Wastewater Treatment Works to address this, with completion scheduled for 2018/2019; and
- The remaining six (6) findings have been allocated to responsible and accountable personnel for resolution. Management is closely monitoring progress to ensure that there is closure of these in 2019.

COMPLIANCE WITH LAWS AND REGULATIONS

Umgeni Water continues to enhance its compliance management system. The entity continued to use its Legal Compliance register for monitoring and reporting Legal Compliance in 2018. During the year, three (3) areas were flagged, relating to wastewater quality compliance, sludge/water treatment residue disposal and the translation of the PAIA manual into three official languages. All three matters will be resolved in 2018/2019.

EXTERNAL AUDIT

The external auditors are responsible for implementing procedures to obtain audit evidence regarding the amounts and disclosures in the consolidated financial statements, the report on predetermined objectives and compliance with laws and regulations applicable to the entity. This is based on, amongst others:

- Assessment of the risks of material misstatement of the consolidated financial statements, the report on predetermined objectives and material non-compliance with laws and regulations;
- Considering internal controls relevant to Umgeni Water's preparation and fair presentation of the financial statements, the report on predetermined objectives and compliance with laws and regulations;
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management; and

- Evaluating the appropriateness of systems and processes that ensure the accuracy and completeness of the financial statements, the report on predetermined objectives and compliance with laws and regulations.

The external auditors express an opinion on the consolidated financial statements and report on findings relating to their audit of the report on predetermined objectives and compliance with material matters in laws and regulations applicable to the entity.

HUMAN RESOURCES AND REMUNERATION COMMITTEE

This Committee comprises of four (4) non-executive directors, the Chief Executive. The Chairperson is Ms. Nompumelelo Chamane. The Committee reviews and recommends to the Board all matters relating to:

- Human Resources policies, organisational structure and compliance with the Employment Equity Act, (Act 55 of 1998) and other labour legislation;
- Conditions of employment of Executive Management;
- Appointment of the Chief Executive and members of Executive Management;
- Remuneration packages of the Chief Executive, members of Executive Management and staff;
- Succession planning for Executive Management;
- Policies and practices for Performance Management;
- Strategic Human Resource related matters; and
- Special rewards recommended by the Chief Executive.

Table 6.4: Human Resource and Remuneration Committee Meeting Attendance 2017/2018

Members	Committee Meeting			
	06-Nov-17	14-Feb-18	11-Apr-18	23-May-18
Ms. N. Chamane ¹	✓	✓	✓	✓
Mr. V. Reddy	✓	✓	✓	✓
Mr. M. Tshivhase	✓	✓	✓	≠
Mr. M. Dikoko	✓	✓	≠	✓
Mr. T. Hlongwa	✓	✓	✓	✓

¹ Chairperson

✓ Attendance

≠ Absence with apology

CAPITAL PROJECTS, FIXED ASSETS AND PROCUREMENT COMMITTEE

This Committee is chaired by Adv. M. Hashatse and comprises of three (3) non-executive directors and the Chief Executive. The Committee assists the Board with capital expenditure related/

programme related decisions, recommends Procurement Policies to the Board for approval and approves the release of capital expenditure above Executive Management's delegated authority but within the Committee's delegated authority. It ensures that the organisation's supply chain policy and procedures are equitable, transparent, competitive and cost effective. It reviews the organisation's infrastructure asset

maintenance programme/performance. Contracts which exceed the Committee's Delegation of Authority are referred to the Board for approval. The Committee reviews and recommends amendments to the limits in the delegation of authority, relating to budget approvals for capital projects and procurement, to enable management to expedite the implementation of projects.

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Table 6.5: Capital Projects, Fixed Assets and Procurement Committee Meeting Attendance 2017/2018

Members	Committee Meeting			
	06-Nov-17	07-Feb-18	27-Mar-18	04-Jun-18
Adv. M. Hashatse ¹	√	√	√	√
Mr. M. Dikoko	√	√	√	√
Mr. V. Reddy	√	≠	√	√
Mr. T. Hlongwa ²	√	√	√	√

√ Denotes Attendance

≠ Denotes Absence with apology

¹ Chairperson² Chief Executive

GOVERNANCE COMMITTEE

The Governance Committee meets on an ad-hoc basis. The Committee is chaired by the Chairperson of the Board and comprises of four (4) non-executive Committee Chairs.

The Committee assists the Board in monitoring and assessing the performance of executive management to ensure that performance objectives and targets are met. Performance results are considered by the Remuneration and Human Resources Committee in determining the remuneration of the Chief Executive and other executives to be recommended to the Board for approval.

Table 6.6: Governance Committee Meeting Attendance 2017/2018

Members	Committee Meetings	
	16-Oct-17	23-May-18
Ms. Z. Mathenjwa ¹	√	√
Ms. Z. Manase ²	√	√
Adv. M. Hashatse ³	√	√
Ms. N. Chamane ⁴	√	√

√ Denotes Attendance

¹ Board Chairperson² Audit Committee Chairperson³ CAPEX, Fixed Assets and Procurement Committee Chairperson⁴ Human Resources and Remuneration Committee Chairperson

DELEGATION OF AUTHORITY

A comprehensive delegation of authority framework governs the authority levels for the Board and management. These are exercised through various board and management committees. The Board reviews the framework regularly.

EXECUTIVE COMMITTEE

The Board has delegated the daily operations of the entity to the Chief Executive who collaborates with Executives, as leaders of each Division, to assist with tasks. The Executive Committee is the highest executive decision-making structure in the entity and central to its role is the formulation and implementation of the Board's strategy and policy direction; and ensuring that all business activities are aligned in this respect.

Each Division works towards the achievement of set strategic objectives for a predetermined period. The entity's wholly owned operating subsidiary also works independently towards enabling Umgeni Water to fulfil its mandate and contracted obligations.

COMPANY SECRETARIAT

The Company Secretary oversees the portfolio of secretariat, governance advisory services and plays a critical role in legal and governance advisory to the Board, risk and compliance management and attends all Board and Committee meetings as secretary.

The Board as a whole, as well as individual Non-Executive Directors and members of the Executive, have access to the Company Secretary who is enjoined to provide guidance on how members should discharge their duties and responsibilities in the best interests of the entity. The Company Secretary

continues to oversee the preparation and coordination of the induction and on-going training of Board members and assists the Board and its Committees in formulating annual plans, agendas, minutes and terms of reference as warranted.

The Company Secretary is responsible for the flow of information to the Board and its Committees and for ensuring compliance with Board procedures. All Board Members have access to the advice and services of the Company Secretary, whose appointment and removal is a matter for the Board to decide.

The Company Secretary provides company secretary services to Umgeni Water and its subsidiary firms, is not a Director of the Company or any of its subsidiaries and accordingly maintains an independent and arm's length relationship with the Board and the Executives. Contact details of the Company Secretary appear on page 140.



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BOARD MEMBERS



FROM LEFT TO RIGHT:

Mr. Visvin Reddy, Adv. Matshidiso Hashatse, Mr. Sbusiso Madonsela (Company Secretary), Ms. Zodwa Manase, Mr. Thamsanqa Hlongwa (Chief Executive), Ms. Ziphozethu (Gabsie) Mathenjwa, Mr. Siboniso Shabalala (Chairperson of the Ethics Committee), Ms. Nompumelelo Chamane, Mr. Matshedisho David Dikoko, Mr. Thovhele Vho-Midiyavhathu Tshivhase



BOARD MEMBERS ...continued

MS. ZIPHOZETHU (GABSIE) MATHENJWA

MSc in International Business Management (University of London); MBA (UKZN); BSc (UZ); Post-Graduate Diploma in Business Management (UKZN); Post-Graduate Diploma in Strategic Management and Corporate Governance (UNISA/ICSA); and Certificate in Financial Management and Investment (UNISA).

Appointed as a Board Member in September 2017.

Umgeni Water Board member from 2009 to June 2017; Chairperson of Insika Foundation and the Sinafuthi Group; Board Member Denel SOC (Ltd); Board Member Safran Turbomeca Africa; Board Member of Mitsui African Rail Solutions; Mpumalanga Provincial Department of Economic Development; and Environment and Tourism Audit Committee Chairperson.

MR. MATSHEDISHO DAVID DIKOKO

Executive Leaders on Local Government 2000, WITS; Certificate in Development planning and Management for Local Government Councillors PU for CHE; Study Tour Water Management in Denmark Geological Survey of Denmark and Greenland; Assistant Personnel Officer and Work Study Practitioner, Anglo American Corporation; and Economic and Management Science Technikon South Africa.

Appointed as a Board Member in September 2017.

Chairperson of Midvaal Water Company since September 2004; Board Member Midvaal Water Company from June 2001 to August 2004; Board Member of Botshelo Water from June 2001 to August 2004; and Director New Business Development OMV Crushers / Matlosana Industries since May 2006.

MS. NOMPUMELELO CHAMANE

Appointed as a Board Member in September 2017.

Chairperson of Umgeni Water Board HR and Remuneration Committee from 2009 to June 2017; Councillor with eThekweni Municipality; Experienced liaison officer with

provincial structures of COSATU; Member of Albert Luthuli Hospital Committee; Board member of EU-funded Cato Manor Development Association (CMDA); and Chairperson of Finance Committee of St. Benedict Catholic Church.

MR. VISVIN REDDY

Educator (Mathematics & Computer Science) by profession; and Various Diplomas and Certificates in Management and Communications.

Appointed as a Board Member in September 2017.

Board Member of Umgeni Water from June 2009 to June 2017; Seventeen years local government experience; Served on the Executive Committee of eThekweni Metropolitan Municipality as well as Chairman of the Infrastructure Committee; and a member of various community bodies.

MR. THOVHELE VHO-MIDIYAVHATHU TSHIVHASE

Juris Diploma in Law University of Zululand; and BA Law University of Limpopo (previously University of the North / Turfloop).

Appointed as a Board Member in September 2017.

South African Nuclear Energy Corporation (NECSA); Chairperson of Investment and Finance Committee and Research Development and Technology since 2016; Chairperson of Lepelle Northern Water since 2016; Road Agency Limpopo (RAL); Member of the Board of Directors; Chairperson of the Social and Ethics Committee and Member of Human Resources and Remuneration Committee since 2015; South African Broadcast Production Advisory Body Board Member since 2014; Deputy Chair of Council: University of Venda since 2014; Limpopo Provincial Legislature Chairperson of Portfolio Committee on Transport from 2005-2013 and Chairperson of Committee Portfolio on Public Works from 2013-2014; Chairperson of Congress of Traditional Leaders (CONTRALESA) Vhembe District from 2004-2009; Soutpansberg Petroleum Board (SBP) Chairperson from 2002-2009; and Limpopo Provincial Legislature Chairperson of Portfolio Committee on Transport 1999-2004.

ADV. MATSHIDISO HASHATSE

LLB; LLM; and Bachelor of Journalism and Media Studies.

Appointed as a Board Member in September 2017. (Resigned on 20 August 2018).

Board Member of Rand Water since April 2009, and current Chairperson of the Board of Rand Water; Over 25 years working experience in sectors including Telecommunications Regulation, Higher Education Management, Local Government Executive Leadership in Fundamental Human Rights and Gender Equity; Over 16 years experience; Served as a Non-Executive Director of several institutions and companies, in sectors that include water utilities, economic and small business development, tourism promotion and national park management; and she currently works as a Consultant with a particular focus on Organisational Change, Organisational Efficiency and Governance.

MS. ZODWA MANASE

B.Compt. (Hons); H.Dip (Tax); and CA (SA).

Appointed as a Board Member in September 2017.

Currently serves as TCTA Board Chairperson; CEO (Manase and Associates); Risk and Finance Committee (Chairman); Audit Committee; Governance Committee; Other Directorships/ Trustees/Committee Memberships include Nelson Mandela Children's Hospital Trust Fund (Trustee); and PRASA, State Diamond Trader, Department of International Relations and Co-operation (Audit Committee Chairperson).

MR. SBUSISO MADONSELA (COMPANY SECRETARY)

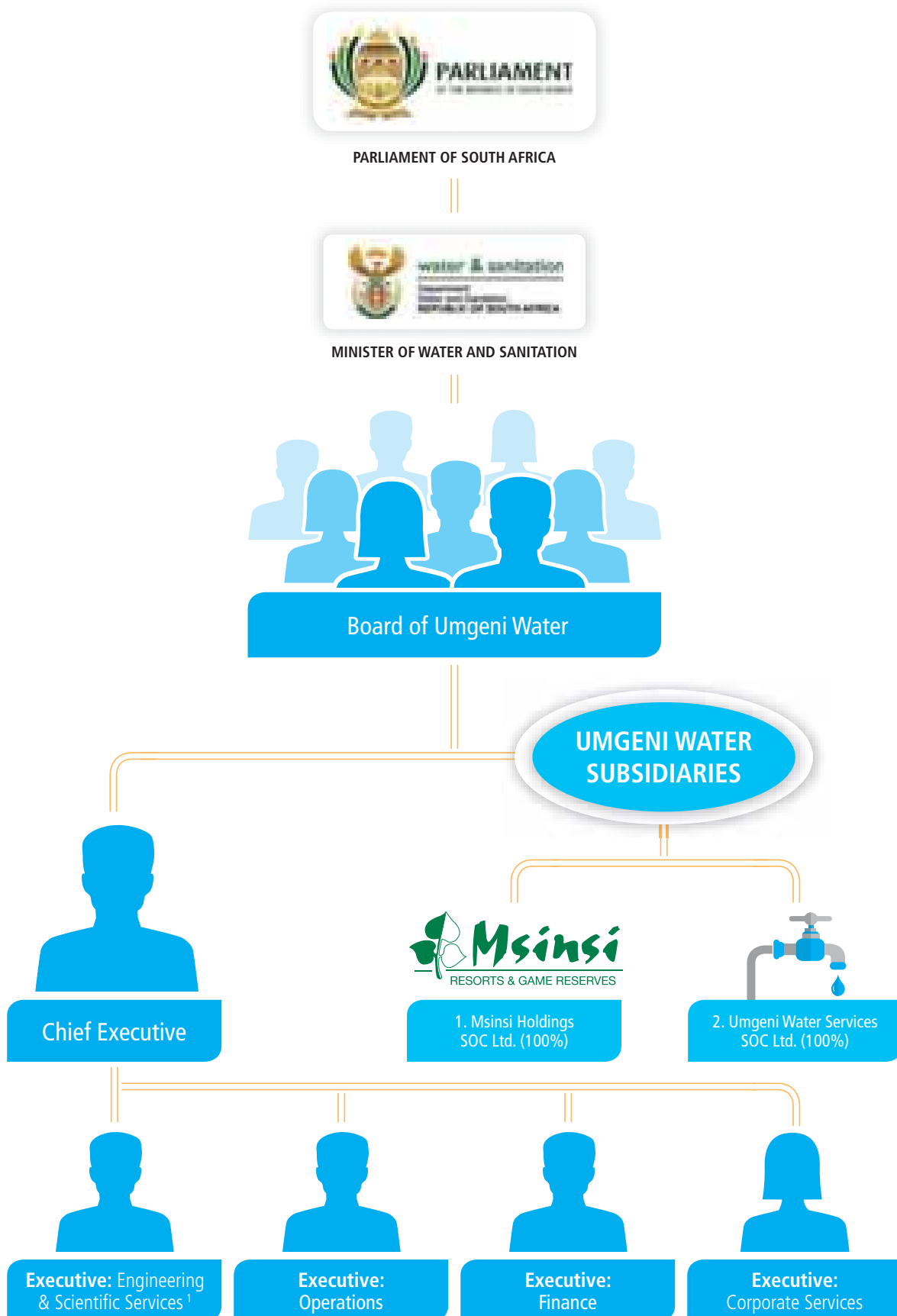
Admitted Attorney of the High Court of South Africa; LLB (UZ); and Postgraduate Diploma in Compliance (UJ).

Appointed as Company Secretary in January 2014.

Umgeni Water Legal Services Manager until December 2013; Competition Commission's Legal Counsel; and extensive experience in private legal practice.

5.1 FUNCTIONS AND MANAGEMENT STRUCTURE

During the reporting period, Umgeni Water (Group) had the following structure in response to its strategy. The core functions pertaining to each is articulated in the strategic statements that follow.



¹ Effective 2019 - Executive Scientific Services and Executive Infrastructure Development.

Some of the executive directors in the holding company (Umgeni Water) sit on the boards of the subsidiaries as non-executive directors in order to ensure alignment of business processes and culture within the group (Refer to Executive profiles on page 53). Their executive positions in the holding company do not curtail their fiduciary responsibility, as non-executive directors, in the respective subsidiary entities. The group company secretariat enables all three boards to maintain their distinct fiduciary responsibilities whilst enhancing the group's collective values.

EXCO MEMBERS



STANDING FROM LEFT TO RIGHT: Mr. Steve Gillham, Mr. Thamsanqa Hlongwa, Mr. Msizi Cele

SEATED FROM LEFT TO RIGHT: Ms. Marsha Philips, Ms. Moketenyana Moleko

MR. THAMSANQA HLONGWA

Chartered Accountant (SA); and BCom Honours.

Acting Chief Executive September 2017 to June 2018.

Appointed as Chief Executive effective July 2018.

Umgeni Water Executive¹ Finance from July 2013; Director of Msinsi Holdings SOC Ltd since 2014; Chief Financial Officer KZN CoGTA from March 2007 to June 2013; Completed articles with Deloitte from 2002 to 2004; Audit Senior in Deloitte New York Office from 2004 to 2005; Senior Manager at Siyaya Management Services from 2005 to 2007; and served in other Governance Structures, including the DUT Council and the Board of PetroSA where he also chaired the Audit and Risk Committees of the Board.

MR. STEVE GILLHAM

Registered Professional Engineer (ECSA); BSc Engineering (Civil); and BCom.

Appointed as Executive¹ Engineering and Scientific Services in 2012.

Director of Msinsi Holdings SOC Ltd since 2014; Director of Msinsi Holdings (Pty) Ltd from 2012 to 2014; Planning Manager from 1999 to 2012; Engineer with Umgeni Water from 1997 to 1999; and Engineer with the Department of Water and Sanitation from 1984 to 1997.

MS. MARSHA PHILIPS

Chartered Accountant (SA); and BAcc Honours.

Appointed as Acting Executive¹ Finance in August 2017.

Umgeni Water Financial Manager since December 2007; Financial Accountant at Umgeni Water between 2006 and 2007; and Audit Senior with Deloitte & Touché Offshore Assignments Limited in 2006 and Trainee Accountant with Deloitte & Touché between 2003 and 2005.

MR. MSIZI CELE

Registered Professional Engineer (ECSA); BSc Engineering (Mechanical); and Government Certificate of Competency – Machinery.

Appointed as Executive¹ Operations in November 2014.

Managing Director of uThukela Water from 2007 to 2014; Executive Director – Engineering at uThukela Water from 2005 to 2007; Area Manager at Umgeni Water from 1996 to 2005; Senior Design Engineer at Umgeni Water from 1993 to 1996; and professional engineering development and management of unit processes at Shell and BP SA Petroleum Refineries from 1987 to 1993.

MS. MOKETENYANA MOLEKO

BCom; Management Development Certificate; International Management and Marketing Programme Certificate; and post graduate Diploma in Business Management.

Appointed as Executive¹ Corporate Services in January 2014.

Leadership positions held at various organisations, including the Eskom Leadership Institute, Eskom Transmission, MERSETA and South African Airways.

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STAKEHOLDER UNDERSTANDING AND SUPPORT

STAKEHOLDER INTERACTION

One of the key Strategic Objectives of Umgeni Water is to increase customer and stakeholder value. In pursuance of this, customer and stakeholder interaction is a vital component. As a result, Umgeni Water's leadership, management and officials engage with stakeholders that are impacted on, affected by or have an interest in, the mandate and core functions of the organisation. Stakeholders of Umgeni Water have been categorised into four groups: Statutory, Strategic, Contracted and Non-Contracted. Engagements with stakeholders take place as a mandatory legislative requirement, as part of contractual obligations and on a voluntary basis. These engagements are both scheduled and unscheduled.

Umgeni Water engaged with all targeted stakeholders in the year under review and, overall, received positive and constructive feedback for future strategies, plans and programmes.

Engagement with the Minister of Water and Sanitation, the Acting Director-General of the Department of Water and Sanitation (DWS), National Treasury and SALGA, took place on numerous occasions, including for formal appraisal of strategy, business plan implementation and performance indicators as per Shareholder Compact, as well as during Minister forums hosted by DWS. A summit was also convened by the Water and Sanitation Ministry to encourage private-public partnerships for the investment in water infrastructure.

All statutory documents for the year were timely submitted.

Engagements with the Department of Water and Sanitation also took place on the subjects of drought relief and drought mitigation measures, as well as a media visit to Lower Thukela Bulk Water Scheme to showcase this project. Other engagements related to bulk potable water and future year tariff charges took place with the Ministry of Water and Sanitation and all customers.

Umgeni Water also had an opportunity to engage with the Office of the Premier and CoGTA on issues of water resources shortages in the Mgeni System and on major projects, among them the uMkhomazi Water Project.



UMGENI WATER STAKEHOLDERS



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Media coverage of the organisation, in print, broadcast and online, was in the form of positive, neutral and negative reports. Media coverage of Umgeni Water is monitored by an independent company and evaluation of media coverage is based on reports supplied quarterly by this company. Positive coverage was significant, in part, because of the organisation's effective management of water shortages that prevented failure of the Midmar and Albert Falls dams, and completion and commissioning of two strategic projects: the Lower Thukela Bulk Water Supply Scheme and upgrade of the Midmar Water Treatment Works. The appointment of a Board (on an interim basis) in the first quarter of the financial year under review also received extensive publicity.

A large number of customer engagements took place, including both strategic and operational engagements. Engagements with Umgeni Water's customers focused on performance with respect to bulk supply agreements, service delivery needs, infrastructure plans, status of water resources and water conservation. Engagements also took place with customers to explore cost-effective means of mitigating the effects of water shortages. Events that were either hosted by Umgeni Water or in which the entity participated, were:

- Joint launch of the National Water Week (KZN) with the Department of Water and Sanitation;
- Community function to commission the upgrade of the Midmar Water Treatment Works;
- A dam safety event held to prevent drowning in dams and rivers;

- A Supplier Forum;
- Hosting of visiting delegations from South Sudan Ministry of Water Resources and Irrigation and from Overberg Water Board; and
- Presentation of Umgeni Water's annual performance to two separate stakeholder sessions, one for the media and the other for customers and financial institutions.

Umgeni Water is aware of the importance of maintaining a healthy internal pulse and created opportunities during the year for engagement with employees and employee union (NEHAWU). This included a staff information session, visits to sites, meetings with the employee union, annual staff awards session, commemoration of special days in the year, sport fun days, induction of new employees and communiqués designed to inform employees of events and Ministerial announcements and speeches.

Interaction with communities, together with customers and other key stakeholders, was made possible through the following:

- Corporate Social Responsibility initiatives;
- Dissemination of water and environmental education to learners and other attendees and interaction directly with the public at the annual Royal Agricultural Show. Awareness of the role, functions, competencies, products and services of a water utility was created;
- The Umgeni Water Marathon further provided socialised interactions between employees and the public; and
- Special day/week events, including Water Week, Environment Day and Women's Day, and commissioning of the upgraded Midmar Water Treatment Works, among

several others, provided opportunities for community outreach and awareness creation.

Umgeni Water kept abreast of water-related knowledge through collaboration and knowledge exchange with water utilities in South Africa, Europe and the United States of America.

Further opportunity to engage water sector peers was made possible through attendance of the Institute of Municipal Engineers of Southern Africa Conference and Exhibition and the Biennial Conference and Exhibition of the Water Institute of Southern Africa.

Suppliers, notably small, medium and micro enterprises, were engaged during a forum, where Umgeni Water provided information to current and potential suppliers to help increase future B-BBEE opportunities. In addition, Umgeni Water interacted with the Durban Chamber of Commerce, Pietermaritzburg Chamber of Business, the South African National Civic Organisation and Human Rights Commission and provided an overview of the entity's five-year capital infrastructure programme, water resource shortages in the Mgeni System, bulk potable water tariff increase for financial year 2018/19 and status of proposed disestablishment of Mhlathuze Water and its incorporation into Umgeni Water.

The relationship Umgeni Water has with its stakeholders is based on transparency and mutual value creation. The feedback received in the year bears testimony to the healthy and robust stakeholder relations enjoyed by Umgeni Water.

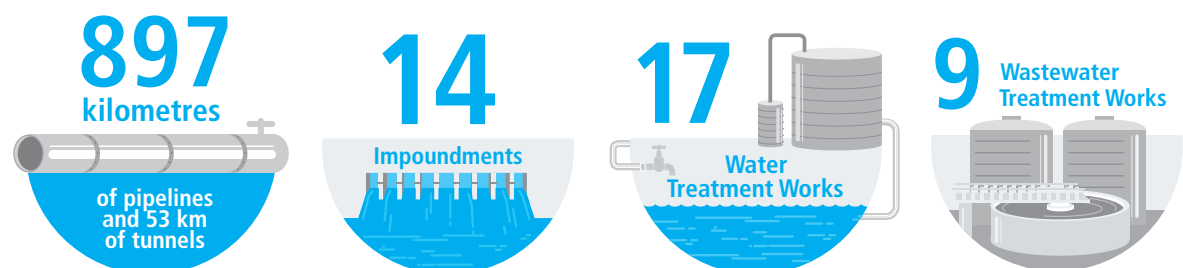


Table 7.1: Umgeni Water Stakeholders, Basis for Engagement and Value Proposition

Umgeni Water Stakeholders, Basis for Engagement and Value Proposition	
Statutory Stakeholders <i>Stakeholders who have a regulatory or oversight function over Umgeni Water, among them being the Minister of Water and Sanitation, the Department of Water and Sanitation, the Portfolio Committee on Water and Sanitation and National Treasury. Umgeni Water, a state-owned entity, is required to interact with these stakeholders on a formal and regular basis in order to ensure that statutory obligations are met and there is alignment with the government's objectives, strategies and plans.</i>	
<ul style="list-style-type: none"> Minister of Water and Sanitation Portfolio Committee on Water and Sanitation 	<ul style="list-style-type: none"> Department of Water and Sanitation National Treasury
Basis for engagement: delivery on mandate, compliant with Water Services Act, Public Finance Management Act and other pertinent legislation and regulations, delivering strategy and plans aligned to government outcomes and Executive Authority expectations, demonstrating adequate water resource planning mobilisation, investing in water infrastructure, ensuring efficient water use and conservation and water quality management, demonstrating a well governed and efficiently run entity, ensuring performance in line with financial and predetermined objectives and plans to deliver sustainability, a partner that shows alignment with water sector communication strategies and plans, and a leader that contributes to establishing synergies in value chain and water sector.	
Umgeni Water and the National Government both desire: a high performing, well governed state-owned enterprise that mobilises resources in an equitable and cost-effective manner to advance key national objectives.	
Strategic Stakeholders <i>Provincial and some national stakeholders to whom Umgeni Water provides information relating to organisation performance, water resource status, capital infrastructure plans, solutions to prolonged bulk water supply interruptions and expertise available to assist vulnerable water boards and municipalities.</i>	
<ul style="list-style-type: none"> KwaZulu-Natal (KZN) Provincial Stakeholders, including, Office of the Premier, KZN CoGTA and KZN Planning Commission South African Local Government Association (SALGA) South African Association of Water Utilities (SAAWU) 	<ul style="list-style-type: none"> South African Human Rights Commission Mhlathuze Water uThukela Water (Pty) Ltd
Basis for engagement: structured implementation plan to enhance assurance of supply and extend water services to previously un-served communities, affordable tariff, water resource adequacy and sustainability as a catalyst for economic expansion, delivery on mandate and alignment to policy and National and Provincial Development Plans, partner in service delivery, accelerated service delivery, Corporate Governance, benchmarking and strategic information exchanges, collaboration in major events and celebrations and proactive measures to mitigate effects of prolonged water shortages and supply interruptions.	
Umgeni Water, KZN Province and other Strategic Stakeholders desire: sound water services delivery partnerships, affordable services, role in ensuring regional economic growth and development and exchange of strategic information.	
Contracted Stakeholders <i>Stakeholders with whom Umgeni Water has contracted to provide or purchase products, services and goods. They include customers, suppliers and investors and, in the case of employees and organised labour, provision of employment and accompanying service benefits.</i>	
Water Service Authorities in KwaZulu-Natal with whom Umgeni Water has bulk supply agreements comprise of:	
<ul style="list-style-type: none"> eThekweni Metropolitan Municipality Msunduzi Local Municipality uMgungundlovu District Municipality iLembe District Municipality 	<ul style="list-style-type: none"> Ugu District Municipality Harry Gwala District Municipality uThukela District Municipality (concluded in November 2017)
Basis for engagement: service agreements, assurance of supply, quality and quantity, care and support, responsive to needs, tariff consultation, partnerships in socio-development initiatives and partnerships in CSI initiatives.	
Umgeni Water and WSA customers both desire: a high performing, efficient, effective and responsive Water Services Provider.	
<ul style="list-style-type: none"> Employees of Umgeni Water 	<ul style="list-style-type: none"> National Education, Health and Allied Workers' Union (NEHAWU)
Basis for engagement: compliance with collective agreement, demonstrating relevance as an organisation that adds value to the sector, regular feedback and communication regarding sector issues and organisational performance, regular information sharing and feedback on entity events planned and held, equitable jobs, fair labour practice, good working conditions, enabling work environment and communication, fair market-related compensation and service conditions, sound performance management and recognition system and engaged employees, productivity, delivery and return on investment.	
Umgeni Water management, union and staff all desire: an equitable company whose policies, practices, systems and feedback create motivated, engaged and aligned employees.	
<ul style="list-style-type: none"> Suppliers and Service Providers 	<ul style="list-style-type: none"> Investors and other Financial Institutions
Basis for engagement: compliance with legislation for fair and equitable procurement, supplier development, transparency, business opportunities, integrity, fair treatment, fair pricing, fair payment terms, partnerships in B-BBEE and capacity building towards more inclusive economic participation and Corporate Social Investment (CSI), environmental management and supplier footprint reduction – water, energy and materials	
Umgeni Water and suppliers desire: an equitable company whose policies, practices, systems and feedback create responsive and high performing suppliers that deliver against contractual agreements.	

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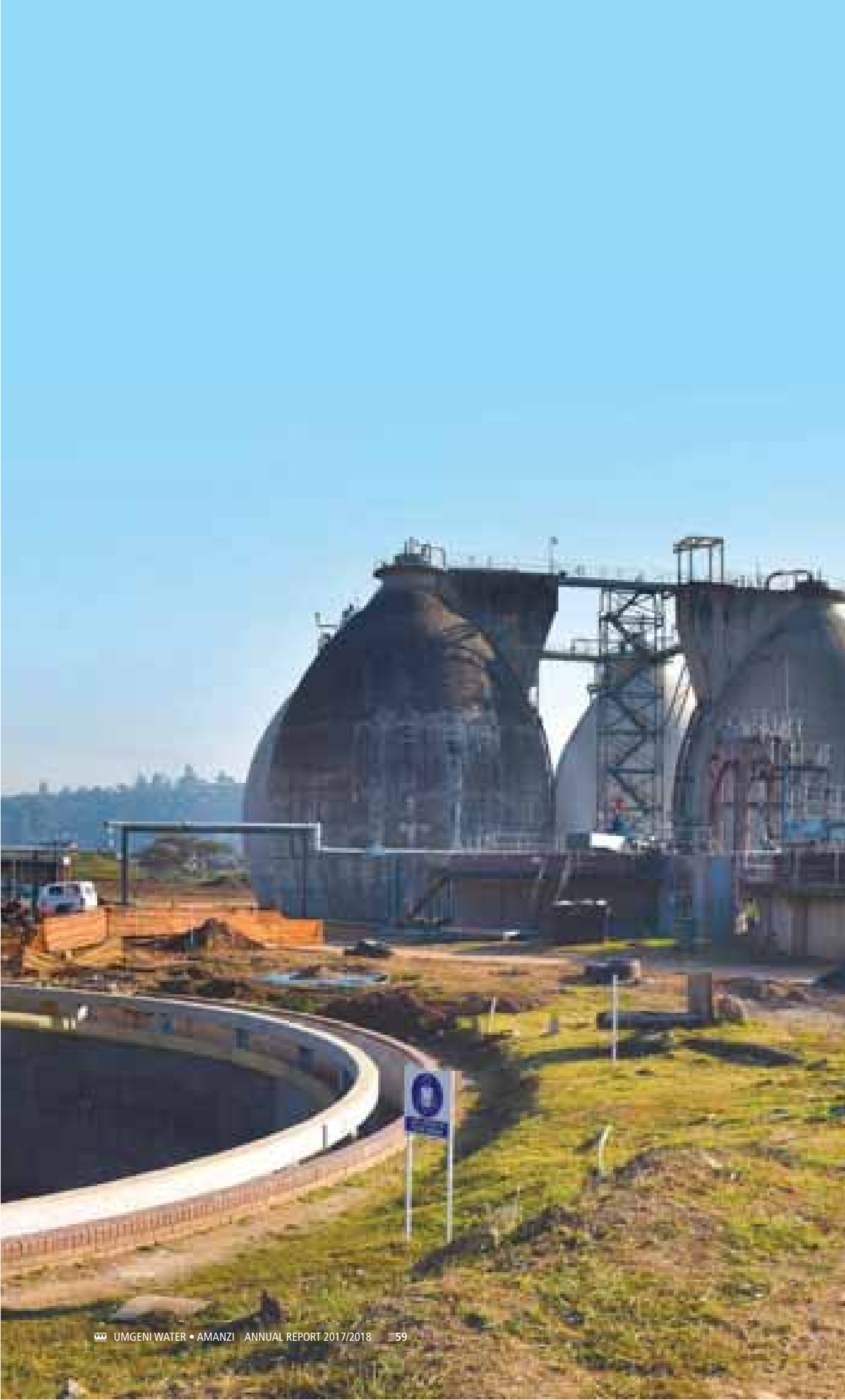
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Table 7.1: Umgeni Water Stakeholders, Basis for Engagement and Value Proposition (continued)

Umgeni Water Stakeholders, Basis for Engagement and Value Proposition	
Non-contracted Stakeholders	
<i>Stakeholders to whom Umgeni Water demonstrates its value as a socially responsible, efficient and high performing entity.</i>	
<ul style="list-style-type: none"> Community and Civil Society Institutions 	
<p>Basis for engagement: Umgeni Water's demonstration of conservation and responsible use of resources, provision of clean and safe environment, exercising of responsible corporate citizenship, demonstration of transparency in Corporate Governance, job creation and provision of information and opportunities. In turn, Umgeni Water requires endorsement of social licence to operate, recognition for creating value, respect for property and collaboration in protecting remotely situated water assets.</p>	
<p><i>Umgeni Water and communities/civil society desire: a sustainable entity that adds value to society through sound balance of economic growth, social development and environmental sustainability.</i></p>	
<ul style="list-style-type: none"> Chambers of Commerce, Business and Industry 	
<p>Basis for engagement: Umgeni Water's provision of assurance of supply, quality and quantity, information on tariff, demonstration of responsible corporate citizenship and information sharing on infrastructure development projects. In turn, Umgeni Water encourages recognition for creating value, pollution prevention and safeguarding of water supply resources.</p>	
<p>Umgeni Water and business desire: a sustainable entity that adds value to society through sound balance of economic growth, social development and environmental sustainability.</p>	
<ul style="list-style-type: none"> Media and general public 	
<p>Basis for engagement: access to information, demonstrating accountability, transparency and good governance. In turn, Umgeni Water expects accurate and balanced reporting and media integrity.</p>	
<p>Umgeni Water and media/public desire: a sustainable entity that adds value to society.</p>	
<ul style="list-style-type: none"> Water Research Commission Water Institute of Southern Africa 	<ul style="list-style-type: none"> Other National water sector institutions
<p>Basis for engagement: information exchange and knowledge management, collaboration in water research and development, support for water centres of excellence, student internships and experiential training and exposure, study tours and site visits, collaboration in major events, such as National Water Week, and participation in international exhibitions, specifically in Africa, knowledge management, networking and responding to bilateral agreements between South Africa and other African countries and continental water utilities.</p>	
<p>Umgeni Water and water sector-related institutions desire: a partner and sector collaborator that contributes to knowledge and skills development for the country, province and region.</p>	



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8.0 PERFORMANCE AGAINST UMGENI WATER STRATEGY AND SHAREHOLDER COMPACT INDICATORS 2017/2018

Umgeni Water implements its strategy through a balanced scorecard. For the past year, this comprised of four (4) Balanced Perspectives, four (4) Strategic Goals, nine (9) Strategic Objectives and nine (9) Key Performance Indicators (KPIs).

The KPIs were further made up of fifty-five (55) total annual measurable Result Indicators, for which responsibilities and accountabilities were agreed and targets approved within the entity at the start of the year. These Result Indicators include all statutory indicators specifically targeted by the Executive Authority and approved via the Shareholder Compact.

Collectively, the scorecard enables the organisation to achieve its ten (10) Outcomes and ultimately its Mission/Mandate to provide innovative, sustainable, effective and affordable bulk water and sanitation services to customers.

For the period 1 July 2017 to 30 June 2018, the planned initiatives were implemented and progress assessed by the entity. The detailed scorecard follows. Performance against the strategy is also illustrated graphically in **Figures 8.1 to 8.4**.

Figure 8.1: Overall Performance

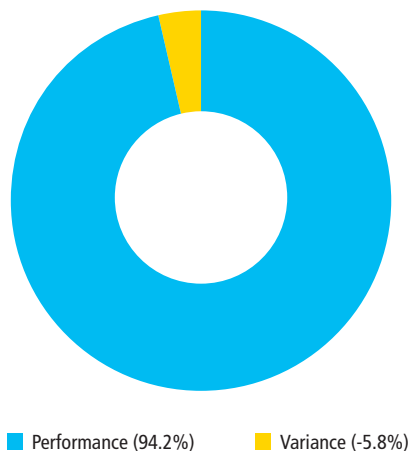
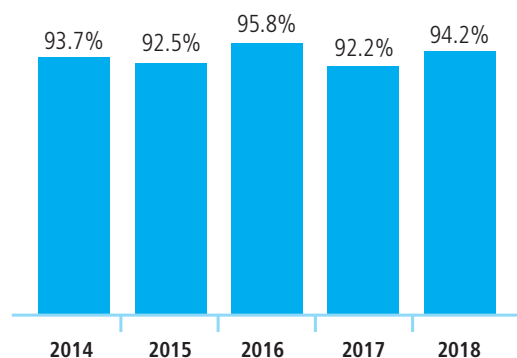


Figure 8.2: Performance Trend



PER CENT TARGETS MET: 94.19%
PER CENT TARGETS NOT MET: 5.81%

Umgeni Water has achieved excellent performance for the year continuing its positive performance trend over the years. This is illustrative of an entity that has delivered well against its mission and mandate to provide innovative, sustainable, effective and affordable bulk water and sanitation services.

For the **Customer and Stakeholder** perspective and **Strategic Goal 1: Develop strategic partnerships, increase support to customers, improve visibility and be a regional leader in the provision of bulk water and sanitation services**, **99.3%** performance was achieved, for which:

- SO 1 - Increase services and customers achieved 100%; and
- SO 2 - Increase customer and stakeholder value achieved 99.3%.

Key outcomes: *Stakeholder Understanding and Support, Customer Satisfaction, Product*

Quality, Community and Environmental Sustainability.

For the **Financial** perspective and **Strategic Goal 2: Expand and improve funding collaborations whilst managing key cost drivers**, performance achieved was **92.2%**, for which:

- SO 3 - Increase mobilisation of funds achieved 100%;
- SO 4 - Increase financial sustainability 83.3%; and
- SO 5 - Improve financial ratios 100%.



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**CAPEX Programme
Jobs in the 2017/2018
financial year**

ALBERT FALLS

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Key outcomes: *Financial Viability, Stakeholder Understanding and Support, Customer Satisfaction, Community and Environmental Sustainability.*

For the **Process** Perspective and **Strategic Goal 3:** *Remove system constraints and blockages through innovative thinking and improve efficiency of all inputs,* performance achieved was **85.2%**.

- SO 6 - Improve service delivery systems achieved 85.2%.

Key outcomes: *Operational Resiliency, Operational Optimisation, Community and Environmental Sustainability.*

For the **Organisational Capacity** Perspective and **Strategic Goal 4:** *Strengthen and develop quality human resources, infrastructure capacity and water resources sustainability to support growth,* **96.3%** performance was achieved, for which:

- SO 7 - Improve and increase infrastructure assets achieved 94.8%;
- SO 8 - Increase water resources sustainability 100%; and
- SO 9 - Increase skills and competency 95.6%.

Key outcomes: *Infrastructure Stability, Water Resources Adequacy, Leadership and Employee Development.*

Figure 8.3: Performance by Strategic Goal

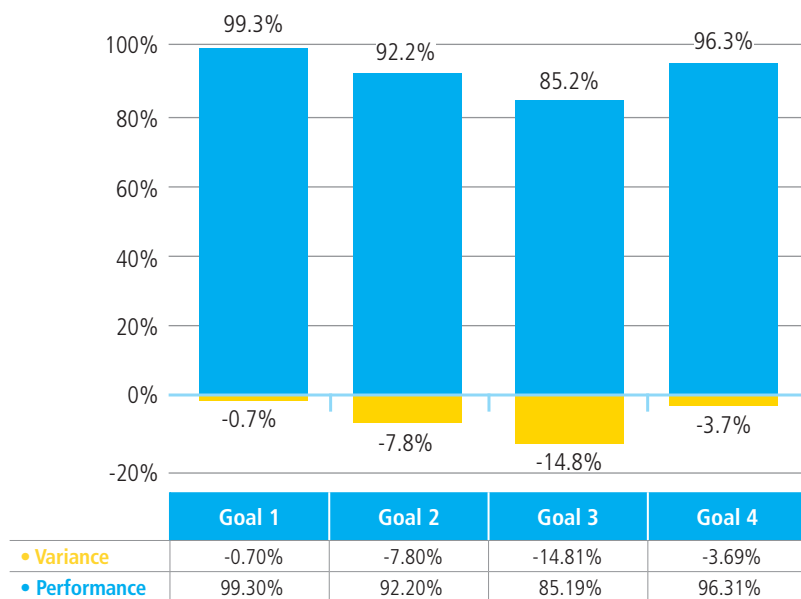
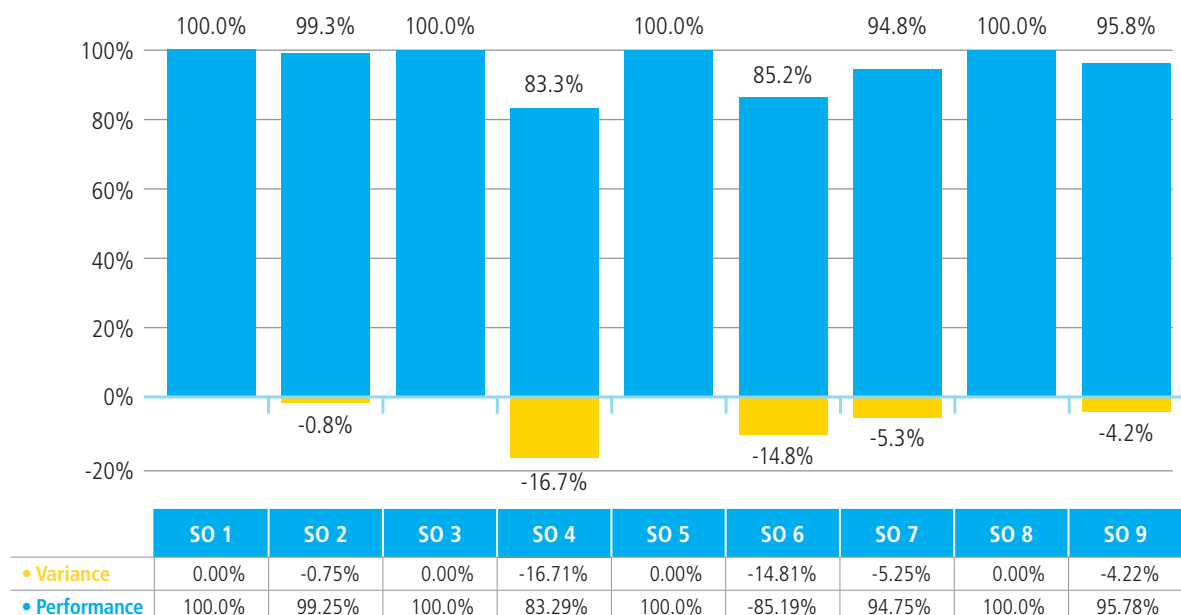


Figure 8.4: Umgeni Water Performance by Strategic Objective



The detailed performance of the organisation against indicators and targets for 2017/2018 follows, with further expansion in each of the Annual Report chapters.

SCORECARD 2017/2018ⁱ

#	Result Indicator	Target	Actuals	Variance	Pg. #
BALANCED SCORECARD PERSPECTIVE: CUSTOMER AND STAKEHOLDER					
Outcomes: Stakeholder Understanding and Support, Community and Environmental Sustainability, Customer Satisfaction					
Strategic Objective 1: Increase services and customers					
KPI 1: The extent to which the entity has grown its services and customers					
1.1	Investigations for new services or products completed.	Scope of work for two investigations finalised.	Scope of work for two investigations finalised.	Nil	27
Strategic Objective 2: Increase customer and stakeholder value					
KPI 2: The extent to which customer and stakeholder needs have been met					
2.1	Per cent directives implemented in accordance with plan. (DWS SHC Indicator)	Response to received Directives: One (1) Directive was received during the reporting year.	One (1) Directive was received and appropriately responded to within the reporting year.	Nil	19
2.2	Number of engagements with statutory stakeholders: Minister, DWS, PC and NT. (DWS SHC Indicator)	≥ 4 engagements.	12 engagements.	Nil	54
2.3	Number of engagements with contractual stakeholders: Customers, Employees, Union and Suppliers.	≥ 3 customer sessions. ≥ 3 staff sessions. ≥ 3 union meetings. ≥ 1 supplier forum. ≥ 1 executive site visit.	6 customers engaged. 1 staff session. 3 union meetings. 1 supplier forum. 1 executive site visit.	< 3 Staff Sessions	56
2.4	Number of engagements with strategic stakeholders.	≥ 4 engagements.	14 engagements with KZN Province	Nil	54
2.5	Number of Engagements with non-contractual stakeholders.	≥ 4 media. ≥ 1 community. ≥ 1 business. ≥ 1 national.	14 media engagements. 1 community. 1 business. 1 national.	Nil	56
2.6	Number of signed contracts / bulk supply agreements (BSAs) in place as a % of total customers. (DWS SHC Indicator)	6 customers, 100% signed agreements.	7 customers, 100% signed agreements. 7 th BSA with uThukela DM signed in Nov 2017.	Nil	73
2.7	Number of signed contracts / MOUs with rural Municipalities for provision of support. (DWS SHC Indicator)	≥ 2 signed contracts/MOUs.	3 signed contracts/MOUs.	Nil	74
2.8	Number of submissions in respect of Monthly Reports, Quarterly Reports, Annual Report, Tariff, Corporate Plan, SHC and Policy Statement. (DWS SHC Indicator)	20 of 20 submissions: 4 Quarterly Reports; Annual Report; Tariff; Corporate Plan; SHC; and 12 Monthly Reports.	20 of 20 submissions: 4 Quarterly Reports; Annual Report; Tariff; Corporate Plan; SHC; and 12 Monthly Reports.	Nil	56
2.9	Per cent compliance of WTW systems with SANS 241 water quality standard per risk category. (DWS SHC Indicator)	13 WTW systems 100% compliant with Excellent SANS 241.	12 WTW systems 100% compliant with Excellent SANS 241.	1 WTW system not 100% compliant with Excellent SANS 241.	70
		Four (4) UMDM schemes compliant with Good SANS 241.	Mhlabatshane WTW: Operational Category 90.43%. Four (4) UMDM schemes compliant with Good SANS 241.	Mhlabatshane WTW: 2.57% Variance with Operational category.	

ⁱ Parent Only

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SCORECARD 2017/2018 (continued)

#	Result Indicator	Target	Actuals	Variance	Pg. #
BALANCED SCORECARD PERSPECTIVE: CUSTOMER AND STAKEHOLDER (continued)					
Outcomes: Stakeholder Understanding and Support, Community and Environmental Sustainability, Customer Satisfaction (continued)					
Strategic Objective 2: Increase customer and stakeholder value (continued)					
KPI 2: The extent to which customer and stakeholder needs have been met (continued)					
2.10	Per cent compliance of WWTW systems with discharge licence or General Authorisation requirements. (DWS SHC Indicator)	7 WWTW ≥ 85% compliant. 1 WWTW ≥ 80% compliant. 1 WWTW ≥ 60% compliant.	6 WWTW ≥ 85% compliant. 0 WWTW ≥ 80% compliant. 1 WWTW ≥ 60% compliant.	1 WWTW < 85% compliant: Appelsbosch WWTW. 1 WWTW < 80% compliant: Darvill WWTW.	71
2.11	Number of schools/community initiatives undertaken.	≥ 3 initiatives implemented.	3 initiatives implemented.	Nil	84
2.12	Number of CSI initiatives undertaken. (DWS SHC Indicator)	≥ 1 completed	1 completed: Qhulula Spring Protection	Nil	85
2.13	Per cent PSP and contractor order values (CPGs) awarded to B-BBEE suppliers.	≥ 35%	39% (R174 million of R451 million)	Nil	83
	PSP and contractor order values (CPGs) awarded to B-BBEE suppliers that are women.	≥ 14%	55% (R95 million of R174 million)		
2.14	Actual B-BBEE spend as a % of total discretionary expenditure.	≥ 80% spend	122% spend	Nil	83
	Number of new B-BBEE entrants awarded work. (DWS SHC Indicator)	≥ 2 new entrants awarded work.	3 new entrants awarded work.		
BALANCED SCORECARD PERSPECTIVE: FINANCIAL					
Outcomes: Financial Viability, Stakeholder Understanding, Customer Satisfaction and Support, Community and Environmental Sustainability					
Strategic Objective 3: Increase mobilisation of funds					
KPI 3: Increased funding collaboration and funds mobilised for sustainable growth, expansion and access.					
3.1	Operating cash flows, Rm.	≥ R1 000 million	R1 324 million	Nil	149
3.2	Current ratio. (DWS SHC Indicator)	1.5 to 2.1	2.74	0.64 A higher current ratio - assets much higher than liabilities - is not an issue for UW.	
3.3	Debt to Equity ratio. (DWS SHC Indicator)	≤ 0.4	0.23	Nil	131
3.4	Interest cover ratio.	≥ 2.5	4.94	Nil	131
Strategic Objective 4: Increase financial sustainability					
KPI 4: The extent to which there are sustainable financial returns for each system, area, region and the organisation					
4.1	Total revenue, Rbn and per cent variance.	R2.98 billion ±10%	R2.89 billion Within allowable limits.	Nil	146
4.2	Total expenditure, Rm and per cent variance. (DWS SHC Indicator)	R2.20 billion ±10%	R1.718 billion R522 million below budget.	Nil	146
4.3	Total surplus (loss), Rm and per cent variance.	R747 million ±10%	R1 183 million R436 million above target.	Nil	146
4.4	Number of debtor days. (DWS SHC Indicator)	≤ 40 debtor days.	47 debtor days.	47 debtor days against a target of 40.	175
4.5	Total S30 revenue, Rm and per cent of turnover. (DWS SHC Indicator)	≥ R20 million 1% (±10%) of turnover.	R51 million 2% of turnover.	Nil	163

SCORECARD 2017/2018 (continued)

#	Result Indicator	Target	Actuals	Variance	Pg. #
BALANCED SCORECARD PERSPECTIVE: FINANCIAL (continued)					
Outcomes: Financial Viability, Stakeholder Understanding, Customer Satisfaction and Support, Community and Environmental Sustainability (continued)					
Strategic Objective 4: Increase financial sustainability (continued)					
KPI 4: The extent to which there are sustainable financial returns for each system, area, region and the organisation (continued)					
4.6	Per cent return on assets. (DWS SHC Indicator)	≥ 7%	11.15%	Nil	131
4.7	Number of breaches or instances of non-compliance to the approved materiality and significance framework. (DWS SHC Indicator)	Nil	One (1) breach	R33m Irregular Expenditure incurred.	186
Strategic Objective 5: Improve financial ratios					
KPI 5: Ratios for financial viability and sustainability met					
5.1	Gross profit margin % for primary activity (Bulk Water and Wastewater). (DWS SHC Indicator)	≥ 50% (R1.649 billion ± 10%)	60% (R1.690 billion)	Nil	163
5.2	Net profit margin % for primary activity (Bulk Water and Wastewater). (DWS SHC Indicator)	≥ 20% (R742 million ± 10%)	42% (R 1 177 million)	Nil	163
5.3	Gross profit margin % for secondary activity. (DWS SHC Indicator)	≥ 2% (R1 million ± 10%)	15% (R7.5 million)	Nil	163
5.4	Net profit margin % for secondary activity. (DWS SHC Indicator)	≥ 1% (R0.5 million ± 10%)	11% (R5.6 million)	Nil	163
BALANCED SCORECARD PERSPECTIVE: PROCESS					
Outcomes: Operational Resiliency, Operational Optimisation, Community and Environmental Sustainability					
Strategic Objective 6: Improve service delivery systems					
KPI 6: The extent to which business processes, policies and systems are enabling strategy implementation					
6.1	Turnaround time (working days) for awarding of CAPEX programme tenders, contract negotiations and issuing of signed contracts.				80
	Working days from tender advert to issuing intention of award.	≤ 90	89 days average 11 of 15 tenders < 90 days	4 of 15 tenders > 90 days	
	Working days for CPG negotiations, measured from expiry of appeals period.	≤ 45	50 days average 9 of 15 tenders < 45 days	6 of 15 tenders > 45 days	
	Working days for issuing of signed contracts, measured from conclusion of CPG negotiations.	≤ 15	23 days average 8 of 15 tenders < 15 days	7 of 15 tenders > 15 days	
6.2	Number of environmental sustainability initiatives implemented.	≥ 1 assessment completed.	Draft assessment: Nagle Dam Resource Management Plan.	Assessment not finalised.	95
6.3	Number of research and development / innovation initiatives implemented.	≥ 1 initiative completed.	1 initiative completed: Desalination pre-treatment pilot plant completed and commissioned.	Nil	110
6.4	Unqualified external audit report with no emphasis of matters (clean audit). (DWS SHC Indicator)	Unqualified external audit report with no emphasis of matters (clean audit).	Unqualified external audit report in respect of financial statements and pre-determined objectives.	Material finding with respect to compliance with legislation.	135

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SCORECARD 2017/2018 (continued)

#	Result Indicator	Target	Actuals	Variance	Pg. #
BALANCED SCORECARD PERSPECTIVE: PROCESS (continued)					
OUTCOMES: Operational Resiliency, Operational Optimisation, Community and Environmental Sustainability (continued)					
Strategic Objective 6: Improve service delivery systems (continued)					
KPI 6: The extent to which business processes, policies and systems are enabling strategy implementation (continued)					
6.5	Number of repeat and unresolved findings. (DWS SHC Indicator)	≤ 10 findings.	7 findings.	Nil	44
6.6	Board / Committee meetings attended as a % of planned meetings and resolutions taken by the board as a % of resolutions required. (DWS SHC Indicator)	≥ 80% attendance. ≥ 80% resolutions taken.	> 80% attendance - BOARD 95% - AUDIT 93% - REMCO 95% - CAPEX 94% - GOVERNANCE 100% > 80% resolutions taken.		42
6.7	Ethical issues addressed as assessed against key ethics areas.	Seven (7) key ethics areas assessed and issues dealt with.	Seven (7) key ethics areas assessed and issues dealt with.	Nil	43
6.8	Disabling Injury Frequency Ratio (DIFR).	≤ 0.5	0.16	Nil	104
6.9	Per cent compliance against legal Compliance Register.	100% against Compliance Register.	95% against Compliance Register.	5% below target.	44
BALANCED SCORECARD PERSPECTIVE: ORGANISATIONAL CAPACITY					
Outcome: Infrastructure Stability					
Strategic Objective 7: Improve and increase infrastructure assets					
KPI 7: Infrastructure expenditure within target cash flows and completion dates					
7.1	CAPEX Rm against budget and % variance. (DWS SHC Indicator)	R1 329 million ±30%	R927 million 30% variance	R402 million below target. Within allowable limits.	80
7.2	Number of CAPEX projects within target completion dates against planned number and % variance. (DWS SHC Indicator)	≥ 85% completion ≤ 15% variance	67% completion 33% variance Of 13 strategic projects: 5 on schedule; 5 partly on schedule; 3 behind schedule.	18% variance	80
7.3	CAPEX spend on rural expansion related projects as % of budget. (DWS SHC Indicator)	R255 million ±30% ± 19% of total CAPEX budget spend.	R367 million of R927 million spent on rural expansion projects. 40% of total CAPEX spend. (28% of CAPEX budget).	Nil	80
7.4	Repairs and maintenance as % of PPE and Investment Property (Carrying Value). (DWS SHC Indicator)	R232 million ± 10% ≥ 2% of PPE	R213 million. Within allowable limits. 2.56% of PPE.	Nil	75
Outcome: Water Resources Adequacy					
Strategic Objective 8: Increase water resources sustainability					
KPI 8: Sustainable water resource options identified for all systems					
8.1	Supply and demand status and projections demonstrating long-term water resources adequacy per system and region.	Infrastructure Master Plan updated and refined. Quarterly Water Resources status reports. Quarterly plant utilisation reports.	Infrastructure Master Plan updated and refined. Quarterly Water Resources Status Reports. Quarterly plant utilisation reports.	Nil	73-76
8.2	Per cent supply disrupted > 24 hours (over total supply days). (DWS SHC Indicator)	0 days	0 days	Nil	72

SCORECARD 2017/2018 (continued)

#	Result Indicator	Target	Actuals	Variance	Pg. #
BALANCED SCORECARD PERSPECTIVE: ORGANISATIONAL CAPACITY (continued)					
Outcome: Water Resources Adequacy (continued)					
Strategic Objective 8: Increase water resources sustainability (continued)					
KPI 8: Sustainable water resource options identified for all systems (continued)					
8.3	Avoidable water lost (mil m ³) over total water produced (mil m ³). (DWS SHC Indicator)	≤ 5%	2.17%	Nil	93
Outcome: Leadership and Employee Development					
Strategic Objective 9: Increase skills and competency					
KPI 9: Effectiveness and efficiency of employee training and development programmes					
9.1	Number of employees enrolled and developed through management development programme.	≥ 90% enrolled candidates attended target modules as at 30 June 2018.	Service Provider appointed to coordinate and facilitate the MDP for 30 Young Professionals. 2 of 12 sessions attended; 95% average attendance.	Programme commenced 3 months later than scheduled.	105
9.2	Number of Young Professionals enrolled and developed through Youth Development projects.	Competent communicator (CC) and Competent Leader (CL) Toastmasters Programme: ≥ 30 YPs successfully completed; ≥ 10 new YPs registered; and ≥ 5 other employees registered. Advanced Toastmasters Programme: ≥ 20 YPs registered.	Competent communicator (CC) and Competent Leader (CL) Toastmasters Programme: 30 YPs successfully completed; 39 new YPs registered; and 8 other employees registered. Advanced Toastmasters Programme: 16 YPs registered.	Only 16 of 20 expected YPs registered for the Advanced Toastmasters Programme.	106
9.3	Number of Artisans and Apprentices (Learnerships). (DWS SHC Indicator)	≥ 50	70 plans met: - 58 Apprentices; - 12 Artisan Trainees.	Nil	106
9.4	Number of Bursar degree plans met. (DWS SHC Indicator)	≥ 10	10	Nil	106
9.5	Number of Graduate Trainees (Graduates, In-service Trainees, Interns) development plans met. (DWS SHC Indicator)	≥ 20 graduate trainees. ≥ 25 in-service trainees. ≥ 8 interns.	24 graduate trainees. 50 in-service trainees. 17 interns.	Nil	106
9.6	Number of candidate engineers/ professionals developed (NT) and number of professional registration submissions.	≥ 18 developed. 10 certification submissions.	30 developed. 18 certification submissions for candidate Engineers. 4 candidates from prior programme have been successfully registered as Professional Engineers.	Nil	106
9.7	Number of permanent jobs created.	N/A	5 new permanent positions created.	Nil	84
	Number of temporary jobs created. (DWS SHC Indicator)	≥ 700 temporary jobs. CAPEX programme jobs.	599 temporary jobs. CAPEX programme jobs.	101 below target	
9.8	Number of staff terminations, excluding normal retirements, as a % of the total staff complement. (DWS SHC Indicator)	≤ 8% turnover.	3.14% turnover.	Nil	104
9.9	Staff remuneration % of total operating expenditure. (DWS SHC Indicator)	≤ 35%	35%	Nil	146

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CREATING VALUE

Umgeni Water ensures reciprocal value propositions are cultivated with customers and stakeholders. Value is created by actively applying the entity's core and distinctive competencies to meet identified needs.

9.1 PRODUCT QUALITY

MANAGEMENT APPROACH

Umgeni Water is committed to providing all its customers with safe potable water, which is suitable for lifetime consumption. This is achieved through implementing a rigorous water quality management programme throughout the supply system. This programme is based on a comprehensive, risk-based approach which includes carefully planned monitoring programmes, water quality assessments, system audits and compliance reporting – conducted from catchment to consumer and governed by the implementation of water safety plans.

Umgeni Water continuously reviews water quality risks associated with abstraction, conveyance, treatment and bulk distribution to ensure that the effectiveness of controls is maintained and that water quality is assured. Furthermore, potable water quality incidents are managed in accordance with an Incident Management Protocol aligned to the requirements of the South African National Drinking Water specification (SANS 241).

In addition to ensuring safe drinking water, Umgeni Water is also responsible for ensuring that wastewater discharges are not harmful to the environment and downstream users. This is achieved through development and implementation of wastewater risk abatement plans. This process includes, but is not limited to; comprehensive and site-specific risk assessments and implementation of agreed mitigation plans. Site-specific wastewater incident management protocols have been developed and implemented to guide the management of wastewater incidents and non-compliances.

All potable and wastewater sampling and analysis are undertaken in accordance with an ISO 9001 certified monitoring programme and SANAS 17025 accredited laboratory methods. In line with our stakeholder communication plan, information on water quality performance is regularly conveyed to customers, stakeholders and regulators.

POTABLE WATER QUALITY PERFORMANCE

SANS 241:2015 dictates compliance requirements for potable water systems and requires performance to be reported against the following five risk categories (as per the classification tabulated further below):

- (1) Acute Microbiological Health;
- (2) Acute Chemical Health;
- (3) Chronic Chemical Health;
- (4) Aesthetic; and
- (5) Operational categories.

Key to Classification of the Performance of Drinking Water Supply Systems According to SANS 241: 2015

Members	Population up to 100 000 Proportion of Samples Compliant			Population > 100 000 Proportion of Samples Compliant		
	Excellent	Good	Unacceptable	Excellent	Good	Unacceptable
Acute Microbiological Health	≥97%	≥95%	<95%	≥99%	≥97%	<97%
Acute Chemical Health	≥97%	≥95%	<95%	≥99%	≥97%	<97%
Chronic Chemical Health	≥95%	≥93%	<93%	≥97%	≥95%	<95%
Operational	≥93%	≥90%	<90%	≥95%	≥93%	<93%
Aesthetic	≥93%	≥90%	<90%	≥95%	≥93%	<93%



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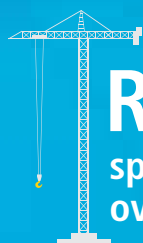
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R918 MILLION

spent on maintenance
over the past five years



MIDMAR WTW

Overall, compliance of the Umgeni Water bulk potable water supply systems was excellent for the reporting period. Compliance per SANS 241:2015 risk category is shown in **Figure 9.1** and the more detailed potable water quality compliance per water supply system is shown in **Table 9.1**.

Figure 9.1: Umgeni Water Bulk Systems Potable Water Quality Compliance (%) with SANS 241

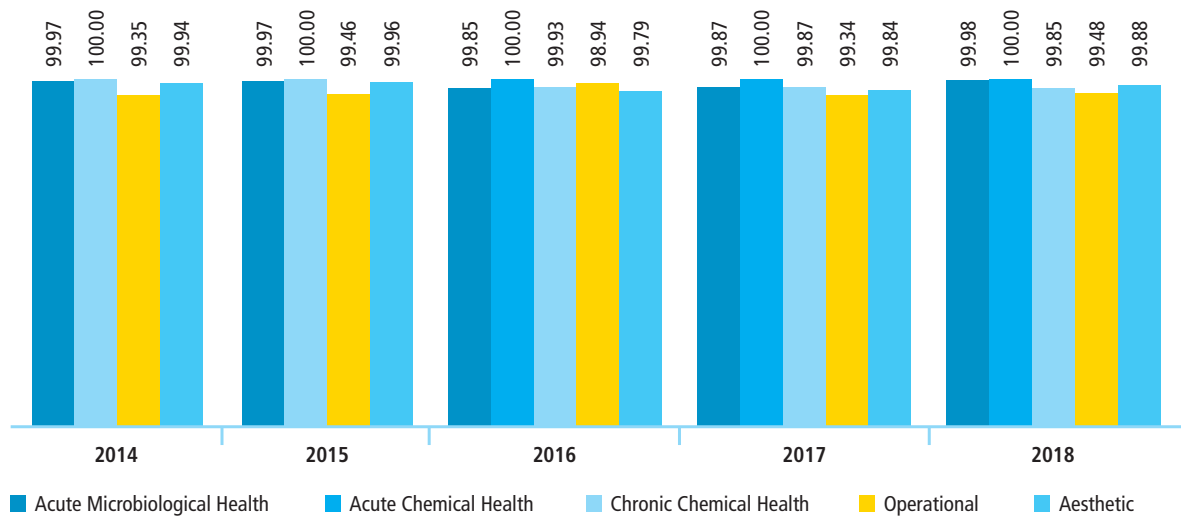


Table 9.1: 2017/2018 Potable Water Quality Compliance (%) with SANS 241:2015 per Water Supply System

Water Supply System		Average Daily Volume (ML/d)	% Volume	Per cent Compliance with SANS 241:2015				
				Acute Microbiological Health	Acute Chemical Health	Chronic Chemical Health	Operational	Aesthetic
1	Durban Heights	476.1	36.99%	100	100	100	99.98	100
2	Wiggins	255.0	19.81%	100	100	100	99.84	100
3	Midmar	238.9	18.56%	100	100	100	99.85	100
4	DV Harris	91.9	7.14%	100	100	100	99.85	100
5	Amanzimtoti	78.7	6.12%	100	100	100	99.38	99.92
6	Hazelmere	55.8	4.33%	100	100	99.86	99.63	100
7	Lower Thukela	22.2	1.72%	100	100	100	99.35	100
8	Maphumulo	14.6	1.14%	99.57	100	99.75	97.41	99.11
9	Umzinto	14.6	1.13%	100	100	98.67	99.68	100
10	Mtwalume	11.8	0.92%	100	100	99.63	99.65	100
11	Mhlabatshane	4.4	0.34%	100	100	98.75	90.43	97.75
12	Maphephetheni	3.6	0.28%	100	100	100	99.65	100
13	Ixopo	2.4	0.19%	100	100	100	99.71	99.34
14	Mpofana	5.7	0.44%	100	100	100	99.05	99.58
15	Appelsbosch	0.4	0.03%	100	100	100	92.08	100
16	Rosetta	0.2	0.01%	100	100	100	99.64	98.55
17	Lidgetton	0.1	0.001%	100	100	100	97.20	99.22

COMPLIANCE PER SYSTEM

Sixteen (16) bulk water supply systems complied with the excellent requirements for all risk categories specified in SANS 241:2015 Drinking Water specification.

The Mhlabatshane system achieved 90.43% compliance with the Operational Risk Category against a target of $\geq 93\%$. This was as a result of the Water Treatment Works operating above its design capacity due to high demands, leading to turbidity and chlorine failures.

Various process optimisation initiatives are already in progress to improve compliance. These include the re-commissioning of the 2 Ml/d package plant to reduce strain on the Water Treatment Works and the upgrade of the chlorine-dosing unit to match the increased production levels.

WASTEWATER QUALITY PERFORMANCE

Figure 9.2 and Table 9.2 show wastewater quality compliance per system, assessed against the relevant licence or General Authorisation General Limits prescribed by the Department of Water and Sanitation (DWS).

Figure 9.2: Wastewater Quality Compliance (%)

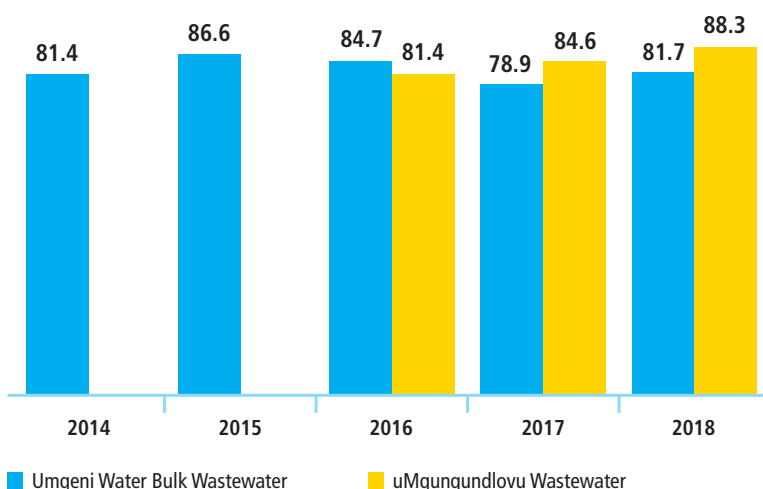


Table 9.2: Wastewater Compliance per Treatment Works

Wastewater Treatment Works	Average Daily Volume Treated		2014	2015	2016	2017	2018 Target	2018 Actual
	(Ml/d)	(%)						
1 Darvill	67.2	83.7%	78%	85%	82%	72%	$\geq 80\%$	73.8%
2 Howick	5.5	6.9%	87%	87%	89%	86%	$\geq 85\%$	91.1%
3 Ixopo	0.5	0.6%	95%	96%	93%	94%	$\geq 85\%$	96.0%
4 Lynnfield Park	0.2	0.3%	66%	87%	86%	96%	$\geq 85\%$	95.9%
5 Mpofana	5.6	7.0%	-	-	65%	72%	$\geq 60\%$	78.0%
6 Richmond	0.6	0.7%	-	-	89%	87%	$\geq 85\%$	93.9%
7 Cool Air	0.4	0.5%	-	-	90%	98%	$\geq 85\%$	98.2%
8 Camperdown	0.2	0.2%	-	-	91%	97%	$\geq 85\%$	91.7%
9 Applesbosch	0.1	0.1%	-	-	94%	91%	$\geq 85\%$	81.9%

COMPLIANCE PER SYSTEM

Two (2) WWTWs did not meet the set targets:

Darvill WWTW achieved 73.8% against the target of 80% (6.2% variance). The non-compliance recorded for Darvill WWTW was mainly due to process overloading, construction related activities, power outages and intermittent spillages of the storm dam. The completion of the works upgrade project remains critical to increase capacity and improve effluent compliance. Furthermore, the proposed constructed wetland, for detention of some storm dam spills, will also have a significant benefit once completed.

Applesbosch WWTW did not meet the set target of 85%, achieving 81.9% during the reporting period (3.1% variance). Challenges experienced at Appelsbosch WWTW included aerator failures, power problems, poor clarification and loss of activated sludge and sewage solids to ponds. Disinfection challenges also contributed to non-compliance. However, one of the Darvill WWTW supplementary floating aerators was installed at Appelsbosch WWTW to replace the old aeration units. This aerator is now functional and is benefitting the process.

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9.2 CUSTOMER SATISFACTION

GEOGRAPHICAL MARKETS AND CUSTOMERS

Umgeni Water has identified the following markets for growth of water services (water and wastewater) and water related services:

1. KwaZulu-Natal: water services and other related activities.
2. South Africa: water services and other related activities on demand.
3. Rest of Africa: knowledge management, networking and responding to bi-lateral agreements between South Africa and other countries.

Within KwaZulu-Natal, bulk water and wastewater services and/or water related services will progressively be increased in customer areas:

1.	eThekweni Metropolitan Municipality:	Retain and grow
2.	Msunduzi Local Municipality:	Retain and grow
3.	iLembe District Municipality:	Retain and grow
4.	uMgungundlovu District Municipality:	Retain and grow
5.	Harry Gwala District Municipality:	Market penetration
6.	Ugu District Municipality:	Market penetration
7.	uThukela District Municipality:	Market development
8.	Newcastle Local Municipality:	Market Development (Demand driven)
9.	Amajuba District Municipality:	Market Development (Demand driven)
10.	uMzinyathi District Municipality:	Market Development (Demand driven)
11.	King Cetshwayo District Municipality:	Market Development (Demand driven)
12.	uMkhanyakude District Municipality:	Market Development (Demand driven)
13.	uMhlathuze Local Municipality:	Market Development (Demand driven)
14.	Zululand District Municipality:	Market Development (Demand driven)

BULK PROVISION AND INFRASTRUCTURE ASSETS

The core bulk water and wastewater business is undertaken in a manner that most effectively serves customers and stakeholders. As part of the value chain function, raw water is carefully abstracted from dams, rivers and borehole sources and conveyed using both gravity and the most effective pumping options to bulk water treatment works, where it is treated to meet SANS 241 quality standards and distributed to customers.

Equally, with regards to wastewater treatment, influent is received from municipal sewer systems, treated at bulk Wastewater Treatment Works and effluent discharged back into

receiving systems, mindful of the quality and potential impacts on receiving systems as well as potential for reuse.

Umgeni Water's infrastructure assets in support of water business comprise of:

- Approximately 897 kilometres of pipelines and fifty-three (53) kilometres of tunnels;
- Fourteen (14) impoundments;
- Seventeen (17) Water Treatment Works; and
- Nine (9) Wastewater Treatment Works.

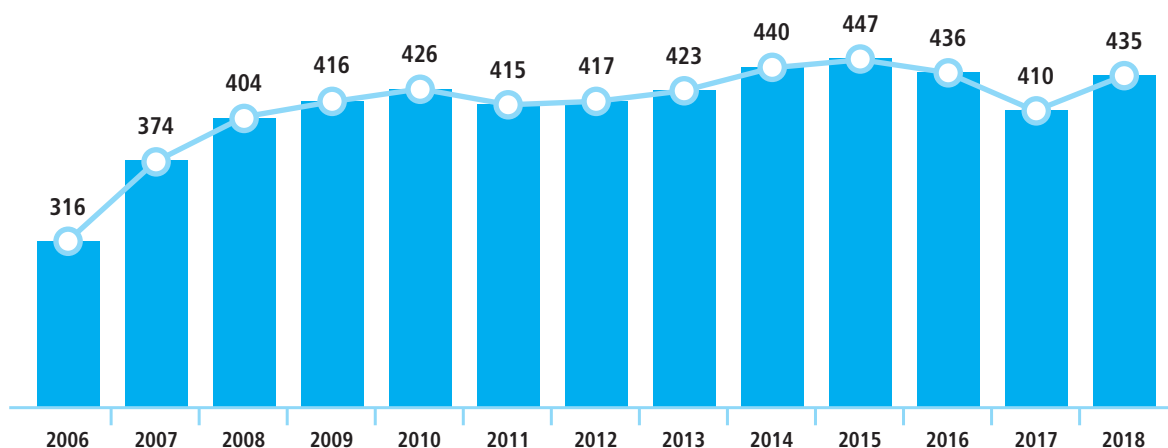
A total of 435 million cubic metres of potable water per annum (1 191 Ml/d) are currently supplied to customers (**Figure 9.3**) who serve a population of 6.7 million or 1.9 million households through reticulation networks.

Treatment works' capacities and utilisation are shown in **Figure 9.4** (a) and (b) respectively.

In the year, there were zero (0) supply days with unplanned supply disruptions that exceeded 24 hours across all seventeen (17) supply systems. Where disruptions occurred, supply was successfully restored in these systems within 24 hours. Customers are kept informed on progress of any interventions. Umgeni Water continues to engage regularly with its customers in line with service level agreements.

The entity treated bulk wastewater totalling 32 million cubic metres per annum (87 Ml/d). Wastewater Treatment Works' capacities and utilisation are shown in **Figure 9.4** (c) and (d) respectively.

Figure 9.3: Customer Volumes Supplied (million m³)



BULK SUPPLY AGREEMENTS

Bulk Supply Agreements are concluded to cover obligations of both Umgeni Water and its customers in relation to water volumes, water quality, supply pressure, service interruption intervals, metering, tariff consultation, assurance of supply and capital infrastructure plans. In 2017, Umgeni Water successfully concluded a supply agreement with uThukela District Municipality.

Water demand projections are updated based on trends in historical water sales volumes and customer demand trends. In parallel, analysis of Umgeni Water's bulk infrastructure and water works capacity, in relation to demands, highlight any infrastructure supply constraints or limitations on future growth that need to be responded to.

Figure 9.4 (a): WTW Capacity (ML/d)

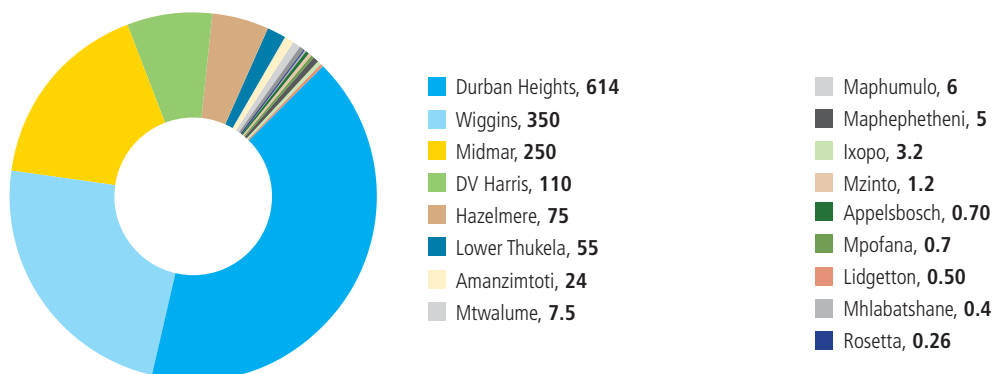
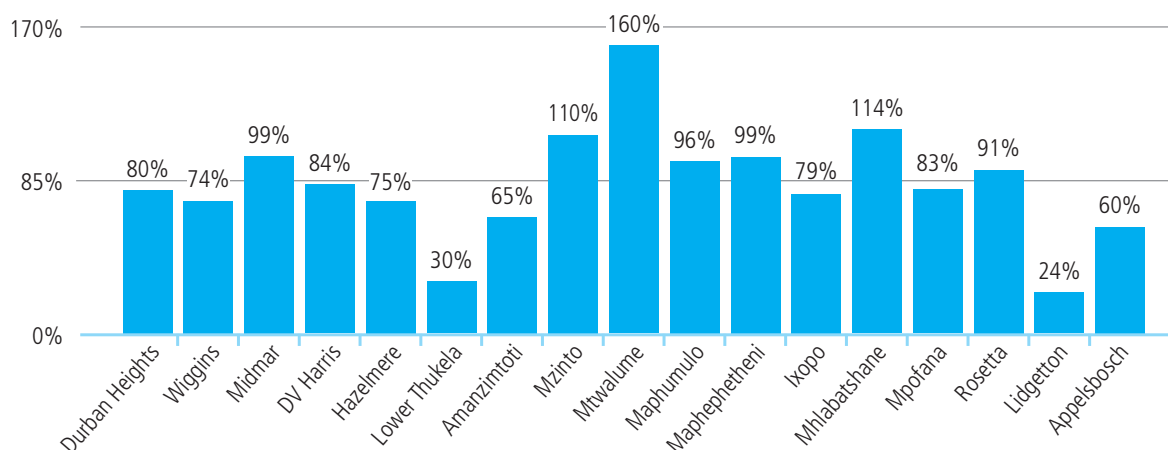


Figure 9.4 (b): WTW% Utilisation



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Figure 9.4 (c): WWTW Design Capacity (Ml/d)

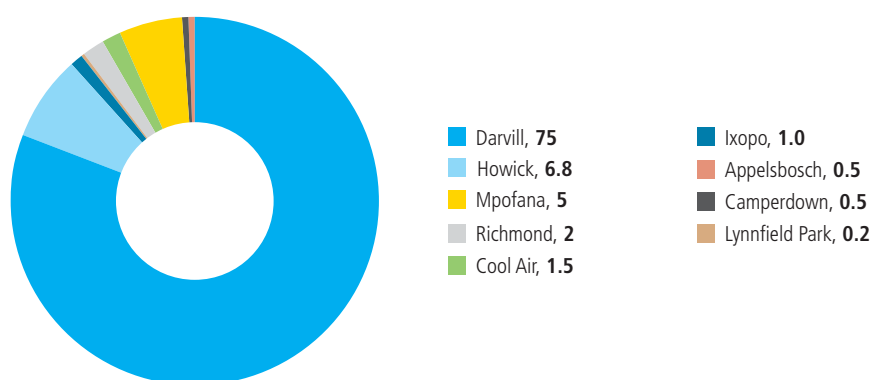
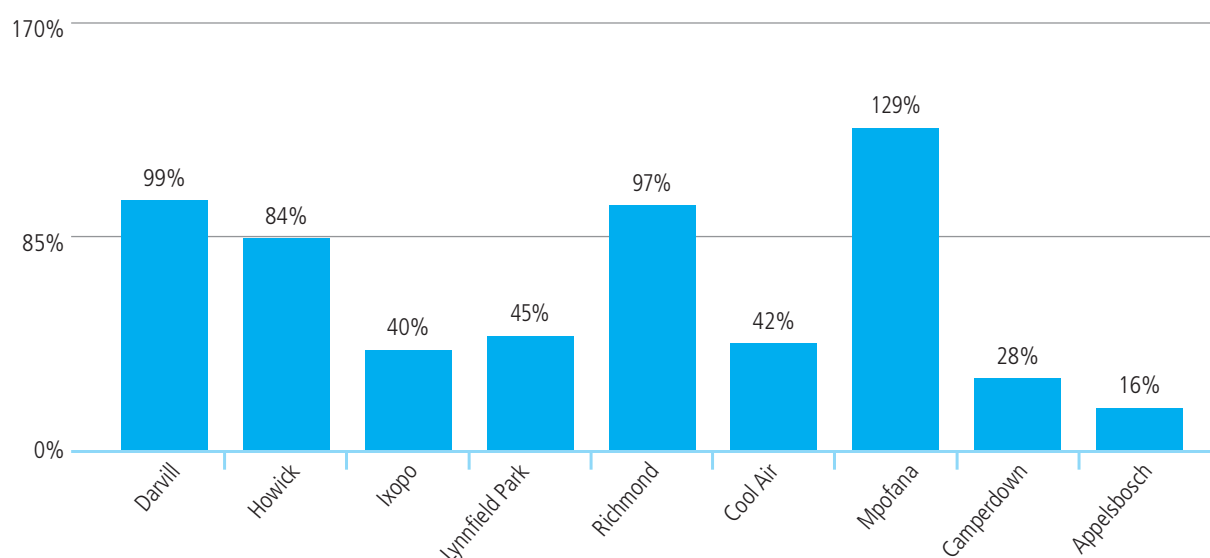


Figure 9.4 (d): WWTW % Utilisation



SUPPLY CAPACITY AND CONSTRAINTS

Several works, as shown in **Figure 9.4 (b)** are currently operated above their design capacity to meet demands and both long and short-term interventions are in place to address these, including major works capital upgrades, refurbishments, pipeline developments, utilisation of package plants (interim measure) and general operational and process upgrades to alleviate bottlenecks.

OPERATIONAL PERFORMANCE AND SERVICE PLANNING

Umgeni Water meets with all customers on a formal basis during the year to assess performance as per the signed customer bulk supply agreements. Customer requirements were significantly met in relation to supply volumes, supply pressure, service levels

and metering. Structured consultation for communication of future demands, infrastructure plans and tariff assumptions took place, and robust customer inputs received. In the past year, additional engagements focussed on implementation of emergency interventions to alleviate constraints caused by the drought, agreements on water restrictions that needed to be imposed and collaborative engagement of end users regarding judicious use of water supplies.

Conceptual plans for growth and expansion of water services and provision of universal access have been developed, for existing and new customers in KwaZulu-Natal (KZN). Discussion and communication with customers and stakeholders regarding these, notably, implementation

priorities and funding and financing will become the focus over the next few years. Customer engagement and consultation is core to Umgeni Water successfully extending access to unserved areas in KZN.

SUPPORT TO RURAL MUNICIPALITIES

Umgeni Water provides support to vulnerable customers to implement projects that aim to improve service delivery. In the past year, support was provided to the following customers:

- Ugu District Municipality for water quality monitoring;
- Harry Gwala District Municipality for water quality monitoring; and
- uMgungundlovu District Municipality for water quality sampling, analysis and meter reading.

DROUGHT MANAGEMENT

In the past year, rainfall received in the Mgeni Catchment Area was slightly above average and improved the storage in the dams of the Mgeni Catchment to a level where curtailments could be lifted. The efforts made by all stakeholders during the drought period ensured that the water resources available were sufficient to supply the basic needs of all parties. Lessons learnt during the drought have been documented and these will be used to inform more effective early warning systems, including risks and strategies that would best be implemented to weather the event.

ASSET CONDITION, MAINTENANCE AND MANAGEMENT

Regular maintenance and inspection of all assets were undertaken during the reporting period as an intrinsic part of continued operations management.

Maintenance is implemented in accordance with the asset management strategy and implementation plan for the year.

This comprises planned maintenance - inclusive of preventative maintenance, repairs, redesign and modifications - complemented by on-going unplanned, reactive and corrective maintenance.

Assessments of the condition of assets remain a vital part of determining the useful life and future investments required to maintain the level of service to customers.

In the year, the total asset maintenance spend was R213 million (**Figure 9.5**). Over the years, Umgeni Water has continued to maintain its assets and on average, invests 7.6% of its revenue on asset maintenance. Based on assessments conducted over the past year, there are no assets that pose significant risk to supply and the organisation envisages no major interruptions to its business over the next five years and beyond.

Figure 9.5 (a): Maintenance Spend (Rm)

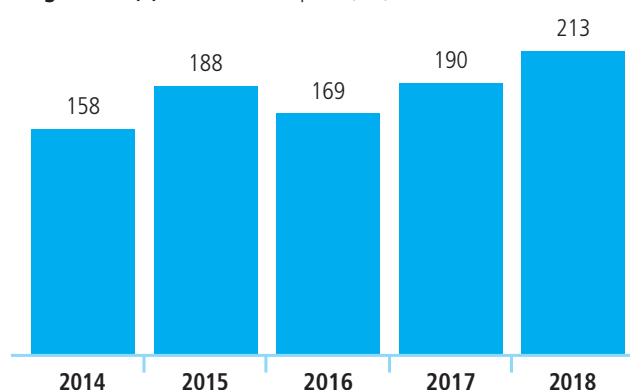
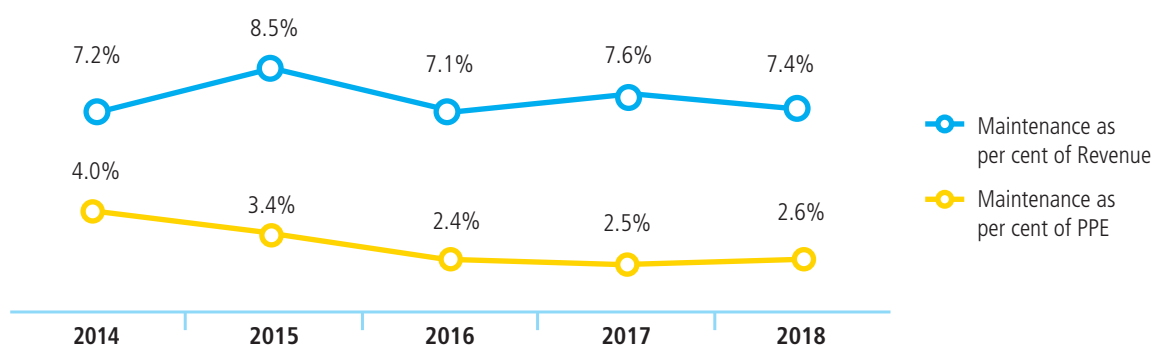


Figure 9.5 (b): Maintenance (%)



WATER LOSS MANAGEMENT AND METERING

Non-revenue water is successfully maintained below 5%. This has been as a result of a metering strategy which focuses on metering all critical nodes and monitoring of meter accuracy. This initiative will continue through meters installed by Umgeni Water at various critical points in its systems.

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9.3 INFRASTRUCTURE STABILITY

MANAGEMENT APPROACH

Umgeni Water plans and manages its bulk water infrastructure stability in order to meet current and future customer needs. The planned outcome is bulk infrastructure that is consistent with planned service levels, acceptable risk levels and anticipated growth trajectories to ensure long-term system reliability goals are met. To this end, the capacity and condition of existing infrastructure is annually assessed and informs future infrastructure planning and development. Infrastructure developments therefore comprise of:

- Infrastructure upgrades and rehabilitation to continue to achieve product quality and a sustainable supply to customers;
- Infrastructure development for expansion and growth to new areas and to serve unmet needs; and
- Infrastructure development and expansion to supply rural areas and municipalities to reduce backlogs and increase community sustainability.

In implementing infrastructure, Umgeni Water uses local labour as its preferred work force to facilitate skills transfer and economic support to local communities. Umgeni Water further ensures that there is meaningful B-BBEE through its policies, which drive provision of meaningful economic opportunities to targeted enterprises.

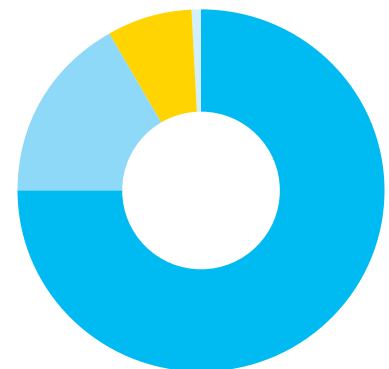
All bulk water infrastructure developments are undertaken in an environmentally sustainable manner. Appropriate projects are subjected to Environmental Impact Assessments during project planning, design, construction and commissioning phases and manifests in the development and implementation of sound Environmental Management Plans that are independently monitored and audited during implementation.

STATUS OF WATER ACCESS IN SUPPLY AREA

Within Umgeni Water's area of focus in 2017/2018, access to piped (tap) water inside the dwelling/house/yard comprises 70% of the total number of people with access to water (**Figure 9.6** Community Survey 2016). There are many areas that are outside of Umgeni Water's bulk water infrastructure

supply footprint that still receive no water from schemes. In addition, components of the served areas that are characterised by small schemes have been found to be unsustainable.

Figure 9.6 (a): Main Source of Water for Drinking - Umgeni Water 2017/2018 Focus Area (Community Survey 2016)



- Piped (tap) water inside the dwelling house/yard, **70%**
- Other water source outside yard, **9%**
- Piped (tap) water outside yard, **20%**
- Borehole/rain-water tank inside yard, **1%**

Figure 9.6 (b): Main Source of Water for Drinking by WSA – Umgeni Water 2017/2018 Focus Area (Community Survey 2016)

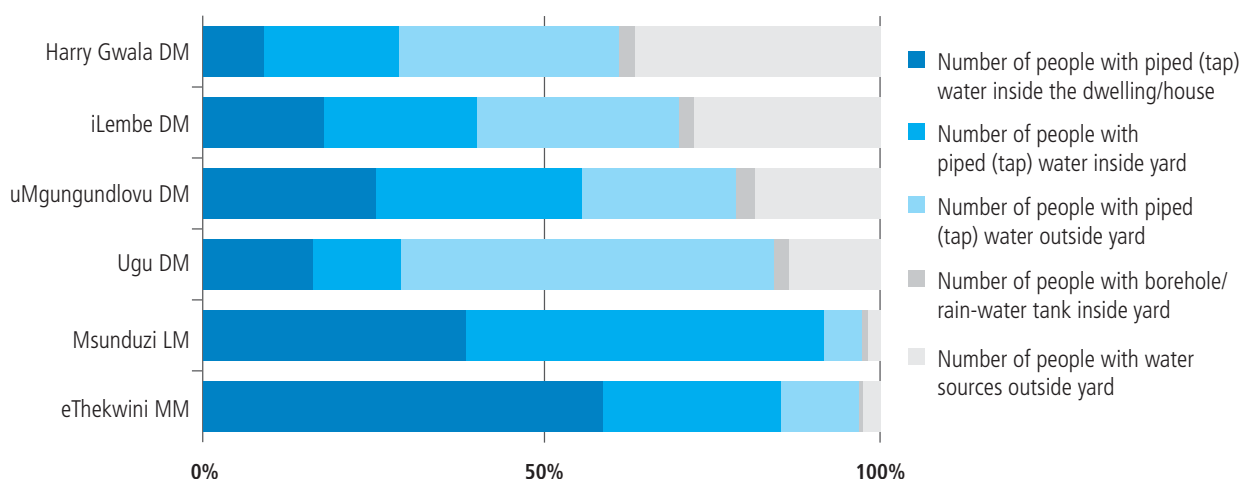
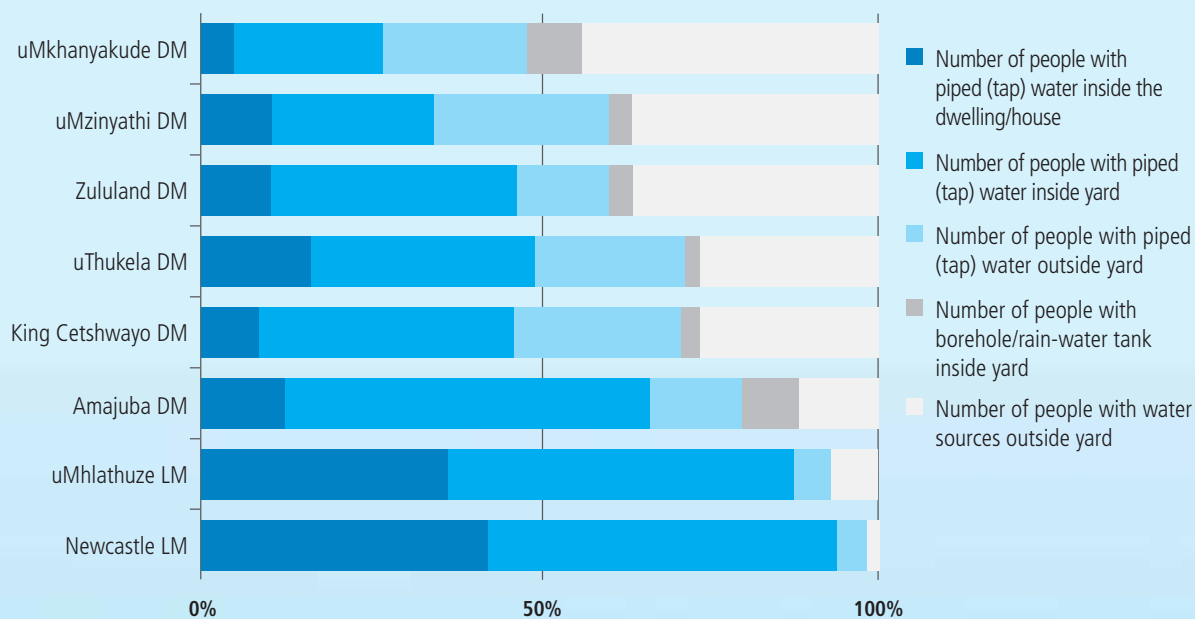


Figure 9.6 (c): Main Source of Water for Drinking by WSA - Rest of KZN (Community Survey 2016)



UNIVERSAL ACCESS PLAN

Working closely with national and provincial stakeholders in KwaZulu-Natal, Umgeni Water completed the planned development of Universal Access Plans (UAPs) for all Water Services Authorities (WSAs) in KwaZulu-Natal in 2016. The outputs comprise of conceptual bulk water supply scheme plans per municipality for all of KZN. The plans reconcile backlogs and growth in demands with bulk infrastructure to meet the needs of the 2045 planning horizon.

Umgeni Water is taking plans forward through progressive incorporation into its Infrastructure Master Plans, presentations and discussions with customers and stakeholders to get further inputs that will drive funding, financing and implementation.

AMANZIMTOTI WTW

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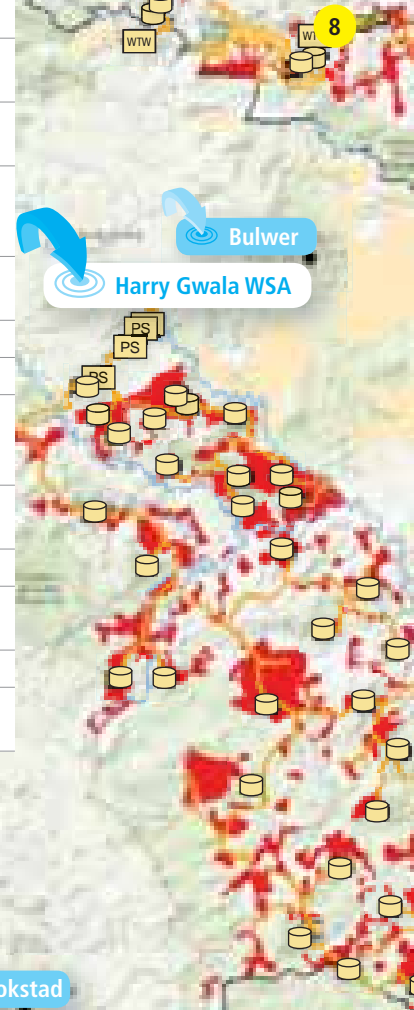
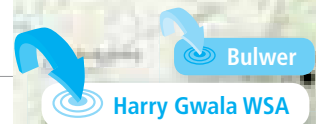
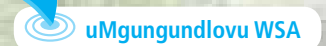
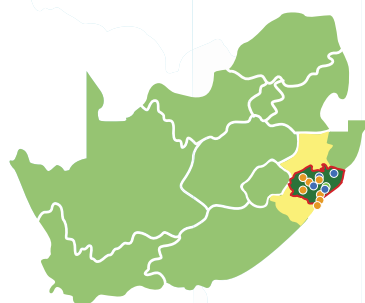
Current bulk infrastructure and supply footprint and the status of bulk infrastructure implemented in the reporting period are shown in **Figure 9.7**.

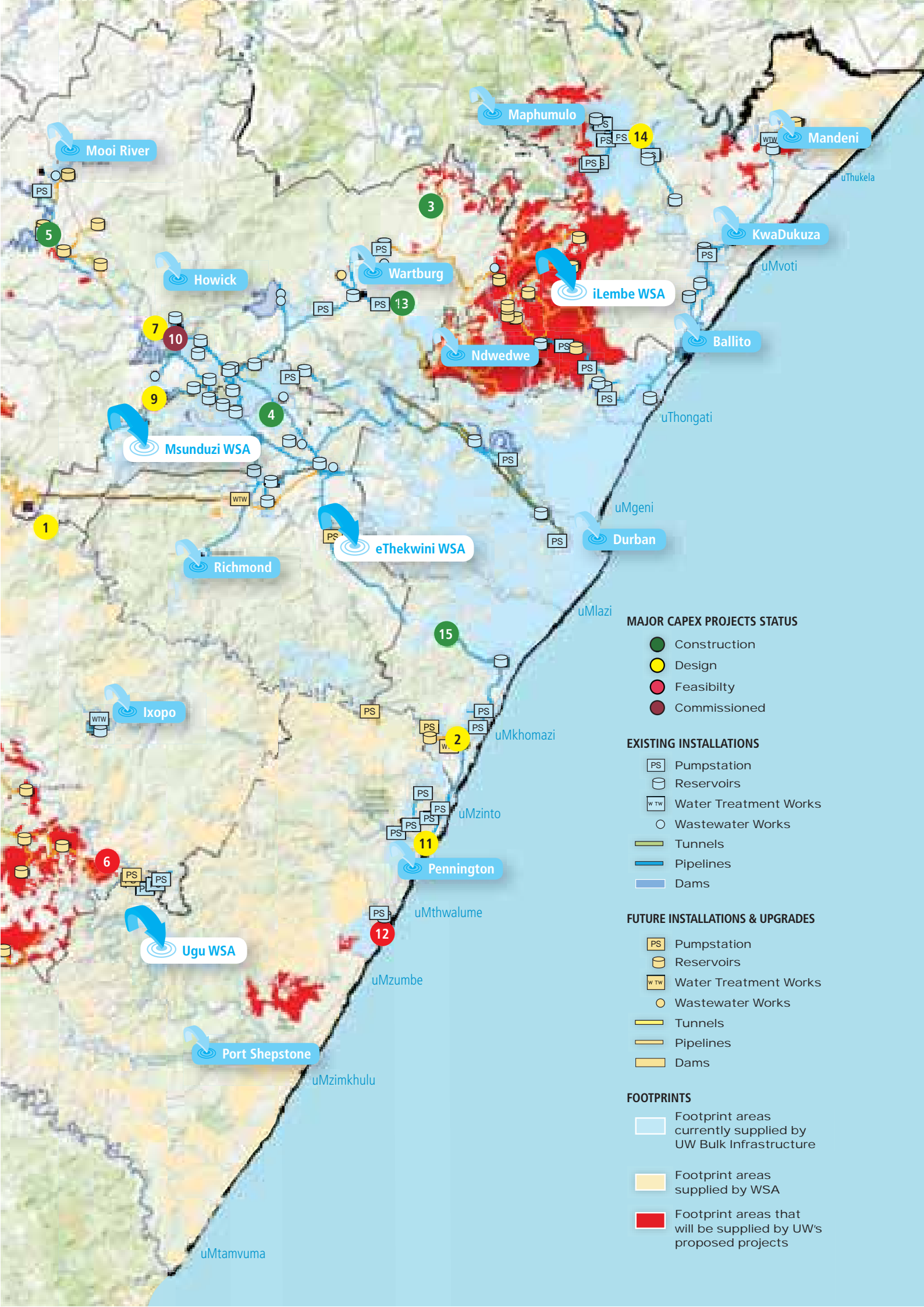
Figure 9.7: Umgeni Water Current Bulk Supply Footprint and Status of Bulk Infrastructure Implemented in 2017/2018

Table 9.3: Major Projects Implemented in 2017/2018

	Project Name	Objective	Major Customer	Total Project Budget (Rm)	Implemented as at 30 June 2018 (Rm)
1	Mkhomazi Bulk Water Supply	Augmentation	eThekweni MM, uMgungundlovu DM	5 679	8
2	Lower uMkhomazi Bulk Water Supply Scheme	Rural Development	eThekweni MM, Ugu DM,	2 894	16
3	uMshwathi Bulk Water Supply Scheme (Wartburg Phases 1 - 3)	Rural Development	uMgungundlovu DM, iLembe DM	972	909
4	Darvill Wastewater Treatment Works Upgrade	Upgrade	Msunduzi LM	961	906
5	Greater Mpofana Bulk Water Supply Scheme Phase 1	Rural Development	uMgungundlovu DM	757	487
6	Mhlabatshane Sub-Regional Scheme Phase 2 – Mzimkhulu River Abstraction	Rural Development	Ugu DM	442	8
7	Mpophomeni Wastewater Treatment Works	Expansion	uMgungundlovu DM	381	19
8	Impendle BWSS	Rural Development	uMgungundlovu DM	352	5
9	Vulindlela BWSS upgrade	Augmentation	Msunduzi LM	331	5
10	Midmar WTW Upgrade (250-375ML/d) - New Raw Water Pipeline and Pump Station	Augmentation	uMgungundlovu DM, eThekweni MM and Msunduzi LM	306	244
11	South Coast Phase 2b Kelso to Umdoni	Expansion	Ugu DM	239	36
12	Elysium Desalination Plant	Augmentation	Ugu DM	231	3
13	Wartburg to Bruyns Hill Pipeline	Augmentation	uMgungundlovu DM	135	91
14	Maphumulo BWSS Phase 3	Rural Development	iLembe DM	123	6
15	Nungwane Raw Water Aqueduct (450dia x 18km)	Rehabilitation	Ugu DM and eThekweni DM	113	79

Umgeni Water Infrastructure Map





PERFORMANCE WITH CAPITAL INFRASTRUCTURE PLAN

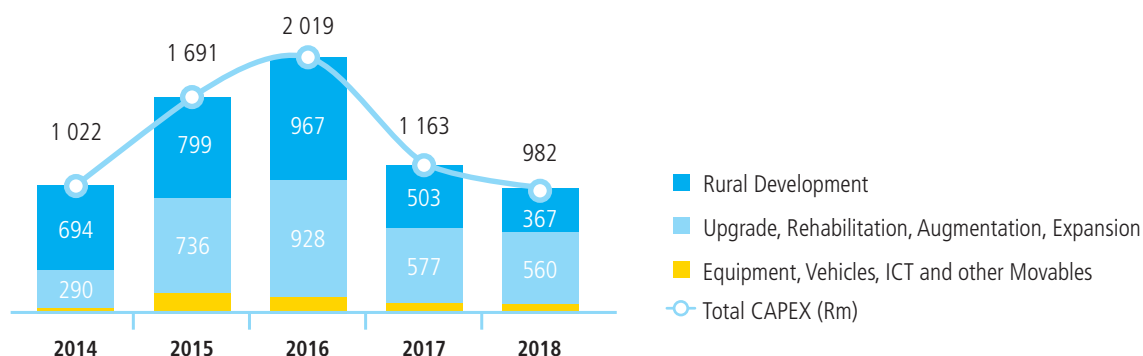
Significant progress with capital infrastructure implementation was achieved during the reporting period. Spend performance for the year was R982 million, of which R927 million (R1.2 billion in 2017) was spent on bulk infrastructure augmentation,

expansion, upgrades and rehabilitation projects. Of this, R367 million (40%) went towards projects for rural development. Overall, 72% of target water infrastructure project milestones were met.

Key projects implemented are shown in **Table 9.3**.

In addition, the Supply Chain Management (SCM) process, specifically the turnaround time of CAPEX programme tenders continued to improve during the reporting period. Umgeni Water will continue to streamline its processes to maintain and improve turnaround.

Figure 9.8: Capital Infrastructure Implemented (Parent) (Rm)



CUSTOMERS TARGETED AND PROGRESSED WITH KEY BULK INFRASTRUCTURE DEVELOPMENTS

UMSHWATHI RBWSS:

Serves uMgungundlovu District Municipality and iLembe District Municipality.

- Phase 1: 26 km 850mm diameter steel pipeline from Claridge to Wartburg. Design completed in 2012/2013. Construction was completed mid 2015/2016. Cathodic Protection AC mitigation installation is in progress.
- Phase 2: 16 km 700mm diameter steel pipeline from Wartburg to Dalton, Mpolweni and Dalton booster pump stations, an 8 ML reservoir at Wartburg and a 10 ML reservoir at Dalton. Design completed in 2013/2014. Construction completed mid 2017/2018. Commissioning is in progress.
- Phase 3.1: 500kVA Eskom bulk electrical supply at Dalton – completed.
- Phase 3.2: 29 km 750mm – 400mm diameter steel pipeline from Dalton to

Efaye via Fawn Leas and a booster pump station. Design completed in 2013/2014. Construction completed in May 2018.

- Phase 3.3a: 18 km 700mm diameter steel pipeline – pipe supply for Phase 3.2b completed.
- Phase 3.3b: 18 km 700mm diameter steel pipeline from Fawn Leas to Ozwathini reservoir. Construction completed in May 2018.
- Phase 3.3c: 12 ML reservoir at Ozwathini – Construction in progress. Construction expected to be completed in March 2019.

WARTBURG TO BRUYNHILL PIPELINE AND THE PUMP STATION:

Serves uMgungundlovu District Municipality.

The construction of the potable water pipeline entails the 10.5 km 400mm ND lined and coated pipe with associated works and the construction of the pump station.

- Construction progress is behind schedule (scope extended) and is approximately 75% complete.

- Full construction will be completed by end of December 2018.

MIDMAR RAW WATER PIPELINE AUGMENTATION, RAW WATER PUMP STATION AND WTW UPGRADE:

Serves eThekweni Metropolitan Municipality, uMgungundlovu District Municipality and The Msunduzi Local Municipality.

The construction of the raw water pipeline entails the lined and coated pipe with associated works, i.e. concrete valves and flow meter chambers, pipe jacks, bladder tank. Upgrade of plant capacity from 250 ML/d to 375 ML/d. The new or additional components include the replacement of pumps, pulsator, six gravity filters and sludge plant upgrade.

- Construction of Duplicate Raw Water pipeline was completed in 2016/2017.
- Construction of WTW upgrade was completed in June 2018.
- Snagging and Commissioning is in progress.

WIGGINS OZONE PLANT REPLACEMENT

- Detail Design and Construction of the Wiggins Ozone Upgrade: 95% completed.
- Finalisation of completion and commissioning will be done during 2019 after the new Liquid Oxygen Supply (LOX) system has been completed.

MPOPHOMENI WWTW:

Serves uMgungundlovu District Municipality and uMngeni Local Municipality.

The infrastructure development comprises of a 6 Ml/d Wastewater Treatment Works and a 6 km bulk sewer outfall pipeline.

- The design of the works is complete and design for sewer outfall will be completed by December 2018.
- The construction of the Wastewater Treatment Works is in procurement stage and completion is expected in 2022/2023.

TRUSTFEEDS WWTW:

Serves uMgungundlovu District Municipality and iLembe District Municipality.

The infrastructure development comprises of a 1 Ml/d Wastewater Treatment Works, 4.5 km bulk sewer outfall pipeline and a 1.5 km gravel access road.

- Planning and design was completed at the end of 2016/2017.
- Construction of the bulk sewer and gravel access road is in progress for expected completion in 2019.
- Construction of the Wastewater Treatment works is in progress for expected completion in 2020.

ELYSIUM DESALINATION PLANT:

Serves Umdoni Local Municipality within the Ugu District Municipality and is planned to supplement the potable water supply produced by the Mtwalume Water Treatment Plant which provides potable water access for over 60 000 inhabitants in Bazley, Elysium, Ifafa, parts of Kelso and uMtwalume along the coast and inland rural areas of Mathulini and kwaQologolo.

The Elysium Desalination Plant is a Greenfield development that is in the planning stage. The proposed works will supply between 2.5 to 10 Ml/d to augment the Mtwalume Water Treatment Works.

- Preliminary design is in progress.

SOUTH COAST PIPELINE PHASE 2B:

Serves Ugu District Municipality mid-south coast area, which includes Pennington, Kelso, Malangeni and Shayamoya. The pipeline is designed to supply 16.67 Ml/d of which 10 Ml/d will supply the Hibberdene area under a different phase of the South Coast Pipeline.

- Phase 2B comprises of an 800mm diameter, 8.1 km steel pipeline from Scottburgh South to Pennington and a further 355 mm x 0.7 km PVC pipeline to Malangeni reservoir.
- The pipes supply is 90% complete with most pipes delivered.
- The construction contract is in the final stages of procurement with construction expected to begin in 2018/2019 for completion in 2020.

MHLABATSHANE BWSS (PHASE 2) MZIMKHULU RIVER ABSTRACTION:

Serves Ugu District Municipality and will reach and provide potable water access for over 100 000 inhabitants in ten tribal authority areas: Bhekani, Nhlanguwini (west), KwaCele 1, Hlubi, Mabhaleni (west), KwaCele K, Frankland, Qwabe P, Shabeni, and KwaMadladla.

The bulk infrastructure will comprise of an abstraction works on the Mzimkhulu River, pump station and pipeline to deliver water to the Mhlabatshane WTW and upgrade of the Water Treatment Works from 4 Ml/day to 8 Ml/day.

- Phase 1 - commissioning of the Bulk Water Supply Scheme - was completed in 2014/2015.
- Planning of Phase 2 is now complete and the project has progressed to the procurement of PSP for detailed design stage.

MAPHUMULO BWSS:

Serves iLembe District Municipality, which includes KwaMaphumulo, Ndwedwe, and KwaDukuza Local

Municipalities, and will serve 150 000 people in Maqumbi, Ashville, Maphumulo, Masibambisane, KwaSizabantu and Ngcebo supply areas.

Phase 1 comprises of iMvutshane River abstraction, 6 Ml/d WTW, potable water pipelines, booster pump stations and reservoirs. Phase 2 comprises of construction of the iMvutshane Dam.

- Phase 1 was commissioned in 2012/2013.
- Phase 2, the construction of iMvutshane Dam, was completed in 2014/2015.
- Phase 3, the appointment of engineering design consultant for the upgrade of WTW to 12 Ml/d, detailed planning for the upgrade of the raw water and booster pump stations and relocation of a package plant from Hazelmere WTW to Maphumulo WTW, were completed during 2015/2016. Upgrade of pump stations is in progress.
- Phase 4, the inter-basin transfer from the Hlimbitwa River into iMvutshane Dam, detailed feasibility investigation, which entails the Hlimbitwa River weir location and transfer infrastructure, commenced in 2015/2016.

GREATER MPOFANA BWSS:

Serves uMgungundlovu District Municipality.

- Rosetta Water Treatment Works (WTW): Construction of 20 Ml/d Rosetta Water Treatment Works at Rosetta adjacent to the Spring Grove Dam. Design was completed in 2014, construction started in August 2016 and is 70% complete. The planned completion date is October 2019.
- Reservoirs: Construction of 5 Ml and 12 Ml reservoirs feeding Nottingham Road and Bruntville reservoirs, respectively, were completed in July 2016. Commissioning of these reservoirs is 70% complete, awaiting completion of the WTW.
- Nottingham Road Pipeline: The construction of an 8km x 650mm diameter steel pipeline from Rosetta WTW to the newly constructed Nottingham Road reservoir. The construction of this pipeline was completed in June 2016.
- Bruntville Pipeline: The Construction of a 13km x 650mm steel pipeline from Rosetta WTW to Bruntville Reservoir, construction is in progress and 70% complete and the anticipated completion date is December 2018.

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UMKHOMAZI WATER PROJECT:

Serves eThekweni Metropolitan Municipality.

The uMWP-1 includes the Smithfield Dam on the uMkhomazi River, a raw water tunnel from Smithfield Dam to the Baynesfield region, the Langa Balancing Dam at Baynesfield, a raw water pipeline from the tunnel outlet to a Water Treatment Works (WTW) at Baynesfield, potable water reservoir at Baynesfield and a potable water pipeline from Baynesfield to Umlaas Road where it would tie into Umgeni Water's existing '57 pipeline. The technical portion of the detailed feasibility studies for the uMWP-1 is complete. Phase 1 includes:

- Module 1 – Raw Water Module by DWS;
- Module 2 – Environmental Impact Assessment by DWS and UW: investigation has been completed and report will be submitted in September 2018 to DEA. A decision is expected in January 2019;
- Module 3 – Potable Water Module by UW; and
- Phase 2 of the uMWP (uMWP-2) will include the Impendle Dam, located upstream of the Smithfield Dam on the uMkhomazi River, a second raw water tunnel and raw water pipeline, an increase in WTW capacity and potable water storage and a second potable water pipeline.

LOWER UMKHOMAZI BWSS:

Serves the eThekweni Metropolitan Municipality and Ugu District Municipality.

The Lower uMkhomazi Bulk Water Supply System (LUBWSS) is the recommended augmentation option for the existing Upper and Middle South Coast Supply area, which is currently supplied by water from local rivers and dams and augmented by the Mgeni System. The planned supply area to be augmented by the LUBWSS, are the coastal areas of eThekweni and Ugu Municipalities from Amanzimtoti to Hibberdene, connected to the South Coast Pipeline.

- Ngwadini Abstraction Works, Ngwadini Dam, Goodenough Abstraction Works including pipelines, high lift raw water pump stations and raw water reservoir: detail Feasibility and Preliminary design were completed by September 2016 and the detail design planned completion date is April 2019.

- Water Treatment Plant (100 ML/day) and reservoir near Quarry including potable water pipeline: the detail design planned completion date is April 2019 and the commissioning is planned for August 2023.

NUNGWANE RAW WATER AQUEDUCT:

Serves eThekweni Metropolitan Municipality, along the coastal strip from South of Durban to upper South Coast.

The construction of the raw water pipeline entails the 13.5 km x 450 mm ND lined and coated pipe with associated works from Nungwane Dam to Amanzimtoti Water Treatment Works.

- Construction of the Nungwane Raw water pipeline is 65% complete.
- Completion is expected by March 2019.

IMPENDLE BWSS:

Serves Impendle Local Municipality, within uMgungundlovu District Municipality.

- Comprises a 1.6 ML/d BWSS at Stepmore and 10 ML/d BWSS at Nzinga.
- Stepmore BWSS detailed design is in progress.
- Completion of Stepmore construction is scheduled for 2021.
- Completion of Nzinga BWSS Construction is scheduled for 2024.

VULINDLELA BWSS:

Serves the Msunduzi Local Municipality.

- Phase 1 comprises of:
 - 2.35 km of 600 mm diameter rising main from the Vulindlela Res 2 to Vulindlela Res 5;
 - 3.78 km of 200 mm diameter gravity pipeline from the Vulindlela Res 4 to Vulindlela Res 3;
 - Construct a new pump station at reservoir 2 consisting of 2 x 18 ML/d pump sets;
 - Construct a new 20 ML Reservoir at the Vulindlela Res 2 site; and
 - Detailed design is complete.
- Phase 2.1 comprises of:
 - Construct a new pump station at Howick West Reservoir Site consisting of 2 x 32 ML/d pump sets;
 - 6.08 km of 800 mm diameter rising main from Howick west reservoir site to Mpophomeni;

- Construct a new 10 ML Reservoir at Mpophomeni; and
- Detailed design is in progress.
- Phase 2.2 comprises of:
 - Construct a new pump station in Mpophomeni consisting of 2 x 32 ML/day pump sets;
 - 3.29 km of 800 mm diameter rising main from the Ridge Reservoir to Vulindlela Res 2;
 - Construct a new pump station in Mpophomeni consisting of 2 x 32 ML/day pump sets; and
 - Detailed design is in progress.
- Procurement of construction contracts will begin late in 2018.
- Overall construction completion is expected in 2024.

9.4 ECONOMIC EMPOWERMENT

MANAGEMENT APPROACH

Umgeni Water's approach to empowerment is guided by enabling legislation, including the Constitution of South Africa, the Preferential Procurement Policy Framework Act and Regulations and the Broad-Based Black Economic Empowerment Act. A focussed approach is followed, including:

- Facilitating access of B-BBEE compliant suppliers to the entity's procurement activities;
- Ensuring that previously disadvantaged individuals achieve full participation and involvement in businesses that support Umgeni Water in the supply of water services;
- Developing or establishing new, sustainable business with black entrepreneurs, through the procurement process;
- Encouraging establishment of value adding joint ventures between traditional and emerging suppliers, giving the latter access to technology, skills and knowledge; and
- Contributing to skills development and job creation through the employment of targeted labour.

CONTRACT PARTICIPATION GOALS

Umgeni Water continued to implement its B-BBEE initiatives through the continued implementation of Contract Participation Goals (CPGs). CPGs facilitate meaningful economic opportunities to targeted enterprises by requiring tenderers to allocate a certain percentage of the scope of work and value to targeted enterprises.

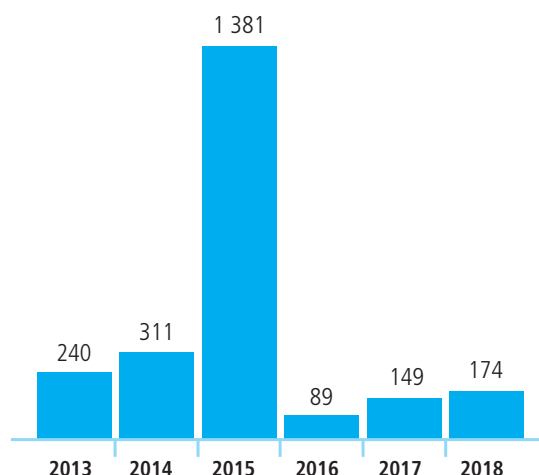
PERFORMANCE WITH CONTRACT PARTICIPATION GOALS (CPG) TARGETS IN 2017/2018

CPG targets set for 2017/2018 were 35% for construction contracts and professional services projects (of which 10% was to be allocated to Black Women-owned businesses).

An average of 39% CPG was achieved with a total CPG award value of R174 million (R149 million in 2017). Of the total CPG, R95 million (55%) was awarded to Black Women-owned businesses (R41.1 million in 2017).

R2.34 billion worth of contracts has been awarded to Black-owned businesses since the start of the CPG initiative in 2013. The entity strives for continuous improvement and is in the process of enhancing the implementation of CPG to improve alignment with regulatory amendments and strategy.

Figure 9.9: Contract Participation Goals (CPGs) (Rm)



B-BBEE SPEND PERFORMANCE

Companies have been classified and registered on a supplier database, according to their progress in achieving Broad-Based Black Economic Empowerment. The B-BBEE spend target of $\geq 80\%$ for the reporting period was achieved. Spend performance for the year exceeds 100%.

Four (4) new entrants were added to the database, of which, three (3) have been awarded work.

MONITORING B-BBEE/CPG IMPLEMENTATION AT UMGENI WATER

Monitoring B-BBEE/CPG implementation of awarded contracts is undertaken in order to confirm that:

- Contractors are engaging with the targeted enterprises as per contracts;
- Targeted enterprises are performing the scope as per contract; and
- Payments due to targeted enterprises are processed at the correct rates and at agreed timeframes.

SKILLS DEVELOPMENT AND JOB CREATION

Infrastructure construction is targeted towards the poorest members of society and employs unskilled workers. These temporary jobs enable skills to be developed and utilised at a local community level and results in a meaningful flow of income to these communities.

In the 2017/2018 reporting period, Umgeni Water created a total of 599 temporary jobs through its CAPEX Programme.

A total of R19.6 million (R27.7 million in 2017) was paid in wages to local labour.

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Figure 9.10: CAPEX Jobs

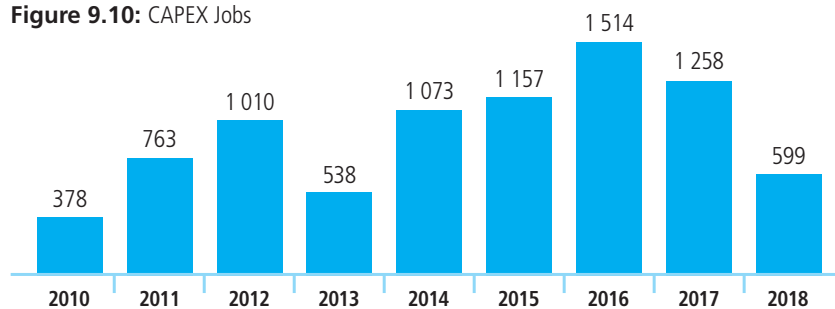
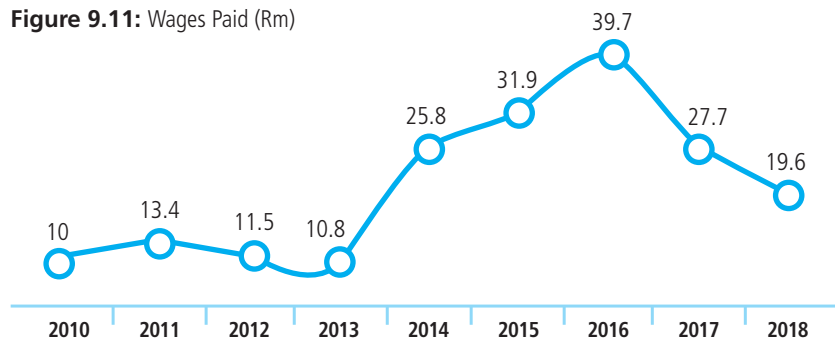


Figure 9.11: Wages Paid (Rm)



9.5 COMMUNITY OUTREACH AND CORPORATE SOCIAL RESPONSIBILITY

MANAGEMENT APPROACH

The entity's Corporate Social Investment (CSI) programme supports socio-economic development initiatives to improve community livelihoods and is driven through an approved CSI Policy. This ensures a co-ordinated approach in implementation of CSI initiatives, which are clustered and prioritised in terms of the following categories:

- Education and Training;
- Job Creation;
- Public Health, Community Development and Support;
- Environmental Conservation; and
- Arts, Culture and Sport.

Umgeni Water also strives to help create a society that is aware of water as a finite

and scarce resource. To this end, the entity develops and implements integrated water education and awareness programmes that drive home key water concepts to influence behavioural change.

Education and awareness programmes strive to instil sound values that will complement and ensure long-term sustainability of the water services that are provided. Programme content and themes are regularly reviewed to assess suitability and address current issues facing the region. Content targeted includes the water cycle and source-tap-source view of the water value chain, water use, water treatment, water conservation, water quality, sanitation and the water, health and environment nexus.

Programmes target rural and urban-based schools and communities and a wide range of learner levels. Suitable educational materials and mechanisms to facilitate communication are identified and implemented often in partnership with other sector stakeholders.

WATER EDUCATION AND COMMUNITY OUTREACH

Water, environment, health education and awareness were delivered through three (3) target programmes during the reporting period:

- On site water classrooms programme;
- Adopt-A-School Programme; and
- Schools and Community Outreach Programmes.

On Site Water Classrooms Programme:

The water classroom programmes provide learning opportunities for learners of all age groups. Umgeni Water impacts knowledge of the water purification process and environmental issues impacting these processes. Umgeni Water has three (3) accessible water education classroom facilities at major water and Wastewater Treatment Works, namely at Durban Heights WTW, Howick WWTW and Midmar WTW. Water classroom presentations are followed by tours of the works where learners get to see the practicality of the treatment processes.

A total of 98 classes were taught in 2017/2018, reaching 3 364 participants from 75 institutions.

Schools and Community Outreach Programmes:

The schools outreach programme in the year ensured that learners who could not access Umgeni Water's facilities were reached through presentations made at schools, through roadshows and campaigns undertaken during special day events, environmental field trips, river clean ups, dam safety awareness and environmental workshops.

In the reporting year, the entity continued to raise awareness regarding drought impacts, water scarcity and water conservation.

Other Educational Programmes implemented in the year included:

- Commemoration of Environmental Special Days at various schools within the entity's area of supply;
- Facilitation of MiniSASS - a river health programme initiative - for a school in eThekweni Metropolitan Municipality;
- Planting of over 135 trees in 28 schools in commemoration of Arbour Week;
- A river clean-up and spring protection workshop for a local youth NGO in the Mafakatini Area, within Msunduzi Local Municipality; and
- Educator workshops on drought awareness conducted for sixty-six (66) educators and twenty (20) learners from fifteen (15) schools within uMgungundlovu District and Msunduzi Local Municipalities.

Adopt-A-School Programme: Umgeni Water's adopt-a-school programme focuses on vulnerable schools that do not have proper access to water, sanitation and environmental education resources.

Twenty (20) schools were adopted as part of this programme.

Initiatives at the target schools comprised facilitating the development of school environmental management plans, creating linkages with relevant departments to facilitate development of library resource centres, creating food gardens and providing access to mainstream environmental programmes and competitions.

Environmental Education materials were developed and distributed and conveyed the target themes including eradication of alien weeds, biodiversity, wetlands, water conservation, waste management and dam safety.

Environmental Management action plans were developed and implemented in partnership with adopted schools, to foster environmental stewardship in communities.

INSTITUTIONAL AND SOCIAL DEVELOPMENT (ISD)

Community engagement is also a critical success factor for successful implementation of capital infrastructure projects and is approached in a manner that ensures there is community input regarding resolution of issues affecting them.

Each project presents unique issues or opportunities and required targeted interventions. Umgeni Water institutional and social development facilitators play a key role in this process.

As a result of successful management of these engagements, a foundation of trust has been built with community stakeholders.

Communities are also being continuously engaged regarding the risks associated with servitude encroachments. Umgeni Water's experience is that all stakeholders are willing to work together in the interest of providing

sustainable water access to communities. During the reporting period, successful negotiations were concluded for land access with the relevant traditional authorities and landowners for the Mshwathi, Nungwane and Vulindlela projects.

Project awareness was conducted for communities directly impacted by the projects. The establishment of Project Steering Committees (PSC's) was critical in ensuring stability, community participation and inclusion in decision-making.

Umgeni Water worked well to address challenges experienced for the Mpofana Bulk Water Supply project by facilitating workshops with the community representatives.

Umgeni Water provides employment to communities during construction. This process is managed by employment of a community liaison officer who works with the contractor to facilitate recruitment and selection of local labour in accordance with recruitment guidelines developed by Umgeni Water. Umgeni Water minimised negative impacts of projects by applying appropriate interventions and good labour practice. No major project stoppages were experienced during this reporting period and on-going positive relationships were maintained.

CORPORATE SOCIAL INVESTMENT (CSI) PROGRAMME

During the period under the review, CSI projects were implemented according to the CSI policy where projects/ applications were screened to ascertain alignment with the CSI Policy, as well as the CSI framework. Unplanned projects, also referred to as reactive projects, were utilised for implementing initiatives across all focus areas.

CSI spend for 2017/2018 was R4.9 million. Spend per customer and CSI Category is tabulated below and illustrated in **Figures 9.12** and **9.13** respectively.

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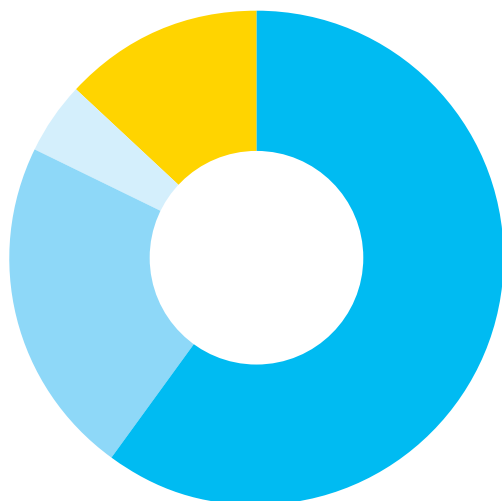
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Municipality	Spend (Rm)	Job Creation	Public Health, Community Development and Support	Environmental Conservation	Education and Training	Arts, Culture and Sport
Ugu DM	0.231	-	0.231	-	-	-
eThekweni MM	0.645	-	0.445	-	-	0.200
uMgungundlovu DM	0.364	-	0.264	-	0.100	-
uMgungundlovu DM: Mngeni LM	0.500	0.500	-	-	-	-
uMgungundlovu DM: Mkhambathini LM	0.027	-	0.027	-	-	-
uMgungundlovu DM: Mshwathi LM	2.090	-	2.090	-	-	-
Msunduzi LM	1.097	-	0.094	1.003	-	-
	4.953	0.500	3.151	1.003	0.100	0.200

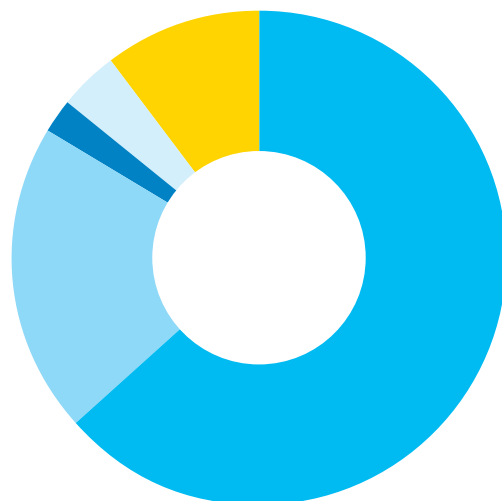
Summary of CSI Initiatives is provided in the section that follows.

Figure 9.12: CSI Spend per Customer (Rm)



■ uMgungundlovu DM, **2.981**
 ■ eThekweni MM, **0.645**
 ■ Msunduzi LM, **1.097**
 ■ Ugu DM, **0.231**

Figure 9.13: CSI Spend per Category (Rm)



■ Public Health, Community Development and Support, **3.151**
 ■ Arts, Culture and Sport, **0.200**
 ■ Job Creation, **0.500**
 ■ Education and Training, **0.100**
 ■ Education and Training, **0.100**

“Education and awareness programmes strive to instil sound values that will complement and ensure long-term sustainability of the water services that are provided.”

PUBLIC HEALTH, COMMUNITY DEVELOPMENT AND SUPPORT

1. Mandela Day Initiatives

Initiatives implemented by various Umgeni Water divisions in 2017/2018 are shown in **Table 9.4**.

Table 9.4: Umgeni Water 2017/2018 Mandela Day Initiatives

Beneficiary	Initiative
Siyanda High School, Pietermaritzburg	Refurbishment; furniture; and fencing.
Sbongamandla Junior Primary School	River clean-up and WQ testing training; Rainwater harvesting project; Supply of gardening tools; Computer room upgrade; and Soccer and netball soccer kits.
Mthethomusha Senior Primary School, Pietermaritzburg	River clean-up and WQ testing training; Rainwater harvesting project; and Soccer and netball soccer kits.
Bongekile Pre-Primary School, Richmond	Painting and supply of jungle gym facilities.
Amagcugwa Community Early Child Development and Arts Centre	Appliances and Stationery.
Thembalabantu Crèche, Pietermaritzburg	Supply of building material, mattresses, blankets and tables.
KwaDindi Primary School	Sponsorship of school uniforms.
Mzuvele High School, Durban	Supply of painting equipment.
Prestige Development Academy	Prestige Development Academy to cover international travel cost for a youth from a disadvantaged background.
SOS Children's Village	Supply of mattresses, linen, desks and washing machine.
Eukhanyeni School	Supply and installation of JoJo Tanks.

2. Umgeni Water - Linda Sibiya Foundation Youth Empowerment Programme Partnership

Launch of a Community Development Centre at uMshwathi Municipality. Centre enables youth and community to gain access to internet services, career guidance and life skills.

in partnership with NPO Zomnotho Community Development. Speakers, which included Umgeni Water Board Chairperson, mentored and transferred knowledge to the youth and motivated them to be active participants in socio-economic transformation.

ART, SPORT AND CULTURE

Umgeni Water provided R200 000 to Lembethe Canoe Club, operating in the Nagle dam area. The funds were utilised towards the development of 20 youth living in the rural areas around Nagle Dam as canoeists and the purchase of canoeing equipment including canoes, splash covers, life jackets and paddles. The funds also assisted in providing for entry fees for major races by the qualifying youth, which included the Duzi Canoe marathon and selection for representing South Africa in Spain.

JOB CREATION

R500 000 in stipend payments were paid to youth over a twenty (20) month period as part of the Mpophomeni Township Khulanolwazi Cooperative Youth mentorship programme. Youth skills development included: controlling alien weeds, scarifying, top soil addition and grass planting.

ENVIRONMENTAL CONSERVATION

R259 635 was spent on Willowfontain community Qhulula Spring rehabilitation initiative. During the reporting period, Sherwood Pumps was appointed to supply Pump, Solar Array and Solar Controller for pumping water from a reservoir to JoJo Tanks. This will assist the community to water their communal gardens. The work on site has commenced, where six (6) community members were appointed to provide labour to the project.

R744 194 spent on Duzi Adopt a river initiative. Ten (10) youth from Sobantu Village, Pietermaritzburg were appointed and are being mentored by DUCT for a period of two (2) years. The youth will develop and work as a self-sustained business for removing solid waste and alien plants along the banks of the Msunduzi River in the proximity of the Darvill WWTW.

EDUCATION AND TRAINING

Inyaninga Primary school situated in the rural area of Swayimane was provided with R100 000. This was utilised for electrical tubing for three (3) classrooms and supply of five (5) computers.

3. Vusikhono Community Help Centre

The Vusikhono Community Centre was provided with R350 000 funding. This assisted the centre to purchase groceries for the soup kitchen that feeds approximately two hundred (200) children per day.

4. Richmond Youth Initiative

Umgeni Water provided R200 000 funding towards provision of Youth and HIV programmes. A youth camp was established and this included medical testing and counselling, camping material, blankets, clothing and food parcels.

5. Zomnotho Women

Empowerment Imbizo

Umgeni Water provided R204 790 funding to host two hundred and fifty (250) women for a youth empowerment seminar

CONSERVING OUR NATURAL RESOURCES

10.1 ENVIRONMENTAL SUSTAINABILITY, INCLUDING WATER RESOURCES ADEQUACY

MANAGEMENT APPROACH

Adequate supplies of raw water resources are paramount to Umgeni Water, which together with reliable sources of energy, water treatment chemicals and other resources, are crucial for sustainability of the water business. The entity therefore is steadfast in protecting, conserving and efficiently using and sustaining these resources.

Environmental management programmes and plans are embedded in all components of the water business life cycle, namely, during planning, construction, operation and decommissioning. Umgeni Water has classified its environmental management programmes as Corporate, Operational or Integrated Environmental Management:

- Corporate Environmental Management focuses on aligning the business activities to environmental sustainability and

promoting a shift towards the state of a green economy;

- Operational Environmental Management focuses on ensuring compliance with applicable environmental legislation and regulations and ensuring the entity avoids and/or minimises environmental impacts from business activities;
- Integrated Environmental Management focuses on identification, mitigation and implementation of management plans for potential environmental impacts associated with infrastructure developments.

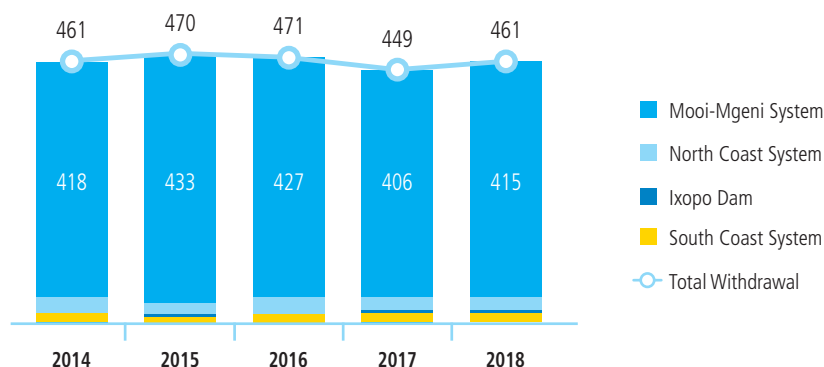
Umgeni Water, as a public water services entity in South Africa, complies with all mandatory environmental disclosure requirements. Notwithstanding this, the entity continues to improve alignment of environmental indicators with other national and internationally accepted indicator disclosure requirements, including the Global Reporting Initiative (GRI) and King IV Report on Corporate Governance, in terms of materiality and relevance. Relevant aspects include: materials, including chemicals and water resources, energy efficiency, greenhouse gas emissions, carbon footprint mapping, biodiversity and waste management, amongst others.

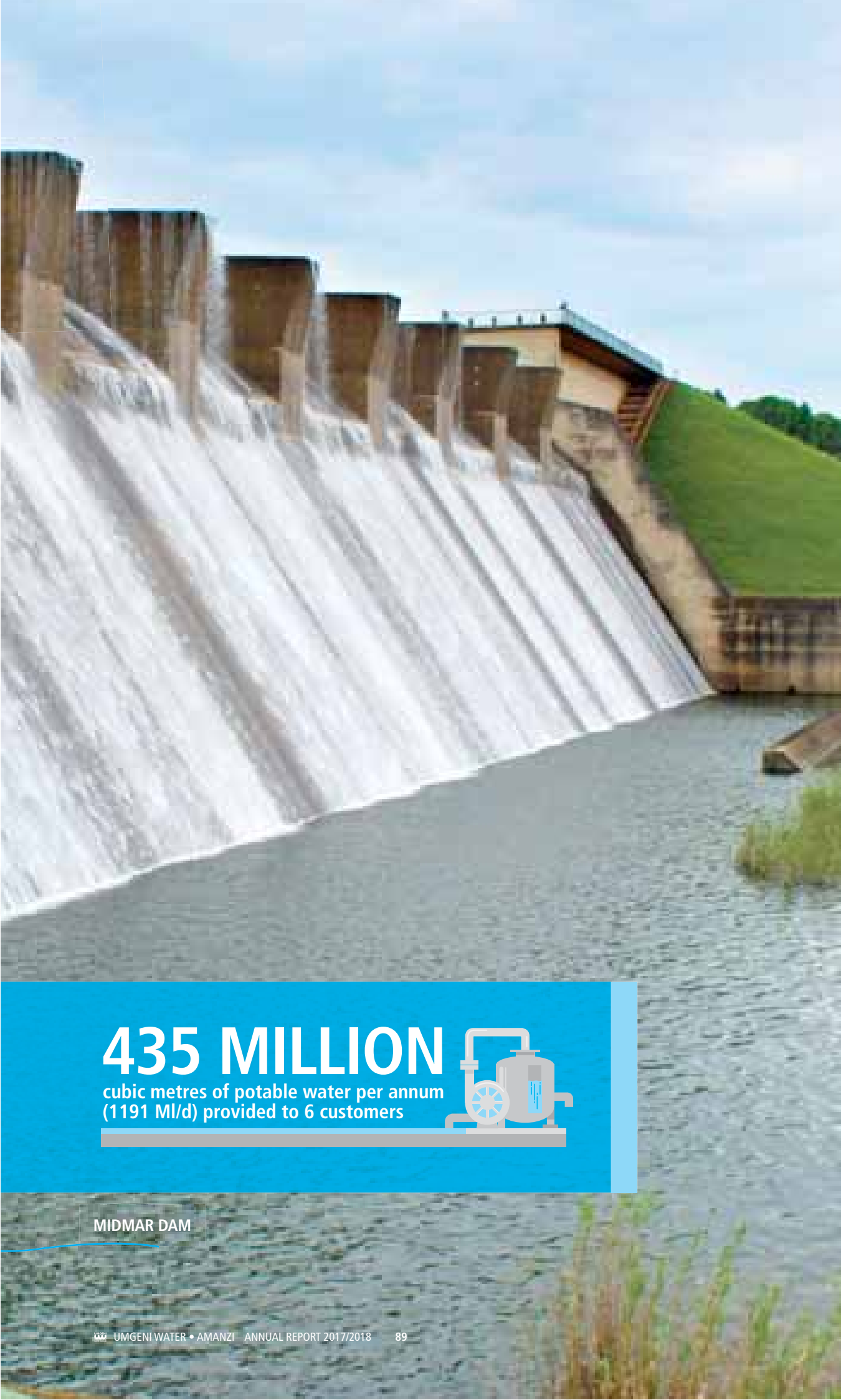
WATER RESOURCES ADEQUACY

Umgeni Waters' core business function is to treat and supply bulk potable water – a business highly dependent on the availability of sustainable water resources. The reconciliation between water resource availability and water demand is therefore of primary importance to the entity and forms an integral part of the infrastructure planning process. Understanding what water resources are available to the entity, both current and future resources, and what factors affect the assurance level of these resources, is crucial to balancing supply with customer demand and maintaining supply sustainability into the future.

The primary water sources used by the entity, include fourteen (14) impoundments on three (3) major water resource systems, namely, the Mgeni System (Mooi and Mgeni rivers), the North Coast System (uMdloti, iMvutshane, uThukela and uMvoti rivers) and the South Coast System (Nungwane, Mzimayi, uMuziwezinto and Mhlabatshane rivers). Total water withdrawal by source is shown in **Figure 10.1**.

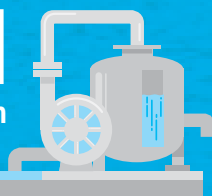
Figure 10.1: Water Withdrawal by Source (million m³)





435 MILLION

cubic metres of potable water per annum
(1191 Ml/d) provided to 6 customers



MIDMAR DAM

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“The primary water sources used by the entity, include fourteen (14) impoundments on three (3) major water resource systems, namely, the Mgeni System (Mooi and Mgeni rivers), the North Coast System (uMdloti, iMvutshane, uThukela and uMvoti rivers) and the South Coast System (Nungwane, Mzimayi, uMuziwezinto and Mhlabatshane rivers).”

In the reporting period, progress was made with the following water resource dam developments:

- Smithfield Dam (DWS) as part of the uMkhomazi Water Project, for which the feasibility study was completed and construction is anticipated to be completed by 2030;
- Hazelmere Dam raising (DWS), for which construction is in progress and expected to be completed in 2019; and
- Ngwadini Dam (UW), as part of the Lower uMkhomazi Scheme, for which the detailed design commenced in 2017/2018, is planned for completion in 2018/2019 and construction to start thereafter.

CLIMATE CHANGE AND WATER RESOURCES

The natural climate is the principal determinant of water availability whether surface or groundwater. It is therefore crucial for Umgeni Water to incorporate climatic impacts when planning and designing water infrastructure, particularly given the significant costs and long planning period required for major infrastructure investments such as dams, pipelines, buildings and transport infrastructure.

The Department of Environmental Affairs, under the Long Term Adaptation Scenarios

identified the main response to climate change for water boards as coherent planning of water resources, as well as developing water resilience. In this regard, Umgeni Water has largely been proactive in incorporating climate change impacts into its planning processes. The climate change initiatives undertaken by Umgeni Water in 2017/2018 are:

- The upgrade of Umgeni Water’s Water Resources Management System (WRMS) to a user-friendly decision-support system with improved functionality (Water Resources Management Decision Support System, commonly referred to as WRMDSS) was completed in 2017. The purpose of the upgrade was to improve the monitoring of hydrological information within each system. Umgeni Water’s WRMS is a multipurpose system that allows effective monitoring of drought and flood parameters and therefore enhances the organisation’s response to these climatic scenarios;
- Umgeni Water is developing a flood forecasting and early warning system for uMgungundlovu District Municipality under the uMgeni Resilience Project that is facilitated and coordinated by South African National Biodiversity Institute (SANBI). This system will increase adaptive capacity and build resilience to the impacts of climate change within local communities. The duration of this project is three (3) years and the deliverable is to provide a real-time flood forecasting and early warning system to alert communities of impending flood events. The design of this system commenced in May 2017 and the project is anticipated to be completed in April 2020.
- A Climate Change Research Study was initiated in May 2018 to update a previous study that was undertaken in 2012. This project will investigate the potential impacts of climate change on future water supply within Umgeni Water’s Operational Area and surrounding catchments. The suite of climate scenarios that are used in this study are the most recent IPCC accredited GCMs from the World Climate Research sponsored, Coordinated Regional

Climate Downscaling Experiments (CORDEX). Hydrological simulations will be undertaken using the ACRU Model to try to project the impacts of climate change on water resources within the area. The variables that are being assessed include reference potential evaporation, rainfall, and accumulated streamflow, as well as design rainfall and streamflow.

WASTEWATER REUSE

Umgeni Water has piloted a reuse plant at its Darvill Wastewater Treatment Works. The 2 ML/d direct reuse demonstration plant comprises a conventional water treatment works to provide high-pressure wash water followed by an advanced treatment process plant. The plant is to be used for evaluating the effectiveness of reuse processes and will also be used as a demonstration plant where outside organisations and learning institutions (universities and schools) can visit, learn and understand the benefits of wastewater reuse and the processes involved in treating wastewater to potable standards.

RAW WATER QUALITY

The status of raw water quality per resource is shown in **Table 10.1** and **Figure 10.2**. Water quality risks associated with Umgeni Water’s raw water supplies can arise from various catchment and impoundment aspects including: eutrophication (nutrient enrichment and its associated threats including algal blooms, taste and odours and aquatic weed infestations), faecal contamination and associated pathogen risks, suspended solids and chemical constituents (including iron and manganese). The effects of these aspects in turn relate to raw water treatability, chemical usage and other cost implications, and may contribute to final water non-compliance with SANS 241 Drinking Water specification.

Umgeni Water has set resource quality objectives for water resources used for abstraction and use these alert levels to assess and mitigate treatability risks, optimise raw water quality and provide early warnings of adverse raw water quality.

Table 10.1: Resource Water Quality

System	Catchment	Impoundment/ Abstraction	Abstraction Water Quality Status and Trends					Comments
			2014	2015	2016	2017	2018	Adverse Raw Water Quality
Inland & Central Coast	Mooi	Spring Grove Dam	-	Filling	Excellent	Excellent	Excellent	-
		Mearns Dam	Good	Good	Good	Good	Excellent	-
	uMgeni	Midmar Dam	Good	Good	Excellent	Excellent	Good	-
		Albert Falls Dam	Good	Good	Good	Good	Moderate	Increased turbidity, nutrient concentrations and algal counts were associated with sustained low water levels. The refilling of the dam and flooding of exposed vegetation and soils contributed to adverse water quality.
		Nagle Dam	Moderate	Good	Good	Excellent	Good	-
		Inanda Dam	Moderate	Moderate	Moderate	Moderate	Good	Upper dam reaches unsatisfactory but good at abstraction point.
North Coast	uMdloti	Hazelmere Dam	Good	Excellent	Moderate	Poor	Excellent	-
	uMvoti	iMvutshane Dam & River abstraction	-	Good	Good	Moderate	Good	-
	uThukela	River abstraction	-	Poor	Poor	Moderate	Unsatisfactory	Elevated turbidity, total organic carbon, aluminium and <i>E. coli</i> counts due to inputs associated with poor agricultural practices in the catchment.
South Coast	iLovu	Nungwane Dam	Moderate	Moderate	Good	Good	Good	-
	uMzimayi	EJ Smith Dam	Poor	Poor	Poor	Moderate	Unsatisfactory	Elevated <i>E. coli</i> , turbidity, iron and total organic carbon concentrations associated with rainfall events and sewer inputs from Umzinto Town.
	uMhlabatshane	Mhlabatshane Dam	-	-	Filling	Moderate	Unsatisfactory	Elevated <i>E. coli</i> , turbidity, iron and total organic carbon concentrations due to inputs from the catchment arising from poor agricultural practices.
	uMzinto	uMzinto River abstraction downstream of uMzinto Dam	Moderate	Moderate	Moderate	Good	Moderate	Occasional elevated <i>E. coli</i> counts and iron concentrations associated with significant rainfall events in the catchment.
	uMtamvuna	Ludeke Dam	-	-	-	Good	Moderate	Intermittent nutrient and turbidity inputs from the catchment.
	uMthwalume	uMthwalume River abstraction	Moderate	Moderate	Moderate	Good	Good	Variable quality associated with run-of-river abstraction, with elevated turbidity, total organic carbon and iron concentrations arising from rainfall events in the catchment.
	iXobho	Home Farm Dam	Poor	Poor	Poor	Poor	Unsatisfactory	Eutrophication associated with sewer inputs from Ixopo Town and the iXobho catchment. Extensive alien aquatic weed infestation poses a significant risk to the sustainability of this resource.

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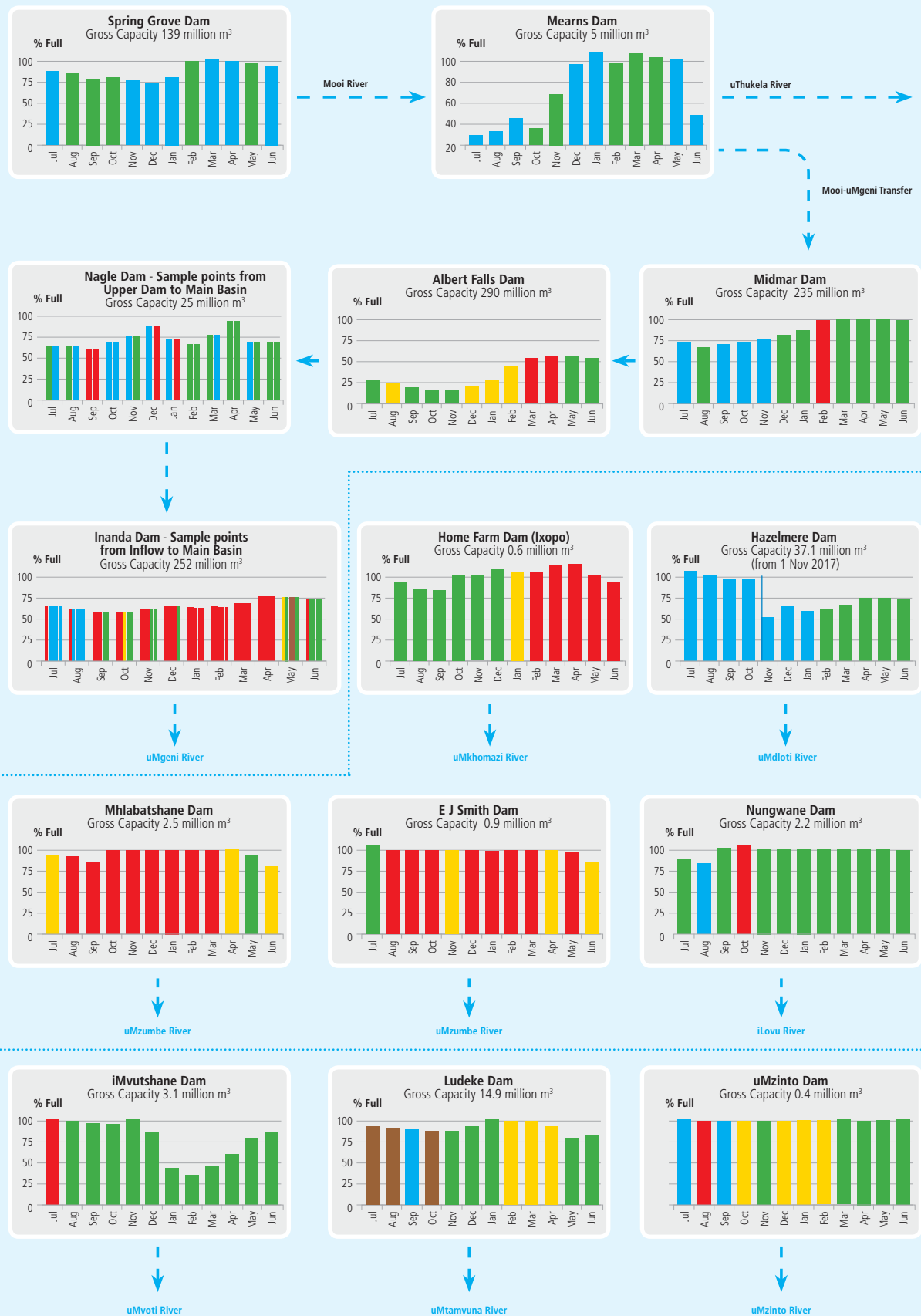
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Figure 10.2: Map of Water Quality Status of Water Resources



Key - Impoundment Water Quality Index Classes*

Excellent Good Satisfactory Poor Unsatisfactory

* River and dam water quality is based on the revised Umgeni Water, Water Quality Index. This index is calculated using the following determinands: *E. coli*, iron, manganese, turbidity, conductivity, nitrate, ammonia, total phosphorus (TP), soluble reactive phosphorus (SRP), total organic carbon (TOC), Biotic Index scores, algal numbers, chlorophyll *a*, Taste and Odour compounds and algal toxins.

Catchment water quality management plans include:

- Monitoring of water resource quality to assess raw water treatability;
- Assessing risks associated with deteriorating trends in eutrophication, chemical contamination, pathogens and turbidity;
- Engaging in catchment management activities to influence resource quality and quantity objectives that will balance environmental objectives and safeguarding consumer health; and
- Monitoring and improving the quality of waste discharges from operational sites.

The Department of Water and Sanitation (DWS), as the custodian of South Africa's water resources, is kept informed of the quality, trends and potential risks associated with raw water resources.

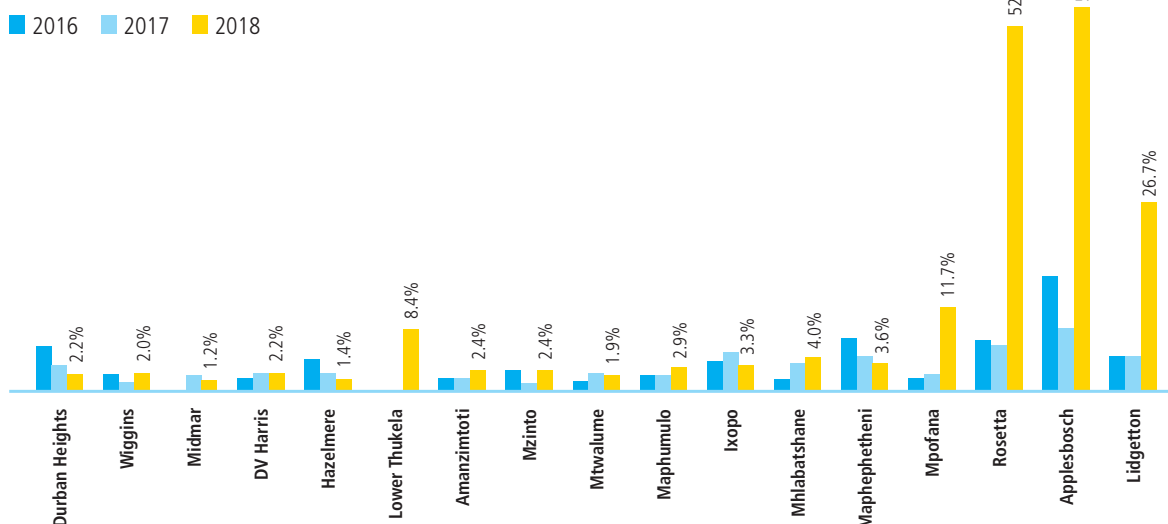
WATER LOSS MANAGEMENT

Umgeni Water strives to use the water abstracted from resources assiduously. Water balancing and water loss management measures are in place per treatment system. Overall water loss levels have been maintained below the entity's target level of 5% over the years. Water loss trends are shown in **Figure 10.3** below.

The systems with losses above 5% are as follows:

- Lower Thukela at 8.4%. The works is new and is currently operating at 30% capacity. The water loss per cent will progressively reduce, as uptake from this works increases; and
- The infrastructure for Rosetta, Appelsbosch, Lidgetton and Mpofana small schemes are in need of refurbishment. Small schemes are to be replaced by more efficient and effective regional schemes in the short to medium term.

Figure 10.3: Water Loss (%) per system



MATERIALS USAGE AND EFFICIENCY

Water is the most significant input materials for Umgeni Water, as described in the previous section, followed by energy, which is discussed below. In addition, Umgeni Water has a high reliance on water treatment chemical resources and is therefore committed to improving the usage efficiency thereof.

CHEMICALS USAGE AND EFFICIENCY

The chemical usage trend for the last five (5) years is presented in **Figure 10.4**. During the current assessment period, Umgeni Water utilised a total of 9.1 million kg of water treatment chemicals. This is a slight increase in usage over the prior year. The reason for this increase was due to the treatment of high volumes of raw water with unsatisfactory quality associated with drought, catchment

activities and the operation of additional plants. Chemicals were applied to ensure that the quality of the potable water was of acceptable standard and that the quality was maintained to the point of use.

Umgeni Water has implemented various initiatives to optimise the use of water treatment chemicals. These include:

- Testing the effectiveness of water treatment chemicals for each raw water

system/plant. This informs the selection of the optimal treatment chemical and therefore prevents inefficiency/unnecessary usage;

- Monthly chemical optimisation audits to ensure that optimal use of treatment chemicals is maintained and to facilitate a prompt response should a problem be identified through the monthly sampling;
- Monitoring and evaluation of the water treatments process per plant, which identifies areas of process improvement and operational efficiency;
- Monitoring and assessing seasonal variation of the water column / dam levels, to assess levels with optimal raw water quality; and
- Participating in catchment management activities and forums and contributing to the information base, including provision of water quality data. This influences decisions on catchment land use activities and more sustainable development.

Figure 10.4: Chemical Usage and Efficiency Trends

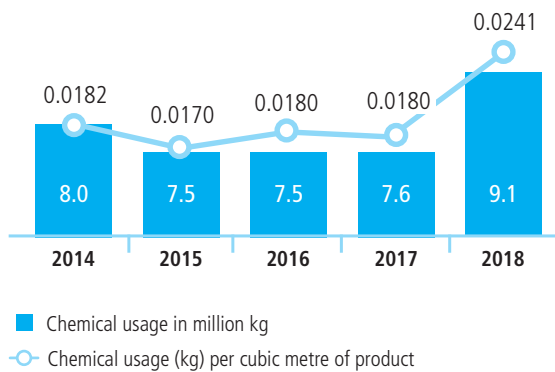
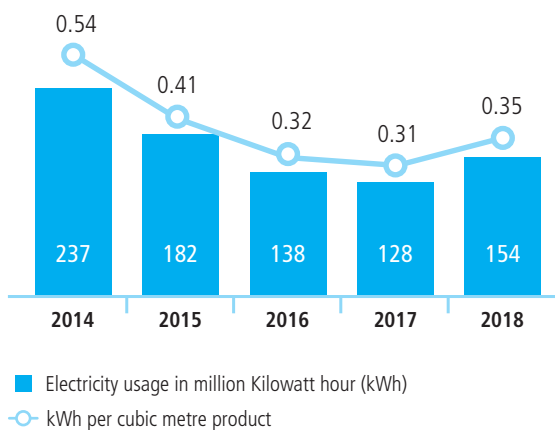


Figure 10.5: Electricity Usage and Efficiency Trends



ENERGY USAGE, CARBON FOOTPRINT AND EMISSIONS REDUCTION INITIATIVES

The total electricity usage for the reporting period was 154 million KWh. This increase is associated with increases in raw and potable water pumping in the year. Electricity usage and efficiency trends are shown in **Figure 10.5**.

Umgeni Water's direct CO₂ emission contributions emanate from vehicles, boats, generators and other fuels. Indirect CO₂ emissions are largely due to electricity usage and to a lesser extent, flights and waste generation.

The entity's carbon footprint is predominantly due to electricity consumption (approximately 99%), which is one of the main inputs to water and wastewater treatment processes.

Specialist research work to review/develop an improved method for calculating carbon emissions was concluded in the past year. The study outcome will be assessed and a revised emissions calculation method will be developed for Umgeni Water sites in the coming period.

The carbon footprint trend over the years is shown in **Figure 10.6** and **Table 10.2**.

Figure 10.6: CO₂ Equivalents (Tonnes)

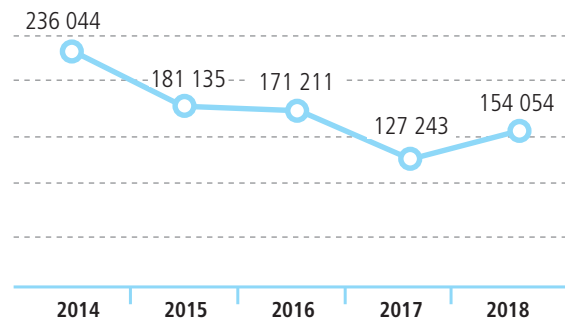


Table 10.2: CO₂ Equivalents (tonnes)

CO ₂ equivalents (tonnes) per activity	2010	2011	2012	2013	2014	2015	2016	2017	2018
Electricity	131 851	163 392	208 071	153 280	234 575	180 117	170 287	126 326	152 653
Travel: Car	1 407	1 334	2 086	137	1 035	204	177	94	622
Travel: Air	143	143	81	71	87	91	99	66	65
Waste	989	299	262	196	305	684	620	720	714
Other fuel	40	40	98	82	42	39	29	37	0
TOTAL	134 430	165 208	210 598	153 766	236 044	181 135	171 211	127 243	154 054

CARBON FOOTPRINT AND ENERGY CONSERVATION

Carbon footprint can be described as the total amount of carbon dioxide and other greenhouse gas (GHG) emissions (expressed as carbon dioxide equivalents or CO₂e) for which an organisation or site is responsible or which it has control over, resulting from business activities. The six (6) key greenhouse gases are: Carbon Dioxide (CO₂), Methane (CH₄), Nitrous Oxide (N₂O) and three groups of fluorinated gases, Sulphur Hexafluoride (SF₆), Hydrofluoric Carbons (HFCs), and Perfluoro Carbons (PFCs).

BIODIVERSITY MANAGEMENT

UMNGENI ECOLOGICAL INFRASTRUCTURE PARTNERSHIP (UEIP)

The UEIP is a joint partnership committed to the management and harnessing of the potential ecosystem resources in the Mgeni River catchment. Umgeni Water as a signatory of this partnership has contributed to the UEIP by supplying valuable water quality data information and experience to a number of projects. This information has increased awareness of the challenges associated with land use-related water quality impacts.

Progress with these initiatives in the 2017/2018 reporting year included the provision of technical and/or financial support to:

- 'Save Midmar Dam' project - Umgeni Water is working closely with uMgungundlovu District Municipality, KZN Department

of Environment and Traditional Affairs and local communities to rehabilitate and restore wetlands in the Mpophomeni area. This forms part of the Ecological Infrastructure for Water Security project; and

- The ongoing 'Enviro-champs' project, community-based environmental monitoring programme, which assists with the implementation of water conservation measures and sewer reticulation monitoring.

RESEARCH PROJECT: FLOATING WETLANDS

Constructed floating wetlands have been successfully used for water quality enhancement and wetland habitat creation in many parts of the world. An Umgeni Water funded research project has commenced with the appointment of students from Durban University of Technology (Civil Engineering Faculty) to pilot floating wetlands using a variety of plant species in several aquatic environments. It is anticipated that this research project using modest technology will identify the most appropriate non-invasive plant species to improve water quality in nutrient enriched aquatic environments. If successful, the goal would be to implement floating wetlands at strategic wastewater treatment works and water resources to reduce the nutrient load to the receiving aquatic environment. Project work has commenced and research will continue into 2018/2019.

ALIEN AQUATIC WEED MANAGEMENT

Well-managed and sustainable water resources are critical to Umgeni Water's core responsibility of supplying sustainable potable water supply. Alien aquatic weeds introduced into various water resources

pose a significant risk to water quality and quantity. The primary threats are posed by Water Hyacinth (*Eichhornia crassipes*); Water Lettuce (*Pistia stratiotes*) and Kariba weed (*Salvinia molesta*). These free-floating aquatic plants are extremely difficult to control in eutrophic waters due to their exponential growth rate and invasion of the riverine environment.

In 2017/2018, progress with Alien Aquatic Weed Management at Umgeni Water included:

- Maintaining close cooperation with the Alien Weed Working-group;
- Release of bio-control in several impoundments and river systems; and
- Regular monitoring and assessment of the weed status.

MSINSI HOLDINGS LAND AND SUSTAINABLE RESOURCE MANAGEMENT

Msinsi Holdings SOC Ltd, a wholly-owned subsidiary of Umgeni Water, is mandated to manage the land and biodiversity of the areas around the dams owned or managed by Umgeni Water in a manner that balances the divergent factors of local community development provision of recreational facilities for the public and water resources/biodiversity protection.

These reserves are located at:

- Spring Grove Dam;
- Albert Falls Dam;
- Nagle Dam;
- Inanda Dam; and
- Hazelmere Dam.

Detailed management plans for each of the reserves in line with industry best practice have been completed and form the basis

for all operations in the reserves. In the past year, Msinsi has been successful in protecting the habitats and ensuring an ecologically sustainable and protected water environment through implementing its resource management plans, which focused on:

- The management of the game and species according to the carrying capacity of each reserve;
- Local community development;
- Recreation for the public;
- Grassland management;
- Control of pollution inside the purchase areas; and
- Removal of alien invasive plants, both terrestrial and aquatic.

The ecological balance was effectively managed during this period through the implementation of Reserve Management Plans. In particular, carrying capacity was managed to ensure sustainability of wildlife populations and measures to mitigate poaching, which has been a significant threat to the reserve wildlife, were put in place.

Security patrols are conducted as per a patrol plan in order to identify and mitigate security risks to the reserves, including ensuring reserve fence lines are in good condition. Msinsi Holdings continues to be seen as a

significant player in the conservation and tourism sector in KwaZulu-Natal and the state-owned company will continue to ensure that ecosystem services provided by water and environmental resources continue to be sustainable.

Stakeholder engagement successfully created value for Msinsi's operations and the communities at large during this reporting period.

Msinsi continued providing environmental education, targeting surrounding communities. Thirty-two (32) environmental education initiatives in areas of water conservation environmental awareness and commemoration of environmental special days were implemented. These initiatives reached schools and communities living adjacent to Msinsi-managed establishments.

Sourcing labour within the communities around Msinsi operations created job opportunities for the communities with a total of 384 temporary jobs created during the reporting period.

In partnership with other stakeholders, a total of eighteen (18) learners received training opportunities in fields ranging from Hospitality to Human Resources Management. Msinsi Holdings is planning

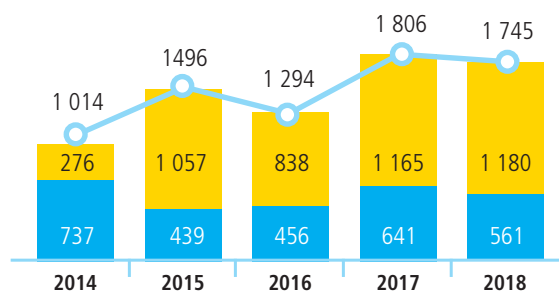
to sustain its training programmes in order to continue to contribute to skills development, particularly for the youth from neighbouring communities.

WASTE MANAGEMENT

The organisation improved its waste management and recycling efforts in the year. Less waste was produced per million cubic metres of potable water treated when compared to the previous year with 1 745 kg per million m³ (1 806 kg per million m³ in 2017). Waste recycled increased significantly with 16 927 kg (2.23%) of waste recycled compared with prior year 2 765 kg (0.37%). This improvement is attributed to the recycling initiatives implemented across the organisation.

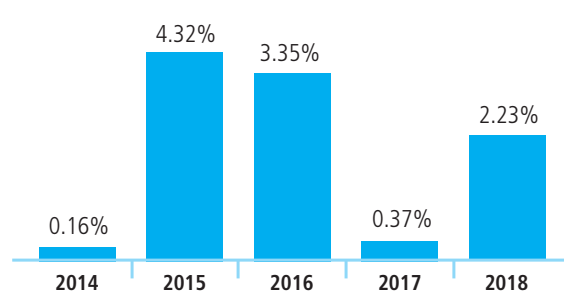
The water treatment residues from the Water Treatment Works and the sludge from the Wastewater Treatment Works are not included in these waste streams. A study to assess the sustainable long term management option of the sludge and the residues is in progress. Trends in waste management are shown in **Figures 10.7 and 10.8.**

Figure 10.7: Waste Produced per million cubic metres of potable water treated



- General Waste (kg per million cubic metres of potable water treated)
- Hazardous Waste (kg per million cubic metres of potable water treated)
- Total

Figure 10.8: Percentage of Waste Recycled



ENVIRONMENTAL PERFORMANCE OF OPERATIONAL SITES

Annual environmental audits are undertaken at operational sites, the objectives of which are:

- To assess whether the site is complying with all applicable environmental legislation and regulations;
- To assess internal policy and procedural compliance in relation to environmental management;
- To assess the status of energy consumption, waste management and biodiversity management at the site and

alignment with corporate environmental sustainability initiatives; and

- To recommend mitigation measures to address areas of non-conformance.

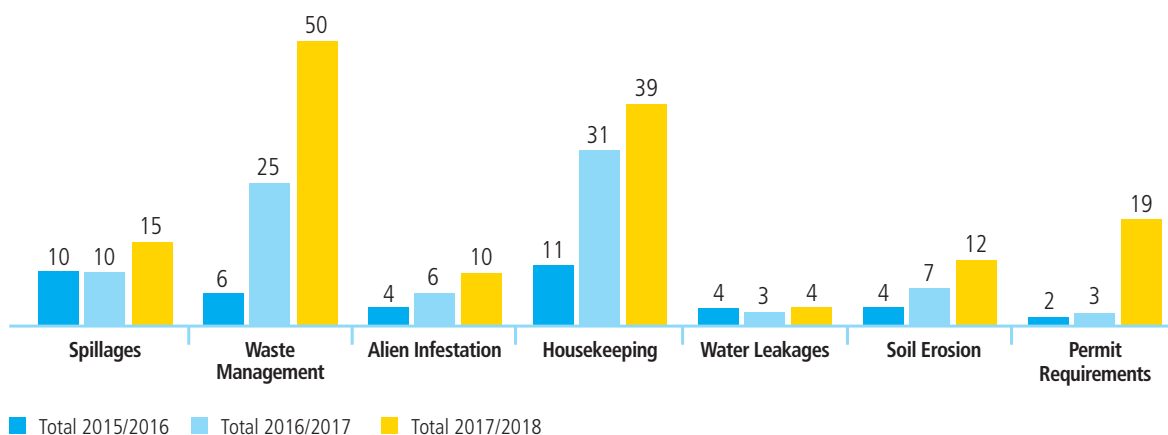
In the reporting period, environmental audits were undertaken at Water Treatment Works and Wastewater Treatment Works, dams, workshops and regional offices. The main findings (**Figure 10.9**) were:

- Poor housekeeping;
- Inadequate waste management in relation to waste separation, storage and implementation of waste recycling measures;

- Contamination of the surrounding environment due to concrete and oil spillages that were not cleared;
- Soil erosion;
- Non-compliance with permit requirements; and
- Wastage of non-renewable resource and water leakage.

Environmental performance was generally good. Most findings had risks ranging from minor to moderate. Mitigation measures will be implemented to ensure continuous improvement of environmental management at sites.

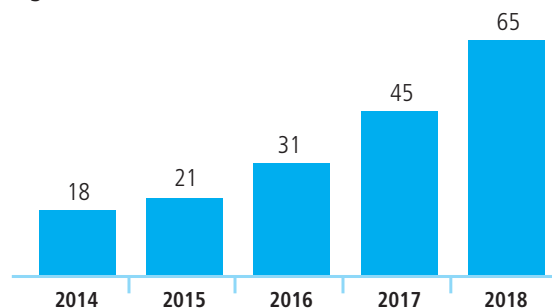
Figure 10.9: Environmental Management Findings from Audits



ENVIRONMENTAL INCIDENTS

There were sixty-five (65) environmental incidents recorded for the 2017/2018 financial year, compared to forty-five (45) incidents in the previous year (**Figure 10.10**). Umgeni Water, has, in the recent past, acquired additional water and wastewater treatment works, for which systems will progressively be put in place to improve performance.

Figure 10.10: Environmental Incidents



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INTEGRATED ENVIRONMENTAL MANAGEMENT

The entity currently has sixteen (16) projects in the planning, design or procurement phase, which are being managed through the Integrated Environmental Management System. This system is in accordance with the provisions of the Environmental Impact Assessment Regulations of the National Environmental Management Act (NEMA), which states that projects that trigger listed activities as stipulated in the regulations are required to obtain an environmental authorisation (EA) prior to any construction activities occurring. The process of obtaining an EA can either be through a basic assessment (BA) process or a scoping and full environmental impact assessment (EIA). The status of some key Infrastructure Projects is shown in **Table 10.3**.

Table 10.3: Environmental Authorisation status for Key Bulk Infrastructure Projects

Project Name	EA Status Requirements
uMkhomazi Water Project Phase 1	EIA application in progress
Richmond WWTW Upgrade	EIA application in progress
Lower uMkhomazi BWSS	EIA application in progress
uMzimkhulu BWSS	EIA application in progress
Vulindlela BWSS	BA application in progress
Mpofana WWTW Upgrade	Procurement process in progress
Elysium Desalination Project	EIA application in progress
uMshwathi BWSS Phase 4	EIA application in progress
Mhlabatshane Phase 2	EA obtained
Lower uMkhomazi BWSS – Ngwadini Dam	EA obtained
Trustfeeds Wastewater Treatment Works	EA obtained

Where project developments do not trigger listed activities as defined in the Act, environmental screening is undertaken and project specific Environmental Management Plans are developed. This ensures that all the potential environmental impacts emanating from project implementation are eliminated or minimised to acceptable levels.

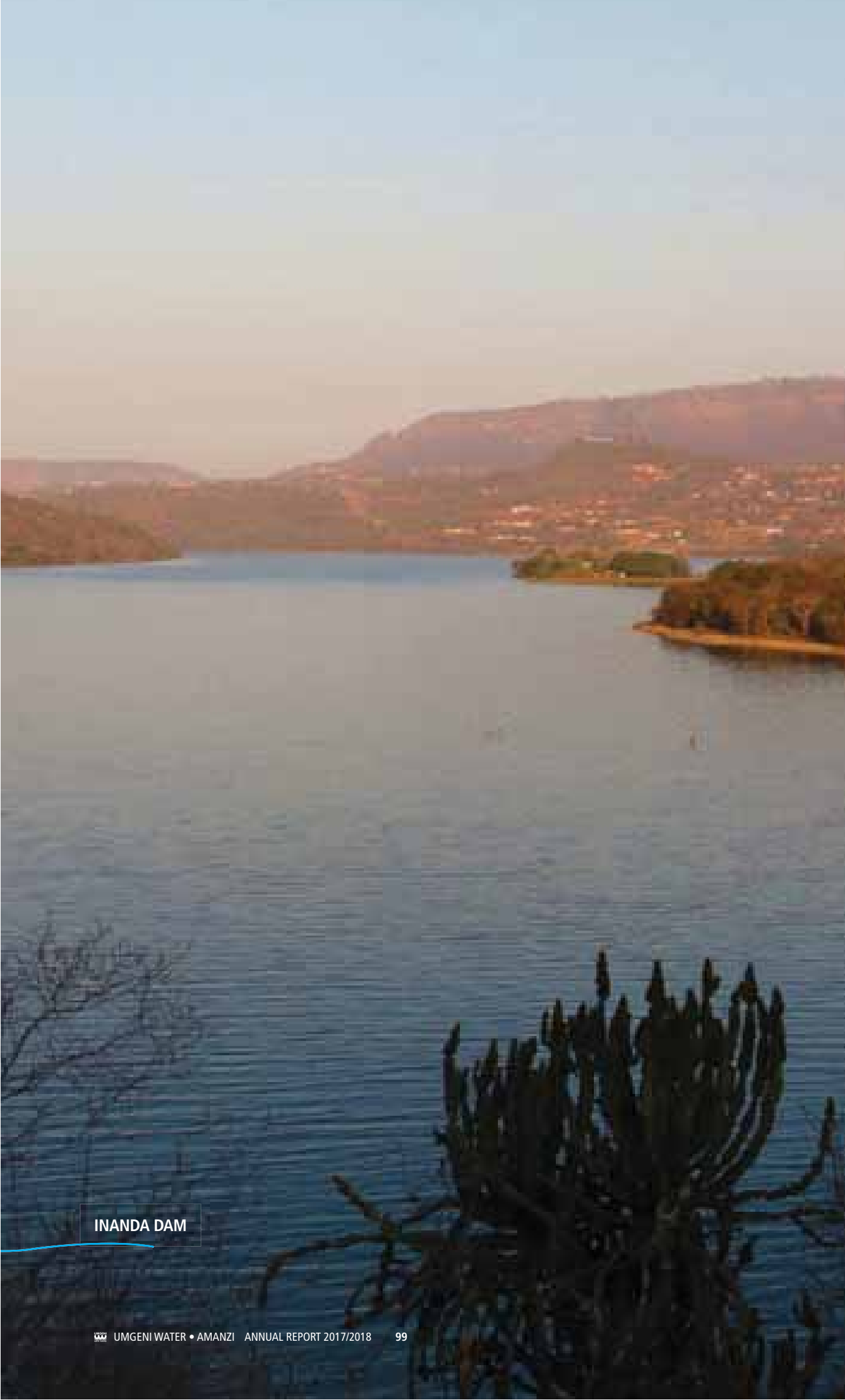
Seven (7) projects are currently in the construction phase and are monitored for compliance against the Environmental Management Plan requirements of the EA by independent external Environmental Control Officers, internal Environmental Site Officers Environmental Officers and Environmental Scientists.

Overall environmental performance has been satisfactory with the following minor challenges, of which mitigation procedures were recommended and implemented:

- Outstanding rehabilitation of disturbed areas causing erosion and land degradation;
- Improper top soil storage, leading to heaps exceeding acceptable height as per regulation;
- Hydrocarbon spill containment procedures not followed or properly implemented, leading to ground and surface water pollution;
- Weed infestations in construction and stockpile areas;

- Improper solid waste management with respect to construction surplus material and domestic waste, leading to poor housekeeping; and
- Poor storm water management, leading to soil erosion.

Despite the above-mentioned environmental impact challenges, good environmental practise will continue to be pursued and all activities will diligently be conducted in an environmentally sustainable manner.



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INANDA DAM

11.0 ENABLING OUR PEOPLE

11.1 LEADERSHIP AND EMPLOYEE DEVELOPMENT

MANAGEMENT APPROACH

Umgeni Water promotes and encourages ethical behaviour and decision-making by all employees, Board members and stakeholders. This is facilitated through a Code of Ethics. During the reporting period, the Ethics Committee monitored and assessed the following activities of Umgeni Water:

LABOUR AND EMPLOYMENT MATTERS, INCLUDING:

- Human capital and workforce matters: recruitment and selection, succession and coaching, health and safety, HIV awareness, wellness programmes, disciplinary and dispute resolution processes and training and development.

SOCIAL AND ECONOMIC DEVELOPMENT, INCLUDING:

This includes Umgeni Water's standing in terms of the goals and purposes of:

- The ten (10) principles set out in the United Nations Global Compact Principles and OECD recommendations regarding corruption, including human rights, child and forced labour, environment, anti-corruption, bribery, extortion and transparency;
- The Employment Equity Act, No. 55 of 1998; and
- The Broad-Based Black Economic Empowerment Act, No. 53 of 2003.

GOOD CORPORATE CITIZENSHIP, INCLUDING:

- Promotion of equality, prevention of unfair discrimination and measures to address corruption;
- Corporate social contribution and development of the communities in which Umgeni Water conducts its business; and
- Impartial/objective sponsorship, donations and charitable giving.

THE ENVIRONMENT, HEALTH AND PUBLIC SAFETY, INCLUDING:

- Impact of Umgeni Water's activities, products and services.

CONSUMER RELATIONSHIPS, INCLUDING:

- Umgeni Water's policies and record relating to advertising, public relations and compliance with consumer protection laws.

LABOUR PRACTICES AND DECENT WORK

The entity's goals and human resources needs are mutual, compatible and strongly inter-dependent. Human Resources policies seek to ensure a competent, motivated and engaged workforce.

EMPLOYMENT

The workforce profile is shown in **Table 11.1** and **Figure 11.1**.

- The entity seeks to maintain a workforce that enables it to deliver quality services to all stakeholders;

- All employees are based in KwaZulu-Natal and within commuting distance from all operational sites;
- All full-time and fixed-term contract employees are provided with several benefits, including: membership of provident fund or retirement fund, housing allowance and medical aid; and
- All female employees are entitled to maternity leave. During the reporting period, twenty (20) female employees qualified for 100% maternity leave benefits and 98% returned to work after their leave and 2% are still on leave.

SUCCESSION, MENTORING AND COACHING

Succession, mentoring and coaching of employees is crucial to enable the entity to create a pool of competencies to meet current and future needs. This is facilitated through sound policies and plans that embrace:

- Scarce, Core and Critical positions, including positions critical for retention of institutional memory;
- Profiling of potential retirees (60 – 65 years of age) occupying scarce and critical positions;
- Documenting competencies identified for key positions for compilation of job profiles;
- Preparing individuals to assume higher levels of responsibility in key and strategic positions; and
- Developing a skills database of Employees, Learners, Apprenticeships and other Trainees, which provides an informed pool from which to identify successors. Mentorship Agreements and Talent Review Questionnaires are being drawn up.



58 APPRENTICES TRAINED

in Mechanical Engineering, Electrical Engineering and Instrumentation fields

ARTISANS' GRADUATION CEREMONY

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Table 11.1: 2017/2018 Workforce by Employment Type/Category; Race and Gender is Shown for the Permanent Establishment for (a) Parent Company and (b) Wholly-Owned Subsidiary.

(a) Umgeni Water (Permanent Establishment)

Occupational Category	Total	Male				Female			
		African	Coloured	Indian	White	African	Coloured	Indian	White
Top management *	4	2	0	0	1	1	0	0	0
Senior management	27	6	2	9	3	3	0	3	1
Professionally qualified and experienced specialists and mid-management	242	81	5	31	22	75	3	19	6
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	417	184	6	37	12	141	8	26	3
Semi-skilled and discretionary decision-making	197	175	2	0	0	17	0	3	0
Unskilled and defined decision-making	42	31	0	0	0	11	0	0	0
Total	929	479	15	77	38	248	11	51	10

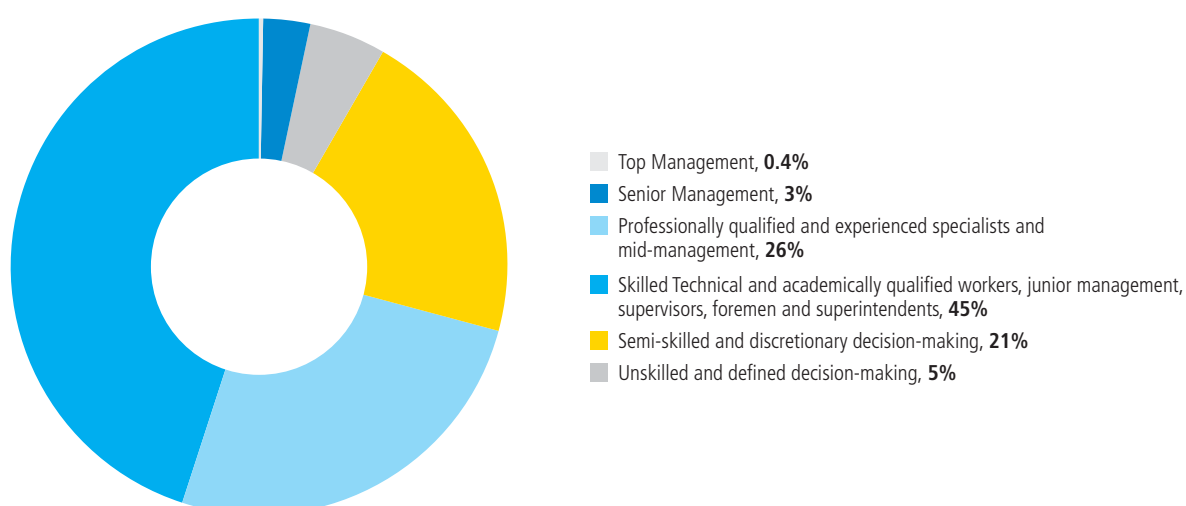
*Top management consists of Executives on five-year fixed-term contracts

(b) Msinsi Holdings SOC Ltd (Permanent Establishment)

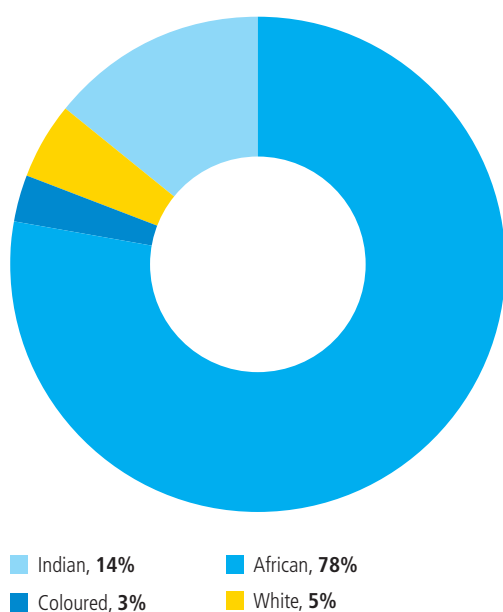
Occupational Category	Total	Male				Female			
		African	Coloured	Indian	White	African	Coloured	Indian	White
Top management	1	1	0	0	0	0	0	0	0
Senior management	2	0	0	0	0	2	0	0	0
Professionally qualified and experienced specialists and mid-management	7	2	0	0	0	3	0	2	0
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	24	7	0	0	0	17	0	0	0
Semi-skilled and discretionary decision-making	40	34	0	0	0	6	0	0	0
Unskilled and defined decision-making	43	24	0	0	0	19	0	0	0
Total	117	68	0	0	0	47	0	2	0

Figure 11.1: Employment in 2017/2018 showing (a) category, (b) race, (c) gender, (d) age and (e) disability

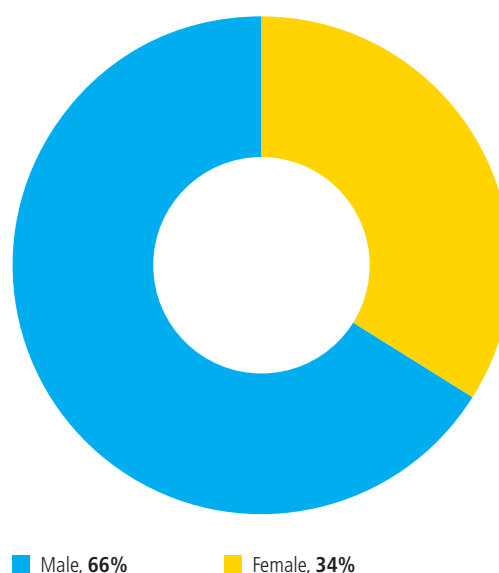
(a) Employment Status (Parent) by Category



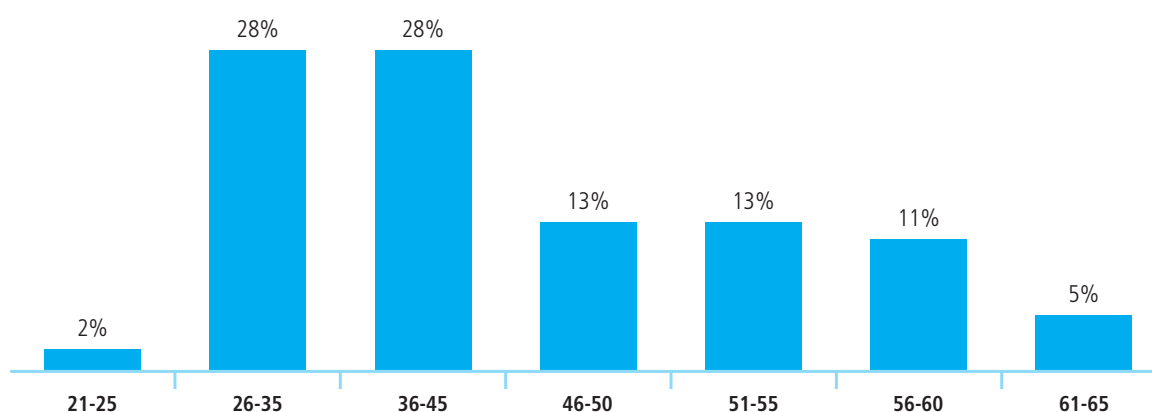
(b) Employment Status (Parent) by Race



(c) Employment Status (Parent) by Gender



(d) Age Profile (Parent)



(e) Employee Disability Profile (Parent)

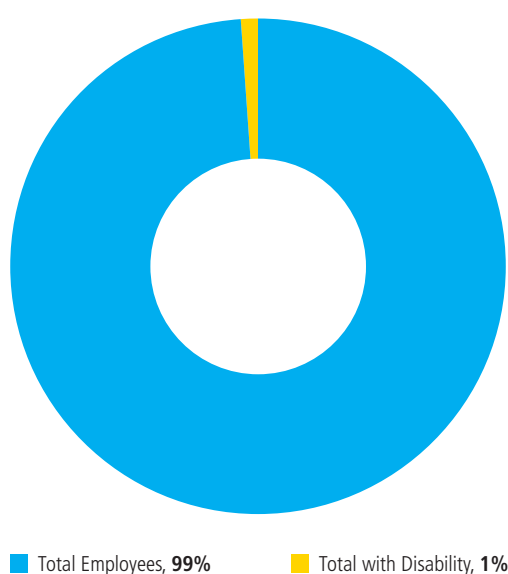


Table 11.2: Summary of Staff Numbers as at 30 June 2018

Staff Numbers	Total
Parent permanent	929
Msinsi permanent	117
Group permanent	1 046
Group fixed term contracts	185
Group Total	1 231

RECRUITMENT AND TURNOVER

In the reporting period, the entity recruited one hundred and fifty-five (155) employees, comprising of:

- Twenty-nine (29) permanent employees;
- Sixty-four (64) contract employees; and
- Sixty-two (62) graduates, apprentices, interns and in-service trainees.

Turnover was thirty-nine (39), including:

- Eighteen (18) resignations;
- Three (3) natural deaths;
- Ten (10) retirements;
- Three (3) dismissals; and
- Five (5) due to medical boarding.

The entity's turnover percentage for the year is 3.15% and is below the industry benchmark of 8%.

LABOUR/MANAGEMENT RELATIONS

The rights and well-being of all employees are safe-guarded and protected through alignment of corporate policies with relevant legislation and regulations.

Specifically with its union, NEHAWU, the entity has in place a Collective Agreement that is maintained. Currently, fifty-nine per cent (59%) of the total workforce are members of the union, of which fifty-four percent (54%) are within the collective bargaining unit.

Quarterly Union-Management meetings were held in the reporting period, excluding special meetings that were held to provide more timely feedback. The collective agreement serves as the minimum terms of engagement, as the entity is committed to information sharing and to providing reasonable response at all times to organised labour regarding any significant operational changes that affect employees. During the engagement

sessions, management actively engaged labour regarding concerns raised and sought to achieve resolution of issues without any stand-offs.

OCCUPATIONAL HEALTH AND SAFETY

Umgeni Water has an overriding commitment to achieve zero harm to people, property and environment. To achieve this, the organisation has undertaken all reasonable and practicable steps to prevent and eliminate any risk that may lead to an incident.

The entity's commitment is driven by:

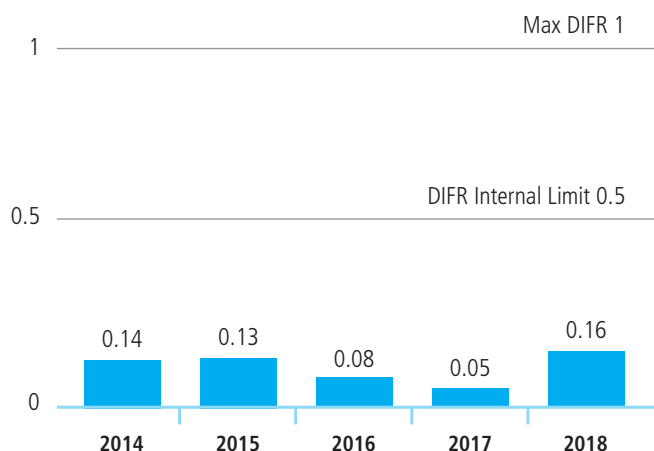
- Acknowledging that while we operate in an inherently high risk industry, we cannot ignore our moral and legal obligation to safeguard the wellbeing of our people;
- Our approach is that health and safety comes first at all times and there are no shortcuts;
- Our continuous efforts to create a culture where every employee understands the importance of working safely and can go home safe and healthy to their family after every shift;
- By instilling our beliefs and culture to our employees and relevant stakeholders, that a safe site is a productive site and that safety and production go hand in hand;
- Maintaining the health and safety of our employees, as well as the communities in which we operate;

- Random compliance audits that are conducted on all sites to ensure SHEQ compliance, these include management audits to instil participative leadership;
- Continuously providing resources, information, training, equipment, systems and other support to all individuals as they have a role to play; to enable all to understand their role; to work safely and healthily; and to participate in improving performance overall and minimise business impact upon the environment.

Umgeni Water applies International, as well as South African standards, across the organisation. The organisation also drives programmes to support the organisation in complying with relevant legislation and regulations that govern our operations and our operating environment. In this regard, the organisation has retained its OHSAS 18001 accreditation and duly awarded ISO 9001:2015 accreditation. To maintain integrity and continuous improvement of this system, regular SHE legal compliance audits were conducted by an independent and competent service provider.

One of the measures adopted by Umgeni Water in measuring its safety performance is the Disabling Injury Frequency Rate (DIFR). There was a noticeable increase in the number of disabling incidents recorded in the year compared with previous years. Our final DIFR was recorded at 0.16. **(Figure 11.2).**

Figure11.2: Disabling Injury Frequency Rate (DIFR)



Calculation of disabling incident frequency rate (DIFR) is as follows: The total number of fatal injury cases, permanent disability cases, lost workday cases, restricted workday cases, health fatality cases, irreversible diagnosed disease cases and reversible diagnosed cases, times 200 000 and divided by the number of rolling man-hours worked over the exposure period.

SKILLS DEVELOPMENT

Umgeni Water annually compiles and submits a Workplace Skills Plan to EWSETA, which identifies the skills needs of the entity and ensures skills training and development is effective. The skills development programmes include:

- Employee training and development;
- Assisted education programme;

- Learnership and apprenticeship programmes;
- Bursary programme; and
- Graduate trainee and internship programmes.

The entity has started the planning process for a skills audit and competency mapping to strengthen and link the skills development initiatives into the organisational strategy.

Progress on skills development programmes is detailed in the sections that follow.

TRAINING AND DEVELOPMENT

Training categorised by gender and by employee category are shown in **Figure 11.3 (a)** and **Table 11.3** and show that all categories of employees were exposed to training with a total of 32 011 hours spent in training and development.

Figure 11.3 (a): Training Hours by Gender

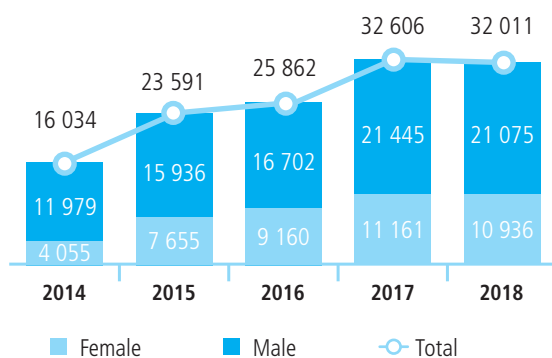


Figure 11.3 (b): Training Spend (Rm)

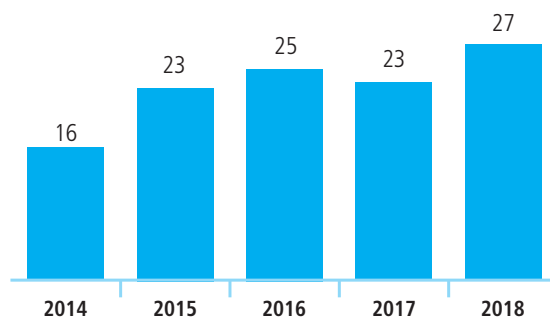


Table 11.3: Training Hours by Occupational Level, Gender and per Employee in 2017/2018

Occupational Levels	Total Employees Trained	Total Female	Training Hours Female	Total Male	Training Hours Male	Total Hour per Category
Top Management	5	1	40	4	152	192
Senior Management	22	6	330	16	637	967
Professionally Qualified and Experienced Specialists and Mid-Management	218	82	3 337	136	4 627	7 964
Skilled Technical and Academically Qualified Workers, Junior Management, Supervisors, Foreman and Superintendents	471	148	4 523	323	11 236	15 759
Semi-Skilled and Discretionary Decision-Making	130	35	1 112	95	1 906	3 018
Unskilled and Defined Decision-Making	59	15	383	44	1 531	1 914
Non-Permanent	151	89	1 211	62	986	2 197
Total	1 056*	376	10 939	680	21 075	32 011

*Total includes fixed-term contracts and trainees

LEADERSHIP, LEARNERSHIPS AND APPRENTICESHIPS

At Umgeni Water, skills development remains an essential enabler for employees to excel in their individual and organisational roles to deliver on the entity's mandate. In this regard, the organisation partnered with

Duke Corporate Education for coordination and implementation of a Management Development Programme (MDP) for thirty (30) Umgeni Water Young Professionals. The objective of the MDP is to enhance self-confidence of young professionals to lead innovative processes that can filter through the organisation, and techniques to

rigorously analyse Umgeni Water challenges or opportunities. It also aims to provide a holistic view of the importance to work in a profitable and sustainable environment within a global context and competencies to ensure readiness to lead the entity into the future.

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The Learnerships and Apprenticeships programme provided training, development and exposure to both internal and external candidates. In 2017/2018, a total of fifty-eight (58) Apprentices were enrolled in the learnership and apprenticeship programme and received theoretical training at Amajuba TVET College and Shukela Training Centre in the Electrical, Boiler-making, Instrumentation, Motor Mechanics and Mechanical Engineering trades. During this period, learners further received practical work exposure from the various Umgeni Water operational sites, as per the requirements of the programme. Twelve (12) apprentices in the Boiler-making trade have completed their trade and were deemed to be competent as Artisans. Artisan Trainees who passed their trade tests are employed within the entity over a two-year period as Artisan Trainees.

Umgeni Water assessed the skills and competency levels of internal personnel against requirements of Draft Regulation 17 of the Water Services Act for Blue Drop and Green Drop certification and developed a multi-year training plan to fill the skills and competency gaps. The internal positions include Superintendent, Process and Quality Technicians, Senior Operator, Operator and Process Controller positions. In the reporting period, a total of 445 Process Controllers were enrolled in either the Learnership Programme or in N3 Water and Waste Treatment and various courses in water and wastewater treatment.

ASSISTED EDUCATION

The organisation continued to provide employees with financial support to further their studies in disciplines related to the entity's core and support business for improved performance to meet the current and future skills needs through the Assisted Education Programme (AEP). For the period under review, thirty-three per cent (33%) of employees enrolled in formal qualifications that respond directly to critical and scarce skills needs.

UMGENI WATER YOUNG PROFESSIONALS

Since the inception of Umgeni Water Young Professionals (UWYP) in 2014,

the forum has an active membership of 163, consisting of employees below the age of thirty-five (35). The UWYP is a solution oriented platform that aims to cultivate professional development, leadership and social responsibility amongst the entity's young workforce.

The forum targets creation of an enabling environment for professional growth of young professionals through affiliation and registration with their respective professional bodies. The forum further encourages active community participation and creation of a professional and social network amongst young professionals within the water sector for empowerment, and sharing of resources and information.

In the year under review, the forum continued in its quest of motivating and inspiring the entity's young professionals to grow professionally and be active social citizens by organising and participating in various conferences, seminars and technical tours, both local and international. UWYP participated in the 8th International Young Water Professionals Conference, where UWYP presented and won the thesis competition amongst eighty-six (86) participants from twenty-two (22) countries on Umgeni Water's water utility benchmarking system, demonstrating the valuable tariff analytical output of the home-grown system. The competition offered an opportunity for young professionals to showcase their research skills.

UWYP collaborated with other young professionals from Rand Water and Bloem Water, and embarked on a joint technical tour to a water reclamation plant in Beaufort West. The joint technical tour provided a platform for different water boards to interact and exchange ideas and experiences and also to identify innovative ways to increase the efficiency and enhance the current water supply.

The UWYP continued to grow in stature as a socially-responsible forum by conducting six (6) career guidance seminars in rural schools in various districts within the province.

BURSAR, GRADUATE AND IN-SERVICE TRAINEE PROGRAMMES

Umgeni Water's graduate trainee programme is aligned to guidelines provided by professional registration bodies. In the reporting period, the entity had a total of twenty-four (24) graduates enrolled in engineering, science and other required professional fields and fifty (50) in-service trainees receiving experiential training.

The entity also has a one-year internship programme that provides work experience to unemployed graduates. Seventeen (17) interns were contracted in the reporting year to work in multi-disciplinary fields across the organisation.

Umgeni Water is funding ten (10) bursary students through the Umgeni Bursary Scheme with students enrolled at various universities in disciplines of Civil Engineering, Mechanical Engineering, Electrical Engineering, Chemistry, Microbiology and Finance.

The entity, in partnership with National Treasury, continued to implement the graduate development programme of engineers, technologists, process support and technicians with specific emphasis on meeting the skills shortages in municipalities in the Province.

In the reporting period, thirty (30) Graduates were developed under the National Treasury Graduate Development Programme. Eighteen (18) graduates have submitted final engineering reports to the Engineering Council of South Africa for assessment and certification.

PRE-RETIREMENT TRAINING

Pre-retirement training is conducted annually, targeting employees in the age group fifty-five (55) to sixty-five (65). In addition, information is regularly provided to all employees to raise awareness of the importance of retirement planning and increase knowledge regarding sustainable management of retirement fund benefits.

KEY MEMBERSHIPS AND ASSOCIATIONS

Umgeni Water employees subscribe to a wide range of memberships and associations (**Table 11.4**). These straddle governance and risk, water, science and engineering, natural resources, social impact management, business, finance and accounting, and occupational health and safety, amongst others. The memberships ensure employees keep abreast in fields of expertise and participate in sector knowledge sharing.

Table 11.4: Key Membership and Associations

Category	Memberships
Governance and Risk	Institute of Directors in Southern Africa (IoDSA) Institute of Risk Management South Africa (IRMSA) Ethics Institute of South Africa (EthicsSA) Institute of Internal Auditors (IIA) Information Systems Audit and Control Association (ISACA) Compliance Institute of South Africa Association of Arbitrators Corporate Counsel Association of South Africa
Financial and Business	South African Institute of Chartered Accountants (SAICA) Association of Corporate Treasurers of Southern Africa (ACTSA) Chartered Institute of Management Accountants (CIMA) South African Institute of Professional Accountants (SAIPA) National Business Initiative (NBI) Durban Chamber of Commerce and Industry (DCCI) Pietermaritzburg Chamber of Business (PCB) Chartered Institute of Purchasing (CIPS)
Product Quality, Infrastructure Stability, Research, Innovation, Science and Technology	Water Institute of Southern Africa (WISA) South African Association of Water Utilities (SAAWU) International Desalinisation Association South African Institute of Agricultural Engineers South African Institute of Mechanical Engineers International Association of Hydrological Sciences American Water Works Association (AWWA) International Water Association (IWA) Engineering Council of South Africa (ECSA) South African Institute of Civil Engineers (SAICE) Construction Industry Development Board (CIDB) South African Institute of Chemical Engineers (SAIChe) Project Management Institute South African Council for Planners South African Planning Institute South African National Committee on Large Dams (SANCOLD) The Association of SA Quantity Surveyors Concrete Society of Southern Africa NPC South African Council for the Project and Construction Management Professions (SACPCMP) The Southern African Institute of Mining and Metallurgy (SAIMM) South African Geomatics Council American Chemical Society (ACS)
Community and Environmental Sustainability, Science and Technology	International Association for Impact Assessment (IAIASa) South African Council for Natural Scientific Professions (SACNASP) Institute of Waste Management
Employee and Leadership Development, Operational Resiliency and Operational Optimisation	Institute of Information Technology Professional of South Africa (IITPSA) South African National Standards Association (SABS) South African Institute of Draughting Electrical Contractors' Association NACE International South African Right of Way Association (SARWA) Institute of Safety Management Fire Protection Association of South Africa South African Board of People Practice (SABPP) South African Nursing Council (SANC) South African Reward Association (SARA) South African Society of Occupational Health Nursing Practitioners (SASHON) Chartered Institute for Purchasing and Supply (CIPS) State Owned Entities Procurement Forum (SOEPF) Society of South African Archivists (SASA) Library and Information Association of South Africa (LIASA) South African Institute of Occupational Safety and Health (SAIOSH) Toastmasters International

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PERFORMANCE, ALIGNMENT TO STRATEGY AND REMUNERATION

Umgeni Water continues to successfully implement a three-component performance management system in the organisation. The system ensures that all employees have conceptual knowledge and understanding of the role and purpose of their jobs with line of sight to the entity's strategy and performance objectives and targets.

The Board of Umgeni Water assesses the entity's performances against pre-determined objectives on a quarterly and annual basis, whilst formal employee performance assessments are undertaken twice a year.

The performance management process at Umgeni Water is development orientated and intended to cultivate effective human resources

management and career development. As a result, appraisals are constructively used to provide feedback and coaching to individual employees concerning their job performance.

Performance is linked to remuneration in that performance bonuses are paid subject to all of the following requirements being met:

- The entity's balanced scorecard targets have been substantially met as set out in the Shareholder Compact with the Minister of Water and Sanitation;
- The divisional balance scorecard targets have been met as per divisional plans;
- The individual performance targets have been met as per individual performance contracts; and
- The entity can afford to pay performance bonuses.

Through this structured performance management system, Umgeni Water ensures implementation of its strategic goals through skilled, competent, motivated and engaged employees, whilst recognising and rewarding good performance.

DIVERSITY AND EQUAL OPPORTUNITY

Umgeni Water's workforce by employment type/category, race and gender is shown in **Table 11.1** and **Figure 11.1**. The organisation annually submits an Employment Equity Plan to the Department of Labour and prepares quarterly equity reports to track the status of its workforce diversity against its plan. Umgeni Water does not discriminate between men and women in terms of remuneration.



MOOI RIVER AT SPRING GROVE DAM

HUMAN RIGHTS

INVESTMENT AND PROCUREMENT PRACTICES

Umgeni Water is an entity of state that is committed to a system of acquisition of goods and services that is fair, equitable, transparent, competitive and cost effective and promotes the objectives of Broad-Based Black Economic Empowerment.

Awareness continues to be built amongst the entity's employees through requesting mandatory disclosures of interests in support of fair, equitable, transparent and competitive procurement practices.

Performance with participation goals set for the reporting period may be found in the Economic Empowerment chapter of this Annual Report.

The entity remains confident that it is contributing to effective economic transformation that will benefit the sector as a whole.

CHILD AND FORCED LABOUR

Umgeni Water, as a state-owned entity, subscribes fully to National Legislation, which ensures a healthy and safe work environment for its employees. The entity's Human Resources Policies comply and are in line with the Labour Relations Act (Act No. 66 of 1995), Basic Conditions of Employment Act (Act No. 75 of 1997) and their relevant Codes of Good Practice. The entity is also aligned to the United Nations Global Compact Principles and OECD recommendations in this regard. Umgeni Water does not practise child and forced labour.

NON-DISCRIMINATION

During the year, zero (0) incidents of discrimination were reported.

INDIGENOUS RIGHTS

Umgeni Water subscribes fully to the Bill of Rights in terms of the Constitution of the Republic of South Africa (Act 108 of 1997). During the year, there were zero (0) reported incidents of violation of rights of indigenous people in any aspect of the organisation's business.

HUMAN RIGHTS REMEDIATION

Zero (0) grievances related to human rights issues/contraventions were filed.

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IMPROVING RESILIENCY

12.1 ISO 17025 ACCREDITED LABORATORY SERVICES ASSURING WATER QUALITY

Four (4) modern ISO/IEC 17025 accredited laboratories make up the entity's Laboratory Services. These are Chemistry, Microbiology, Hydrobiology and Soil Chemistry Testing, all with a long established reputation of meeting international standards. Highly skilled and dedicated scientists, technicians, and laboratory support staff, utilising modern analytical techniques, enable this facility to provide a world-class service, 365 days a year.

During the year, the laboratory supported core business activities through:

- Providing assurance that the entity produces potable water that complies with drinking water standards;
- Assuring that treated effluent complies with wastewater and effluent discharge limits;
- Assuring, via the above, public health protection from water-borne diseases and water related health impacts;
- Undertaking research and development and generation of scientific data for new infrastructure developments;
- Supporting/auditing water treatment for process selection and optimisation;
- Undertaking catchment and river health monitoring to assess the status of water resources and quality of raw water supply; and
- Immediate provision of early warnings and alerts to stakeholders when a breach of quality standards is detected. An incident management protocol is followed, to contain and remedy the breach.

Water samples from the entire supply system (catchment to consumer) are collected by a team of dedicated sampling officers on a daily basis throughout Umgeni Water's operational area, and are assessed in terms of its physical, chemical and microbiological characteristics.

The analytical results are produced within specified times that forms part of a Service Level Agreement with end users. Supported by LabWare Laboratory Information Management System (LIMS), water quality results are captured, validated, stored and reported. The laboratory generates 20 000 to 30 000 analytical results per month. Direct access to the results is also provided to external users via the Electronic Water Quality Management System (EWQMS), the IRIS Blue Drop System (BDS) and the IRIS Green Drop System (GDS).

In addition to assuring the quality of bulk water produced, the Laboratory Services provides water testing and sampling services to municipalities and various private sector clients. This valuable service supports and assists municipalities to improve their IRIS Blue and Green Drop compliance.

During this financial year, the Resource Quality Information Services (RQIS) of the Department of Water and Sanitation contracted Laboratory Services to identify and enumerate algal samples from the National Eutrophication Monitoring Programme (NEMP), owing to their expertise in this complex area.

Many South African impoundments exhibit high nutrient enrichment with consequent eutrophication related problems, including toxic algal blooms. However, many impoundments do not have regular eutrophication monitoring programmes, and the main aim of the NEMP is to fulfil this

requirement for the more than eighty (80) impoundments in South Africa. Umgeni Water Laboratory Services received approximately 1 500 samples from these impoundments through DWS.

12.2 RESEARCH, DEVELOPMENT AND INNOVATION

Umgeni Water recognises the importance of investing in Research, Development, and Innovation. The key objectives of its research programme include:

- Addressing challenges of the water sector, including supporting economic growth and improving the quality of life;
- Creating new water knowledge and finding technical solutions for better planning and water management, leading to sustainable development;
- Optimising operational processes and reducing costs;
- Investigating new technology and improving water quality compliance;
- Reducing demand through innovation;
- Increasing water availability from exploring non-traditional sources of supply and re-use;
- Protecting ecological infrastructure and biodiversity from the harmful effects of pollution;
- Adapting to climate change;
- Increasing competitiveness;
- Protecting water resources, and reducing non-revenue water;
- Providing research training and intellectual capital development; and
- Aligning research programmes with the broader national policies and plans.



260 000

analytical results generated from the
entity's laboratory in 2017/2018



MIDMAR RAW WATER PIPELINE

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The entity has established links and collaborates with academic institutions and researchers, both nationally and internationally. Locally, research is undertaken with local sector partners including the University of KwaZulu-Natal (UKZN) and the Water Research Commission (WRC).

In 2011, the Umgeni Water Chair for Water Resources Management was established at UKZN to expand and complement internal research initiatives. Specific aims of the Chair are to:

- Establish mutually beneficial projects in teaching, research and technical services;
- Building on existing projects and implementing new ones;
- Making use of complementary skills and pursuing opportunities of a strategic nature locally, nationally, and internationally;

- Explore beneficial opportunities to provide research projects to postgraduate students;
- Supervise research projects;
- Develop project proposals and research programmes; and
- Seek ways in which there can be closer collaboration in research and development on technological and socio-economic projects.

The partnership with UKZN has proven hugely successful. Postgraduate students undertaking studies in water resources management and related fields were the main beneficiaries. During the reporting year, eight (8) students graduated with research degrees (four (4) PhD degrees, and four (4) MSc degrees) through the Chair for Water Resources Management.

These include studies in water quality and land-use management, hydrology, community water services, water quality monitoring, wetlands, pollution control, alien plant management, water and wastewater treatment processes, sludge management and ecology.

A large component of research is undertaken by subject matter specialists internally within the entity. These studies are expected to yield both economic and non-economic benefits with significant gains in intellectual capital, improved water security, improved water quality, and a better life for society. Steady progress has been noted on a number of high priority projects as per **Table 12.1**.

Table 12.1: Research Projects Undertaken Internally Within Umgeni Water

Research Title	Objective
Determination of Residual Polymeric Coagulants in Potable Water using gold nanoparticles	To develop and validate a novel method for detecting low levels of polymers in water.
Zeolite Desalination	The synthesis and use of zeolites in the desalination of sea water.
Development of an ELISA method for determination of endocrine-disrupting compounds in wastewater	To develop and validate a novel method for the detection and quantification of endocrine- disrupting compounds in wastewater.
Darvill Process Investigations and Modelling	To optimise the simulation model for Darvill, which will assist in the monitoring of the process, prediction of process performance and in the upgrade of the plant.
Laboratory based co-digestion of Fats, Oils and Grease (FOGs) with primary sludge	To investigate the digestibility of fats, oils and grease with primary sludge under laboratory conditions. To develop a feeding regime guideline to inform optimal FOGs loading rates for Darvill digesters.
Floating Treatment Wetlands	To construct pilot floating wetlands at Wastewater Treatment Works as a mechanism to enhance the treated water quality, using different wetland plant species.
Development of a flood Early Warning System in the UMDM pilot areas	The objective of the project is to develop a Flood Forecasting and Early Warning System for the Umgungundlovu DM pilot area. The system will be used to monitor impending flood within the pilot areas and issue early warnings to UMDM in the event of an impending flood.
Umgeni Water Climate Change Impact Study	To investigate the potential climate change impacts on relevant water resources in the Umgeni Water and surrounding catchments, using outputs of recent Global Climate Models as inputs to appropriate hydrological models.

12.3 INFORMATION AND COMMUNICATIONS TECHNOLOGY

Umgeni Water is faced with unprecedented growth opportunities. These include; regionalisation and geographical expansion, as well as integration across the water value-chain. Embracing technology and remaining well-connected is vital for the entity to be efficient in its operations.

The entity has extended its wireless communications infrastructure in its operational area to reach newly acquired water and wastewater treatment works in the uThukela District Municipality to deliver data, video and voice connectivity.

Benefits of this project are to provide high performance and affordable connectivity throughout the entity's area of operation. The organisation is also improving communication, connectivity and mobility in the way employees can work, through embracing the Future of Connectivity concept.

The ICT project completed in the reporting year included the installation of video conferencing systems in Umgeni Water boardrooms. This has improved connectivity by allowing anyone from anywhere to dial into the meeting from almost any device. This includes Skype for business, video conference systems, computers, laptops, tablets, smartphones and VC phones. In addition, the facilities allow meeting attendees to make presentations through wireless connectivity.

12.4 RISK MANAGEMENT

Risk Management at Umgeni Water is guided by an Integrated Risk Management Framework, which is aligned to strategy, thereby ensuring a focused and directed process of Risk Management in the entity. The risk appetite and tolerance framework is reviewed and approved on an annual basis.

The entity's strategic risks are shown in **Table 12.2** and show the link to strategic

perspectives, objectives and outcomes and the risk cause, context and treatment.

Of a total of seven (7) strategic risks, all are outside appetite but within tolerance levels.

Six (6) strategic risks (86%) have been managed to a level equal to or above reasonable (> 55%) response effectiveness.

Figure 12.1: Overall Response Effectiveness

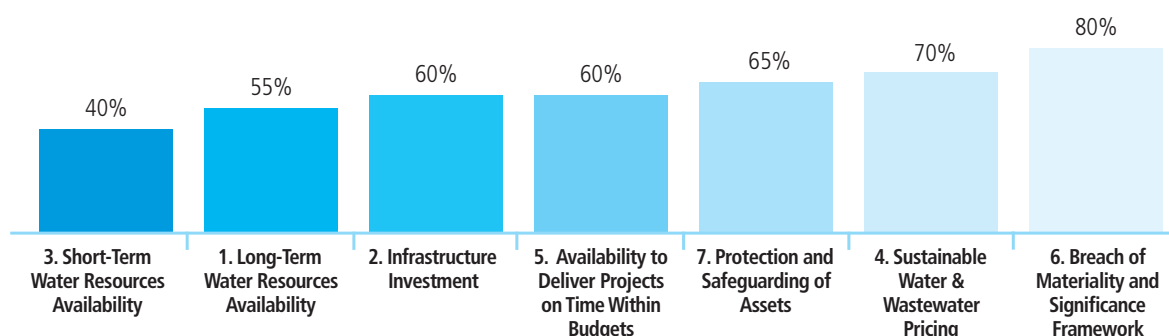


Table 12.2: Strategic Risks as at 30 June 2018

Risk #	Risk Name, Score and Status	Cause, Context and Treatment	Main Strategic, Perspective, Objectives and Outcomes Impacted
1	<p>Long-term Water Resources Availability</p> <ul style="list-style-type: none"> Overall Response Effectiveness: Reasonable 55% Severity: Moderate-High: 40 Probability: 50% fairly poor and/or could occur within 2 years Risk Owner: Executive: Engineering & Scientific Services <p>SCORE 20 • LOW</p> <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> Outside Appetite Within Tolerance 	<p>Cause & Context: Customers will not be guaranteed 99% assurance of supply in the Mgeni System and 98% assurance of supply in the South Coast System as required, due to demand being higher than the yield within the next 5 years. Delay in the implementation of the uMkhomazi Water Project to increase the yield in the Mgeni System increases the risk of non-supply and the need for restrictions.</p> <p>Treatment Approach: <i>Integrated planning and implementation for medium and long-term augmentation of systems with stakeholders. Review of water resources mix including reuse, other water conservation and demand management initiatives and desalination.</i></p> <p><i>Timely completion of target water resources projects including: Mgeni system - uMkhomazi Water Project and South Coast system - Lower uMkhomazi BWSS.</i></p>	<p>Organisational Efficiency and Effectiveness Perspective: SO2: Increase bulk infrastructure access, customers and services</p> <p>Reliability of Supply</p> <p>Outcomes: Water Resources Adequacy; Customer Satisfaction; Stakeholder Understanding and Support; and Community and Environmental Sustainability.</p>

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Table 12.2: Strategic Risks as at 30 June 2018 (continued)




Risk #	Risk Name, Score and Status	Cause, Context and Treatment	Main Strategic, Perspective, Objectives and Outcomes Impacted
2	<p>Infrastructure Investment</p> <ul style="list-style-type: none"> Overall Response Effectiveness: Reasonable 60% Severity: Moderate-Low: 20 Probability: 80% likely &/or could occur within 1 year Risk Owner: Chief Financial Officer <p>SCORE 16 • LOW</p>  <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> Outside Appetite Within Tolerance 	<p>Cause & Context: Alignment, prioritisation and implementation of the infrastructure plan between Umgeni Water and customers. Delays in decision-making relating to new infrastructure. Inadequate return on infrastructure investment due to unaffordability by rural customers. Mismatch between volume in customer's original request and actual off-take, the latter being either larger or smaller volumes.</p> <p>Treatment Approach: <i>Critical supply infrastructure is annually identified, aligned, prioritised, funded and implemented as part of the entity's capital infrastructure programme linked to strategy.</i></p> <p><i>Details of major infrastructure initiatives and progress with these are outlined in the Bulk Potable Water Supply and Wastewater Treatment and Disposal Plans.</i></p>	<p>Financial Performance Perspective:</p> <p>S05: Improve financial sustainability and enhance socio-economic development</p> <p>Capital Expenditure Programme</p> <p>Manage costs within Approved Budgets</p> <p>Outcomes: Financial Viability; Infrastructure Stability; and Community and Environmental Sustainability.</p>
3	<p>Short-Term Water Resources Availability</p> <ul style="list-style-type: none"> Overall Response Effectiveness: Poor 40% Severity: Moderate-Low: 20 Probability: 80% likely &/or could occur within 1 year Risk Owner: Executive: Engineering & Scientific Services <p>SCORE 16 • LOW</p>  <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> Outside Appetite Within Tolerance 	<p>Cause & Context: Dam levels are such that there is a threat of non-supply if mitigation measures are not put in place (restrictions, emergency schemes).</p> <p>Treatment Approach: <i>On-going short-term demand management initiatives. Implementation of appropriate operating rules. Water rationing implemented as per the target percentage for applicable systems.</i></p> <p><i>Collaboration and partnerships to pool efforts, such as Joint Operating Committees. Implementation of the emergency scheme to transfer water from the Lovu River to the Amanzimtoti Water Works to support the supply from the Mgeni system.</i></p>	<p>Organisational Efficiency and Effectiveness Perspective:</p> <p>S02: Increase bulk infrastructure access, customers and services</p> <p>Reliability of Supply</p> <p>Outcomes: Water Resources Adequacy; Customer Satisfaction; Stakeholder Understanding and Support; and Community and Environmental Sustainability</p>
4	<p>Sustainable Water & Wastewater Pricing</p> <ul style="list-style-type: none"> Overall Response Effectiveness: Good 70% Severity: Moderate-Low: 20 Probability: 65% even probability &/or could occur within 1- 2 years Risk Owner: Chief Financial Officer <p>SCORE 13 • LOW</p>  <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> Outside Appetite Within Tolerance 	<p>Cause & Context: Constraints on ability to charge a tariff that will ensure financial viability of Umgeni Water and protection of cash flows in view of the operating environment. Major cost-drivers are fixed. Wastewater business model needs review.</p> <p>Treatment Approach: <i>Strategic customer engagement on underlying assumptions for annual tariff review including the annual capital programme. Scenario planning using the tariff model to simulate scenarios (CAPEX acceleration, increase in cost and lower sales volumes, non-receipt of grant funding as per base case assumptions) and the effect on the tariff increase, operating cash flows, optimal debt level and covenants. Improvement of wastewater business model.</i></p>	<p>Financial Performance Perspective:</p> <p>S05: Improve financial sustainability and enhance socio-economic development</p> <p>Manage costs within approved budget</p> <p>Outcomes: Financial Viability; Customer Satisfaction; and Community and Environmental Sustainability.</p>

Table 12.2: Strategic Risks as at 30 June 2018 (continued)

Risk #	Risk Name, Score and Status	Cause, Context and Treatment	Main Strategic, Perspective, Objectives and Outcomes Impacted
5	<p>Ability to Deliver Projects on Time and Within Budget</p> <ul style="list-style-type: none"> Overall Response Effectiveness: Reasonable 60% Severity: Moderate-Low: 20 Probability: 50% fairly poor and/or could possibly occur within 2 years Risk Owner: Executive: Engineering & Scientific Services <p>SCORE 10 • LOW</p> <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> Outside Appetite Within Tolerance 	<p>Cause & Context: Actual cost and delivery time of projects may significantly differ from approved plans. The variation may lead to undesirable impacts such as reputational damage and financial costs. Delays due to appeals, re-appeals and finalisation of contracts with requisite CPG targets. Increase in the risk of social disruption. Unclear/ill-defined scopes of work. Lack of adherence to the internal PLP protocols, procurement and contractual shortcomings.</p> <p>Treatment Approach: <i>Continued effective engineering, procurement and construction management (EPCM) process alignment within the specified time-frames. Communities/ stakeholder engagement at design phase.</i></p>	<p>Financial Performance Perspective: SO5: Improve financial sustainability and enhance socio-economic development</p> <p>Manage costs within approved budget</p> <p>Organisational Efficiency and Effectiveness Perspective: SO2: Increase bulk infrastructure access, customers and services</p> <p>Increase access to services</p> <p>Outcomes: Financial Viability; and Community and Environmental Sustainability.</p>
6	<p>Breach of Materiality and Significance Framework</p> <ul style="list-style-type: none"> Overall Response Effectiveness: Good 80% Severity: Minor-Low: 5 Probability: 80% likely &/or could occur within 1 year Risk Owner: Chief Financial Officer <p>SCORE 4 • LOW</p> <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> Outside Appetite Within Tolerance 	<p>Cause & Context: Incurring fruitless, wasteful, irregular and unauthorised (over-budget) expenditure as a result of lack of understanding and adherence to policies and procedures. Misstatements of financial statements.</p> <p>Treatment Approach: <i>Policies, delegation of authority framework and procedures in place. Strategic oversight and assurance of compliance through on-going assessment of control effectiveness.</i></p>	<p>Financial Performance Perspective: SO5: Improve financial systems and key financial ratios</p> <p>Financial Reporting Compliance</p> <p>General Compliance (Risk, Audit and Governance) Perspective: SO6: Improve governance, risk and compliance systems</p> <p>Effective Internal Controls, Compliance and Risk Management</p> <p>Outcomes: Financial Viability; Operational resiliency; and Stakeholder Understanding and Support.</p>
7	<p>Protection and Safeguarding of Assets</p> <ul style="list-style-type: none"> Overall Response Effectiveness: Reasonable 65% Severity: Minor-Low: 5 Probability: 65 % even probability &/or could occur within 1- 2 years Risk Owner: Executive: Corporate Services <p>SCORE 3 • LOW</p> <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> Outside Appetite Within Tolerance 	<p>Cause & Context: Illegal settlements and unauthorised construction on properties and servitudes. Potential land claims on registered servitudes and new servitudes to be acquired. Umgeni Water's right of access limited. General encroachment and impact on assets.</p> <p>Remote locations are difficult to secure or monitor, resulting in an increase in theft and vandalism with damage to third party property and injury to staff.</p> <p>Treatment Approach: <i>Implementation of servitude management policy and procedure. Safety and security measures to protect staff and public. Community awareness campaigns on potential life-threatening consequences of encroachment innovative solutions implemented for reduction in theft and vandalism of infrastructure and improvement in the internal control environment for ICT-related assets. Properties and servitudes maintained and monitored. Disposal of property no longer in use.</i></p>	<p>General Compliance (Risk, Audit and Governance)</p> <p>Effective Internal Controls, Compliance and Risk Management</p> <p>Outcomes: Financial Viability; Operational resiliency; and Community and Environmental Sustainability.</p>

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Financial risks are detailed in the Annual Financial Statement section of this Annual Report.

MITIGATED RISKS

Mitigated Risks refer to risks that have been treated to an acceptable level with continual monitoring by Internal Audit to ensure the controls in place are still effective and efficient. There were no strategic risks mitigated.

EMERGING RISKS

The entity regularly reviews the internal and external landscapes with a view to identifying emerging risks. Climate change remains on the radar as an emerging strategic risk and divisional emerging risks are constantly monitored.



SPRING GROVE DAM
PUMPSTATION



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FINANCIAL REVIEW

13.1 INTRODUCTION

Umgeni Water achieved sound financial performance in 2018 as a result of its resilient and agile operating systems that allowed for swift recovery from the drought. The strengthening of the balance sheet provides the financial resources that are required to implement critical mega infrastructure projects that will ensure water resource security in the medium to long term as well as assist customers to meet future water demands and eliminate the water service delivery backlogs in the province of KwaZulu-Natal.

Operating profits were 70% higher at R1 007m (2017: R593m), while gross profit margins increased by 6% and profits for the year by 59% predominantly due to the 6% sales volumes growth combined with a 15% bulk water tariff increase. The recovery of the operating profit margins alleviates the pressure on the financial loan covenant interest cover ratio which was under stress in the previous year. As a result capital expenditure had to be constrained as new funding was deferred to 2020 to allow for the recovery in operating profits so as not to risk any breaches to the interest cover ratio. Cost of sales increased by 1% due to lower section 30 activities and other administrative expenses reduced by 7% mainly as a result of impairment reversals on rural development infrastructure. Net finance income was 19% higher year on year as finance costs continue to be capitalised on qualifying assets whilst finance income has increased in line with the increase in investments.

Umgeni Water measures its financial performance in terms of its achievement against financial indicators which are aligned to the organisation's strategic objectives and are included in the Performance Against Umgeni Water Strategy and Shareholder Compact Indicators 2017/2018 of this Annual Report, pages 60-67.

A wide-angle photograph of the Spring Grove Dam. The foreground is filled with the calm, blue water of the reservoir. In the middle ground, a line of green trees separates the water from a row of small, white, gabled-roof buildings. Behind these buildings, a hillside rises, covered in more trees and some larger structures. The sky is a clear, pale blue.

SPRING GROVE DAM



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FINANCIAL REVIEW

13.2 OPERATING PERFORMANCE

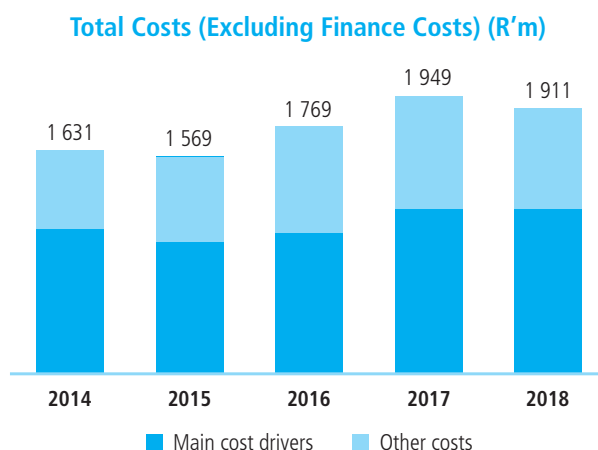
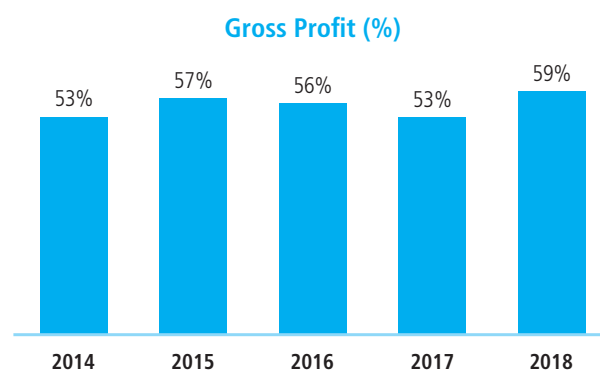
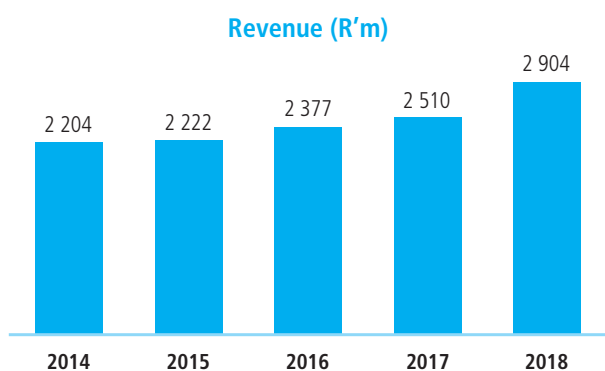
13.2.1 OVERVIEW OF OPERATING PERFORMANCE

13.2.1.1 YEAR ON YEAR CHANGES OF GROUP OPERATING PERFORMANCE

Bulk water revenue increased by 22% due to the 15% bulk water tariff increase combined with a 6% sales volumes growth, whilst the bulk water direct operating costs increased by 12% arising from the main cost drivers. The reduction in section 30 activities is due to the completion of projects. The 19% increase in wastewater is due to annual price increases in line with contractual agreements with customers which allows for upgrades and improvements to wastewater treatment works.

Other operating and administrative expenses decreased by 7% as a result of reversals of impairments on rural development infrastructure primarily due to rural bulk infrastructure grants received.

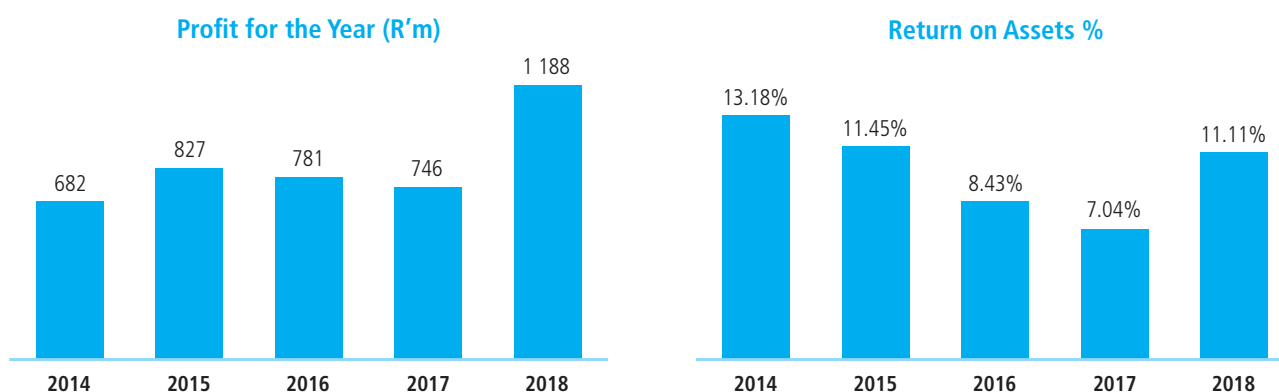
	2018	%	2017
	R'm	Change	R'm
Revenue	2 904	16	2 510
Water	2 666	22	2 187
Wastewater	172	19	145
Section 30	66	(63)	178
Cost of sales	(1 192)	1	(1 179)
Water	(1 051)	12	(937)
Wastewater	(97)	10	(88)
Section 30	(44)	(71)	(154)
Gross profit	1 712	29	1 331
GP%	59%	6%	53%
Other income	14	(56)	32
Other operating and administration expenses	(719)	(7)	(770)
Profit from operations	1 007	70	593
Net finance income	176	19	148
Share of profit from associate	5	-	5
Profit before tax	1 188	59	746



13.2 OPERATING PERFORMANCE (continued)

13.2.1 OVERVIEW OF OPERATING PERFORMANCE (continued)

13.2.1.1 YEAR ON YEAR CHANGES OF GROUP OPERATING PERFORMANCE (continued)



13.2.1.2 MAIN COST DRIVERS INCLUDED IN COST OF SALES

The main cost drivers for direct operating costs are chemicals, energy, maintenance, raw water and staff costs which account for 79% (2017: 72%) of cost of sales. Bulk water cost of sales increased by 12% driven by the increases in the main cost drivers.

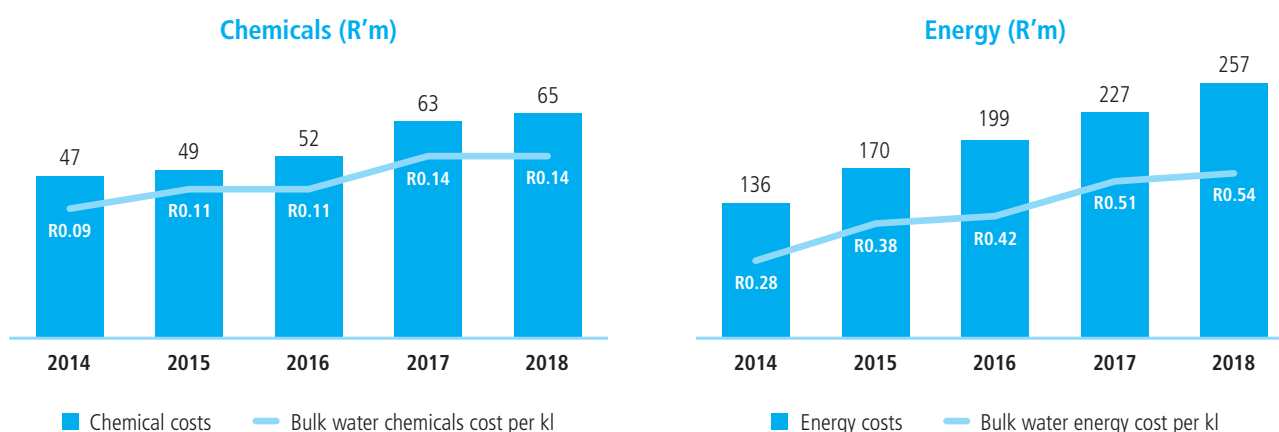
Energy costs were 13% higher year on year mainly due to the new Lower Thukela Bulk Water Supply Scheme which was commissioned in September 2017, the large user charges introduced by Msunduzi Local Municipality and an average energy price increase of 4%. Overall pumping reduced as compared to the prior year as some of the major pumps underwent maintenance during the year and river flooding as a result of the rains did not allow for conducive conditions to pump.

Staff costs increased by 7% mainly due to the average salary increases of 8% and an increase in the staff establishment to support newly commissioned schemes offset by lower provisions for incentive bonuses in accordance with the performance management policy.

Raw water costs increased by 16%. The average raw water tariff increase was 8% for the Mgeni system and 9% for the Hazelmere system, whilst volumes extracted from the Mgeni system which is the main source of supply were 6% higher.

Maintenance costs were 10% higher in line with the asset maintenance requirements to ensure that vital assets continue to operate to produce potable bulk water in compliance with all relevant water compliance standards and in terms of the bulk water supply agreements with customers.

Chemical costs increased by 3% primarily due to increased usage resulting from higher dosing requirements to treat poor raw water quality, offset by lower average pricing due to changes in the dosing mix of chemicals which was required to obtain the appropriate potable water quality levels.

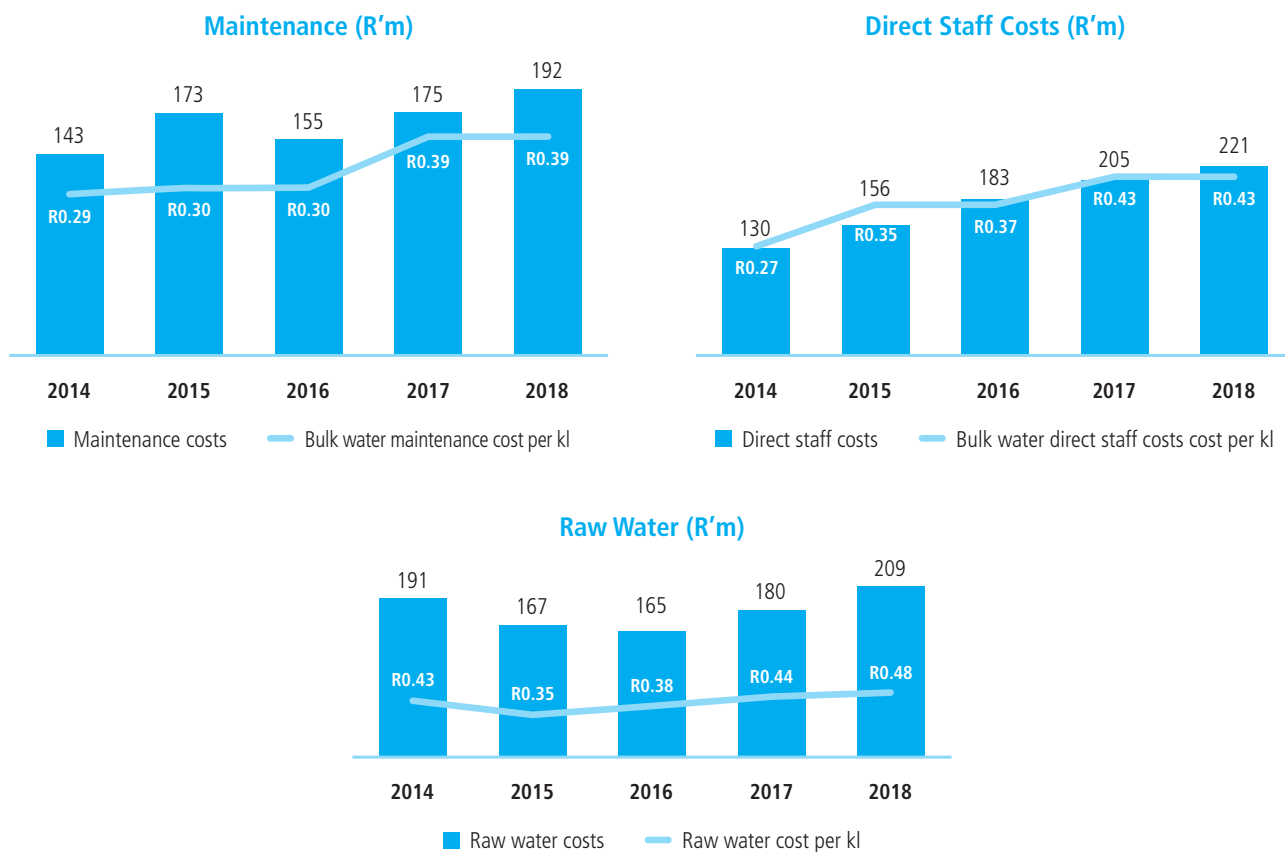


FINANCIAL REVIEW

13.2 OPERATING PERFORMANCE (continued)

13.2.1 OVERVIEW OF OPERATING PERFORMANCE (continued)

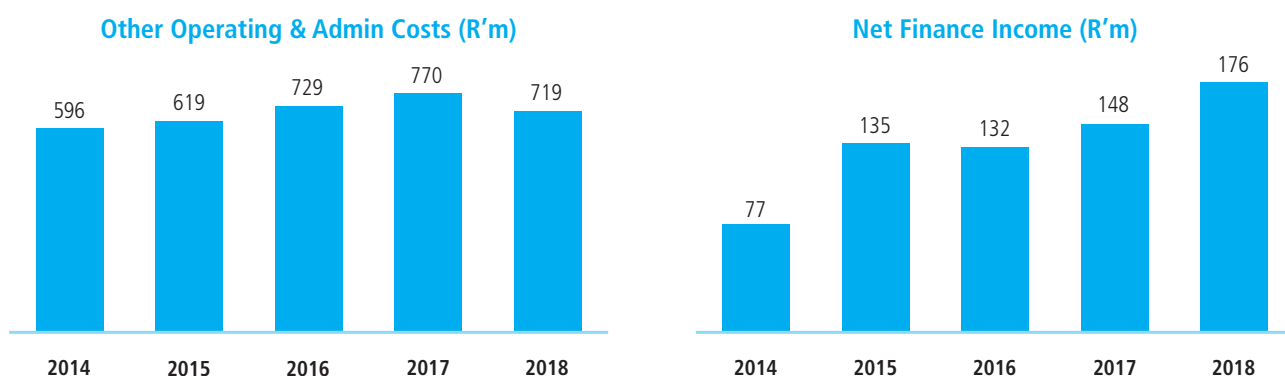
13.2.1.2 MAIN COST DRIVERS INCLUDED IN COST OF SALES (continued)



13.2.1.3 OTHER OPERATING AND ADMINISTRATION EXPENSES AND NET FINANCE INCOME

Other operating and administration costs decreased by 7% primarily due to the reversal of impairments on rural development infrastructure of R118m (2017: R42m impairment expense) as a result of rural bulk infrastructure grant funding received.

Net finance income was 19% higher directly associated with the increase in interest income on investments. Interest income totalled R178m (2017: R150m) while finance costs after borrowing costs capitalised was R2m (2017: R1m). Borrowing costs capitalised to qualifying assets were R202m (2017: R211m).

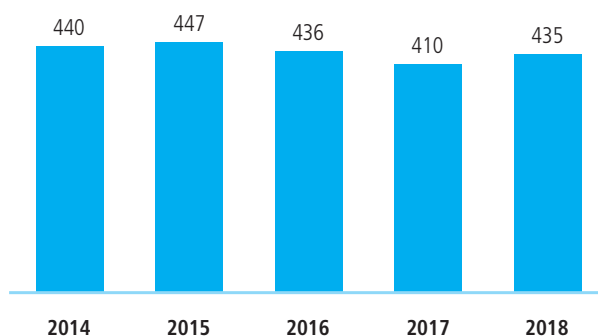


13.2 OPERATING PERFORMANCE (continued)

13.2.2 BULK WATER SALES VOLUME ANALYSIS

Bulk water sales volumes grew by 6% in the current year as the drought subsided and water supply constraints with customers were lifted during the period under review.

Water Sold (kl'm)



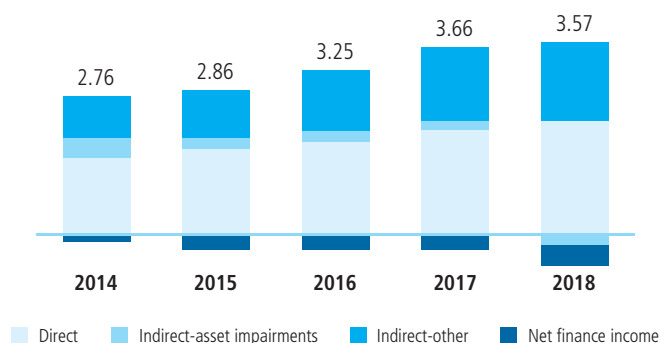
Volume by Customer and % Change

	2014		2015		2016		2017		2018	
	kl'000	%	kl'000	%	kl'000	%	kl'000	%	kl'000	%
eThekweni MM	327 011	3.6%	331 347	1.3%	320 151	(3.4%)	299 045	(6.6%)	314 523	5.2%
Other customers	112 533	5.1%	115 201	2.4%	115 575	0.3%	110 843	(4.1%)	120 045	8.3%
Msunduzi LM	66 991	3.6%	70 362	5.0%	69 944	(0.6%)	62 513	(10.6%)	68 433	9.5%
uMgungundlovu DM	15 052	1.9%	15 041	(0.1%)	19 417	29.1%	18 475	(4.8%)	18 797	1.7%
Semcorp Siza Water	4 767	9.5%	4 438	(6.9%)	3 338	(24.8%)	3 360	0.6%	3 458	2.9%
Ugu DM	9 890	9.7%	10 317	4.3%	11 295	9.5%	12 916	14.4%	13 981	8.2%
iLembe DM	14 810	11.8%	14 060	(5.1%)	10 790	(23.3%)	12 716	17.9%	14 182	11.5%
Harry Gwala DM	862	(7.9%)	837	(2.9%)	661	(21.0%)	743	12.5%	1 066	43.4%
Other	161	16.0%	146	(8.9%)	130	(9.5%)	119	(8.5%)	129	8.2%
Total	439 544	4.0%	446 548	1.6%	435 726	(2.4%)	409 887	(5.9%)	434 568	6.0%

13.2.3. BULK WATER COST PER KILOLITRE (KL)

The cost of bulk water per kl decreased by 2% mainly due to increased bulk water sales volumes as well as lower total costs arising from the reversal of impairments and higher net finance income.

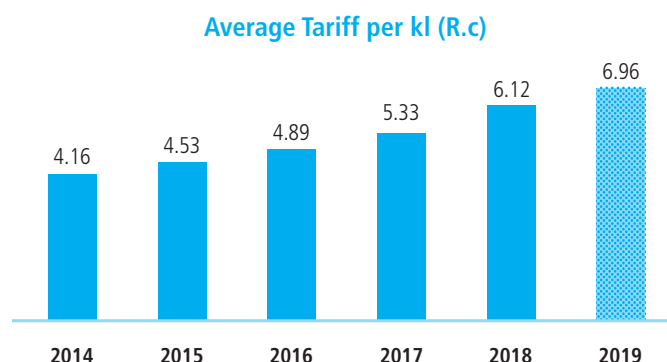
Cost per kl of Bulk Water (R.c)



FINANCIAL REVIEW

13.3 BULK WATER TARIFF

The average Umgeni Water bulk water tariff increase for 2017/2018 was 15% and the bulk water tariff increase for the next financial year, effective 1 July 2018, has been approved at 13.7% after taking into consideration the capital infrastructure programme together with the funding requirements and operating cash flows required to repay debt.

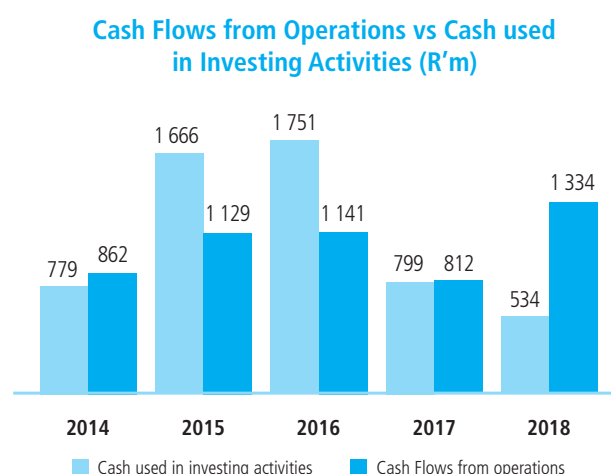
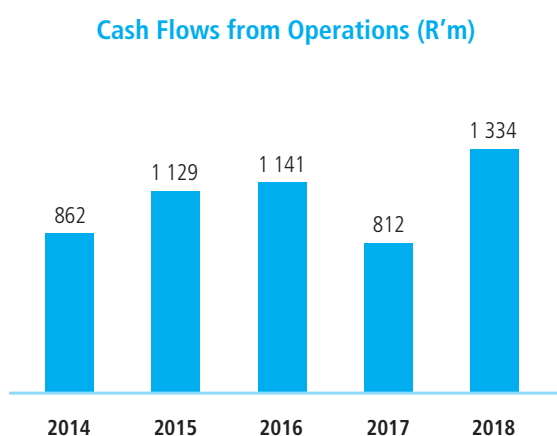


13.4 CASH FLOW ANALYSIS

Operating cash flows were 64% higher at R1 334m (2017: R812m), primarily due to the 6% sales volumes growth and 15% bulk water tariff increase combined with reduced working capital requirements.

Cash used in investing activities were R534m (2017: R799m) consisting of R972m (2017: R1 126m) additions to property, plant & equipment offset by R455m (2017: R371m) rural bulk infrastructure grant funding received for development projects.

Cash used in financing activities was R798m (2017: R32m) which consisted of R79m (2017: R79m) loan repayments and R78m (2017: R110m) net interest paid whilst investments increased by R641m as a result of reduced capital expenditure and rural bulk infrastructure grants received.



13.5 CAPITAL PROJECTS

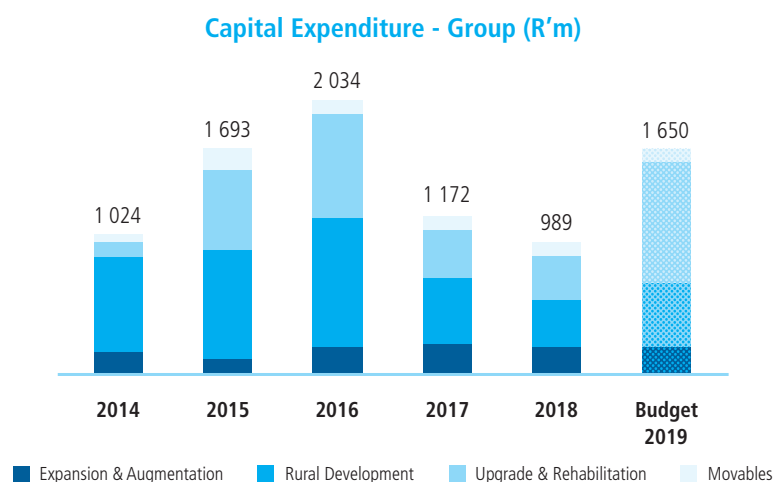
The capital expenditure programme is based on Umgeni Water's infrastructure master plan which is aligned to the KZN provincial and local strategic priorities to meet regional water demands. The capital expenditure programme is estimated at R9 759m for the next 5 years as per the Corporate Business Plan for 2019 which is 56% higher than the previous year with two key mega-infrastructure projects that have now been accelerated due to the need for water resources. The Mkhomazi Water Project - bulk water components which total R6 132m of which R1 757m has been included in the five year period and Lower Mkomazi Bulk Water Supply Scheme which totals R2 894m of which R2 400m has been included in the five year period. Details of the major projects in progress can be found in the infrastructure section of this Annual Report on page 78.

The capital expenditure commitments for the next five years will be funded through a combination of available cash investments and operating cash flows, regional bulk infrastructure grants and new debt of approximately R2.8bn.

For further details on the funding requirements, refer to section 7.1.

13.5.1 CAPITAL EXPENDITURE

During the year capital expenditure including intangible assets totalled R989m (2017: R1 172m). Details of major projects are included in the infrastructure section of this Annual Report on page 78.



13.5.2 DEVELOPMENT PROJECTS

In response to customer water demands and the need to eliminate water service delivery backlogs, a specific allocation of R2 811m for development projects has been made for the period 2019 to 2023.

Due to their developmental nature, there is a need for government support via subsidy or grant funding for part of the social component of the development projects which cannot be recovered through the existing tariff structure. The social component carried by Umgeni Water is reflected in the statement of profit and loss as impairments. These impairments are recognised during the construction period and reflected in work in progress on a progressive basis.

Developmental Projects Funding & Impairments June 2018

Project	System	*Total Projected Cost	Projected Funding Split		Total Project Cost June 2018	2018 Impairment	
			Regional Bulk Infrastructure Grant Funding	UW Funding		%	R'000
		R'000	R'000	R'000	R'000		
Impendle	Upper Umgeni	614 304	-	614 304	5 119	19%	603
			0%	100%			
Greater Mpofana Phase 1	Mooi	858 126	441 935	416 191	465 191	19%	(50 544)
			52%	48%			
Mhlabatshane Sub-Regional Scheme Phase 2 (Mzimkhulu River)	South Coast	878 389	-	878 389	9 685	39%	3 765
			0%	100%			
TOTAL		2 350 818	441 935	1 908 883	479 995		(46 176)
			19%	81%			

* Total projected cost includes interest and escalation

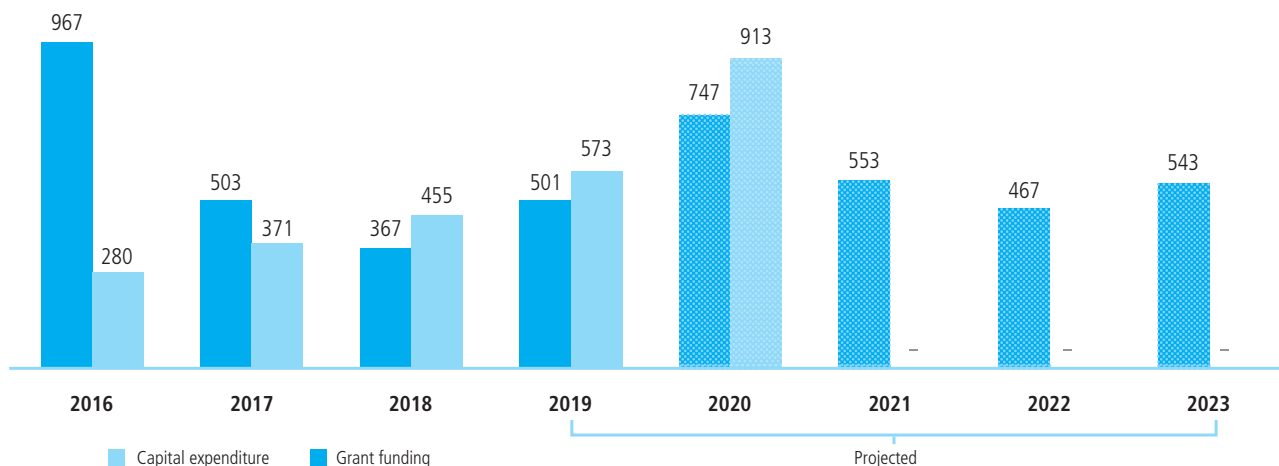
Impairment reversal on development infrastructure commissioned and included under buildings and infrastructure totalled R72m (2017: R3m impairment expense). Further details on impairments are included in note 9 of the Financial Statements.

FINANCIAL REVIEW

13.5 CAPITAL PROJECTS (continued)

13.5.2 DEVELOPMENT PROJECTS (continued)

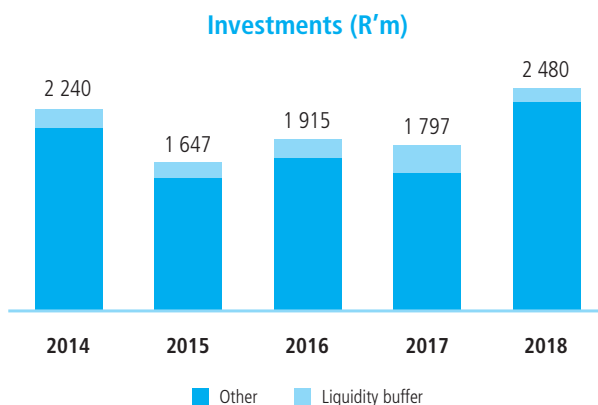
Capital Expenditure on Development Projects and Grant Funding (R'm)



The projected capital expenditure is per the approved 2019 business plan, whilst the projected grant funding is per the latest approved RBIG funding schedule received from the Department of Water and Sanitation in June 2018.

13.6 INVESTMENTS

Financial investments totalled R2 480m (2017: R1 797), a 38% increase due to reductions in capital expenditure and rural bulk infrastructure grant funding received.



13.7 DEBT MANAGEMENT

Debt Management is a key focus area at Umgeni Water and is integral to the delivery of sustainable financial business solutions. Umgeni Water targets a debt: equity ratio of 0.67 and an interest rate structure of 70% fixed and 30% variable.

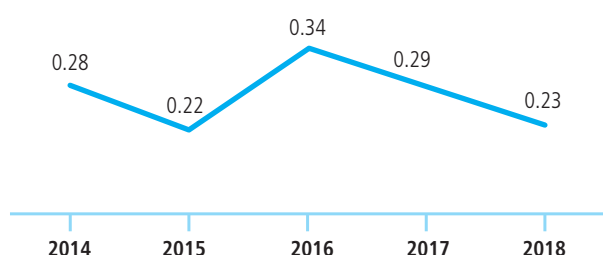
The debt: equity ratio improved by 21% to 0.23 (2017: 0.29) while the interest rate structure is 90% fixed and 10% variable (2017: 86% fixed and 14% variable). The high fixed rate structure is as a result of the two bonds in issue (UG21 and UG26) which comprise 82% of the total interest bearing liabilities. The gross weighted average cost of capital was 10.61% (2017: 10.59%).

During the year R79m collectively was repaid towards the DBSA and EIB loans.

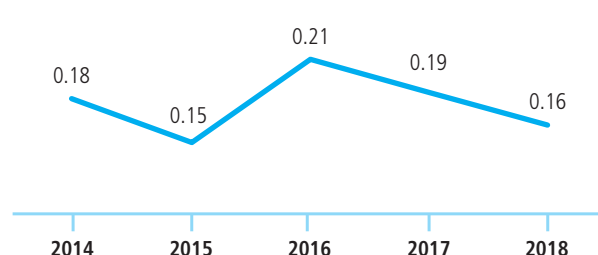
13.7 DEBT MANAGEMENT (continued)

	2018	2017
	R'm	R'm
Debt		
Long-term	1 793	1 872
Short-term	79	79
Total Debt	1 872	1 951
Decrease in debt	(79)	(78)

Debt: Equity (ratio)



Debt: Assets (ratio)



13.7.1 FUNDING REQUIREMENTS

Umgeni Water will continue to fund its operating and capital expenditure requirements in the most cost effective way while diversifying its sources of funding. Umgeni Water's funding sources encompass:

- issuing through its DMTN programme which has an authorised amount of R4 000m:
 - new bonds for long term funding requirements;
 - commercial paper and other short term notes for short to medium term needs;
- utilising development funding (including grant funding); and
- bank loans.

As per the Corporate Business Plan for 2019 the detailed cash flow forecasts have been prepared for the next five years, taking into account the group's R9 759m planned capital expenditure (unescalated) and is detailed in the table that follows:

FUNDING REQUIREMENTS	Short Term	Medium Term			Long Term
Financial Year (R'm)	2019	2020	2021	2022	2023
	R'm	R'm	R'm	R'm	R'm
Operational Cash Flows	1 355	1 703	1 945	2 204	2 483
CAPEX – Gross (Escalated)	(1 648)	(2 843)	(2 211)	(2 068)	(2 923)
Net Operating and CAPEX Cash Flow	(293)	(1 140)	(267)	136	(440)
CAPEX – Grants: Confirmed	573	913	108	-	-
Financing Activities - Capital					
Existing Debt	(79)	(29)	(29)	(25)	(25)
UG21 repayment	-	-	(600)	-	-
New Debt	-	1 500	1 213	(87)	(87)
Financing Activities – Net Finance Costs					
Existing Financial Instruments	(115)	(46)	280	101	63
New Debt	-	(178)	(329)	(319)	(309)
Funding Requirements	86	1 020	376	(193)	(797)
Redemption Portfolio	-	-	363	-	(7)
Redemption Portfolio – Interest earned	-	-	259	-	-
Net Incremental Funding requirement per annum	86	1 020	997	(193)	(804)
Net (Funding) Investing Requirements					
Opening Balance Available Investments	1 047	1 133	2 153	3 150	2 957
Closing Balance	1 133	2 153	3 150	2 957	2 153

FINANCIAL REVIEW

13.7 DEBT MANAGEMENT (continued)

13.7.1 FUNDING REQUIREMENTS (continued)

The funding requirements in the short to medium term will be funded via operating cash flows, the utilisation of existing financial investments, grant funding and new debt of R2 800m of which R1 500m is to be issued in 2020 and R1 300m in 2021. Further details of the various sources of funding available to Umgeni Water can be found in note 30 of the Financial Statements.

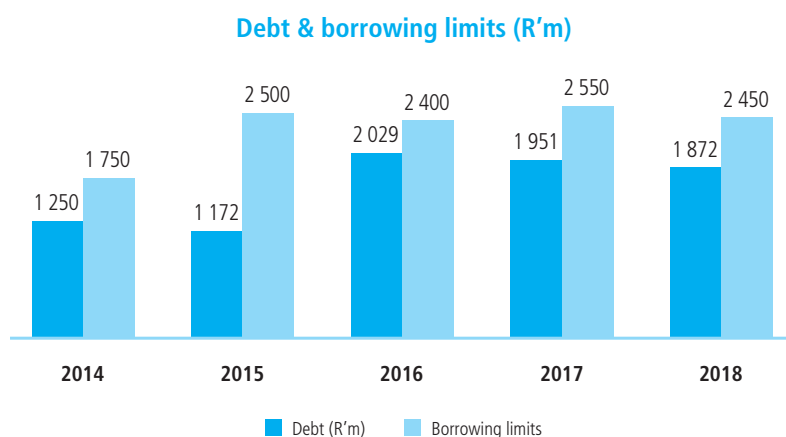
13.7.2 BORROWING LIMITS

The borrowing limits for the period 2016 to 2019 have been approved by the Minister of Water and Sanitation with the concurrence of the Minister of Finance. The borrowing limit is applicable to the value of gross borrowings, collateral & guarantees exposure and may not exceed the approved limits. The conditional limits may be availed by motivation to National Treasury.

	Total Amount	Conditional	Unconditional
	R'm	R'm	R'm
2016	2 400	-	2 400
2017	2 850	300	2 550
2018	2 750	300	2 450
2019	2 700	300	2 400

Utilisation of the borrowing limit as at 30 June 2018 was as follows:

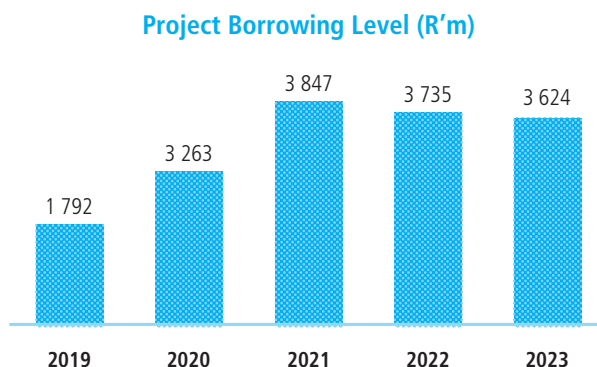
Actual gross borrowings	R1 872m
Collateral and guarantees	R 7m
Total actual borrowings	R1 879m
Borrowing limit	R2 450m
Underutilisation	R 571m



13.7 DEBT MANAGEMENT (continued)

13.7.3 PROJECTED BORROWING LEVEL

Umgeni Water expects to remain within the approved borrowing limits for the 5 year projected period 2019 to 2023 and will closely monitor the borrowing levels and capital expenditure costs in line with the approved borrowing limits.



13.7.4 CREDIT RATINGS

Fitch Ratings agency re-affirmed Umgeni Water's long-term and senior unsecured ratings at AA+ and short-term rating at F1+ in July 2017. The affirmation reflects stability in Umgeni Water's stand-alone profile due to cost effective tariffs and relatively stable funds from operations. There was also positive pronouncement from Standard and Poor's during the recalibration of the national and regional scale mapping table in June 2018, resulting in Umgeni Water's national scale rating being upgraded from AAA- to AAA for long-term while short-term remained unchanged at A-1+.

13.8 RETIREMENT BENEFIT OBLIGATIONS

DEFINED BENEFIT PENSION PLAN

In terms of IAS19, the group's retirement benefit plan is in an under-funded position of R168m (2017: R172m) and in terms of the approved accounting policy the full amount has been recognised in the statement of financial position in order to account for this liability. Further details are disclosed in note 26 of the Financial Statements.

RETIREMENT MEDICAL AID

This scheme is currently unfunded and the group has recognised its full past service liability in the statement of financial position at the actuarial valuation of R387m (2017: R397m). Further details are disclosed in note 26 of the Financial Statements.

13.9 FINANCIAL RISKS

As in most companies, Umgeni Water is faced with financial risks that need to be effectively managed in order to ensure that any negative impact on the group's financial performance and position is minimised.

The major risks to the organisation and the mitigating strategies are analysed in note 30 on Financial Risk Management to the Financial Statements and the Corporate Risk Management Framework on page 113 to 116 of this Annual Report.

13.10 FUTURE PROSPECTS

Looking ahead the focus will be to maintain financial resilience and build financial resources via the strength of the balance sheet that is essential to implement the key water resource infrastructure projects in the next 5 years as well as implementing the corporate strategy of enabled and innovative growth. Umgeni Water will continue to support the water sector by being a valuable player in the full water value chain and in this regard will partner with both the Executive Authority and customers in pursuit of reducing water service delivery backlogs in KZN.

GROUP FIVE-YEAR KEY PERFORMANCE INDICATORS

	2018	2017	2016	2015	2014	2017-2018 Movement
Performance criteria/indicators						
Total revenue (R'm)	2 904	2 510	2 377	2 223	2 204	15.70%
Profit from operations/revenue	0.35	0.24	0.27	0.31	0.27	45.83%
Total expenditure/revenue	0.66	0.72	0.69	0.65	0.71	(8.33%)
Cost of sales/revenue	0.41	0.47	0.44	0.43	0.47	(12.77%)
CAPEX spend (R'm) (including intangibles)	989	1 172	2 034	1 693	1 024	(15.61%)
Bulk water business segment						
Treated water volume sold (kl'000)	434 568	409 887	435 726	446 548	439 542	6.02%
Raw water volume sold (kl'000)	419	619	630	574	574	(32.31%)
Total water sold (kl'000)	434 987	410 506	436 356	447 122	440 116	5.86%
Bulk water tariff 1 (Rc/kl)	6.207	5.397	4.951	4.593	4.225	15.01%
Bulk water tariff 2 (Rc/kl)	6.084	5.290	4.853	4.502	4.142	15.01%
WRC levy (Rc/kl)	0.065	0.062	0.057	0.054	0.049	4.84%
Total bulk cost/volume sold (Rc/kl) ⁽¹⁾	3.57	3.66	3.25	2.86	2.76	(2.46%)
kl'000 sold per employee ⁽¹⁾	353	357	396	449	431	(1.12%)
Operating risk indicators						
Working ratio	0.56	0.70	0.68	0.64	0.69	(20.00%)
Operating costs (excl depreciation and amortisation) divided by revenue						
Rate of return on assets	11.11%	7.04%	8.43%	11.45%	13.18%	4.07%
Profit from operations divided by assets (excl investments)						
Gross profit margin ratio	58.97%	53.02%	56.22%	57.25%	53.05%	5.95%
Debtors collection period (days) after provision for doubtful debts	47	41	41	41	39	14.63%
Trade and other receivables (excl VAT; grant funding and advance invoicing) divided by revenue x 365						
Financial risk indicators						
Current ratio	2.75	2.36	2.10	2.48	3.55	16.53%
Current assets divided by current liabilities						
Interest cover before interest capitalised	4.94	2.80	4.50	5.93	5.12	76.43%
Profit from operations divided by finance costs before interest capitalised						
Debt : equity ratio	0.23	0.29	0.34	0.22	0.28	(20.69%)
Total interest-bearing debt divided by capital and reserves						
Debt : asset ratio	0.16	0.19	0.21	0.15	0.18	(15.79%)
Total interest-bearing debt divided by total assets						
⁽¹⁾ These indicators have been calculated using treated water volumes only.						

GROUP FIVE-YEAR KEY PERFORMANCE INDICATORS (continued)

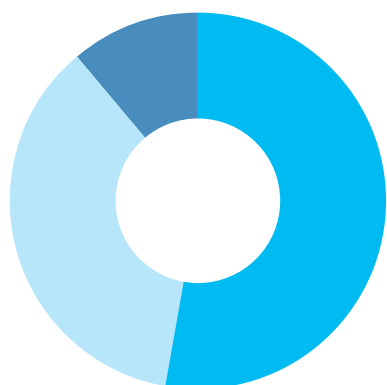
13.0
FINANCIAL
SUSTAINABILITY
PG 118-197

	2018	2017	2016	2015	2014
	R'000	R'000	R'000	R'000	R'000
Financial position					
Capital and reserves	8 088 510	6 823 327	5 983 758	5 239 108	4 416 184
Net debt	(608 582)	153 834	114 345	(474 916)	(990 325)
Assets excluding investments	9 058 543	8 426 434	7 642 701	5 999 900	4 565 172
Total interest-bearing debt	1 871 912	1 950 724	2 029 388	1 171 764	1 250 029
Total investments	2 480 494	1 796 890	1 915 042	1 646 680	2 240 354
Total assets	11 539 037	10 223 324	9 557 743	7 646 580	6 805 526
Financial performance					
Revenue	2 903 723	2 509 520	2 377 324	2 222 565	2 204 140
Cost of sales	(1 191 532)	(1 178 925)	(1 040 846)	(950 054)	(1 034 890)
Gross Profit	1 712 191	1 330 595	1 336 478	1 272 511	1 169 250
Other income	13 746	32 503	36 881	33 871	28 778
Other operating and administration expenses	(719 175)	(770 098)	(728 800)	(619 147)	(596 217)
Profit from operations	1 006 762	593 001	644 559	687 235	601 811
Net finance income	176 188	148 202	132 269	135 152	76 991
Share of profit from associate	5 285	4 995	4 427	4 602	3 627
Profit before taxation	1 188 235	746 198	781 255	826 988	682 429
Taxation	(76)	(101)	(65)	-	-
Profit for the year	1 188 159	746 097	781 190	826 989	682 429
Cash flow					
Net cash from operating activities	1 334 123	812 225	1 140 609	1 128 715	861 767
Net cash used in investing activities	(534 449)	(799 158)	(1 751 245)	(1 666 383)	(778 880)
Net cash generated (utilised)	799 674	13 067	(610 636)	(537 668)	82 887
Net cash (used in) from financing activities	(798 499)	(32 035)	616 588	542 908	(57 805)
Net (increase) decrease for the year	(1 175)	18 969	(5 952)	(5 240)	(25 082)
Net cash (utilised) generated	(799 674)	(13 067)	610 636	537 668	(82 887)

VALUE ADDED STATEMENT

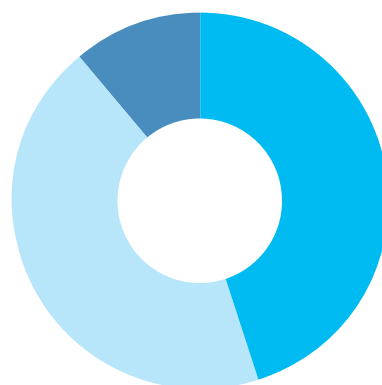
	2018	2017	2016	2015	2014
	R'000	R'000	R'000	R'000	R'000
Gross revenue	2 903 723	2 509 520	2 377 324	2 222 565	2 204 140
Paid to suppliers for materials & services	(838 489)	(969 874)	(906 129)	(794 708)	(964 126)
Value added	2 065 234	1 539 646	1 471 195	1 427 857	1 240 014
Income from investments	177 907	149 601	133 454	137 857	122 546
Total wealth created	2 243 140	1 689 247	1 604 649	1 565 714	1 362 560
Salaries, wages and other benefits	806 799	765 151	658 277	597 270	525 240
Providers of debt capital	1 719	1 399	1 185	2 705	45 555
Depreciation	246 464	176 601	163 997	138 750	109 336
Profit for the year	1 188 159	746 097	781 190	826 989	682 429
Total wealth distributed	2 243 140	1 689 247	1 604 649	1 565 714	1 362 560

2018



- Profit for the Year (53%)
- Salaries, Wages, and Other Benefits (36%)
- Depreciation (11%)
- Providers of Debt Capital (0%)

2017



- Profit for the Year (44%)
- Salaries, Wages, and Other Benefits (45%)
- Depreciation (11%)
- Providers of Debt Capital (0%)

EMPLOYEE STATISTICS

	2018	2017	2016	2015	2015	2017-2018 Movement
Number of employees as at year-end	1 231	1 150	1 101	996	1 020	7.04%
Gross revenue per employee (R'000)	2 359	2 182	2 159	2 231	2 161	8.10%
Value added per employee (R'000)	1 678	1 339	1 336	1 434	1 216	14.23%
Wealth created per employee (R'000)	1 822	1 469	1 457	1 572	1 336	24.04%

STATEMENT OF DIRECTORS' RESPONSIBILITIES AND APPROVAL OF THE FINANCIAL STATEMENTS

The Directors are responsible for the integrity and preparation and fair presentation of the Financial Statements of Umgeni Water and its subsidiaries (the group). The Directors are required by the Public Finance Management Act No.1 of 1999, as amended, to keep full and proper records of the financial affairs of the group and its performance against predetermined objectives at the end of the year.

The Financial Statements set out in this report have been prepared in accordance with International Financial Reporting Standards (IFRS) as approved by National Treasury in terms of section 79 of the Public Finance Management Act No.1 of 1999 and in the manner required by the Water Services Act No. 108 of 1997. The preparation of Financial Statements in conformity with IFRS requires management to consistently apply appropriate accounting policies, supported by reasonable and prudent judgements and estimates. The financials have been prepared on a going concern basis under the supervision of the Acting Chief Financial Officer, Ms. Marsha Phillips CA(SA).

The Directors are also responsible for the oversight of the group's system of internal controls. To enable the Directors to meet their responsibilities, the Board sets standards and management implements systems of internal control aimed at reducing the risk of error or loss in a cost-effective manner. These standards include policies, procedures, proper division of responsibilities within a clearly defined framework and effective accounting procedures to ensure an acceptable level of risk. Both management and internal audit monitor controls and actions are taken to correct deficiencies as they are identified.

The focus of risk management in the group is on identifying, assessing, managing and monitoring all known forms of risk across the group. While operating risks cannot be fully eliminated, the group strives to minimise these risks by ensuring that appropriate infrastructure, controls, systems and ethical behavior are applied and managed within predetermined procedures and constraints.

The external auditor is responsible for independently auditing and expressing an independent opinion on the Financial Statements in accordance with International Standards on Auditing, the Public Audit Act No. 25 of 2004, Public Finance Management Act No.1 of 1999 and the Companies Act No. 71 of 2008. The entity's external auditor, Auditor-General of South Africa, has audited the Financial Statements after having been provided unrestricted access to all financial records and related data. The Directors believe that all representations made to the external auditor during the audit were valid, appropriate and complete.

Nothing significant has come to the attention of the Directors to indicate that any material breakdown in the functioning of controls, procedures and systems has occurred during the year under review. The Directors are of the opinion, based on the information and explanations given by management, the internal auditors and the external auditors, that the systems of internal control provide reasonable assurance that the financial records may be relied on for the preparation of the Financial Statements and that accountability for assets and liabilities is maintained.

The Audit Committee has evaluated Umgeni Water and the group's Financial Statements and has recommended its approval to the Board. The Audit Committee's recommendation is set out on page 134.

The Directors have reviewed the group's forecast financial performance for the year to 30 June 2019 as well as the longer term business plans and, in light of this review and the current financial position, they are satisfied that the group has access to adequate resources to continue as a going concern for the foreseeable future.

In the opinion of the Directors, based on the information available to date, the Financial Statements fairly present the financial position of Umgeni Water and the group as at 30 June 2018 and the results of its operations and cash flow information for the year then ended.

Approval of Financial Statements

The Financial Statements set out on pages 140-197 were approved by the Board on 19 September 2018.



Ms. Ziphozethu Mathenjwa
Chairperson of the Board



Mr. Thami Hlongwa CA(SA)
Chief Executive

REPORT OF THE AUDIT COMMITTEE

REPORT OF THE AUDIT COMMITTEE IN TERMS OF REGULATION 27.1 OF THE PUBLIC FINANCE MANAGEMENT ACT NO. 1 OF 1999, AS AMENDED

The Audit Committee reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter, and has discharged all of its responsibilities contained therein.

In the conduct of its duties, the Audit Committee has, *inter alia*, reviewed the following:

- Internal control, risk management and compliance with legal and regulatory provisions:
 - the effectiveness of the internal control systems;
 - the risk areas of the entity's operations covered in the scope of internal and external audits;
 - the effectiveness of the system of and process of risk management including the following specific risks:
 - financial reporting;
 - internal financial controls;
 - fraud risks relating to financial reporting; and
 - information technology risks relating to financial reporting; and
 - the effectiveness of the entity's compliance with legal and regulatory provisions.
- Financial information and finance function:
 - the adequacy, reliability and accuracy of financial information provided by management and other users of such information; and
 - the experience, expertise and resources of the finance function.
- Internal and external audit:
 - accounting and auditing concerns identified as a result of internal and external audits;
 - the effectiveness of internal audit;
 - the activities of internal audit, including its annual work programme, co-ordination with the external auditor, the reports of significant investigations and the responses of management to specific recommendations; and
 - the independence and objectivity of the external auditor.

The Audit Committee is of the opinion, based on the information and explanations given by management and internal audit and discussions with the independent external auditors on the result of their audits, that:

- the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the Financial Statements, and accountability for assets and liabilities is maintained;
- the expertise, resources and experience of the finance function are adequate;
- the system and process of risk management and compliance processes are adequate;
- the effectiveness of the combined assurance function is adequate and the internal audit charter was approved by the audit committee; and
- is satisfied with the independence and objectivity of the external auditors.

Nothing significant has come to the attention of the Audit Committee to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review. The Audit Committee is satisfied that the Financial Statements are based on appropriate accounting policies, supported by reasonable and prudent judgements and estimates.

In line with the principles of combined assurance as outlined in King IV report on Corporate Governance, Umgeni Water has developed a combined assurance model which provides a co-ordinated approach to all assurance activities.

The Audit Committee has evaluated the Financial Statements of Umgeni Water and the group for the year ended 30 June 2018 and, based on the information provided to the Audit Committee, considers that they comply, in all material respects, with the requirements of the Public Finance Management Act No. 1 of 1999, as amended, and International Financial Reporting Standards. The Audit Committee concurs with the Board that the adoption of the going concern premise in the preparation of the Financial Statements is appropriate. The Audit Committee has therefore recommended, at their meeting held on 12 September 2018, the adoption of the Financial Statements by the Board.



Ms. Zodwa Manase
Audit Committee Chair

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON UMGENI WATER

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

OPINION

1. I have audited the consolidated and separate financial statements of Umgeni Water and its subsidiaries set out on pages 140-197, which comprise the consolidated and separate statement of financial position as at 30 June 2018, the consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Umgeni Water as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act No.71 of 2008) (Companies Act).

BASIS FOR OPINION

3. I conducted my audit in accordance with the International Standards on Auditing (ISAS). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of this auditor's report.
4. I am independent of the entity in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

KEY AUDIT MATTERS

6. Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of my audit of the consolidated and separate financial statements as a whole and in forming my opinion, and I do not provide a separate opinion or conclusion on these matters.

Key audit matter	How the matter was addressed in the audit
Property, Plant and Equipment – Progressive Impairments Progressive impairments comprise and arises from assets that are development infrastructure and Capital Work in Progress. Management performs an impairment test on the recoverability of these assets should an impairment indicator arise as required by International Financial Reporting Standards (IFRS) IAS 36. Management uses the value in use (VIU) method to determine the recoverable amount of a cash generating unit which is subjective in nature due to significant judgements having to be made of future sales volume demand per scheme, discount rates and future cash flows. Accordingly, the impairment tests of progressive impairments are considered to be a key audit matter.	We focussed our testing on the key assumptions made and the reasonability of data used by management. Our procedures included: <ul style="list-style-type: none"> ◦ Evaluating the determination of the cash generating units ◦ We evaluated the model used in determining the value in use of the cash generating units, as well as assessing the key assumptions used such as: <ul style="list-style-type: none"> - Sales volumes - Discount Rate - Future cash flows ◦ Performed walkthrough and specific testing on value in use and impairment calculations and data used in such calculations. ◦ Performing a sensitivity analysis around the key assumptions used in the models.
Appointment of the new accounting authority Since September 2017 an interim accounting authority was appointed by the former executive authority.	Correspondence received from the department indicates that the executive authority has commenced the process of appointing a fully-fledged accounting authority.

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON UMGENI WATER (continued)

EMPHASIS OF MATTER PARAGRAPH

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

GOING CONCERN

8. Disclosed in note 32 to the consolidated and separate financial statements is the status of the establishment of a single provincial water board in Kwa-Zulu Natal.

RESPONSIBILITIES OF THE ACCOUNTING AUTHORITY RESPONSIBLE FOR THE FINANCIAL STATEMENTS

9. The board members of Umgeni Water, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with IFRS and the requirements of the PFMA and the Companies Act, and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
10. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the Umgeni Water's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

AUDITOR-GENERAL'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

INTRODUCTION AND SCOPE

13. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
14. My procedures address the reported performance information, which must be based on the approved performance planning documents of the entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
15. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected strategic objectives presented in the annual performance report of the entity for the year ended 30 June 2018:

Objectives	Pages in the annual performance report
Strategic objective 2: Increase customer and stakeholder value	63-64
Strategic objective 3: Increase mobilisation of funds	64
Strategic objective 4: Increase financial sustainability	64-65
Strategic objective 5: Improve financial ratios	65
Strategic objective 6: Improve service delivery systems	65-66
Strategic objective 7: Improve and increase infrastructure assets	66
Strategic objective 8: Increase water resource sustainability	66-67
Strategic objective 9: Increase skills and competency	67

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON UMGENI WATER (continued)

16. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. I did not raise any material findings on the usefulness and reliability of the reported performance information for the above-mentioned strategic objectives:

OTHER MATTER

18. I draw attention to the matter below.

ACHIEVEMENT OF PLANNED TARGETS

19. The annual performance report on pages 60-67 contains information on the achievement of planned targets for the year.

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

INTRODUCTION AND SCOPE

20. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
21. The material findings on compliance with specific matters in key legislations are as follows:

EXPENDITURE MANAGEMENT

22. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R32 976 000 as disclosed in note 28 to the annual financial statements, as required by section 51(1)(b) of the PFMA. The majority of the irregular expenditure disclosed in the financial statements was caused by payment of performance bonuses not made in terms of the approved policy.

OTHER INFORMATION

23. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the accounting authority's report, the audit committee's report and the company secretary's certificate as required by the Companies Act. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.
24. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
25. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
26. If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

INTERNAL CONTROL DEFICIENCIES

27. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below is limited to the significant internal control deficiency that resulted in the finding on the compliance with legislation included in this report.

LEADERSHIP

28. The accounting authority did not exercise its fiduciary responsibility to prevent irregular expenditure.

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON UMGENI WATER (continued)

OTHER REPORTS

29. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

AUDIT RELATED SERVICES AND SPECIAL AUDITS

30. Agreed upon procedures report in terms of SRS 4400 was issued to the Department of Water and Sanitation in respect of the expenses incurred by Umgeni Water on the Working for Water Umgeni Water Natural Resource Management Project, for the period 1 April 2017 to 31 March 2018.

INVESTIGATIONS

31. As at year end the investigation onto allegations of undelivered goods to the sites was in progress. A number of investigations on allegations emanating from the hotline register were completed as at year end.

Auditor-General

Pietermaritzburg
28 September 2018



REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON UMGENI WATER (continued)

ANNEXURE – AUDITOR-GENERAL’S RESPONSIBILITY FOR THE AUDIT

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

FINANCIAL STATEMENTS

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor’s report, I also:
 - Identify and assess the risks of material misstatement of the consolidated and separate financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the of entity’s internal control
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board members, which constitutes the accounting authority.
 - Conclude on the appropriateness of the board members, which constitutes the accounting authority’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Umgeni Water and its subsidiaries ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause the entity to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
 - Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

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

DIRECTORS' REPORT

In terms of the Public Finance Management Act No. 1 of 1999, as amended, the Board of Umgeni Water is the accounting authority. The contracting period of the previous Board had expired as at 30 June 2017. A Board was appointed on an interim basis by the Minister of Water and Sanitation effective 28 September 2017. The Board was still in place at the time of approval of the Financial Statements while the appointment process of the permanent Board was still underway.

NATURE OF BUSINESS

Umgeni Water is a state owned business enterprise, established in 1974 to supply potable water in bulk to municipalities within its operational area. Umgeni Water defines its activities in line with the Water Services Act No. 108 of 1997.

The primary activities in terms of section 29 of the Act is to provide water services (water supply and sanitation services) to other water services institutions within its area of operation.

In terms of section 30 of the Water Services Act, Umgeni Water also engages in other services that complement bulk water service delivery such as laboratory services, water quality monitoring, and environmental management and also provides other support services to water services institutions in order to promote co-operation in the provision of water services.

COMPLIANCE WITH LEGISLATION

The Financial Statements are prepared in accordance with International Financial Reporting Standards, approved by National Treasury in terms of section 79 of the Public Finance Management Act No. 1 of 1999, as amended, and the following relevant statutes:

- Water Services Act No. 108 of 1997;
- Public Finance Management Act (PFMA) No. 1 of 1999, as amended; and
- Public Audit Act, 25 of 2004.

Umgeni Water is not required and has not fully complied with the provisions of the Companies Act No. 71 of 2008, as amended. The organisation has, however, incorporated aspects of the Act that relate to the accounting records, Financial Statements and other ancillary matters which may have an impact on the Financial Statements.

CORPORATE GOVERNANCE AND RISK MANAGEMENT

The reporting period marked the official adoption of the King IV Report on Corporate Governance for South Africa 2016 (King IV). The organisation's policies, procedures and processes are continuously reviewed to ensure alignment with King IV and the Board provides the required oversight and is pleased with the commitment that prevails at all spheres of the organisation in as far as compliance with King IV is concerned. Where the organisation has not fully complied with a certain principle of King IV, a rational reason and explanation for such deviation exists and is provided where required.

The Board is responsible for monitoring the risk management process. For further details on Corporate Governance and risk management refer to the chapter on Corporate Governance detailed on pages 40-53 and Risk Management on pages 113-116.

SHARE CAPITAL AND DIRECTORS' INTERESTS

The entity has no share capital and therefore no director has any equity interest in the organisation.

DIRECTORATE

The Board as it is currently constituted is set out on pages 48-50 of this Annual Report.

Members of the Board and Executive Committee's emoluments are disclosed in the remuneration report on pages 144-145 in terms of regulation 28.1 of the PFMA.

COMPANY SECRETARY AND REGISTERED ADDRESS

The Company Secretary is Mr. Sbusiso Madonsela, appointed on 1 January 2014. The registered address of the Company Secretary and that of the registered office during the current financial year are as follows:

Business address:	Postal address:
310 Burger street	PO Box 9
Pietermaritzburg	Pietermaritzburg
3201	3200

AUDITORS

The Auditor-General of South Africa will continue to conduct external audit services to Umgeni Water for the next financial year.

PRICING POLICY

Section 34 of the Water Services Act No. 108 of 1997 states that the water tariff must allow for the following:

- repayment and servicing of debt;
- recovery of capital, operational and maintenance costs;
- reasonable provision for depreciation of assets;
- recovery of costs associated with the repayment of capital from revenues (including subsidies) over time; and
- reasonable provision for future capital requirements and expansion.

Thus in setting its pricing policy Umgeni Water has committed to the following underlying principles:

- the promotion of the efficient and sustainable use of water;
- the equitable access to water supply services, whereby the basic water service should be affordable; and
- the solvency and sound financial management of Umgeni Water.

In implementing the pricing policy Umgeni Water uses a 30 year tariff model which is based on the cash flow methodology underpinned by a financially viable tariff. As a result of this cash flow methodology the organisation is able to manage its debt level which is the ultimate output of this model.

The annual tariff review process is carried out in terms of the requirements of Section 42 of the Municipal Finance Management Act No.56 of 2003 and Circular 23 issued by National Treasury. This process encompasses the principle of consultation and transparency and aims to assist Umgeni Water's stakeholders with their long term planning.

Umgeni Water bulk water tariff increase for 2018/2019 effective 1 July 2018 has been approved at 13.7% for all Water Service Authorities. The Directors, after full analysis of its projected cash flows, are of the opinion that the tariff for 2018/2019 is appropriate and will not adversely affect Umgeni Water's gearing levels or its financial sustainability.

PRICE PER KILOLITRE	2017	2018	2019
Bulk Tariff 1: Water Service Authorities			
Base tariff	R4.951	R5.397	R6.207
Tariff increase	R0.446	R0.810	R0.850
Umgeni Water bulk tariff	R5.397	R6.207	R7.057
% increase	9.0%	15.0%	13.7%
Capital unit charge Spring Grove dam	R0.484	R0.518	R0.552
uMkomazi Bulk Water Supply Scheme charge	R0.108	R0.124	R0.141
New Tariff	R5.989	R6.849	R7.750
% increase	10.7%	14.4%	13.2%
Bulk Tariff 2: eThekweni Metropolitan Municipality			
Base tariff	R4.853	R5.290	R6.084
Tariff increase	R0.437	R0.794	R0.834
Umgeni Water bulk tariff	R5.290	R6.084	R6.918
% increase	9.0%	15.0%	13.7%
Capital unit charge Spring Grove dam	R0.484	R0.518	R0.552
uMkomazi Bulk Water Supply Scheme charge	R0.106	R0.122	R0.138
New Tariff	R5.880	R6.724	R7.608
% increase	10.7%	14.4%	13.1%
Bulk Tariff 3: Sembcorp Siza Water			
Base tariff	R6.518	R7.105	R8.171
Tariff increase	R0.587	R1.066	R1.119
Umgeni Water bulk tariff	R7.105	R8.171	R9.290
% increase	9.0%	15.0%	13.7%
Capital unit charge Spring Grove dam	R0.484	R0.518	R0.552
uMkomazi Bulk Water Supply Scheme charge	R0.142	R0.163	R0.186
New Tariff	R7.731	R8.852	R10.027
% increase	10.8%	14.5%	13.3%

DIRECTORS' REPORT (continued)

FINANCIAL PERFORMANCE

The group results reflect a 59.2% increase in profits for the year which totalled R1 188m (2017: R746m). This increase is primarily associated with the recovery from the drought which has negatively impacted on the financial resources of the organisation in the past two financial years. Bulk water revenue was up by 21.9% as a result of a 6.0% bulk water sales volume growth combined with a 15% bulk water tariff increase, whilst direct operating costs increased by 1.1% due to lower section 30 activities and other administrative expenses reduced by 6.6% mainly due to impairment reversals.

Impairment reversals on property, plant and equipment were R118m (2017: R42m). The impairment reversal on buildings and infrastructure was R72m which was predominantly due to the rural bulk infrastructure grant received on the Maphumulo Bulk Water Supply Scheme. The impairment reversals on capital work in progress were R46m. Refer to note 9 of the Financial Statements for further details on impairments.

Operating cash flows were R1 334m (2017: R812m), an increase of 64.3% year on year as a result of the recovery from the drought combined with reduced working capital requirements. Net cash used in investing activities was R534m (2017: R790m) after the receipt of rural bulk infrastructure grants of R455m (2017: R371m) and net cash used in financing activities was R799m (2017: R32m).

Capital expenditure on property, plant and equipment totalled to R972m (2017: R1 126m), a 13.7% reduction. Expenditure on intangible assets (software) totalled to R17m (2017: R46m). The group's capital commitments are set out in note 9.1 of the Financial Statements and the funding thereof is discussed in the financial review on page 127.

Loan covenants remain un-breached at financial year end and Umgeni Water remained within its approved borrowing limits of R2 450m.

Full details of the financial results of the group and company are set out in the Financial Statements and summarised in the financial review on pages 118-129.

SUBSIDIARY AND ASSOCIATE COMPANIES

Umgeni Water is the sole shareholder of both Umgeni Water Services SOC Limited and Msinsi Holdings SOC Limited.

There were no changes to subsidiary and associate companies during the year. Further details are set out in note 12 of the Financial Statements.

EVENTS AFTER THE REPORTING PERIOD

No material events have taken place in the affairs of the group between the end of the financial year and the date of this report.

GOING CONCERN

The directors, having considered all the relevant information, have satisfied themselves that the group is in a sound financial position and that it has adequate access to sufficient borrowing facilities to meet its foreseeable cash requirements. There are adequate resources to continue operating for the foreseeable future and it is therefore appropriate to adopt the going concern basis in preparing the financial statements.

In the previous two financial reports the Directors reported that the Executive Authority of Umgeni Water has initiated a process towards the establishment of a single provincial water board in KwaZulu-Natal. This process was envisaged to culminate in a merger between Umgeni Water and Mhlathuze Water, with the former absorbing the latter. This process was initially envisaged to be concluded during the 2016/2017 financial year, however due to a number of strategic steps that need to be taken to inform the final decision making process (which includes parliamentary processes, legislative processes and financial commitments confirmed for National Treasury) this was not achieved. With the changes in the National Executive, the new Minister of Water and Sanitation has resolved not to go ahead with this process and a court order has been issued to this effect.

The accounting authority believes that the new executive authority's decision positions the entity in a clear and positive going concern position for the 2017/2018 financial year and going forward; and removes the uncertainties that would have prevailed due to the envisaged merger.

INFORMATION REQUIRED BY THE PUBLIC FINANCE MANAGEMENT ACT NO.1 OF 1999, AS AMENDED

MATERIALITY FRAMEWORK

In terms of Section 28.3.1 of the regulations of the PFMA, for the purposes of materiality and significance, the accounting authority has developed and agreed a framework of acceptable levels of materiality and significance established at 0.5% of gross revenue which equates to R14.4m (2017: R13m). Management also applies a qualitative aspect to all errors found.

FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure incurred for the year was R0.004m (2017: R5.2m) which arose as a result of penalties incurred. Further details are set out in note 29 of the Financial Statements.

IRREGULAR EXPENDITURE

Irregular expenditure totalling R33m (2017: R9.8m) arose primarily as a result of non-compliance to the performance policy amendment not fully complied with in terms of the delegations. Management has instituted preventative and corrective measures as considered appropriate to improve controls and processes. Further details are set out in note 28 of the Financial Statements.

FRAUD & FINANCIAL MISCONDUCT

There were no instances of fraud; corruption and financial misconduct in the current financial year.

All allegations reported through the hotline were duly investigated as per the Hotline Protocol and are properly documented to record actions and none led to fraud or financial misconduct.

PERFORMANCE AGAINST FINANCIAL TARGETS (PARENT ONLY)

The performance of Umgeni Water against the key financial indicators as agreed in the shareholders compact is illustrated on page 60-67 of this Annual Report.

REMUNERATION REPORT

REMUNERATION COMMITTEE

The Human Resources and Remuneration Committee assisted the Board during the year in applying:

- (a) the policy set by the Department of Water and Sanitation for the remuneration of the directors and the Chief Executive (CE); and
- (b) the remuneration policy approved by the Board for the Executives.

REMUNERATION STRUCTURE

The remuneration structure of EXCO is comprised of the following components:

- **Guaranteed amount:**
The guaranteed amount comprises a fixed cash portion and compulsory benefits such as medical aid and retirement.
- **Short term incentive bonus:**
The short term incentive bonus rewards the achievement of individual predetermined performance objectives and targets.
- **Long term incentive bonus:**
The long term incentive bonus is designed to attract, retain and reward the Chief Executive, Executives and Senior Managers at grade level 4 for meeting the organisational objectives set by the Board and the Shareholder.

DIRECTORS' AND EXECUTIVES' EMOLUMENTS

	Fees for Services/Salary	Allowances and Bonuses	Expense allowances	Retirement contributions	2018 Total	2017 Total
	R'000	R'000	R'000	R'000	R'000	R'000
Non-Executive Board Members						
Ms. N. Afolayan ^{N1}	-	-	-	-	-	320
Mr. G.D.J. Atkinson ^{N1}	-	-	-	-	-	324
Ms. N.B. Chamane ^{N3}	350	-	7	-	357	395
Ms. T.M.V. Dube ^{N1}	-	-	-	-	-	338
Mr. V.G. Gounden ^{N1}	-	-	-	-	-	252
Mr. A. Mahlalutye (Chairperson) ^{N1}	-	-	-	-	-	554
Ms. Z.B. Mathenjwa (Chairperson) ^{N3}	551	-	10	-	561	374
Mr. T. Nkhahle ^{N1}	-	-	-	-	-	372
Mr. V.G. Reddy ^{N1}	341	-	4	-	345	373
Ms. T.C. Shezi ^{N1}	-	-	-	-	-	368
Mr. I.A.S. Vally ^{N1}	-	-	-	-	-	374
Mr. T. Zulu ^{N1}	-	-	-	-	-	359
Dr. I.B. Mkhize ^{N3}	60	-	-	-	60	-
Ms. M. Ndlovu ^{N3}	51	-	-	-	51	-
Adv. F. Hashatse ^{N3}	293	-	7	-	300	-
Mr. M.P.K. Tshivhase ^{N3}	345	-	4	-	349	-
Mr. M.D. Dikoko ^{N3}	299	-	4	-	302	-
Ms. Z.P. Manase ^{N3}	258	-	7	-	265	-
Mr. S. Shabalala	37	-	-	-	37	-
Total Non-Executive Board Members	2 585	-	41	-	2 626	4 403
Executive Board Members						
Mr. C. Gamede (CE) ^{N2}	-	4 335	-	-	4 335	17 691
Mr. T. Hlongwa (Acting CE) ^{N4}	1 904	12 569	70	-	14 543	-
Total - Parent	4 489	16 904	111	-	21 504	22 093
Msinsi Holdings SOC Ltd.						
Non-Executive Board Members	346	-	-	-	346	296
Total Subsidiaries	346	-	-	-	346	296
Total Group	4 835	16 904	111	-	21 850	8 545
Exco Members						
Mr. M. Cele	1 635	756	-	-	2 391	1 920
Mr. S. Gillham	1 630	662	111	359	2 762	9 890
Mr. T. Hlongwa ^{N4}	-	-	-	-	-	2 644
Ms. M. Moleko	1 677	718	28	-	2 424	2 269
Ms. M. Phillips ^{N6}	791	751	97	174	1 814	-
Total Exco	5 733	2 887	237	533	9 390	16 723

LONG TERM INCENTIVE BONUS

The Board has set performance conditions in line with Umgeni Water's shareholder compact over a five-year performance period which covers financial and non-financial targets.

In terms of the Umgeni Water Performance Management Policy, the long-term incentive bonus, based on variable pay, is payable to the Chief Executive, other Executives and Senior Managers when the following conditions are met:

- The employee has fulfilled the full term of his/her employment contract for the five year period; and
- The employee has achieved a level of performance above 75%, in terms of the performance management scoring process, for the full term of the performance period in terms of the policy.

The distributable audited surplus is calculated at 20% of the audited surplus after consideration of loan covenant levels. The available variable pay for long term incentive bonuses is then calculated at the maximum of 25% of the distributable audited surplus.

Conditions met were approved by the Board in September 2017, as a result the following long term incentive bonuses have accrued to Executives:

Name	Designation	Opening Balance 1 July 2017	Accrued 2018	Sub-total 30 June 2018	Utilised 2018	Total provided 30 June 2018
		R'000	R'000	R'000	R'000	R'000
Mr. C. Gamede ^{N2}	Chief Executive	-	3 159	3 159	(3 159)	-
Mr. S. Gillham	Executive: Engineering & Scientific Services	-	3 315	3 315	-	3 315
Mr. T. Hlongwa ^{N4}	Chief Financial Officer	7 644	3 845	11 489	(11 489)	-
Ms. M. Moleko	Executive: Corporate Services	7 644	3 868	11 511	-	11 511
Mr. M. Cele	Executive: Operations	7 644	3 868	11 511	-	11 511
Long Term incentive bonus provided		22 932	18 055	40 986	(14 648)	26 338

SERVICE CONTRACT PERIOD OF EXECUTIVES

Executives	Designation	Date first appointed by the Board	Date last re-elected	Date due for re-election
Mr. C. Gamede ^{N2}	Chief Executive	20 August 2012	n/a	n/a
Mr. M. Cele	Executive: Operations	03 November 2014	n/a	02 November 2019
Mr. S. Gillham	Executive: Engineering and Scientific Services	01 February 2012	01 February 2017	01 February 2019
Mr. T. Hlongwa	Chief Financial Officer	01 July 2013	n/a	01 July 2018 ^{N4}
Ms. M. Moleko	Executive: Corporate Services	01 January 2014	n/a	01 January 2019

Umgeni Water Executives are also appointed, from time to time, as directors in the wholly owned subsidiaries and Associate firms of Umgeni Water. No remuneration was received by the directors from the subsidiaries for the services rendered in the current and prior year. Details of the Directorship are as follows:

SUBSIDIARY EXECUTIVES

Executives	Designation	Date first appointed by the Board	Msinsi Holdings SOC Limited	Umgeni Water Services SOC Limited
Mr S Gillham	Non-Executive Director	15 March 2012	✓	N/A
Mr T Hlongwa	Non-Executive Director	16 April 2014 ^{N5}	✓	✓
Ms Moleko	Non-Executive Director	16 April 2014	N/A	✓

N1: Term ended 30 June 2017.

N2: Contract terminated on 30 June 2017. The bonus payments are in line with the approved performance policy for meeting the pre-determined objectives and paid in terms of the settlement agreement with Mr. C. Gamede.

N3: Interim board member for the 2017/18 financial year. Note: for Ms. M. Ndlovu, Dr. I.B Mkhize and Mr. S. Shabalala were appointed to perform the Group Audit Committee functions during the Transitional Governance Period. During that period, they were remunerated by Umgeni Water at the prevailing rate. They were also remunerated by the Subsidiary (Msinsi Holdings) for work carried out in their director capacities in the Subsidiary. Their remuneration from the subsidiary is disclosed in the remuneration disclosure for the Subsidiary. Mr. S. Shabalala was also remunerated in line with his role as the Ethics Committee Chairperson.

N4: Mr. T. Hlongwa was appointed as the Accounting Authority on 07 August 2017 by the Minister of Water and Sanitation; and later appointed as the Acting Chief Executive in October 2017 by the Interim Board. Mr. T. Hlongwa was appointed as the Chief Executive (on a five year fixed term contract) by the Interim Board in February 2018 and assumed the role effective from 1 July 2018.

N5: Appointment date for both Msinsi Holdings SOC Limited and Umgeni Water Services SOC Limited.

N6: Ms. M. Phillips is the Financial Manager who was appointed as the Acting CFO from 07 August 2017.

STATEMENTS OF PROFIT AND LOSS

FOR THE YEAR ENDED 30 JUNE 2018

	Note	Group		Parent	
		2018	2017	2018	2017
		R'000	R'000	R'000	R'000
Revenue	4	2 903 723	2 509 520	2 888 951	2 496 605
Cost of sales		(1 191 532)	(1 178 925)	(1 191 532)	(1 178 925)
Changes in water inventory		438	823	438	823
Chemicals		(65 453)	(62 516)	(65 453)	(62 516)
Depreciation		(166 858)	(133 698)	(166 858)	(133 698)
Energy		(257 361)	(226 894)	(257 361)	(226 894)
Maintenance		(192 480)	(174 586)	(192 480)	(174 586)
Raw water		(209 126)	(180 160)	(209 126)	(180 160)
Section 30 activities		(41 602)	(150 942)	(41 602)	(150 942)
Staff costs		(220 675)	(205 421)	(220 675)	(205 421)
Other direct operating expenses		(38 415)	(45 531)	(38 415)	(45 531)
Gross profit		1 712 191	1 330 595	1 697 419	1 317 680
Other income	5	13 746	32 503	12 268	34 532
Other operating and administration expenses		(719 175)	(770 097)	(703 651)	(749 027)
Profit from operations	6.1	1 006 762	593 001	1 006 036	603 185
Net finance income		176 188	148 202	176 717	148 076
Interest income	7	177 907	149 601	178 081	149 431
Finance costs	8	(1 719)	(1 399)	(1 364)	(1 355)
Share of profit from associate	12	5 285	4 995	-	-
Profit before taxation		1 188 235	746 198	1 182 753	751 261
Taxation	6.2	(76)	(101)	-	-
Profit for the year		1 188 159	746 097	1 182 753	751 261

STATEMENTS OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Profit for the year	1 188 159	746 097	1 182 753	751 261
Other comprehensive income:				
Items that will not be reclassified to profit and loss:				
Remeasurement of gains and losses - retirement plans	82 070	93 472	82 070	93 472
Total other comprehensive income for the year	1 270 229	839 569	1 264 823	844 733

STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2018

13.0
FINANCIAL
SUSTAINABILITY
PG 118-197

		Group		Parent	
Notes		2018	2017	2018	2017
		R'000	R'000	R'000	R'000
ASSETS					
Non-current assets		8 859 177	8 152 485	8 843 403	8 133 886
Property, plant and equipment	9	8 324 248	7 774 146	8 305 810	7 752 927
Intangible assets	10	121 802	133 140	121 596	132 913
Biological assets	11	3 224	4 244	-	-
Subsidiaries and associates	12	6 005	6 005	12 099	13 096
Investments	13	403 898	230 175	403 898	230 175
Other financial assets	14	-	4 774	-	4 774
Current assets		2 679 861	2 070 839	2 655 923	2 054 843
Investments	13	2 076 596	1 566 715	2 076 596	1 566 715
Other financial assets	14	2 404	-	2 404	-
Inventories	15	18 955	15 735	18 955	15 735
Trade and other receivables	16	511 862	427 887	504 098	420 456
Interest receivable	17	43 952	35 585	43 952	35 585
Bank and cash	18.1	26 092	24 917	9 918	16 352
Total assets		11 539 038	10 223 324	11 499 326	10 188 729
EQUITY AND LIABILITIES					
Capital and reserves		8 088 510	6 823 327	8 054 997	6 790 174
Capital	19	442 847	442 847	442 847	442 847
OCI Reserve		70 720	(11 350)	70 720	(11 350)
Accumulated profit		7 574 943	6 391 830	7 541 430	6 358 677
Non-current liabilities		2 477 721	2 523 549	2 476 710	2 522 537
Long-term debt	20	1 792 901	1 871 914	1 791 890	1 870 902
Other non-current liabilities	21	95 868	43 110	95 868	43 110
Provisions	22	34 102	39 120	34 102	39 120
Post-retirement benefit obligations	26	554 850	569 405	554 850	569 405
Current liabilities		972 807	876 448	967 619	876 018
Short-term debt	20	79 011	78 810	79 011	78 810
Provisions	22	120 200	113 727	116 311	110 473
Accounts payable	23	717 568	626 453	716 269	629 277
Interest payable		56 028	57 458	56 028	57 458
Total equity and liabilities		11 539 038	10 223 324	11 499 326	10 188 729

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

Group - Attributable to equity holders of the parent				
	Capital	OCI Reserve	Accumulated profit	Total
	R'000	R'000	R'000	R'000
Balance as at 30 June 2016	442 847	(104 822)	5 645 733	5 983 758
Movement for the year				
Total comprehensive income	-	93 472	746 097	839 569
Profit for the year	-	-	746 097	746 097
Other comprehensive income	-	93 472	-	93 472
Balance as at 30 June 2017	442 847	(11 350)	6 391 830	6 823 327
Movement for the year				
Total comprehensive income	-	82 070	1 183 113	1 265 183
Profit for the year	-	-	1 188 159	1 188 159
Dividend declared	-	-	(5 046)	(5 046)
Other comprehensive income	-	82 070	-	82 070
Balance as at 30 June 2018	442 847	70 720	7 574 943	8 088 510

Parent				
	Capital	OCI Reserve	Accumulated profit	Total
	R'000	R'000	R'000	R'000
Balance as at 30 June 2016	442 847	(104 822)	5 607 416	5 945 441
Movement for the year				
Total comprehensive income	-	93 472	751 261	844 733
Profit for the year	-	-	751 261	751 261
Other comprehensive income	-	93 472	-	93 472
Balance as at 30 June 2017	442 847	(11 350)	6 358 677	6 790 174
Movement for the year				
Total comprehensive income	-	82 070	1 182 753	1 264 823
Profit for the year	-	-	1 182 753	1 182 753
Other comprehensive income	-	82 070	-	82 070
Balance as at 30 June 2018	442 847	70 720	7 541 430	8 054 997

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

	Notes	Group		Parent	
		2018	2017	2018	2017
		R'000	R'000	R'000	R'000
OPERATING ACTIVITIES					
Cash receipts from customers		2 820 651	2 475 551	2 800 594	2 462 141
Cash paid to suppliers and employees		(1 486 528)	(1 663 326)	(1 476 988)	(1 643 878)
Net cash from operating activities	18.2	1 334 123	812 225	1 323 606	818 263
INVESTING ACTIVITIES					
Proceeds on disposals of assets		392	1 845	392	1 845
Receipt of grants	9	454 741	371 056	454 741	371 056
Additions to property, plant and equipment	9	(972 292)	(1 126 025)	(971 111)	(1 118 301)
Additions to intangible assets	10	(17 290)	(46 240)	(17 089)	(45 917)
Proceeds on disposal of biological assets		-	206	-	-
Decrease of investments in subsidiaries		-	-	997	1 730
Net cash used in investing activities		(534 449)	(799 158)	(532 070)	(789 587)
FINANCING ACTIVITIES					
Long-term borrowings repaid	20	(78 811)	(78 619)	(78 811)	(78 619)
(Increase) decrease in investments		(641 316)	156 296	(641 316)	156 296
Interest received		126 860	103 989	127 034	103 819
Finance costs paid		(205 232)	(213 702)	(204 877)	(213 658)
Net cash used in financing activities		(798 499)	(32 035)	(797 970)	(32 162)
CASH AND CASH EQUIVALENTS					
Net increase (decrease) for the year		1 175	(18 969)	(6 434)	(3 486)
At beginning of year		24 917	43 885	16 352	19 838
At end of year	18.1	26 092	24 917	9 918	16 352

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

1. GENERAL INFORMATION

Umgeni Water is a water board established in terms of Section 28 of the Water Services Act, (Act 108 of 1997) and a national government business entity as per Schedule 3B of the Public Finance Management Act (Act 1 of 1999), as amended, domiciled in South Africa. The address of its registered office and principal place of business and principal activities of the organisation are described in the Directors' Report. The consolidated financial statements comprise that of the entity and its subsidiaries (collectively 'the group' and individually 'group entities'). The accounting policies are applicable to both the group and parent entity except where otherwise stated. The following principal accounting policies were applied by the group for the year ended 30 June 2018.

2.1. BASIS OF PREPARATION AND MEASUREMENT

STATEMENT OF COMPLIANCE

The consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations of those standards, as issued by the International Accounting Standards Board (the IASB), the Public Finance Management Act (Act 1 of 1999), as amended (PFMA) and the Companies Act (Act 71 of 2008). In terms of section 79 of the PFMA, National Treasury has issued an approval authorising the use of IFRS as the accounting reporting framework.

BASIS OF PREPARATION OF FINANCIAL RESULTS

The consolidated Financial Statements are prepared using the historic cost basis except for the following items in the statement of financial position:

- Biological assets are measured at fair value less costs to sell; and
- The defined benefit plan obligation and post-retirement healthcare obligation are measured at the projected unit credit method.

The consolidated financial statements are prepared on the going concern basis using the accrual basis of accounting except for cash flow information.

Except as otherwise disclosed, these accounting policies are consistent with those applied in all periods presented in these consolidated financial statements.

CURRENT AND NON-CURRENT CLASSIFICATION OF ASSETS AND LIABILITIES

Current assets are assets that are expected to be realised in the entity's normal operating cycle, held primarily for the purpose of trading, expected to be realised within 12 months after the reporting period or the asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after reporting date. All other assets are non-current.

Current liabilities are those liabilities expected to be settled within the entity's normal operating cycle, held for purpose of trading, due to be settled within 12 months for which the entity does not have an unconditional right to defer settlement beyond 12 months. Other liabilities are non-current.

FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated financials are presented in Rands, which is the group's functional and presentation currency. All financial information presented in Rands has been rounded to the nearest thousand.

USE OF ESTIMATES AND JUDGEMENTS

CRITICAL JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There were no significant judgements in the process of applying the group's accounting policies.

2.1. BASIS OF PREPARATION AND MEASUREMENT (continued)

KEY SOURCES OF ESTIMATION UNCERTAINTY

VALUE-IN-USE CALCULATIONS FOR IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

The recoverable amount of development infrastructure is determined based on value-in-use calculations. Key assumptions relating to these valuations include the discount rate (gross weighted average cost of capital), cash flows and sales volume demand per scheme. Future cash flows are extrapolated over the useful life of the assets to reflect the long-term plan for the group using the growth rates as projected by the economic indicators (CPI, PPI, energy).

Management determines the expected performance of these assets based on the sales volume demands and the operating cost structure aligned to the system from which water will be drawn. Refer to note 9 for further details on impairments of property, plant and equipment.

RESIDUAL VALUES AND USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are depreciated over its useful life taking into account residual values, where appropriate. Assessments of useful lives and residual values are performed annually after considering factors such as technological innovation, maintenance programs, relevant market information, manner of recovery and management consideration. In assessing residual values, the group considers the remaining life of the asset, its projected disposal value and future market conditions. Refer to note 9.

FAIR VALUE OF BIOLOGICAL ASSETS

The carrying amounts of biological assets are recognised at fair value. The fair values of game were determined with reference to market prices as at 30 June 2018. Refer to note 11 for further detail on biological assets.

DEFINED BENEFIT PLANS

The key assumptions relating to the defined benefit plan sensitivity analysis are disclosed in note 26.

No further key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date exist, that management may have assessed as having a significant risk of causing material adjustment to the carrying amounts of the assets and liabilities within the next financial year.

STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE

The following new standards, interpretations and amendments to existing standards which are relevant to the group but not yet effective, have not been adopted in the current year:

IFRS 16 LEASES EFFECTIVE 1 JANUARY 2019

IFRS 16 replaces IAS 17 leases, IFRIC 4 determining whether an arrangement contains a lease. IFRS 16 primarily affects lessees who must account for all leases in a single model on the balance sheet where the lease term exceeds 12 months, unless the underlying asset is of low value. A lessee is required to recognize a Right of Use Asset representing its right to use the underlying leased asset and a liability representing its obligation to make lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and depreciation expense on the right of use asset.

Lessor accounting substantially remains unchanged from the previous requirements in IAS 17.

The new standard requires lessors and lessees to make more extensive disclosures than previously required under IAS 17.

The group does not expect the adoption of the standard to have a significant impact on the Financial Statements as leases held by the group are not material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

2.1. BASIS OF PREPARATION AND MEASUREMENT (continued)

STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE (continued)

IFRS 9 FINANCIAL INSTRUMENTS - CLASSIFICATION AND MEASUREMENT EFFECTIVE 1 JANUARY 2018

IFRS 9 addresses the initial measurement and classification of financial assets and financial liabilities, and replaces the relevant sections of IAS 39 Financial Instruments: Recognition and measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: Amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Under IFRS 9, the classification and measurement requirements for financial liabilities are the same as per IAS 39, except for two aspects. The first aspect relates to fair value changes for financial liabilities (other than financial guarantees and loan commitments) designated at fair value through profit or loss, that are attributable to the changes in the credit risk of the liability. The second aspect relates to derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured.

IFRS 9 has also been amended to include the derecognition requirements from IAS 39. These requirements have remained unchanged but additional disclosure requirements relating to the disclosure of transfers of financial assets have been included in IFRS 7.

The group has assessed its financial assets and financial liabilities against IFRS 9. The financial assets currently classified under loans and receivables and held-to-maturity financial assets will be classified as financial assets held at amortised cost under IFRS 9. The adoption of IFRS 9 does not have significant impact on total assets and total liabilities.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS EFFECTIVE DATE 1 JANUARY 2018

IFRS 15 Revenue from Contracts with Customers replaces IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers. It applies to all entities that enter into contracts to provide goods or services to their customers, unless the contracts are in the scope of other IFRSs, such as IAS 17 Leases.

The underlying principle is that an entity will recognise revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. An extensive disclosure is required under this standard.

The group does not expect the adoption of the standard to have a significant impact on total revenue.

ADOPTION OF NEW AND REVISED STANDARDS

During the current year there were no amendments to or new and revised standards which are relevant to the group.

IMPROVEMENTS TO IFRS

A number of standards have been amended as part of the IASB annual improvement project. The group is in the process of considering the relevant amendments to the standards and determining the financial impact on the group.

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION OF FINANCIAL RESULTS

The consolidated financial statements reflect the financial results of the group. All financial results are consolidated with similar items on a line by line basis except for investments in associates, which are included in the group's results as set out under associates.

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ELIMINATION OF INTER-COMPANY TRANSACTIONS

Inter-company transactions, balances and unrealised gains and losses between entities are eliminated on consolidation. To the extent that a loss on a transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss of a non-current asset, that loss is charged to the statement of profit and loss.

In respect of associates, unrealised gains and losses are eliminated to the extent of the group's interest in these entities. Unrealised gains and losses arising from transactions with associates are eliminated against the investment in the associate.

BUSINESS COMBINATIONS

A business may comprise an entity, group of entities or an unincorporated operation including its operating assets and associated liabilities. Business combinations are accounted for using the acquisition method which is the date on which control is transferred to the group. On acquisition date, fair values are attributed to the identifiable assets, liabilities and contingent liabilities. Fair value of all identifiable assets and liabilities included in the business combination are determined by reference to market values of those similar items, where available, or by discounting expected future cash flows using the discount rate to present values. The consideration transferred is the fair value of the group's contribution to the business combination in the form of assets transferred, liabilities assumed or contingent consideration at the acquisition date. Transaction costs directly attributable to the acquisition are charged to the statement of profit and loss except if related to the issue of debt or equity securities.

A non-controlling interest at acquisition date is determined as the non-controlling shareholders' proportionate share of the fair value of the net identifiable assets of the entity acquired.

On acquisition date goodwill is recognised when the consideration transferred and the recognised amount of the non-controlling interests exceeds the fair value of the net identifiable assets of the entity acquired. Goodwill is tested at each reporting date for impairment. To the extent that the fair value of the net identifiable assets of the entity acquired exceeds the consideration transferred and the recognised amount of non-controlling interests, the excess is recognised in the statement of profit and loss on acquisition date.

When an acquisition is achieved in stages (step acquisition), the identifiable assets and liabilities are recognised at their full fair value when control is obtained, and any adjustment to fair values related to these assets and liabilities previously held as an equity interest is recognised in the statement of other comprehensive income or statement of profit and loss as appropriate.

When there is a change in the interest in a subsidiary after control is obtained, that does not result in a loss in control, the difference between the fair value of the consideration transferred and the amount by which the non-controlling interest is adjusted is recognised directly in the statement of changes in equity.

When the group loses control of a subsidiary it derecognises the assets and liabilities and related equity components of the former subsidiary. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The profit or loss realised on disposal or termination of an entity is calculated after taking into account the carrying value of any related goodwill.

SUBSIDIARIES

Subsidiaries are defined as those companies in which the group, either directly or indirectly, has:

- more than one half of the voting rights;
- the right to appoint more than half of the Board of directors; or
- otherwise has the power to control the financial and operating activities of the entity.

The group has two subsidiaries which are wholly owned and further details are included in note 12 of the Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

SUBSIDIARIES (continued)

The assets, liabilities, income, expenses and cash flows of subsidiaries are consolidated from the date of acquisition, being the date on which the group obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved when the group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the group controls an investee if and only if the group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the group has less than a majority of the voting or similar rights of an investee, the group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the group's voting rights and potential voting rights.

The group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the group obtains control over the subsidiary and ceases when the group loses control of the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the group. All material inter-company balances and transactions are eliminated. In the parent financial statements, the parent accounts for investments in subsidiaries at cost.

ASSOCIATES

An associate is an entity over which the group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The group has an associate via its subsidiary Umgeni Water Services SOC Ltd. Further details on the associate are included in note 12 of the Financial Statements.

The financial results of associates are included in the group's results according to the equity method from acquisition date until disposal date. Under the equity method, the investment in associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the group's share of profit or loss of the associate after the acquisition date. The group's share of profits or losses and other comprehensive income are recognised in the statement of profit and loss as equity accounted earnings. Distributions received from associates reduce the carrying amount of the investment. All cumulative post-acquisition movements in other comprehensive income of associates are adjusted against the carrying amount of the investment. When the group's share of losses in associate equals or exceeds its interest in those associates; the group does not recognise further losses, unless the group has incurred a legal or constructive obligation or made payments on behalf of those associates. Goodwill relating to associates forms part of the carrying value of those associates.

The total carrying value of each associate is evaluated annually, as a single asset, for impairment or when conditions indicate that a decline in fair value below the carrying amount is other than temporary. If impaired, the carrying value of the group's share of the underlying assets of associates is written down to its estimated recoverable amount in accordance with the accounting policy on impairment and charged to the statement of profit and loss as part of equity accounted earnings of that associate.

When significant influence over an associate is lost, the group measures any investment retained in the former associate at fair value, with any consequential gain or loss recognised in profit or loss.

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ASSOCIATES (continued)

Where the reporting date of an associate differs from that of the group, adjustments are made to the associate's most recent audited financial results for material transactions and events that occur since then to the reporting date of the group.

Where a group entity transacts with an associate of the group, unrealised profits and losses are eliminated to the extent of the group's interest in the relevant associate.

In the parent financial statements, the parent accounts for investments in associates at cost.

OPERATING SEGMENTS AND SEGMENT REPORTING

The group has two reportable segments:

- the primary segment as defined by section 29 of the Water Services Act No. 108 of 1997; and
- other activities as defined by Section 30 of the Water Services Act No. 108 of 1997.

Segment results that are reported include items directly attributable to the segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, assets and liabilities.

PROPERTY, PLANT & EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Land is not depreciated.

Costs include expenditure that is directly attributable to the acquisition of the asset. Works under construction are stated at cost less accumulated impairment losses and grant funding. Cost includes the cost of materials, direct labour, allocated portion of direct project overheads and any costs incurred which is directly attributable to bringing it to its present location and condition. Work-in-progress is commissioned on date of significant completion net of grant funding in accordance with the accounting policy on grant funding.

Servitudes are considered an integral part of the asset and are essential to the operation of the asset and therefore forms part of the cost of the relevant asset. Borrowing costs are capitalised on qualifying assets in accordance with the relevant accounting policy on finance costs.

When property, plant and equipment comprise major components with different useful lives, these components are accounted for as separate items. Expenditure incurred to replace or modify a significant component of plant is capitalised and any remaining carrying amount of the component replaced is written off in the statement of profit and loss. All other expenditure is charged to the statement of profit and loss.

Subsequent expenditure is only capitalised if it is probable that the future economic benefits associated with the expenditure will flow to the group.

The carrying amount of property plant and equipment will be derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of profit and loss.

Property, plant and equipment are depreciated to its estimated residual values on a straight line basis over its expected useful life. The depreciation methods, estimated remaining useful lives and residual values are reviewed at least annually and adjusted prospectively if appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROPERTY, PLANT & EQUIPMENT (continued)

ASSET CATEGORY	ESTIMATED USEFUL LIFE (YEARS)	ESTIMATED RESIDUAL VALUE
Buildings and infrastructure		
Buildings	40	2%
Dams and weirs	45	90%
Pipelines	30-45	2%
Pump stations	10-30	2%-60%
Reservoirs and intake works	45	2%
Tunnels	45	90%
Water treatment works	10-45	2%-70%
Wastewater treatment works	10-45	2%-70%
Works Roads	15-30	2%
Fences and gates	15	2%
Temporary and timber structures	25	2%
Equipment and vehicles		
Plant and equipment, furniture and fittings	5	10%
Vehicles	5	10%
Computers	3-5	10%
ERP Hardware	5	10%
ERP Software	5	10%

LEASES

CLASSIFICATION

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

IN THE CAPACITY OF A LESSOR

OPERATING LEASE

Rental income from operating leases with fixed escalation clauses is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.

IN THE CAPACITY OF A LESSEE

OPERATING LEASE

Rentals payable under operating leases with fixed escalation clauses are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

INTANGIBLE ASSETS (OTHER THAN GOODWILL)

RESEARCH AND DEVELOPMENT

Research expenditure is charged to the statement of profit and loss when incurred. Development expenditure relating to the production of new or substantially improved products is capitalised if the following conditions are met:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INTANGIBLE ASSETS (OTHER THAN GOODWILL) (continued)

RESEARCH AND DEVELOPMENT (continued)

- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell;
- the intangible asset is available; and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Research and development costs that do not meet the criteria are recognised in profit and loss. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Intangible assets are amortised from the time it's ready for use over a straight line basis over its useful life.

SOFTWARE

Software is carried at cost less accumulated amortisation and impairment. Internally developed and packaged software and the direct costs associated with the development and installation thereof are capitalised and recognised as intangible assets.

Software is amortised in full on a straight-line basis as follows:

- customised software 5 years; and
- shelf software 2 years.

Costs associated with research and development of computer software programs are recognised as an expense as they are incurred. Development costs are capitalised if it meets the criteria for capitalising development expenditure. Costs relating to the acquisition of licenses are treated as an expense in the period in which the license is acquired.

The useful lives of intangible assets are reviewed annually and adjusted prospectively if appropriate. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount and are recognised in the statement of profit and loss when the asset is derecognised.

BIOLOGICAL ASSETS

Game stock are measured at their fair value less estimated point-of-sale costs. The fair value of biological assets is determined annually based on market prices of similar age, genies, and genetic merit after considering its highest and best use. All changes in fair values are recognised in the statement of profit and loss in the period in which they arise.

IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date, the group reviews the carrying amounts of its non-financial assets other than inventories and deferred tax to determine whether there is any indication that the carrying value may not be recoverable and whether those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value-in-use. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset, or cash-generating unit, is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit, is reduced to its recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IMPAIRMENT OF NON-FINANCIAL ASSETS (continued)

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss, other than for goodwill, subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, not exceeding the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash generating unit, in prior years.

A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

INVENTORIES

Inventories are stated at the lower of the weighted average cost and net realisable value. Obsolete, redundant and slow-moving inventories are identified and written down to the estimated net realisable value.

Net realisable value is the estimate of the selling price in the ordinary course of business, less the estimated costs of completion, selling and distribution expenses.

UMGENI WATER CAPITAL AND GRANT FUNDING

Capital grants for infrastructure received by Umgeni Water are reflected against property, plant and equipment. The grant is recognised in profit or loss over the remaining useful life of the depreciable asset as a reduced depreciation expense.

Government grants towards staff re-training are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

EMPLOYEE BENEFITS

RETIREMENT BENEFIT COSTS - PROVIDENT FUND

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

RETIREMENT BENEFIT COSTS - PENSION FUND

For the defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses are recognised immediately in other comprehensive income in accordance with IAS 19 revised. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight line basis over the average period until the benefit becomes vested.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the present value of available funds and reductions in future contributions to the plan.

OTHER RETIREMENT BENEFITS

Post-retirement healthcare benefits are provided to certain of the group's retirees. The cost of providing benefits is determined using the projected unit credit method with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses are recognised immediately in other comprehensive income in accordance with IAS 19 revised.

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

EMPLOYEE BENEFITS (continued)

SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits are those that are due to be settled within twelve months after the end of the period in which the services have been rendered. Short-term employee benefits include salaries, bonuses, allowances and other fringe benefits. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. Remuneration of employees is charged to the statement of profit and loss. The group recognises a liability for leave and performance bonuses which is included in provisions and accrues for other short-term employee benefits if the group has a present legal or constructive obligation to pay the amount and the obligation can be estimated reliably.

PROVISIONS

Provisions are recognised when the group has a present legal or constructive obligation as a result of a past event and it is probable that this will result in an outflow of economic benefits that can be reliably estimated.

FINANCIAL ASSETS

The group classifies its financial assets into the following categories:

- held-to-maturity financial assets; and
- loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Management re-evaluates such designation at least at each reporting date.

Financial assets are recognised on the transaction date when the group becomes party to the contracts and thus obtains rights to receive economic benefits and are derecognised when those rights no longer exist. Financial assets are stated initially on transaction date at fair value including transaction costs.

HELD-TO-MATURITY ASSETS

Held-to-maturity financial assets and loans and receivables are subsequently stated at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition date and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest income in the statements of profit and loss.

LOANS AND RECEIVABLES

TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these are measured at amortised cost using the effective interest method less any impairment losses.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand. Cash and cash equivalents are measured at amortised cost which is deemed to be fair value.

IMPAIRMENT OF FINANCIAL ASSETS

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IMPAIRMENT OF FINANCIAL ASSETS (continued)

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

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

DERECOGNITION OF FINANCIAL ASSETS

The entity derecognises a financial asset only when:

- The contractual rights to the cash flows from the asset expire; or
- It transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity; or
- Retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

FINANCIAL LIABILITIES

Financial liabilities are initially recognised at the transaction date when the group becomes party to a contract, at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Premiums or discounts arising from the difference between the fair value of financial liabilities raised and the amount repayable at maturity date are charged to the statement of profit and loss as finance costs based on the effective interest rate method.

TRADE AND OTHER PAYABLES

Trade payables are not interest bearing and are stated at their nominal value.

DERECOGNITION OF FINANCIAL LIABILITIES

The group derecognises financial liabilities when, and only when, the group's obligations are discharged, cancelled or they expire.

EFFECTIVE INTEREST METHOD

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

OFFSET

Financial assets and financial liabilities are only offset if there is a currently enforceable legal right to offset and there is an intention either to settle on a net basis or to realise the asset and settle the liability simultaneously.

FAIR VALUE OF FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

A number of the group's financial instruments require the disclosure of fair value even though these assets are not measured at fair value.

When determining the fair value of the asset or liability for disclosure purposes the group uses observable market data as far as possible. Fair values are categorised into different levels in the fair value hierarchy based on inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly (i.e. prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the assets and liabilities that are not based on observable market data (unobservable inputs).

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE

The group recognises revenue when the amount of revenue can be reliably measured and it is probable that economic benefits will flow to the entity. Revenue is measured at the fair value of the consideration received or receivable net of discounts and value added taxation. Revenue is recognised as follows:

SALE OF GOODS

Revenue from the sale of goods is recognised when significant risks and rewards of ownership have passed and the collectability of the related receivable is reasonably assured. Sale of goods consists of potable bulk water sales to customers and treatment of wastewater.

Potable bulk water revenue is recognised at the point of metering to the customer.

RENDERING OF SERVICES

Revenue from services is recognised in the period in which these are rendered. Revenue from services consist of other services that complement bulk water service provision such as laboratory services, water quality monitoring, operating and maintenance contracts and acting as an implementing agent for any sphere of government for projects related to water service delivery.

Rendering of services from acting as an implementing agent is recognised by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. This revenue includes the initial amount agreed in the contract plus any variations in contract work to the extent that they will result in revenue and can be measured reliably. As soon as the outcome of a contract can be estimated reliably, revenue and costs are recognised in profit or loss by reference to the stage of completion of the contract. When an outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

OTHER REVENUE

Other revenue is recognised when the significant risks and rewards of ownership are transferred to the purchaser and the amount of revenue can be measured reliably.

COST OF SALES

Cost of sales includes the costs of raw water and all other direct operating costs associated with the production processes. The costs directly attributable to sales for other activities, as defined in Section 30 of the Water Services Act (Act 108 Of 1997), are disclosed as cost of sales. All other costs are considered to be administration expenses.

TAXATION

Umgeni Water and Msinsi Holdings SOC Ltd are tax-exempt entities in terms of Section 10 (1) (t) (ix) of the Income Taxation Act and therefore the policy is only in respect of its subsidiary, Umgeni Water Services SOC Ltd and associates.

The income tax charge represents the tax currently payable and deferred tax.

CURRENT TAX

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

TAXATION (continued)

DEFERRED TAX

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable income, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. No deferred tax is recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

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

INTEREST INCOME

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

FINANCE COSTS

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost eligible for capitalisation to those assets.

All other borrowing costs are reflected in the statement of profit and loss in the period in which they are incurred.

3. OPERATING SEGMENTS AND SEGMENT REPORTING

Umgeni Water has two reportable segments:

- (i) The primary segment as defined by section 29 of the Water Services Act No. 108 of 1997 which is made up of bulk water and wastewater treatment; and
- (ii) Other activities as defined by Section 30 of the Water Services Act No. 108 of 1997. This business segment consists of non-regulated activities which are mainly defined as services that complement bulk water service provision such as laboratory services, water quality monitoring, environmental management and where Umgeni Water acts as an implementing agent for any sphere of government for projects related to water service delivery.

Additional information on the major customers per segment are included in notes 16.

Segment results that are reported include items directly attributable to the segment as well as those that can be allocated on a reasonable basis.

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3. OPERATING SEGMENTS AND SEGMENT REPORTING (continued)

	Group			
	Primary activities			Total
	Bulk water	Waste water	Other activities	
	kl'000	kl'000	kl'000	kl'000
For the year ended 30 June 2018				
Treated water volume sold	434 568	29 301	-	463 869
Raw water volume sold	419	-	-	419
	R'000	R'000	R'000	R'000
Revenue	2 666 074	171 762	65 887	2 903 723
Cost of sales	(1 051 352)	(96 523)	(44 292)	(1 191 532)
Changes in water inventory	438	-	-	438
Chemicals	(59 585)	(5 868)	-	(65 453)
Depreciation	(164 403)	(2 455)	-	(166 858)
Energy	(235 600)	(21 761)	-	(257 361)
Maintenance	(170 330)	(20 647)	(2 138)	(192 480)
Raw water	(209 126)	-	-	(209 126)
Section 30 activities	-	-	(41 602)	(41 602)
Staff costs	(187 035)	(33 145)	(495)	(220 675)
Other direct operating expenses	(25 711)	(12 647)	(57)	(38 415)
Gross profit	1 614 722	75 239	21 595	1 712 191
Other income	8 573	3 695	1 478	13 746
Other operating and administration expenses	(678 088)	(23 742)	(17 345)	(719 175)
Profit from operations	945 207	55 192	6 363	1 006 762
Interest income	178 081	411	(585)	177 907
Finance costs	(1 775)	-	56	(1 719)
Share of profit from associate	-	-	5 285	5 285
Profit before tax	1 121 513	55 603	11 119	1 188 235
Taxation	6, 2	-	(76)	(76)
Profit for the year	1 121 513	55 603	11 043	1 188 159
Capital expenditure	800 588	187 612	1 382	989 582
Segment assets	7 557 792	1 289 008	111 112	8 957 912
Interest in associate	-	-	6 005	6 005
Investments	2 336 923	-	143 571	2 480 494
Unallocated				94 627
Consolidated total assets				11 539 038
Segment liabilities	1 871 912	-	122 354	1 994 266
Unallocated				1 456 262
Consolidated total liabilities				3 450 528

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

3. OPERATING SEGMENTS AND SEGMENT REPORTING (continued)

	Group			
	Primary activities			Total
	Bulk water	Waste water	Other activities	
	kl'000	kl'000	kl'000	kl'000
For the year ended 30 June 2018				
Treated water volume sold	409 887	28 568	-	438 455
Raw water volume sold	619	-	-	619
	R'000	R'000	R'000	R'000
Items that will not be reclassified to profit and loss:	2 186 687	144 708	178 125	2 509 520
	(937 002)	(88 182)	(153 741)	(1 178 925)
Changes in water inventory	823	-	-	823
Chemicals	(57 294)	(5 222)	-	(62 516)
Depreciation	(131 435)	(2 263)	-	(133 698)
Energy	(208 402)	(18 492)	-	(226 894)
Maintenance	(155 257)	(17 191)	(2 138)	(174 586)
Raw water	(180 160)	-	-	(180 160)
Section 30 activities	-	-	(150 942)	(150 942)
Staff costs	(174 564)	(30 405)	(452)	(205 421)
Other direct operating expenses	(30 713)	(14 609)	(209)	(45 531)
Gross profit	1 249 685	56 526	24 384	1 330 595
Other income	25 975	4 057	2 471	32 503
Other operating and administration expenses	(675 565)	(15 542)	(78 991)	(770 098)
Profit from operations	600 095	45 041	(52 135)	593 001
Interest income	149 431	-	170	149 601
Finance costs	(1 290)	(66)	(43)	(1 399)
Share of profit from associate	-	-	4 995	4 995
Profit before tax	748 236	44 975	(47 013)	746 198
Taxation	-	-	(101)	(101)
Profit for the year	748 236	44 975	(47 114)	746 097
Capital expenditure	958 499	204 201	9 566	1 172 266
Segment assets	7 100 294	1 095 329	139 550	8 335 173
Interest in associate	-	-	6 005	6 005
Investments	1 654 032	-	142 858	1 796 890
Unallocated				85 255
Consolidated total assets				10 223 324
Segment liabilities	1 947 188	3 536	134 342	2 085 066
Unallocated				1 314 931
Consolidated total liabilities				3 399 997

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

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4. REVENUE

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Sale of goods	2 837 836	2 331 395	2 837 836	2 331 395
Water sales	2 666 074	2 186 687	2 666 074	2 186 687
Wastewater	171 762	144 708	171 762	144 708
Rendering of services - Other activities	65 887	178 125	51 115	165 210
Water Infrastructure	16 192	116 305	16 192	116 305
Scientific and environmental	17 845	20 136	17 845	20 136
Operating and Maintenance	3 565	6 391	3 565	6 391
Other	28 285	35 293	13 513	22 378
Included in revenues arising from water sales are revenues of approximately R1 914m (2017: R1 1582m) from sales to the Group's largest customer. (Refer to note 27)				
Total revenue	2 903 723	2 509 520	2 888 951	2 496 605

5. OTHER INCOME

Sundry income	10 020	28 723	9 152	31 498
Rental income	3 726	3 780	3 116	3 034
Total other income	13 746	32 503	12 268	34 532

Sundry income comprises primarily: Operational grants, insurance proceeds and penalties on contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

6.1 PROFIT FROM OPERATIONS

Profit from operations is stated after taking the following items into account:

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Asset impairments and write-offs	(77 314)	57 872	(77 122)	57 872
- Buildings & infrastructure impairments (refer to note 9)	(71 807)	2 741	(71 807)	2 741
- Buildings & infrastructure write-offs (refer to note 9)	12 236	-	12 236	-
- Capital work-in-progress impairments (refer to note 9)	(46 177)	39 144	(46 177)	39 144
- Other asset impairments and write-offs	28 434	15 987	28 626	15 987
Amortisation of intangible assets (refer to note 10)	31 390	11 857	31 168	11 559
- Right of use agreement (refer to note 14)	2 762	2 754	2 762	2 754
- Intangible assets (refer to note 10)	28 628	9 103	28 406	8 805
Auditors' remuneration	2 391	3 714	1 981	2 839
- Audit fees - current year	2 391	3 363	1 981	2 488
- Audit fees - prior year (over) under provision	-	351	-	351
Board members' emoluments (refer pg 144)	2 972	4 699	2 626	4 403
Depreciation	246 464	176 601	242 694	173 150
- Buildings and infrastructure (refer to note 9)	172 182	139 742	172 182	139 742
- Equipment and vehicles (refer to note 9)	74 282	36 859	70 512	33 408
Doubtful debts provision	24 088	47 206	24 088	47 206
Fair value adjustment of biological assets (refer to note 11)	562	788	-	-
Legal fees	11 652	4 941	11 583	4 816
Maintenance	214 182	199 192	212 695	190 043
- Direct costs	192 480	174 586	192 480	174 586
- Indirect costs	21 702	24 606	20 215	15 457
Operating lease payments	642	1 023	405	805
Profit on disposal of property, plant and equipment	(200)	(1 026)	(392)	(1 026)
Profit on disposal of biological assets	-	(327)	-	-
Retirement benefits	104 547	105 594	104 547	105 594
- Post retirement medical aid (refer to note 26.3)	51 926	47 307	51 926	47 307
- Pension - defined benefit (refer to note 26.2)	52 621	58 287	52 621	58 287
Salaries and other staff costs	699 555	659 557	664 973	625 570
- Direct	220 675	205 421	220 675	205 421
- Indirect	371 710	354 753	337 128	320 766
- Maintenance	107 170	99 383	107 170	99 383
Number of employees at 30 June	No.	No.	No.	No.
Permanent	1 039	996	922	880
Fixed term contracts	192	154	192	154
Total number of employees	1 231	1 150	1 114	1 034

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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6.2 TAXATION

Taxation arose from a 100% owned subsidiary Umgeni Water Services (SOC) Ltd
Taxation expense

Reconciliation of taxation

Accounting profit

Permanent differences

Dividend received

Disallowed expenses

Taxable income

Taxation expense

7. INTEREST INCOME

Interest received - investments

Interest received - other financial assets (refer to note 14)

Interest received - other

Total interest income

8. FINANCE COSTS

Bank overdrafts and other

Bonds

Loans

Less: borrowing costs capitalised (refer to note 9)

Interest was capitalised to work-in-progress at the gross weighted average cost of capital of 10.61%. (2017: 10.59%)

Total finance costs

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Taxation expense	76	101	-	-
Accounting profit	5 519	5 305	-	-
Permanent differences	(5 246)	(4 945)	-	-
Dividend received	(5 285)	(4 995)	-	-
Disallowed expenses	39	50	-	-
Taxable income	273	360	-	-
Taxation expense	76	101	-	-
7. INTEREST INCOME				
Interest received - investments	173 757	148 819	173 757	148 819
Interest received - other financial assets (refer to note 14)	392	612	392	612
Interest received - other	3 758	170	3 932	-
Total interest income	177 907	149 601	178 081	149 431
8. FINANCE COSTS				
Bank overdrafts and other	437	1 325	437	1 325
Bonds	169 949	64 200	169 949	64 200
Loans	33 418	146 410	33 063	146 366
Less: borrowing costs capitalised (refer to note 9)	(202 085)	(210 536)	(202 085)	(210 536)
Interest was capitalised to work-in-progress at the gross weighted average cost of capital of 10.61%. (2017: 10.59%)				
Total finance costs	1 719	1 399	1 364	1 355

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

9. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and infrastructure	Equipment and vehicles	Capital work in progress	Total parent	Subsidiaries	Group
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Year ended 30 June 2018							
Carrying Amount 1 July 2017	3 543	3 849 439	186 487	3 713 458	7 752 927	21 219	7 774 146
Cost	3 543	5 998 959	330 967	4 762 259	11 095 728	37 311	11 133 039
Accumulated impairments	-	(580 087)	-	(138 466)	(718 553)	-	(718 553)
Accumulated grant funding	-	(320 710)	-	(910 335)	(1 231 045)	-	(1 231 045)
Accumulated depreciation	-	(1 248 723)	(144 480)	-	(1 393 203)	(16 092)	(1 409 295)
Additions	-	-	41 005	930 106	971 111	1 181	972 292
Grant funding	-	-	-	(454 741)	(454 741)	-	(454 741)
Borrowing costs capitalised	-	-	-	202 085	202 085	-	202 085
Disposals/Asset write-offs	-	(12 236)	(2 287)	(26 339)	(40 862)	(192)	(41 054)
Cost	-	(40 214)	(5 825)	(26 339)	(72 378)	(344)	(72 722)
Accumulated depreciation	-	27 978	3 538	-	31 516	152	31 668
Transfers	-	69	(69)	-	-	-	-
Cost	-	151	(151)	-	-	-	-
Accumulated depreciation	-	(82)	82	-	-	-	-
Depreciation charge	-	(172 182)	(70 512)	-	(242 694)	(3 770)	(246 464)
Impairment reversal	-	71 807	-	46 177	117 984	-	117 984
Commissioning	-	1 976 584	-	(1 976 584)	-	-	-
Cost	-	3 265 561	-	(3 265 561)	-	-	-
Accumulated grant funding	-	(1 288 977)	-	1 288 977	-	-	-
Accumulated impairment	-	-	-	-	-	-	-
Total property, plant and equipment	3 543	5 713 481	154 624	2 434 162	8 305 810	18 438	8 324 248
Cost	3 543	9 224 457	365 996	2 602 550	12 196 546	38 148	12 234 694
Accumulated impairments	-	(508 280)	-	(92 289)	(600 569)	-	(600 569)
Accumulated grant funding	-	(1 609 687)	-	(76 099)	(1 685 786)	-	(1 685 786)
Accumulated depreciation	-	(1 393 009)	(211 372)	-	(1 604 381)	(19 710)	(1 624 091)
Total property, plant and equipment	3 543	5 713 481	154 624	2 434 162	8 305 810	18 438	8 324 248

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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9. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land	Buildings and infrastructure	Equipment and vehicles	Capital work in progress	Total parent	Subsidiaries	Group
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Year ended 30 June 2017							
Carrying Amount 1 July 2016	3 543	3 800 931	84 359	3 137 340	7 026 173	16 946	7 043 119
Cost	3 543	5 808 001	197 655	3 775 941	9 785 140	29 587	9 814 727
Accumulated impairments	-	(577 346)	-	(99 322)	(676 668)	-	(676 668)
Accumulated grant funding	-	(320 710)	-	(539 279)	(859 989)	-	(859 989)
Accumulated depreciation	-	(1 109 014)	(113 296)	-	(1 222 310)	(12 641)	(1 234 951)
Additions	-	-	137 422	980 879	1 118 301	7 724	1 126 025
Grant funding	-	-	-	(371 056)	(371 056)	-	(371 056)
Borrowing costs capitalised	-	-	-	210 536	210 536	-	210 536
Disposals/Asset write-offs	-	-	(1 839)	(14 148)	(15 987)	-	(15 987)
Cost	-	-	(4 047)	(14 148)	(18 195)	-	(18 195)
Accumulated depreciation	-	-	2 208	-	2 208	-	2 208
Transfers	-	42	(47)	-	(5)	-	(5)
Cost	-	9	(63)	-	(54)	-	(54)
Accumulated depreciation	-	33	16	-	49	-	49
Depreciation charge	-	(139 742)	(33 408)	-	(173 150)	(3 451)	(176 601)
Impairment	-	(2 741)	-	(39 144)	(41 885)	-	(41 885)
Commissioning	-	190 949	-	(190 949)	-	-	-
Cost	-	190 949	-	(190 949)	-	-	-
Accumulated grant funding	-	-	-	-	-	-	-
Accumulated impairment	-	-	-	-	-	-	-
Total property, plant and equipment	3 543	3 849 439	186 487	3 713 458	7 752 927	21 219	7 774 146
Cost	3 543	5 998 959	330 967	4 762 259	11 095 728	37 311	11 133 039
Accumulated impairments	-	(580 087)	-	(138 466)	(718 553)	-	(718 553)
Accumulated grant funding	-	(320 710)	-	(910 335)	(1 231 045)	-	(1 231 045)
Accumulated depreciation	-	(1 248 723)	(144 480)	-	(1 393 203)	(16 092)	(1 409 295)
Total property, plant and equipment	3 543	3 849 439	186 487	3 713 458	7 752 927	21 219	7 774 146

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

9. PROPERTY, PLANT AND EQUIPMENT (continued)

Infrastructure consists of: pipelines, dams, weirs, reservoirs, tunnels, pump stations, sludge plants, wastewater treatment works and water treatment works.

Equipment and vehicles consists of: motor vehicles, computer hardware and furniture and fittings. The subsidiaries property, plant and equipment is all classified as equipment and vehicles.

A schedule of land and buildings is available for inspection at the registered office of Umgeni Water. The group has an agreement with its major customer to operate and maintain the South Coast Booster pump station with the option for the customer to acquire the pump station at the end of its useful life of 14 years. The pump station has a carrying amount of R74m and is used by the customer to guarantee supply to a portion of its operational areas.

The impairment losses arose from projects relating to rural development infrastructure where the recoverable amount is less than the carrying amount. The recoverable amount is the estimated value in use using the weighted average cost of capital as at 30 June 10.61% (2017: 10.59%). It was not possible to determine fair value less costs to sell as there was no basis for making a reliable estimate of the amount obtainable from the sale of these assets in an arms length transaction between knowledgeable and willing parties. The impairment losses to work-in-progress were calculated as a pro-rata impairment based on the final projected impairment value.

SUMMARY OF IMPAIRMENTS: BUILDINGS & INFRASTRUCTURE	Accumulated Impairment 30 June 2017	Impairment 30 June 2018	Accumulated Impairment 30 June 2018
	R'000	R'000	R'000
Greater Eston	572	(528)	44
Maphumulo Bulk Water Supply Scheme (Phase 1)	184 577	(70 175)	114 402
Richmond Pipeline	1 812	(1 636)	176

SUMMARY OF IMPAIRMENTS: WORK-IN-PROGRESS	Progressive Impairment 2017	Progressive Impairment 2018	Accumulated Impairment 30 June 2017	Impairment 30 June 2018	Accumulated Impairment 30 June 2018
	%	%	R'000	R'000	R'000
Greater Mphofana (Phase 1)	46%	19%	138 036	(50 544)	87 492
Impendle Bulk Water Supply Scheme	100%	19%	386	603	989
Mhlabashane Bulk Water Supply Scheme	n/a	39%	-	3 765	3 765

9.1. CAPITAL COMMITMENTS

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Commitments in respect of capital expenditure for the expansion, augmentation and upgrades of pipelines, water work and wastewater works:				
- contracted for but not provided for in the Financial Statements; and	811 792	947 551	811 619	946 604
- authorised but not contracted for.	1 743 125	1 585 868	1 743 125	1 585 868
Total capital commitments	2 554 917	2 533 419	2 554 744	2 532 472
The proposed capital expenditure will be financed through internally generated funds, borrowings and grants.				
Estimated capital expenditure to be incurred as follows:				
- Within one year	1 154 985	1 058 258	1 154 812	1 057 311
- Two to five years	1 216 503	1 106 030	1 216 503	1 106 030
- More than five years	183 429	369 131	183 429	369 131
	2 554 917	2 533 419	2 554 744	2 532 472

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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10. INTANGIBLE ASSETS

	Intangible Asset	Work in progress	Parent Total	Subsidiary	Group
	R'000	R'000	R'000	R'000	R'000
As at 30 June 2018					
SOFTWARE					
Carrying Amount 1 July	117 863	15 050	132 913	227	133 140
Cost	158 599	15 050	173 650	721	174 371
Accumulated amortisation	(40 736)	-	(40 736)	(494)	(41 231)
Additions	-	17 089	17 089	201	17 290
Commissioning	26 881	(26 881)	-	-	-
Amortisation	(28 406)	-	(28 406)	(222)	(28 628)
Total intangible assets	116 338	5 258	121 596	206	121 802
Cost	185 480	5 258	190 739	922	191 661
Accumulated amortisation	(69 142)	-	(69 142)	(716)	(69 858)
Total intangible assets	116 338	5 258	121 596	206	121 802
As at 30 June 2017					
SOFTWARE					
Carrying Amount 1 July	12 076	83 725	95 801	201	96 002
Cost	44 007	83 725	127 733	398	128 131
Accumulated amortisation	(31 931)	-	(31 932)	(197)	(32 129)
Additions	-	45 917	45 917	323	46 240
Commissioning	114 592	(114 592)	-	-	-
Amortisation	(8 805)	-	(8 805)	(298)	(9 103)
Total intangible assets	117 863	15 050	132 913	227	133 140
Cost	158 599	15 050	173 650	721	174 371
Accumulated amortisation	(40 736)	-	(40 736)	(494)	(41 231)
Total intangible assets	117 863	15 050	132 913	227	133 140

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

11. BIOLOGICAL ASSETS

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
GAME	3 224	4 244	-	-
Opening carrying amount	4 244	4 911	-	-
Additions	-	1 519	-	-
Disposals	(458)	(457)	-	-
Write off of animals poached	-	(940)	-	-
Fair value adjustment	(562)	(788)	-	-
The carrying amount was based on an estimated 503 (2017: 581) game, the most significant categories being Buffalo, White Rhino and Zebra. The fair values of game are based on market related prices and is therefore classified as level 2 fair values in terms of IFRS 13. These assets are not restricted nor are they pledged as security.				
Total biological assets	3 224	4 244	-	-

12. SUBSIDIARIES AND ASSOCIATES

12.1. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	6 005	6 005	-	-
Cost	2 590	2 590	30 000	30 000
Accumulated impairment	-	-	(30 000)	(30 000)
Share of post-acquisition reserves	3 415	3 415	-	-

12.2. LOANS TO SUBSIDIARIES AND ASSOCIATES

	-	-	12 099	13 096
Msimi Holdings SOC Limited	-	-	12 099	13 041
Umgeni Water Services SOC Limited	-	-	-	55

The loan with Umgeni Water Services has no set date for repayment and bears no interest. The loan with Msimi Holdings SOC Limited is unsecured and bears interest at 7.34% per annum. The loan is expected to be paid by 2026.

Total subsidiaries and associates	6 005	6 005	12 099	13 096
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Investments in Subsidiaries			Proportion of ownership interest		Proportion of voting power held	
Subsidiary	Principal activity	Place of incorporation	2018 %	2017 %	2018 %	2017 %
Umgeni Water Services SOC Limited	Water services	RSA	100	100	100	100
Msimi Holdings SOC Limited	Land and environmental management	RSA	100	100	100	100

The above entities remained subsidiaries throughout the year.

During the prior year Umgeni Water impaired its investment in Msimi SOC Limited by R6 424m as it expected to be in a net loss position in the next 5 years. The impairment was reassessed in 2018 based on value-in-use calculations using the projected operating cash flows of Msimi and the weighted average cost of capital as at 30 June 2018 of 10.612%. Umgeni Water continues to provide financial support to Msimi Holdings SOC Limited to ensure that the company continues to trade in the foreseeable future without any disruption in its business. Msimi SOC Limited has an investment of 16.67% in Powaprops 31 (Proprietary) Limited. The investment has been fully impaired in 2013.

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12. SUBSIDIARIES AND ASSOCIATES (continued)

12.2. LOANS TO SUBSIDIARIES AND ASSOCIATES (continued)

Investments in Associate of Umgeni Water Services SOC Limited			Proportion of ownership interest		Proportion of voting power held	
Associate	Principal activity	Place of incorporation	2018 %	2017 %	2018 %	2017 %
Durban Water Recycling (Pty) Limited	Water recycling	RSA	18.5	18.5	18.5	18.5

Umgeni Water Services SOC Limited has significant influence over Durban Water Recycling (Pty) Limited through the exercise of voting power rights due to representation on the Board of Directors and is thus accounted for as an associate. Durban Water Recycling (Pty) Limited's financial year end is 31 December. There have been no material transactions or events since then to the reporting date of the group except for total dividends of R28m declared by the Board of Durban Water Recycling in June 2018.

	Carrying amount		Directors' valuation	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Investment in associate of Umgeni Water Services (Pty) Limited				
Durban Water Recycling (Pty) Limited	6 005	6 005	6 005	6 005
Investment held by Msinsi Holdings (Pty) Limited				
Powaprops 31 (Pty) Limited	-	-	-	-
Net Investment	6 005	6 005	6 005	6 005

Summarised financial information of associates:

	2018	2017
	R'000	R'000
Total non-current assets of associates	20 140	24 473
Total non-current liabilities of associates	6 056	9 527
Total current assets of associates	58 651	56 711
Total current liabilities of associates	11 708	12 200
Total capital and reserves	61 028	59 456
Total revenue of associates	85 055	80 224
Share of profit for the year of associates	5 285	4 995

13. INVESTMENTS

13.1. LONG TERM INVESTMENTS

Held-to-maturity
Loans and receivables

Group		Parent	
2018	2017	2018	2017
R'000	R'000	R'000	R'000
403 898	230 175	403 898	230 175
317 898	230 175	317 898	230 175
86 000	-	86 000	-

Held to maturity investments represents the sinking fund redemption asset that matures in March 2021 for the UG21. Refer to note 30 Financial Risk Management and Financial Instruments for maturity profile and fair value of the long term investments.

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13. INVESTMENTS (continued)

13.2. SHORT TERM INVESTMENTS

Loans and receivables

Loans and receivables represent money market funded investments.

Refer to note 30 Financial Risk Management and Financial Instruments for interest rates and maturity profile of investments. The carrying amount of investments approximates its fair value.

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
	2 076 596	1 566 715	2 076 596	1 566 715
	2 076 596	1 566 715	2 076 596	1 566 715
Total investments	2 480 494	1 796 890	2 480 494	1 796 890
13.1.1 ANALYSIS OF HELD-TO-MATURITY FINANCIAL ASSETS				
Opening Balance	230 175	150 142	230 175	150 142
Receipt of capital and interest	87 723	80 033	87 723	80 033
Closing Balance	317 898	230 175	317 898	230 175

14. OTHER FINANCIAL ASSETS

Opening balance
Amortisation
Interest income

The financial asset is in respect of an agreement with a customer being granted the right of use of the 57 pipeline.

It is amortised over 9 years from May 2010 at an interest rate associated with the related funding of the asset.

The current year's balance is classified as short-term as the asset will be fully amortised at the end of the next financial year.

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Opening balance	4 774	6 916	4 774	6 916
Amortisation	(2 762)	(2 754)	(2 762)	(2 754)
Interest income	392	612	392	612
Total other financial assets	2 404	4 774	2 404	4 774

15. INVENTORIES

15.1. STORES

Pipe inventories
Maintenance spares
Chemicals
Miscellaneous

15.2. WATER INVENTORY

Water inventory consists of closing inventory of raw and treated water.

	16 590	13 809	16 590	13 809
Pipe inventories	754	612	754	612
Maintenance spares	1 416	1 216	1 416	1 216
Chemicals	6 527	5 512	6 527	5 512
Miscellaneous	7 893	6 469	7 893	6 469
	2 365	1 926	2 365	1 926
Total inventories	18 955	15 735	18 955	15 735

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16. TRADE AND OTHER RECEIVABLES

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Trade receivables	495 695	407 697	495 695	407 697
Less: provision for doubtful debts	(90 517)	(66 429)	(90 517)	(66 429)
Opening Balance	(66 429)	(31 678)	(66 429)	(31 678)
Written off during the year	-	12 455	-	12 455
Provided for during the year	(24 088)	(47 206)	(24 088)	(47 206)
Sub-total trade receivables	405 178	341 268	405 178	341 268
Sundry debtors	106 700	86 635	98 920	79 188
Less: provision for doubtful debts	(16)	(16)	-	-
Sub-total sundry debtors	106 683	86 618	98 920	79 188
Total trade and other receivables	511 862	427 887	504 098	420 456

Trade debtors comprise bulk water and wastewater sales to municipalities of which eThekweni Municipality and Msunduzi Municipality comprise a significant proportion 87.95% (2017: 87.10%) of sales.

Trade debtors are granted credit terms of 30 days from date of invoice to settle outstanding debts. The average credit period, at financial year-end, is 47 Days (2017: 41 days).

	Amount due	Provision	Total 2018	Total 2017
	R'000	R'000	R'000	R'000
Customer				
eThekweni Metropolitan Municipality	267 041	-	267 041	195 695
iLembe District Municipality	61 504	(26 992)	34 512	24 789
Msunduzi Local Municipality	53 897	-	53 897	42 215
Ugu District Municipality	23 567	(9 328)	14 239	10 098
uMgungundlovu District Municipality	26 346	-	26 346	12 271
Harry Gwala District Municipality	6 100	(4 996)	1 104	4 257
Sembcorp Siza Water	28 770	(25 174)	3 596	6 871
Other bulk customers	292	(181)	111	175
Trade receivables - primary activities	467 517	(66 671)	400 846	296 371
Trade receivables - secondary activities	28 178	(23 846)	4 332	44 897
Total trade receivables	495 695	(90 517)	405 178	341 268

Trade and other receivables are classified as loans and receivables and the carrying amount approximates fair value. A further analysis of financial risk relating to trade receivables is included in note 30.

17. INTEREST RECEIVABLE

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Interest and premiums have been accrued for where investments have earned interest, but have not been received at year-end.	43 952	35 585	43 952	35 585
Interest and premium receivable relating to investments are classified as loans and receivables, the carrying amount approximates fair value.				
Total interest receivable	43 952	35 585	43 952	35 585

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18.1. BANK AND CASH

Cash and cash equivalents consist of:
Bank and cash on hand

The carrying amount of bank and cash is held at amortised cost and approximates its fair value.

The group's outstanding guarantees are disclosed under note 25.

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Cash and cash equivalents consist of:				
Bank and cash on hand	26 092	24 917	9 918	16 352
The carrying amount of bank and cash is held at amortised cost and approximates its fair value.				
The group's outstanding guarantees are disclosed under note 25.				
Total bank and cash	26 092	24 917	9 918	16 352
18.2. RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH GENERATED FROM OPERATING ACTIVITIES				
Profit for the year	1 188 159	746 097	1 182 753	751 261
Interest income	(177 907)	(149 601)	(178 081)	(149 431)
Finance costs	1 719	1 399	1 364	1 355
Adjusted for non-cash items:				
Fair value adjustment of biological assets	562	788	-	-
Write off of biological assets	472	-	-	-
Profit on disposal of biological assets	-	(1 013)	-	-
Impairment of investment in subsidiary	-	-	-	6 424
Asset impairments and writeoffs	(77 122)	57 053	(77 122)	57 053
Amortisation - financial assets	2 762	2 754	2 762	2 754
Amortisation - amount owing to customer	(3 572)	(3 572)	(3 572)	(3 572)
Amortisation - intangible asset	28 628	9 103	28 406	8 805
Depreciation	246 464	176 601	242 694	173 150
Profit on disposal of property, plant and equipment	(200)	(1 026)	(392)	(1 026)
Increase in provisions and non-current liabilities	125 297	153 149	124 664	153 307
Increase in doubtful debts provision	13 411	37 350	13 411	37 350
Income Tax expense	76	101	-	-
Share of profit from associate	(5 285)	(4 995)	-	-
Tax paid	(140)	(105)	-	-
Operating surplus before working capital changes	1 343 324	1 024 081	1 336 887	1 037 430
Working capital changes	(9 201)	(211 856)	(13 281)	(219 167)
Increase in accounts receivable	(96 112)	(67 804)	(97 053)	(65 425)
Increase/(decrease) in accounts payable	90 131	(143 039)	86 992	(152 728)
Increase in inventory	(3 220)	(1 014)	(3 220)	(1 014)
Net cash from operating activities	1 334 123	812 225	1 323 606	818 263

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19. CAPITAL

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Capital consists primarily of contributions made by the Department of Water and Sanitation	442 847	442 847	442 847	442 847
Total capital	442 847	442 847	442 847	442 847

20. DEBT

Long-term	1 792 901	1 871 914	1 791 890	1 870 902
Short-term	79 011	78 810	79 011	78 810

Debt consists of interest bearing liabilities. Bonds are held at cost whilst bank loans and foreign loans are at amortised cost and are unsecured.

Total debt	1 871 912	1 950 724	1 870 901	1 949 712
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20.1 ANALYSIS OF DEBT HELD AT AMORTISED COST

		WEIGHTED AVERAGE INTEREST RATE AS AT 30 JUNE 2018				
Bank loans			63 159	117 131	63 159	117 131
Fixed rate	5.00%		13 159	17 131	13 159	17 131
Variable	9.20%		50 000	100 000	50 000	100 000
Bonds			1 535 000	1 535 000	1 535 000	1 535 000
UG21 - Fixed rate	10.70%		600 000	600 000	600 000	600 000
UG26 - Fixed rate	11.31%		935 000	935 000	935 000	935 000
Foreign loans			272 742	297 581	272 742	297 581
Fixed rate	9.08%		137 258	149 194	137 258	149 194
Variable	8.03%		135 484	148 387	135 484	148 387
Other			1 011	1 012	-	-
Total debt			1 871 912	1 950 724	1 870 901	1 949 712

Refer to note 30 Financial Risk Management and Financial Instruments for maturity profile and fair value of debt.

Reconciliation of movement in debt for the year

Balance at the beginning of the year	1 949 712	2 028 330	1 949 712	2 028 330
Loans repaid	(78 811)	(78 618)	(78 811)	(78 618)
Loans raised	1 011	1 012	-	-
Balance at the end of the year	1 871 912	1 950 724	1 870 901	1 949 712

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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21. OTHER NON-CURRENT LIABILITIES

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Amounts received in advance	95 868	43 110	95 868	43 110
Amount received in advance relates to Mkomasi Bulk Water supply charge for water resource infrastructure which will be amortised to revenue over the life of the asset.				
Total other non-current liabilities	95 868	43 110	95 868	43 110

22. PROVISIONS

	Leave pay	Legal claims	Bonus	Sub-total current provisions	Non-current incentive bonus provision	Total 2018	Total 2017
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Group							
Opening balance	32 047	10 072	71 608	113 727	39 120	152 847	113 826
Provided during the year	7 397	1 685	82 343	91 425	26 185	117 609	117 223
Utilised during the year	(8 432)	(4 209)	(72 311)	(84 952)	(31 203)	(116 155)	(78 203)
Closing balance	31 012	7 548	81 640	120 200	34 102	154 301	152 847
Parent							
Opening balance	30 095	10 072	70 306	110 473	39 120	149 593	110 411
Provided during the year	6 243	1 685	80 856	88 784	26 185	114 968	113 597
Utilised during the year	(7 671)	(4 209)	(71 066)	(82 946)	(31 203)	(114 149)	(74 416)
Closing balance	28 667	7 548	80 096	116 311	34 102	150 413	149 593

The leave pay provision is based on the number of days leave due to employees at financial year end and their cost to company per day.

Legal claims provisions are raised to the extent that it is probable Umgeni Water will be required to honour obligations. Legal claims consist of employment and supply matters, finalisation of which is expected within the next financial year.

The provision for bonus is raised to recognise the performance of employees, which is payable to employees at the Board's discretion in line with the Performance Policy.

The non-current incentive bonus provision is raised in terms of Umgeni Water's Performance Policy and is based on a five year performance period. Refer to the remuneration report on page 145 for further detail.

All provisions are raised in the ordinary course of business and no material unutilised provisions were written back.

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23. ACCOUNTS PAYABLE

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Trade accounts payable	253 479	281 681	251 504	277 122
Accruals	172 728	150 279	171 266	148 723
Amounts due to related parties:				
• Water purchases accrual - DWS	85 318	22 799	85 318	22 799
• Sundry creditors	54 875	28 111	57 013	37 114
Section 30 customer advances	122 354	134 342	122 354	134 342
Current portion of non current liabilities	-	3 152	-	3 152
South African Revenue Services (SARS)	28 814	6 089	28 814	6 025
<p>Trade accounts payable and accruals comprise amounts outstanding for trade purchases. Section 30 advances comprise amounts received from customers in advance in terms of the contractual agreements and primarily relate to implementing agent agreements.</p> <p>Trade and other payables are carried at amortised cost and the carrying amount approximates fair value. These are normally settled within 30 days from date of statement.</p>				
Total accounts payable	717 568	626 453	716 269	629 277

24. OPERATING LEASE ARRANGEMENTS

At the reporting date, the group had no outstanding commitments under non-cancellable operating leases.

The group as the lessor - rental income

The group owns a number of properties, where an insignificant portion of the property is rented out. The rental income of R3.1m (2017: R3.0m) was earned. Rentals are received from staff and tele-communications companies.

At the reporting date, the group had contracted with tenants for the following future minimum lease payments.

0 - 1 year	4 677	6 367	4 677	6 367
1 - 5 years	684	646	684	646
> 5 years	3 017	3 704	3 017	3 704
	976	2 017	976	2 017
Total operating lease arrangements	4 677	6 367	4 677	6 367

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25. CONTINGENT LIABILITIES

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Dispute between Umgeni Water and Raminet Technologies on SAP ERP customisation				
Raminet Technologies inherited from EOH Mthombo (Pty) Ltd via a cession agreement the operating and maintenance contract for the SAP ERP as well as the close-out of project related deliverables relating to the system enhancement and change requests. Umgeni Water has disputed the claims relating to these and as at the reporting date the matter was not yet resolved and will be proceeding to mediation.	143 005	-	143 005	-
SARS				
During the previous financial year Umgeni Water received an assessment of R19m from SARS on an Input VAT claim on a bad debt write off relating to the reticulation debtors which were handed over to Msunduzi Municipality. The matter has been resolved and a settlement reached in 2018.	-	19 627	-	19 627
Guarantees				
Guarantees have been given by certain financial institutions in respect of payments to utility service providers.	7 369	822	7 369	822
Total contingent liabilities	150 374	20 449	150 374	20 449

26. POST-RETIREMENT BENEFIT OBLIGATIONS

	Group & Parent	
	2018	2017
	R'000	R'000
All the Umgeni Water retirement benefit plans are governed by the Pension Funds Act (No. 24 of 1956) of South Africa. All full-time employees are compelled to belong to either the defined benefit or the defined contribution plan.		
Summary of net liabilities for post-retirement benefit obligations:		
Defined benefit plan (refer to note 26.2)	167 518	172 087
Post-retirement healthcare benefits (refer to note 26.3)	387 332	397 318
Total post-retirement benefit obligations	554 850	569 405

26.1 DEFINED BENEFIT CONTRIBUTION

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
The total cost charged to income represents the group's portion of the contribution payable to this scheme. At reporting date all amounts due and payable to this scheme had been paid.	28 175	27 148	25 478	24 846

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26. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)

26.2 DEFINED BENEFIT PLAN

The Umgeni Water Retirement Fund was established on 1 December 1985 and was closed to new members with effect from 6 February 2007.

The scheme is funded and actuarially valued every year. The effective date of the most recent valuation is 30 June 2018. The assets of the Umgeni Water Retirement Fund are held separately from those of the entity in a trustee administered fund, registered in terms of the Pension Funds Act, 1956. (Act 24 of 1956)

The fair value of the plan is arrived at after considering the following:

	Group & Parent		
	2018	2017	2016
	%	%	%
Key assumptions used in the actuarial valuation were as follows:			
Discount rate	9.80%	9.90%	9.60%
Expected rate of salary increases	7.30%	7.90%	8.20%
Future pension increase	4.20%	4.60%	4.80%
	R'000	R'000	R'000
Amounts recognised in profit/loss in respect of the defined benefit plan are as follows:			
Current service cost	33 384	36 376	36 939
Interest on obligation	94 924	94 365	86 304
Expected return on plan assets	(75 687)	(72 454)	(69 163)
Total included in staff costs in statement of profit and loss	52 621	58 287	54 080
Amounts recognised in other comprehensive income in respect of the defined benefit plan are as follows:			
Net actuarial (gain) loss	(31 712)	(64 111)	20 277
Total included in statement of other comprehensive income	(31 712)	(64 111)	20 277
The amount included in the statement of financial position arising from the group's obligation in respect of its defined benefit plan is as follows:			
Present value of funded defined benefit obligation	954 189	943 151	961 604
Fair value of plan assets	(786 671)	(771 064)	(758 847)
Net liability in statement of financial position	167 518	172 087	202 757
Movement in the net liability recognised in the statement of financial position is as follows:			
Net liability at start of year	172 087	202 757	160 590
Net expense recognised in the statement of profit and loss	52 621	58 287	54 080
Net expense (income) recognised in the statement of other comprehensive income	(31 712)	(64 111)	20 277
Company contributions	(25 478)	(24 846)	(32 190)
Net liability at end of year	167 518	172 087	202 757

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26. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)

26.2 DEFINED BENEFIT PLAN (continued)

	Group & Parent		
	2018	2017	2016
	R'000	R'000	R'000
Movements in the defined benefit obligation for the year:			
Defined benefit obligation at beginning of year	943 151	961 604	897 740
Current service cost	33 384	36 376	36 939
Member contributions	8 595	8 273	7 974
Interest cost	94 924	94 365	86 304
Actuarial (gain) loss	(78 694)	(116 121)	(24 450)
Benefits paid	(41 740)	(36 114)	(36 749)
Risk premiums	(4 018)	(3 943)	(4 970)
Expenses	(1 413)	(1 289)	(1 184)
Defined benefit obligation at end of year	954 189	943 151	961 604
Movements in the present value of plan assets in the current period were as follows:			
Fair value of plan assets at beginning of year	771 064	758 847	737 150
Interest on plan assets	75 687	72 454	69 163
Member contributions	8 595	8 273	7 974
Employer contributions	25 478	24 846	32 190
Actuarial gain	(46 982)	(52 010)	(44 727)
Benefits paid	(41 740)	(36 114)	(36 749)
Risk premiums	(4 018)	(3 943)	(4 970)
Expenses	(1 413)	(1 289)	(1 184)
Fair value of plan assets at end of year	786 671	771 064	758 847
Actual Return on Assets	28 705	20 444	24 436
Key assumptions used in the actuarial valuation were as follows:			
The major categories of plan assets and the expected rate of returns at the end of the reporting period are as follows:			
	%	%	%
Cash	6.20%	11.01%	12.37%
Equity	39.44%	37.27%	40.49%
Bonds	21.71%	20.33%	18.49%
Property	5.71%	5.81%	4.21%
International	24.14%	24.33%	23.49%
Other	2.80%	1.25%	0.95%
Total	100.00%	100.00%	100.00%

Percentages reflected in 2018 are based on June 2018 asset composition.

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26. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)

26.2 DEFINED BENEFIT PLAN (continued)

The group expects to make a contribution of R24m to the defined benefit plan during the next financial year.

An analysis of the impact of changes in the underlying assumptions used in the actuarial valuation are presented in the table that follows:

	Accrued Liability				
	Central Assumption	Increase		Decrease	
		%	R'000	%	R'000
Sensitivity Factor					
1% change in discount rate	9.80%	(13.50%)	(128 417)	16.90%	161 467
1% change in inflation rates	6.30%	14.00%	133 518	(12.20%)	(116 374)
1% change in salary increase rate	7.30%	8.20%	78 423	(7.80%)	(74 574)

26.3 POST-RETIREMENT HEALTHCARE BENEFITS

The scheme is unfunded and the group has recognised its full past service liability. Actuarial valuations are done annually. The effective date of the most recent valuation is 30 June 2018.

Employees who joined Umgeni Water after 28 February 2002 cannot elect to join this scheme.

Key assumptions used in the actuarial valuation, were as follows:

	Group & Parent		
	2018	2017	2016
	%	%	%
Discount rate	10.30%	10.90%	9.80%
Expected rate of increase in medical indices	8.80%	10.00%	9.40%

Amounts recognised in profit and loss in respect of the post-retirement healthcare costs are as follows:

	R'000	R'000	R'000
Current service cost	9 270	9 650	8 984
Interest on obligation	42 656	37 657	31 650
Total included in staff costs in statement of profit and loss	51 926	47 307	40 634

Amounts recognised in other comprehensive income in respect of the post-retirement healthcare costs are as follows:

	(50 358)	(29 361)	16 263
Actuarial loss (gain)	(50 358)	(29 361)	16 263
Total included in statement of other comprehensive income	(50 358)	(29 361)	16 263

The amount included in the statement of financial position arising from the group's obligation in respect of its post-retirement healthcare obligations is as follows:

Opening balance	397 318	389 527	341 150
Net expense recognised in the statement of profit and loss	51 926	47 307	40 634
Company contributions	(11 554)	(10 155)	(8 520)
Net (income) expense recognised in the statement of other comprehensive income	(50 358)	(29 361)	16 263
Liability at end of year	387 332	397 318	389 527

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

26. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)

26.3 POST-RETIREMENT HEALTHCARE BENEFITS (continued)

	Group & Parent		
	2018	2017	2016
	R'000	R'000	R'000
Movements in the post-retirement healthcare obligation in the current period were as follows:			
Projected benefit obligation at beginning of year	397 318	389 527	341 150
Current service cost	9 270	9 650	8 984
Interest cost	42 656	37 657	31 650
Actuarial (gain) loss	(50 358)	(29 361)	16 263
Employer contributions	(11 554)	(10 155)	(8 520)
Projected benefit obligation at end of year	387 332	397 318	389 527

The group expects to make a contribution of R13.4m to the post retirement medical aid during the next financial year.

An analysis of the impact of changes in the underlying assumptions used in the actuarial valuation are presented in the table below:

	Accrued Liability				
	Central Assumption	Increase		Decrease	
		%	R'000	%	R'000
Sensitivity Factor					
1% change in medical aid inflation rates	8.80%	16.80%	65 011	(13.50%)	(52 412)
1 year change in expected retirement age	60 years	(3.70%)	(14 203)	3.50%	13 699
1% change in discount rate	10.30%	(13.20%)	(51 209)	16.6%	64 483

The information presented above is as per the latest valuation, which was performed on 30 June 2018.

The risks faced by the company as a result of the post-employment retirement benefits obligation are as follows:

- Inflation: the risk that future CPI Inflation is higher than expected and uncontrolled;
- longevity: the risk that pensioners live longer than expected and thus their pension benefit is payable for longer than expected;
- open-ended, long-term liability: the risk that the liability may be volatile in the future and uncertain;
- future changes in legislation: the risk that changes to legislation with respect to the post-employment liability may increase the liability for the company;
- future changes in the tax environment: the risk that changes in the tax legislation governing employee benefits may increase the liability for the company;
- perceived inequality by non eligible employees: the risk of dissatisfaction of employees who are non eligible for a post-employment healthcare subsidy; and
- administration: administration of this liability poses a burden to the company.

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27. RELATED PARTIES

The group is wholly owned by its shareholder, the Department of Water and Sanitation. Umgeni Water is a schedule 3B public entity in terms of the Public Finance Management Act.

Government related parties include national departments (including the shareholder), constitutional institutions (schedule 1 of the Public Finance Management Act), public entities (schedule 2 and 3 of the Public Finance Management Act) and local government (including municipalities). The list of public entities in the national sphere of government is provided by National Treasury on its website www.treasury.gov.za. It also provides the names of subsidiaries of the public entities.

Related parties also comprise subsidiaries of Umgeni Water, and associates of the group and post retirement benefit plans for the benefit of the employees. For disclosures regarding the post retirement benefit plan, refer to note 26. Related parties also includes key management personnel of Umgeni Water or its shareholder and close family members of the related parties.

Key management personnel for Umgeni Water includes the group's Board of Directors and the Executive Management (EXCO) and their remuneration is disclosed in the Remuneration Report on page 144.

IAS 24 Related Party disclosures provides government related entities with an exemption which eliminates the requirements to disclose information that is costly to gather and of less value to users. The group applies the exemption in respect of its relationship with government related entities at national and local levels of government.

All related party transactions are carried within normal trade conditions. The following transactions were carried out with related parties.

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Revenue: Sale of goods and services				
Bulk water and wastewater				
Local government (includes municipalities)*	2 811 072	2 161 847	2 811 072	2 161 847
Revenue: Section 30				
Local government (includes municipalities)	16 292	99 123	16 292	99 123
National Department	19 542	55 876	19 542	55 876
Cost of sales				
Raw water purchases				
National Department	209 126	180 160	209 126	180 160
Section 30				
Local government (includes municipalities)	16 200	96 339	16 200	96 339
National Department	17 757	52 639	17 757	52 639
Other operating and administration expenses				
Subsidiaries and associates	-	-	40 180	37 000
Finance Income				
Subsidiaries and associates	-	-	840	931
Work-in-progress: Grant funding for rural development projects				
National Department	454 741	371 056	454 741	371 056

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27. RELATED PARTIES (continued)

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Loans to entities				
Subsidiaries and associates	-	-	12 099	13 096
Investments in subsidiaries				
Subsidiaries and associates	6 005	6 005	-	-
Other payables				
Subsidiaries and associates	-	-	7 881	8 862
Revenue in advance: Local government and municipalities	-	3 152	-	3 152
Raw water purchases accrual (National Department)	85 318	22 799	85 318	22 799
Right of use agreement				
Local government (includes municipalities)	2 404	4 774	2 404	4 774
Revenue in advance				
Local government (includes municipalities)	95 868	43 110	95 868	43 110

* Included in local government is sales to the group's largest customer of R1 914m (2017: R1 582m)

28. IRREGULAR EXPENDITURE

Opening balance 1 July	10 982	-	9 394	-
Add: irregular expenditure relating to current year	13 826	4 479	13 561	2 891
Add: prior year irregular expenditure identified in current year	20 143	6 882	20 143	6 882
Less: amounts condoned by appropriate authority	(11 710)	(379)	(10 122)	(379)
Amounts awaiting condonement	33 241	10 982	32 976	9 394

Details of irregular expenditure – current and prior year:

All incidents relate to expenditure which arose as a result of non compliance to the performance policy and supply chain management policy. Disciplinary steps/criminal proceedings were not instituted as the expenditure was incurred in support of the business requirements and the amounts awaiting condonement will be assessed by the relevant condoning authorities.

Details of irregular expenditure condoned

Incident	Condoned by (condoning authority)
Supply chain management policy not adhered to.	Bid Adjudication Committee in terms of the irregular expenditure procedure.
Performance policy amendment not fully complied with in terms of delegation of authority.	The Board of Umgeni Water has approved the policy change however the payments resulting in irregular expenditure is under investigation by the Board and consequently was not condoned as at the date of this report.

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29. FRUITLESS AND WASTEFUL EXPENDITURE

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Opening balance 1 July	5 230	-	5 226	-
Fruitless and wasteful expenditure relating to the current year	316	5 232	4	5 226
Less: amounts condoned by appropriate authority	(4)	(2)	-	-
Less: amounts transferred to receivable	(15)	-	-	-
Amounts awaiting condonement	5 527	5 230	5 230	5 226
Analysis of fruitless and wasteful expenditure				
Remuneration from 20 th August 2017 to 19 th August 2019	5 226	5 226	5 226	5 226
20 th August 2017 to 19 th August 2018	2 613	2 613	2 613	2 613
20th August 2018 to 19th August 2019	2 613	2 613	2 613	2 613
Fines and penalties	4	-	4	-
Interest paid	297	6	-	-
Total fruitless and wasteful expenditure	5 527	5 232	5 230	5 226

Details of fruitless and wasteful expenditure

Incident	Details
Remuneration paid in terms of a settlement agreement of R5.2m relating to prior year.	The Board entered into a settlement agreement with the Chief Executive as at 30 th June 2017, which included the settlement of remuneration to the contract extension period to August 2019.
Penalties and interest amounting to R0.3m.	Interest and penalties was incurred on late payment of accounts during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

30.1.1 CAPITAL MANAGEMENT

Capital and reserves is consistent with the prior year and consists of:

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Capital	442 847	442 847	442 847	442 847
Accumulated profit	7 574 943	6 391 830	7 541 430	6 358 677
Other comprehensive income	70 720	(11 350)	70 720	(11 350)
Total	8 088 510	6 823 327	8 054 997	6 790 174
Total interest bearing debt	1 871 912	1 950 724	1 870 901	1 949 712

30.1.2 DEBT MANAGEMENT

Debt management strategies

Umgeni Water's treasury strategy focuses on solvency and debt management through the cash flow tariff model, after taking into account the long-term business plans, water demand curves, and future capital expenditure. The liability curve and debt redemption is then actively managed:

- (a) by targeting an optimal debt level;
- (b) by asset liability matching, through a redemption strategy framework which pro-actively manages liquidity and refinancing risk associated with large debt maturities such as bonds;
- (c) within approved borrowing limits; and
- (d) by maintaining an external credit rating.

(a) Optimal debt level

Umgeni Water strives to be within an optimal debt level by not exceeding a gearing ratio of 0.67 and maintains a target debt interest rate structure of 70% fixed and 30% floating which aims to minimise volatility of both the tariff and statement of profit and loss.

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Gross Debt (Refer note 20)	1 871 912	1 950 724	1 870 901	1 949 712
Interest Rate Structure				
Fixed	90%	86%	90%	86%
Floating	10%	14%	10%	14%
Gearing Ratio	0.23	0.29	0.23	0.29

(b) Asset and liability management

Asset and liability matching focuses on two components:

- The first being the matching of maturity dates of financial assets and liabilities whereby financial assets will be used to repay debt on its maturity. This will typically be applied in a redemption strategy.
- The second component is whereby surplus cash (cash after operating expenditure and interest cost) is matched to debt redemption or specific funding requirements.

Taking the business environment and market conditions into account, the following framework is used in managing the redemption portfolio build-up over the years preceding the redemption of the bond. Prior to redemption, the entity must have provided for at least:

- 10% of the capital value required in the year of redemption;
- 40% provided for 2 years before redemption;
- 75% provided for 1 year before maturity; and
- the balance of 25% is funded during the year of maturity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

30.1.2 DEBT MANAGEMENT (continued)

(c) Managing debt within approved borrowing limits

The borrowing limits for Umgeni Water for the period 2017 to 2019 are as follows:

	2019	2018	2017
	R'000	R'000	R'000
Borrowing Limit			
Unconditional	2 400 000	2 450 000	2 550 000
Conditional	300 000	300 000	300 000
Total	2 700 000	2 750 000	2 850 000

	Parent	
	2018	2017
Utilisation of borrowing limits		
Borrowing limit	2 450 000	2 550 000
Gross borrowings (refer to note 20)	(1 870 901)	(1 949 712)
Collateral and guarantees (refer to note 25)	(7 369)	(822)
Unutilised borrowing limits	571 730	599 476

(d) Maintaining an external credit rating

The ability of Umgeni Water to raise debt at competitive interest rates is significantly dependant on the external credit rating issued by a Ratings Agency. The credit rating is maintained through protection of operating cashflows by anticipating adverse market and business conditions and continuous monitoring of strategies devised to counteract the adverse market conditions.

Umgeni Water's national credit ratings are as follows:

Rating Agency	Review date	Details	Long-term rating	Short-term rating
Standard & Poors	29/06/2018	Recalibration of National scales	zaAAA	zaA-1
FitchRatings	13/07/2017	Affirmed rating	AA+(zaf)	F1+(zaf)

30.2. FINANCIAL RISK MANAGEMENT

Umgeni Water's exposure to risk, its objectives, policies and processes for managing the risk and the methods used to measure it have been consistently applied in the years presented, unless otherwise stated. The Corporate Treasury function provides services to the business, co-ordinates access to domestic financial markets, monitors and manages the financial risks relating to the operations of Umgeni Water through the short, medium and long-term funding strategy, and highlights the risk implications of various financial transactions.

The use of financial derivatives is governed by Umgeni Water's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. Umgeni Water does not enter into or trade Financial Instruments, including derivative Financial Instruments, for speculative purposes. The principal financial risks to which Umgeni Water is exposed as a result of its Financial Instruments are:

- credit risk (which includes counterparty risk);
- liquidity risk; and
- market risk (interest rate risk).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

30.2. FINANCIAL RISK MANAGEMENT (continued)

30.2.1 CREDIT RISK

Credit risk is the risk of financial loss to the group if a customer or other counterparty to a financial instrument fails to meet its contractual obligations.

Credit risk arises principally from the group's receivables and investment securities. Credit risk concentration will result in Umgeni Water being exposed to counter party failure. This has the potential to impact on the organisation's ability to remain within its optimal debt level.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
a) Investments	2 480 494	1 796 890	2 480 494	1 796 890
b) Trade and other receivables (excluding provision for bad debts)	602 395	494 332	594 615	486 885
c) Cash and cash equivalents (excluding petty cash)	26 008	24 865	9 896	16 329

A) INVESTMENTS

According to its Investment Policy Umgeni Water will manage credit risk by:

- conducting transactions only with counter parties and issuers who satisfy soundly based and acceptable assessment processes, and only after formal limits have been set;
- same-day settlement limits will be set wherever possible and/or strict settlement procedures set and adhered to; and
- continuous monitoring of the credit quality of counterparties.

Concentration of credit risk is managed by setting credit limits at counterparty-specific level. The credit limit calculation is based on 5% of shareholders funds but subject to a maximum limit of R1 000m as approved by the Board, and limited to parties where 5% of shareholders funds exceeds R100m. The group limits its exposure to credit risk by investing only with counterparties with a long-term rating of A and short-term rating of F1 and better. Utilisation of the credit limit is measured in terms of risk weighting except in the case of zero coupon bonds where credit limit utilisation is based on current market value.

Given the credit ratings of counterparties, management does not expect any counterparty to fail to meet its obligations and hence no investment has been impaired, during the current and prior years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

30.2. FINANCIAL RISK MANAGEMENT (continued)

30.2.1 CREDIT RISK (continued)

Maximum credit risk exposure to Umgeni Water:

The table below shows Umgeni Water's credit exposure to the approved counterparties in context of the credit limits assigned to each counterparty and the carrying value of the investment placed with each counterparty. The credit ratings reflected are as at reporting date and in terms of the S&P rating agency definitions.

Counterparty	S&P Rating	Credit Limit	Group & Parent	
			2018	2017
			R'000	R'000
FINANCIAL INSTRUMENTS				
Held-to-maturity				
Nedbank Limited	zaAA-/zaA-1+	1 000 000	317 898	230 175
			2 162 596	1 566 715
Loans and receivables				
ABSA Bank Limited	zaAA-/zaA-1+	1 000 000	411 764	163 905
First Rand Bank Limited	zaAA-/zaA-1+	1 000 000	754 040	168 950
Standard Bank of South Africa Limited	zaAA-/zaA-1+	1 000 000	100 000	106 500
Nedbank Limited	zaAA-/zaA-1+	1 000 000	548 698	640 390
Investec Limited	zaAA-/zaA-1+	300 000	4 451	94 014
Nedgroup Money Market Fund Limited	AA+	300 000	100 000	100 000
Investec Money Market Fund Limited	AA+	300 000	-	100 000
Stanlib Money Market Fund Limited	AA+	300 000	189 959	143 000
Corporation for Public Deposits	Government Guarantee	3 000 000	53 684	49 955
Total			2 480 494	1 796 890

B) TRADE AND OTHER RECEIVABLES

The management of credit risk in relation to trade and other receivables is summarised as follows:

- Umgeni Water aims to minimise loss caused by default of customers through specific policies and procedures; and
- compliance with these policies and procedures are the responsibility of the Chief Financial Officer and Financial Manager. Monitoring of compliance with these policies is carried out by internal audit. All known risks are required to be fully disclosed and accounted for and are provided for as doubtful debts.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are bulk or commercial customers, their aging profile and existence of previous financial difficulties.

The average credit period allowed is 30 days from invoice date. Interest is charged at prime rate on debtors over 30 days from date of invoice. Trade receivables over 30 days are provided for based on estimated irrecoverable amounts from the sale, determined by reference to past default experience.

Monitoring exposure

Umgeni Water monitors exposures on an on-going basis utilising various reporting tools and flagging potential risks which are reported to National Treasury in terms of Section 41 of the Municipal Finance Management Act. The following reports are used to monitor credit risk:

- age analysis reports; and
- status report for significant overdue debtors.

The maximum exposure to credit risk for trade and other receivables at the reporting date by type of counter party is as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

30.2. FINANCIAL RISK MANAGEMENT (continued)

30.2.1 CREDIT RISK (continued)

B) TRADE AND OTHER RECEIVABLES (continued)

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Gross Amounts (excluding provision for bad debts)				
Bulk	467 517	330 737	467 517	330 737
Wastewater	22 757	17 639	22 757	17 639
Other activities	112 122	145 956	104 342	138 509
Total amounts (excluding provision for bad debts)	602 395	494 332	594 615	486 885

The group's most significant customer accounts for R267m of the trade and receivables carrying amount at 30 June 2018. (2017: R196m).

Impairment Losses

Refer to note 16 for impairment of trade and other receivables.

There were no financial assets past due or impaired and whose terms have been renegotiated.

	Group & Parent	
	2018	2017
	R'000	R'000
Analysis of the ageing of financial assets (trade receivables) which are past due but have not been impaired:	50 045	22 109
30 days	24 479	12 804
60 days	9 161	9 161
90 days	985	18
120+ days	15 420	126

The group believes that the unimpaired amounts that are past due by more than 30 days are still recoverable, based on historic payment behaviour and analysis of customer credit risk.

C) CASH AND CASH EQUIVALENTS

Counterparty	Rating	Group		Parent	
		2018	2017	2018	2017
		R'000	R'000	R'000	R'000
Cash		26 008	24 865	9 896	16 329
First Rand Bank Limited	zaAA-/zaA-1+	16 112	8 536	-	-
ABSA Bank Limited	zaAA-/zaA-1+	9 896	16 329	9 896	16 329
Total		26 008	24 865	9 896	16 329

The remaining balance of 84 (2017: 51) for the Group and 22 (2017: 23) for the parent represents petty cash in Rands per thousand for which there is no credit risk attached.

Guarantees

At 30 June 2018 the group had R7.3m (2017: R0.8m) of guarantees outstanding and this represents the maximum exposure to the Group.

Collateral

At 30 June 2018 the group has no collateral held as security.

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

30.2. FINANCIAL RISK MANAGEMENT (continued)

30.2.2 LIQUIDITY RISK

Liquidity risk is the risk that the group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

Mitigation approach

To mitigate liquidity risk, Umgeni Water:

- monitors the level of expected cash inflows on trade and other receivables together with the expected cash outflows on trade and other payables;
- has short-term funding facilities to meet on-going cash requirements for which facility options are in place with four banks (FNB, Standard, ABSA, Nedbank);
- has a Domestic Medium Term Note (DMTN) Programme that has been established allowing for longer dated debt such as bonds to be issued with relative ease;
- has provided for a R200m cash buffer investment to cater for a delay in payments by its customers;
- has a redemption strategy framework, which provides guidelines for managing the risks associated with refinancing large debt maturities; and
- has borrowing limits approved by National Treasury.

30.2.2.1 LIQUIDITY RISK INHERENT IN CONTRACTUAL CASH FLOWS

The following table details the group's expected maturity for its financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where Umgeni Water anticipates that the cash flow will occur in a different period.

		Group					
	Weighted average effective interest rate	<1 month	1-3 months	3 months-1 year	1-5 years	>5 years	Total
		R'000	R'000	R'000	R'000	R'000	R'000
Financial Assets							
2018							
Fixed interest rate instruments*	9.21%	(5 241)	(10 483)	(47 172)	495 172	-	432 276
Variable interest rate instruments	7.69%	783 294	310 771	946 650	224 940	-	2 265 654
Trade and other Receivables	n/a	-	463 009	48 853	-	-	511 862
Total		778 053	763 297	948 330	720 112	-	3 209 792
2017							
Fixed interest rate instruments*	9.21%	(5 241)	(10 483)	(47 172)	432 276	-	369 379
Variable interest rate instruments	7.91%	793 608	339 665	332 344	190 654	-	1 656 272
Trade and other Receivables	n/a	-	375 850	52 037	-	-	427 887
Total		788 367	705 032	337 209	622 930	-	2 453 538

* Negative up to 1 year due to the reverse annuity which matures in 2021 to meet the redemption requirements for the UG21 Bond.

The group and parent figures remain the same with the exception of parent trade and other receivables maturity of 3 months -1 year R41 089 in Rands per thousand for the current year.

The following tables summarise Umgeni Water's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Umgeni Water can be required to pay. The table includes both interest and principal cash flows which may differ from the carrying values of the liabilities at the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

30.2. FINANCIAL RISK MANAGEMENT (continued)

30.2.2 LIQUIDITY RISK (continued)

30.2.2.1 LIQUIDITY RISK INHERENT IN CONTRACTUAL CASH FLOWS (continued)

	Weighted average effective interest rate	Group					Total
		<1 month	1-3 months	3 months-1 year	1-5 years	>5 years	
		R'000	R'000	R'000	R'000	R'000	
Financial Liabilities							
2018							
Fixed interest rate instruments	10.84%	-	86 138	113 754	1 246 070	1 354 783	2 800 745
Variable interest rate instruments	8.34%	-	-	76 740	84 817	90 798	252 355
Trade and other payables	n/a	26 837	540 450	150 281	-	-	717 568
Total		26 837	626 588	340 774	1 330 887	1 445 582	3 770 668
2017							
Fixed interest rate instruments	10.86%	-	86 604	113 337	1 320 420	1 480 325	3 000 686
Variable interest rate instruments	8.91%	-	-	82 779	141 646	111 690	336 116
Trade and other payables	n/a	105 723	349 498	171 231	-	-	626 453
Total		105 723	436 102	367 347	1 462 066	1 592 015	3 963 254

The group and parent figures remain the same with the exception of parent trade and other payables maturity of <1 month R17 657, 3 months - 1 year of R548 331 (2017: R359 524) and 3 months - 1 year R150 281 in Rands per thousand.

30.2.2.2 PRIMARY SOURCE OF FUNDING AND UNUSED FACILITIES

The primary source of funding to meet Umgeni Water's requirements are revenue, cash inflows from maturing financial assets purchased, debt issued in the market and other loans. The following sources of funding are available to Umgeni Water to meet its short, medium and long-term funding requirements and will supplement the primary liquidity sources under stress conditions:

(a) Domestic Medium Term Note Programme (DMTN)

Umgeni Water has established a Domestic Medium Term Note Programme to issue bonds to meet long term capital expenditure funding requirements. The programme has an authorised amount of R4 000m, and is a useful funding tool in terms of the following:

- refinancing the duration of the stock of debt;
- refinancing the fixed to floating ratio of the debt book;
- meeting short-term liquidity requirements; and
- filling gaps in the debt maturity profile.

The UG21 was issued at a total nominal value of R600m on 02 March 2010 at a fixed rate of 10.70% and the UG21 was issued at a total nominal value of R935m at a fixed rate of 11.31% on 09 March 2016, both under the DMTN Programme. The unutilised portion of the programme as at the 30 June 2018 is R2 465m.

(b) General banking facilities

Umgeni Water has the following committed and uncommitted bank facilities available:

Type of facility	Group & Parent	
	Committed	Uncommitted
	R'000	R'000
Working capital facility	20 000	49 980
General Banking facility	50 020	-

(c) Bank Loans

This method of funding allows Umgeni Water to refinance short-term debt into longer-term debt with the view of achieving greater asset/liability matching.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

30.2. FINANCIAL RISK MANAGEMENT (continued)

30.2.3 INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates cause a reduction/increase in net profit for Umgeni Water. Umgeni Water is exposed to interest rate risk as funds are borrowed at both fixed and floating interest rates. Borrowings issued at floating interest rates exposes Umgeni Water to cash flow interest rate risk.

Mitigation approach

The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings: 70% fixed to 30% floating interest rate profile.

		Group & Parent	
	Recommended Ratio	2018	2017
		R'000	R'000
RATIO OF FIXED TO FLOATING INTEREST RATE			
Fixed	70%	90%	86%
Floating	30%	10%	14%

		Group & Parent	
		2018	2017
		R'000	R'000
At reporting date the interest rate profile of the group's interest bearing Financial Instruments is as follows:			
Fixed rate instruments			
Financial assets		317 898	230 175
Financial liabilities		(1 685 417)	(1 701 325)
Net position		(1 367 519)	(1 471 150)
Variable rate instruments			
Financial assets		2 162 596	1 566 715
Financial liabilities		(185 484)	(248 387)
Net position		1 977 112	1 318 328

Sensitivity Analysis

A sensitivity analysis to a change in interest rates has been performed based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date. For floating rate liabilities and investments, the analysis is prepared assuming the amount of liability and investment outstanding at the reporting date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonable possible change in interest rates. The sensitivity analysis assumes that all other variables remain constant and has been prepared on the same basis for the prior year.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the group's profit for the year ended 30 June 2018 would decrease/increase by R2.4m (2017: R2.6m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

30.4. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

The following tables show the carrying values and the fair value of financial assets and liabilities, including the fair value hierarchy. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of the fair value.

CARRYING VALUES CATEGORIES OF FINANCIAL INSTRUMENTS

Financial Assets

Held-to-maturity
Loans and receivables
Other investments
Trade and other receivables
Interest and premium receivable
Cash and cash equivalents

Financial Liabilities

Held at amortised cost
Long and short-term debt
Other non current liabilities
Accounts payable
Interest payable

Group		Parent	
2018	2017	2018	2017
R'000	R'000	R'000	R'000
317 898	230 175	317 898	230 175
2 744 501	2 055 103	2 644 353	2 039 108
2 162 596	1 566 715	2 162 596	1 566 715
511 862	427 887	427 887	420 456
43 952	35 585	43 952	35 585
26 092	24 917	9 918	16 352
2 741 376	2 677 743	2 739 066	2 679 557
1 871 912	1 950 724	1 870 901	1 949 712
95 868	43 110	95 868	43 110
717 568	626 453	716 269	629 277
56 028	57 458	56 028	57 458

Except as detailed below, the Directors' consider the carrying values of the financial assets and financial liabilities recorded at amortised cost in the Financial Statements to be a reasonable approximation of their fair values.

FAIR VALUES CATEGORIES OF FINANCIAL INSTRUMENTS

Held to maturity financial assets
Long and short-term debt

Fair Value Hierarchy Level

Group		Parent	
2018	2017	2018	2017
R'000	R'000	R'000	R'000
340 151	269 569	340 151	269 569
(1 988 391)	(2 113 113)	(1 988 391)	(2 113 113)

Financial Instruments not measured at fair value

Financial Instrument	Valuation Technique	Significant Unobservable Inputs
Held to maturity financial assets	Discounted cash flow analysis using prices from observable current market transactions for similar instruments.	N/A
Long-term and short term debt	Discounted cash flow analysis using prices from observable current market transactions for similar instruments.	N/A

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31. SUBSEQUENT EVENTS

No other material event has occurred between the accounting date and the date of this report.

32. GOING CONCERN

The Directors, having considered all the relevant information, have satisfied themselves that the group is in a sound financial position and that it has adequate access to sufficient borrowing facilities to meet its foreseeable cash requirements. There are adequate resources to continue operating for the foreseeable future and it is therefore appropriate to adopt the going concern basis in preparing the Financial Statements.

In the previous two financial reports the Directors reported that the Executive Authority of Umgeni Water has initiated a process towards the establishment of a single provincial water board in KwaZulu-Natal. This process was envisaged to culminate in a merger between Umgeni Water and Mhlathuze Water, with the former absorbing the latter. This process was initially envisaged to be concluded during the 2016/2017 financial year, however due to a number of strategic steps that need to be taken to inform the final decision making process (which includes parliamentary processes, legislative processes and financial commitments confirmed for National Treasury) this was not achieved. With the changes in the National Executive, the new Minister of Water and Sanitation has resolved not to go ahead with this process and a court order has been issued to this effect.

The accounting authority believes that the new executive authority's decision positions the entity in a clear and positive going concern position for the 2017/2018 financial year and going forward; removes the uncertainties that would have prevailed due to the envisaged merger.

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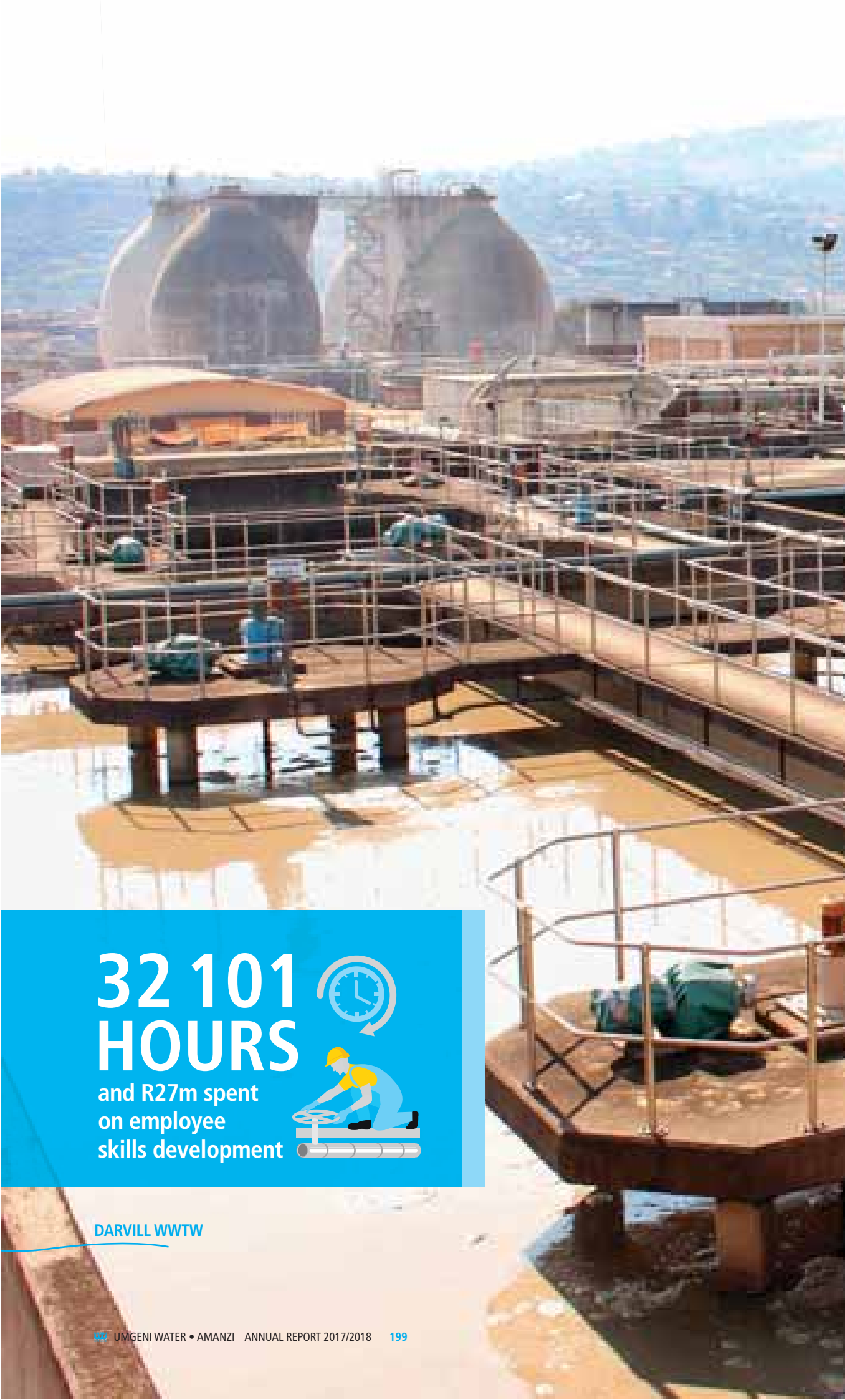
STRATEGY AND PROFILE DISCLOSURES

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102-23	Chair of the highest governance body	40-53
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32 101 HOURS

and R27m spent
on employee
skills development



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Disclosure	Governance (21 indicators)	Pg. #
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102-31	Review of economic, environmental, and social topics	40-53
102-32	Highest governance body's role in sustainability reporting	6
102-33	Communicating critical concerns	40
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102-35	Remuneration policies	108, 144-145
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102-46	Defining report content and topic boundaries	6
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102-49	Changes in reporting	6
102-50	Reporting period	6
102-51	Date of most recent report	6
102-52	Reporting cycle	6
102-53	Contact point for questions regarding the report	6
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102-55	GRI content index	198
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Disclosure	Management Approach (3 indicators)	Pg. #
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103-2	The management approach and its components	8
103-3	Evaluation of the management approach	8

Disclosure	Economic Performance (4 indicators)	Pg. #
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201-2	Financial implications and other risks and opportunities due to climate change	90-113
201-3	Defined benefit plan obligations and other retirement plans	180-184
201-4	Financial assistance received from government	125

Disclosure	Market Presence (2 indicators)	Pg. #
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202-2	Proportion of senior management hired from the local community	100

ECONOMIC INDICATORS

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203-2	Significant indirect economic impacts	82

Disclosure	Procurement Practices (1 indicator)	Pg. #
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Disclosure	Anti-Corruption (3 indicators)	Pg. #
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205-2	Communication and training about anti-corruption policies and procedures	43
205-3	Confirmed incidents of corruption and actions taken	44

Disclosure	Anti-Competitive Behaviour (1 indicator)	Pg. #
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Disclosure	Materials (3 indicators)	Pg. #
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Disclosure	Water (3 indicators)	Pg. #
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407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	104

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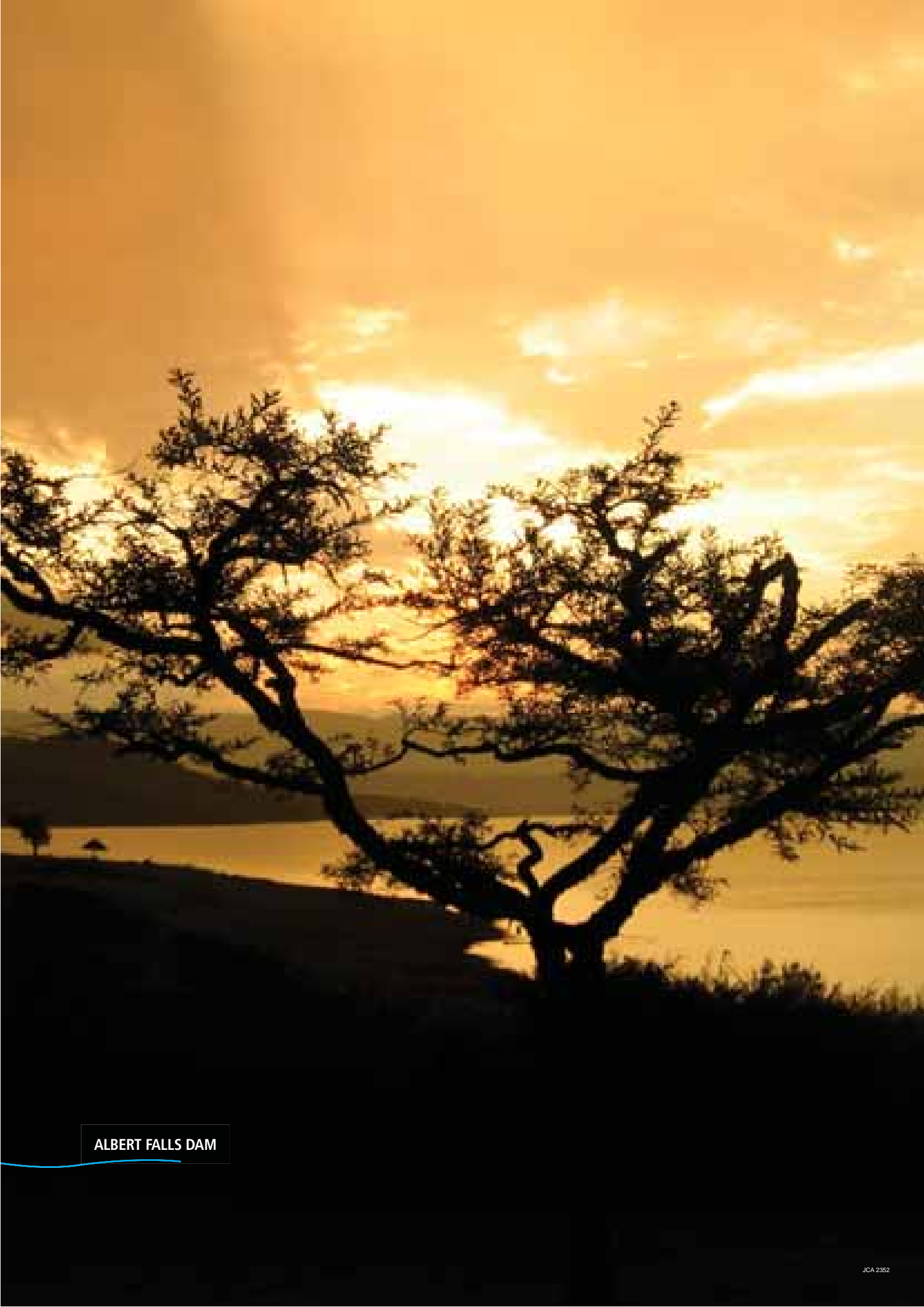
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