UMGENI WATER · AMANZI

ANNUAL REPORT

2016/2017

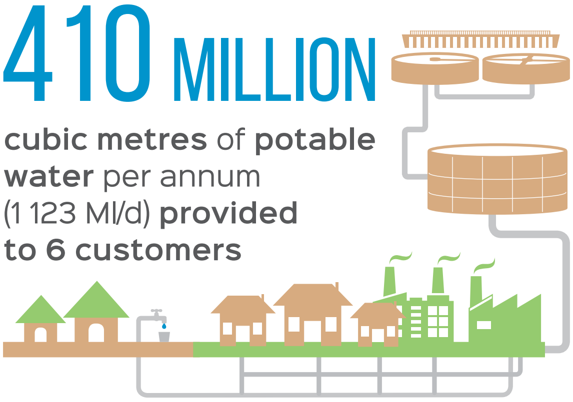
Provide bulk water and sanitation services to improve quality of life and enhance sustainable economic development


IMVUTSHANE DAM

"Umgeni Water in numbers – An efficient, innovative and responsible organisation on the move"

410 MILLION

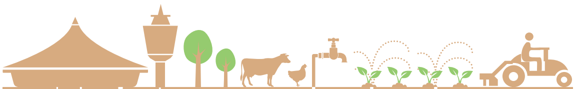
cubic metres of **potable water** per annum (1 123 Ml/d) **provided to 6 customers**



33 MILLION

cubic metres (90 Ml/d) of **wastewater treated** in 2016/2017

R1 163 MILLION



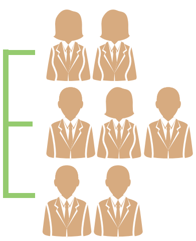
total **CAPEX Spend (Parent)**, of which **R503 million** went towards **projects** for **rural development**

72%

of **target water infrastructure project milestones** were met

1 150

UMGENI WATER



Group employees

FINANCIAL VIABILITY

Umgeni Water maintained positive results in the year due to continued sound financial management:

Revenue (Group) generated was	Surplus for the year (Group) was	Balance sheet reserves were
R2.5 BILLION	R746 MILLION	R6.8 BILLION
IN 2017	IN 2017	IN 2017

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.

PLEASE RECYCLE

This Annual Report is printed on Hi-Q Matte. Hi-Q Matte is manufactured in accordance with the most stringent environmental protection and sustainable forest development standards.

Figure 1: Umgeni Water Operational Area

Contents

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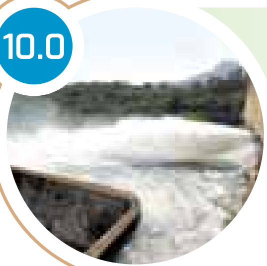

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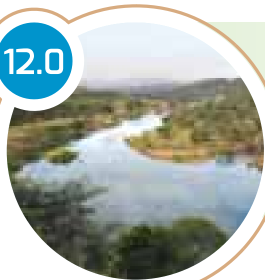

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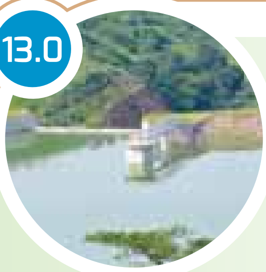


14.0


R857
MILLION
spent on maintenance
over the past five years
AMANZIMTOTI WTW

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 III 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.

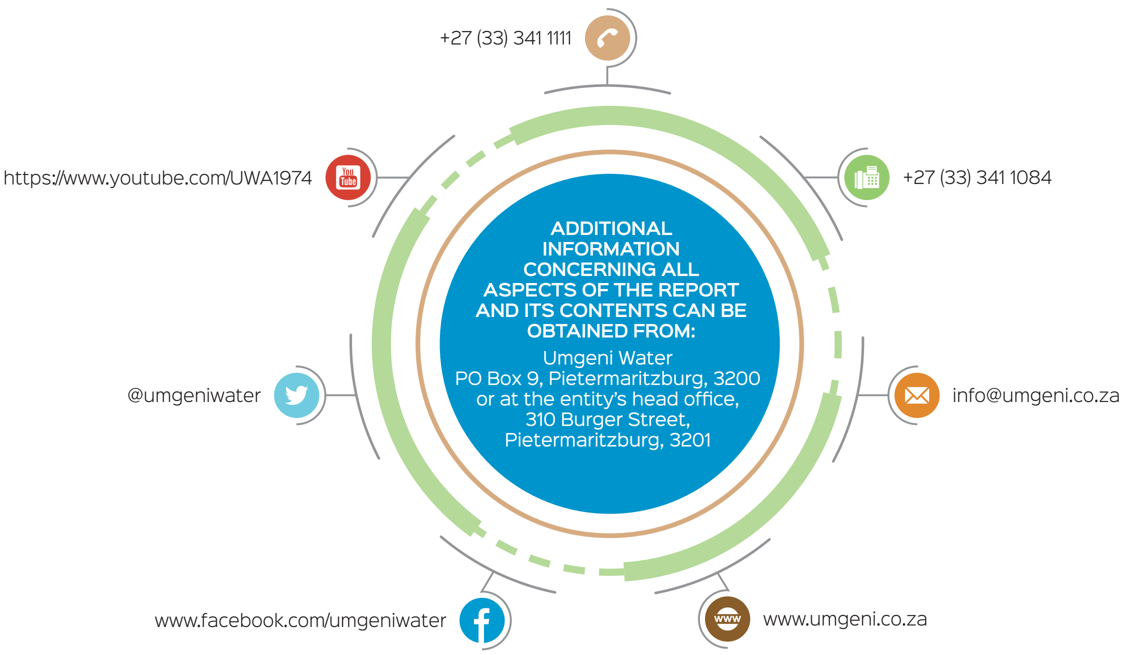
Umgeni Water has prepared annual reports every year since its establishment in 1974. This report covers the twelve-month period 1 July 2016 to 30 June 2017. This report also includes information on Umgeni Water subsidiaries.

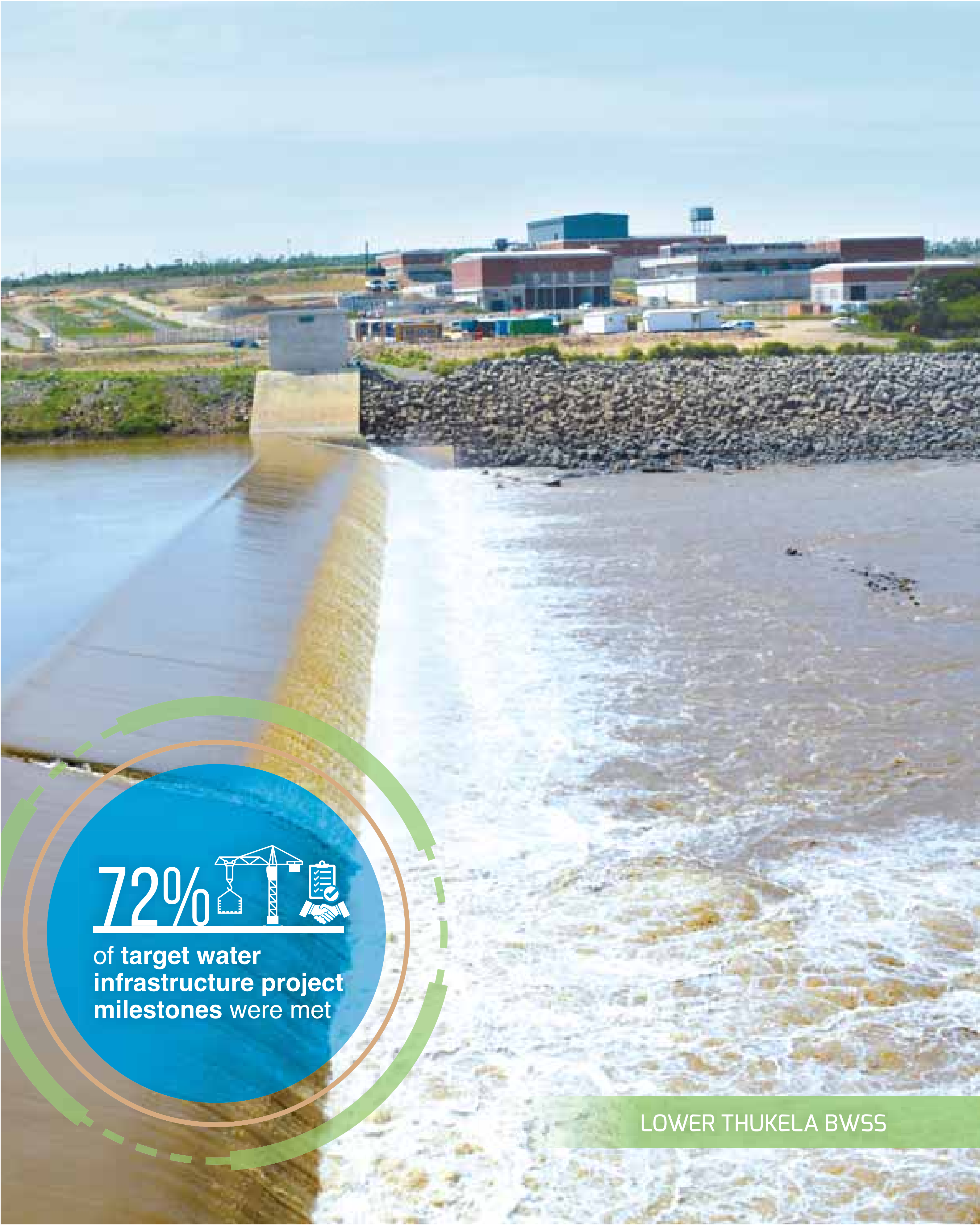
The performance content of this Annual Report shows Umgeni Water's progress with meeting predetermined objectives and performance indicators as per its approved Corporate Plan and Shareholder Compact and contains an audited performance scorecard for 2016/2017. The financial content of the annual report further contains the audited financial statements for 2016/2017. Over the years, Umgeni Water 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 both financial 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 information is contained in the Stakeholder Understanding and Support chapter of this report.





72%

of **target water infrastructure project milestones** were met

LOWER THUKELA BWSS

2.0

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 Chairman 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 (map on page 3)

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.

The Executive Authority has initiated a process that will culminate in the establishment of a single Water Board for KwaZulu-Natal. The proposal is to amalgamate the areas served by both Umgeni Water and Mhlathuze Water into one regional water utility for KwaZulu-Natal. The process of service expansion to municipalities in KwaZulu-Natal is expected to follow timeframes proposed by the Executive Authority.

At the moment Umgeni Water focuses service delivery and largely derives its revenue from the following six (6) customers:

- eThekwini Metropolitan Municipality
- iLembe District Municipality
- Ugu District Municipality
- Harry Gwala District Municipality
- uMgungundlovu District Municipality
- Msunduzi Local Municipality

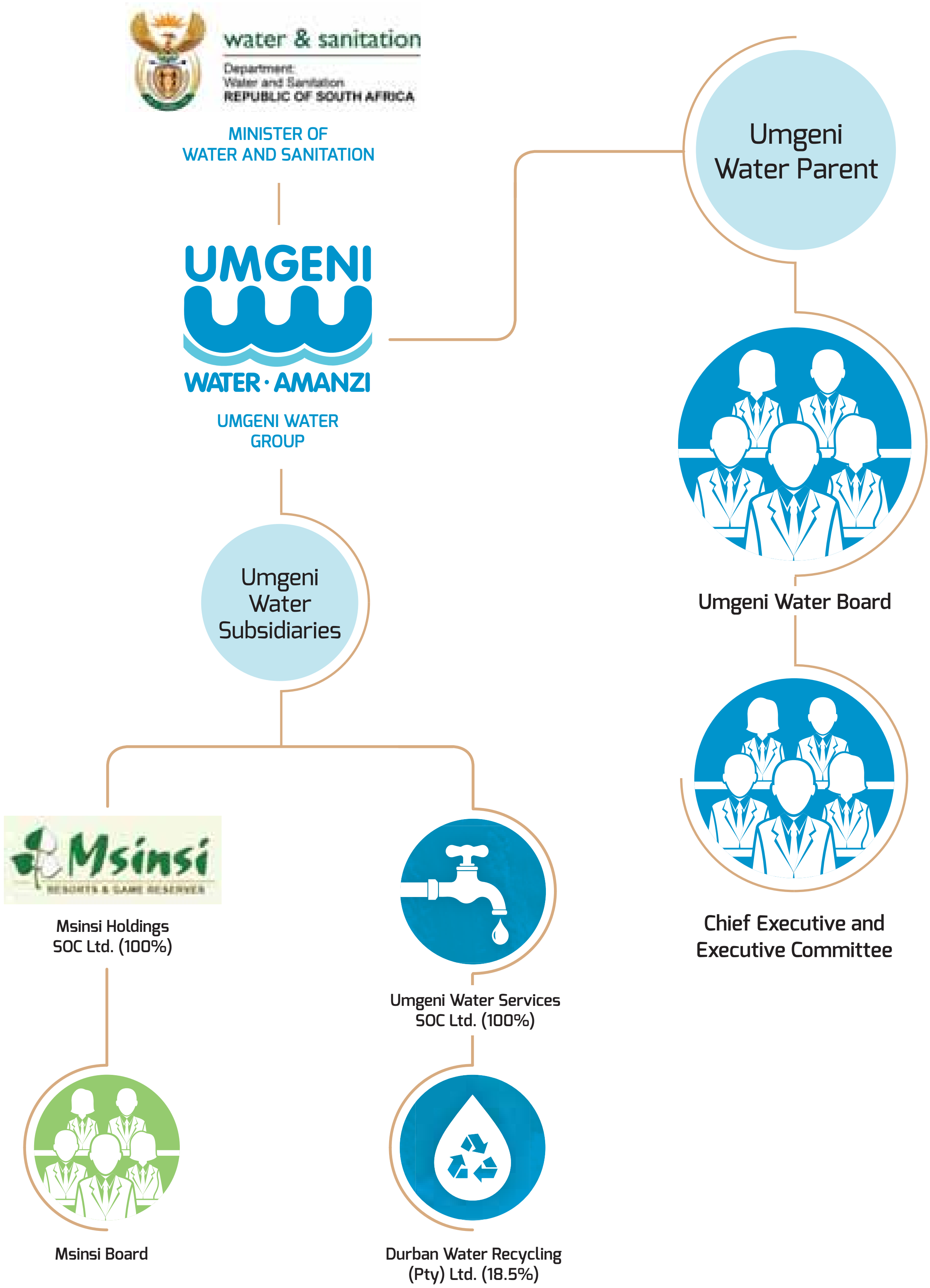
These customers, located in an area spanning approximately 30 000 square kilometres and a population of 6.7 million people (1.9 million households), are provided with a total of 410 million cubic metres of potable water per annum (1 123 Ml/d). In addition, the entity treats bulk wastewater totalling 33 million cubic metres per annum (90 Ml/d) from these customers.

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

- Approximately 1 260 km of pipelines and sixty-seven (67) km of tunnels;
- Fourteen (14) impoundments;
- Seventeen (17) water treatment works; and
- Nine (9) wastewater treatment works.

MZINTO WTW

2.4 Structure of Umgeni Water



The Umgeni Water Group comprises a parent, which is the dominant entity, and further has two small subsidiaries.

The Executive Committee is the top management structure of Umgeni Water Parent and comprises a Chief Executive and four General Managers, namely for Operations, Engineering and Scientific Services, Finance and Corporate Services. The Chief Executive guides the day-to-day activities 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. The term of office of the Board expired at the end of June 2017 and the process of appointing a new Board has commenced.[i]

With respect to the subsidiaries, Umgeni Water has 100% shareholding in 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 has a head count of 1 150 employees (996 permanent and 154 fixed-term contracts).

In 2016/2017, Umgeni Water Group income was R2.51 billion and the net surplus generated was R746 million. Umgeni Water has a total balance-sheet asset value of R10.2 billion of which reserves total R6.83 billion.

2.5 Umgeni Water Strategy

Umgeni Water's strategy comprises four (4) goals and ten (10) long-term sustainability outcomes. The strategy map succinctly illustrates the manner in which sustainable value is created through integrating nine (9) strategic objectives through four (4) balanced scorecard perspectives in support of the mission and mandate.

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.

Strategic Goal 2: Expand and improve funding collaborations whilst managing key cost drivers.

Strategic Goal 3: Remove system constraints and blockages through innovative thinking and improve efficiency of all inputs.

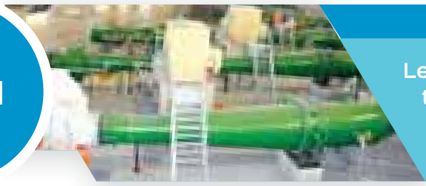
Strategic Goal 4: Strengthen and develop quality human resources, infrastructure capacity and water resources sustainability to support growth.

[i] *Subsequent to the approval of the annual report, the Minister communicated her decision to appoint an Interim Board effective from 28 September 2017.*

AMANZIMTOTI WTW

2.6 Strategy Map

VISION



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

MISSION

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

STRATEGIC INTENT

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

BENEVOLENT INTENT

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

Deliver on our mandate

CUSTOMER AND STAKEHOLDER PERSPECTIVE

- **SO 1:** Increase services and customers
- **SO 2:** Increase customer and stakeholder value

Co-create value with our customers and stakeholders.

FINANCIAL PERSPECTIVE

- **SO 3:** Increase mobilisation of funds
- **SO 4:** Increase financial sustainability
- **SO 5:** Improve financial ratios

Maintain and leverage our solid financial assets.

PROCESS PERSPECTIVE

- **SO 6:** Improve service delivery systems

Create effective and resilient enterprise architecture - our processes, systems and technologies.

ORGANISATIONAL CAPACITY PERSPECTIVE

- **SO 7:** Improve and increase infrastructure assets
- **SO 8:** Increase water resources sustainability
- **SO 9:** Increase skills and competency

We will enable our people, secure water resources and ensure infrastructure capacity.

2.7 Ten Outcomes for Sustainable Value Creation

Umgeni Water's integrated strategy targets ten (10) outcomes:

1 Product Quality (water and wastewater):

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

2 Customer Satisfaction:

is 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.

3 Stakeholder Understanding and Support:

is 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.

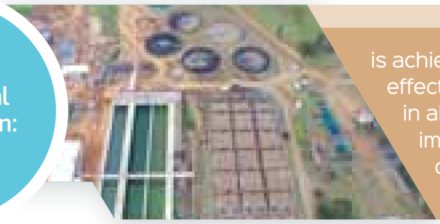
4 Community and Environmental Sustainability:

is achieved when Umgeni Water is explicitly cognisant of and attentive to the impact 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.

5 Financial Viability:

is 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 at a sustainable tariff that is consistent with customer expectations, recovers costs and provides for future expansion.

6 Operational Optimisation:



is 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.

7 Operational Resiliency:

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

8 Infrastructure Stability:

is achieved when Umgeni Water understands the conditions 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, is 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.

9 Water Resources Adequacy:

is achieved when Umgeni Water assesses the scarcity of freshwater resources, investigates sustainable alternatives, manages water abstractions assiduously and has access to stable raw water resources to meet current and future customer needs.

10 Leadership and Employee Development:

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

2.8 Strategic Statements of Umgeni Water and its Functional Divisions

Umgeni Water Strategic Statement: 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 Strategic Statement: 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 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 and 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, affordable water services to our stakeholders, which will deliver on organisational objectives.

Engineering and Scientific Services: We understand water demand, resources and technology to implement infrastructure, manage water quality, optimise treatment processes and drive social and environmental initiatives to provide innovative and optimal engineering and scientific solutions, to achieve sustainability and public health, 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, computing infrastructure, and legal services to enhance organisational service delivery capacity.

3.0

Minister's Foreword

"Umgeni Water as an entity remains well positioned and maintains a solid track record in responding to its mandate."

NOMVULA MOKONYANE
MINISTER OF WATER AND SANITATION

It gives me great pleasure to write this foreword to Umgeni Water's 2016'2017 Annual Report. During this reporting period, the Department's policy and plan developments, which further inform Umgeni Water's strategy and implementation plans, continue to be guided by the National Development Plan (NDP), the Medium Term Strategic Framework (MTSF) and the National Water Resources Strategy (NWRS), amongst other key national documents.

In response to some of the challenges experienced over the medium-term period, review of certain key pieces of water legislation commenced and is on-going. This review is to ensure that there is equitable and sustainable water and sanitation access to support socio-economic growth and sustainable development for current and future generations. The legislation being reviewed includes the National Water Act, which provides a legal framework for the progressive realisation of the right to access to sufficient water, ensures that there is equity in the allocation of water, ensures there is water resources management and that water regulation is streamlined. This is interconnected with review of the Water Services Act being reviewed to improve the provisions for water services and ensure alignment with the provisions of the Municipal Systems and Municipal Finance Management acts. Governing mandates of Water Boards, such as Umgeni Water, will be enhanced as a result of this review, notably with respect to performing regional functions.

In keeping with the fundamental priorities of providing clean water and decent sanitation to all, the Department remains focused on intensifying its work to review water sector institutions as directed by the National Development Plan. This includes the realignment of water boards in the various provinces to expand the sector skills base and streamline delivery of water and sanitation services. In KwaZulu-Natal, the water board rationalisation is planned to increase effectiveness of the Umgeni Water, uThukela Water and Mhlathuze Water collective in the provision of regional bulk water services.

The realignment is anticipated to manifest as rationalisation of systems to achieve better economies of scale, increase water access to un-serviced rural areas, facilitate differential service delivery levels and tariff modelling across the entire province, enhance market capital sourcing for infrastructure projects for KwaZulu-Natal as a whole, enable more leveraged cross-subsidisation and overall greater regional viability. This process is on-going and hopes to gain traction over the next financial year to reposition the entities to deliver services as a capable state.

The Department and water board entities 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. Where bulk services have been delivered, more often than not, municipalities have either failed to adequately invest in reticulation infrastructure and/or failed to optimally operate and maintain such infrastructure. In response, the Department proposed collaborative and structured interventions in support of target municipalities, including with departments such as Cooperative Governance and Traditional Affairs. This effort, which is on-going, was able to guarantee some sustainable water supply and decent sanitation delivery to people living within the priority District Municipalities identified in the Back-2-Basics programme.

The Department has made noticeable progress with revision of the water pricing strategy and the norms and standards for tariff setting. These two documents are in the process of obtaining concurrence with the Minister of Finance prior to the final gazetting for implementation. The review of the Water Pricing Strategy seeks to improve the financial viability of the country's bulk raw water resource supplies to ensure that this scarce resource is valued by all citizens. Currently, prices are below full cost for most agricultural water schemes and some schemes dedicated to industrial and domestic supply. Valuing water correctly plays a prominent and important role in meeting service delivery obligations in a sustainable manner. Outstanding water debts in South Africa – owed by municipalities to water boards - remain excessively high and threaten the delivery of services. The Department and water board entities unfortunately cannot punitively switch off water supply as a debt-recovery measure, as water is a critical and essential service. Emphasis is therefore placed on an inter-governmental process that guarantees that those that owe the Department and its entities, service their debt obligations accordingly. Despite experiencing challenges with late payment from some small customers, Umgeni Water is to be commended on the impressive manner in which it managed its debt collection processes and its overall business to maintain balance-sheet strength during this reporting period. As further evidenced by the quality of water delivered to municipalities and progress made with bulk water infrastructure developments, for both economic growth and increasing access to rural areas, Umgeni Water as an entity remains well positioned and maintains a solid track record in responding to its mandate.

"Umgeni Water is to be commended on the impressive manner in which it managed its debt collection processes and its overall business to maintain balance-sheet strength during this reporting period. As further evidenced by the quality of water delivered to municipalities and progress made with bulk water infrastructure developments."

The Regional Bulk Infrastructure Grant aims to develop new, refurbish, upgrade and replace ageing infrastructure that connects water resources to infrastructure serving extensive areas across municipal boundaries. The Grant is appropriated to water boards for the implementation of Bulk Projects across the provinces to address infrastructure challenges. Umgeni Water is a beneficiary of this appropriation mainly for the Lower Thukela Regional Bulk Water Scheme, the construction of which was significantly advanced during this reporting period. This is a key Regional Bulk Water Supply Scheme in support of water security in the North Coast of Durban. Umgeni Water will complete this by December 2017 and will thereby assure additional water supply to the coastal and inland areas of KwaDukuza Local Municipality, northern parts of Durban and later to Mandeni Local Municipality.

Other key water projects being implemented by Umgeni Water, relevant to this reporting period, 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, and construction of the Midmar Raw Water Pipeline Augmentation and Midmar Water Treatment Works Upgrade.

A devastating drought plagued South Africa over the past three years, reported to be the worst in 100 years and KwaZulu-Natal was not spared. The response to the drought has been commendable. Umgeni Water rose to the occasion with emergency interventions including construction of emergency infrastructure to facilitate inter-catchment transfers, rehabilitation and drilling of boreholes and refurbishment of infrastructure (on behalf of under resourced District Municipalities in the Province) – all of which have had a significant impact on mitigating the drought impact.

Municipalities in the region were equally cooperative in implementing water restrictions to end-consumers who in turn adapted to the new normal by using water resources more sparingly and efficiently.

The capacity of major dams will continue to be closely monitored during the recovery period anticipated to take two to three years to full recovery. Water Resources that are more resilient to erratic weather patterns will have to be developed coupled with timely infrastructure planning and implementation. In relation to this, global warming and climate change threatens the entire globe and for its part, the Department and water entities – in collaboration with Department of Environmental Affairs – is continuing to refine the Climate Change Adaptation Strategy for the water sector.

Water supply security is crucial and the Department complements Umgeni Water's bulk supply projects through national water resource developments, balancing this with assurance of water for agriculture, the environment, and local economic use and development. The Department is reviewing the National Water Resource Strategy, which provides an opportunity to ensure that water is at the centre of planning and that it supports the broad national economic and social development goals without compromising the long-term sustainability of water resources. To further realise its objectives, an overarching National Water and Sanitation Master Plan is being prepared for South Africa. In this regard, a process of consultation is underway and will culminate in an informed draft Master Plan by the end of the new financial year.

Key water resources projects of relevance to Umgeni Water that are currently underway include the raising of the Hazelmere

> The Department continues to look forward to realising the promise of water for all in KwaZulu-Natal through Umgeni Water and water sector collaborators in KwaZulu-Natal in the coming period."

Dam and detailed feasibility for the Upper uMkhomazi Water Project. Water resource development is an important solution to close the water gap projected for South Africa between water demand and supply by 2030 and the Department will continue to forge partnerships in this regard. South Africa is still heavily reliant on surface water and its further development, with more than two thirds of the country's average annual runoff already stored in our dams. Water security requires diversification of the water mix to include groundwater, re-use of water (grey water), and desalination of sea and brackish water amongst other options.

Water gaps experienced relate to both water quality and quantity. Key to water resources management is the protection of our rivers from pollution and monitoring the water quality status. 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 multi-pronged strategy to ensure there is sustainable bulk sanitation, environmental

> "Umgeni Water, as a state-owned entity, is uniquely positioned and remains responsive to the Developmental State agenda, whilst maintaining principles of good leadership, transformation, service delivery, financial sustainability and collaboration with the water family."

integrity and sustainability of the water value chain as a whole. The Department for its part will ensure enforcement of by-laws and also increase capacity to ensure enforcement on a continuous basis. Compliance with the Green Drop standards (in addition to the Blue Drop) will be strictly monitored and partnerships that ensure sustainability towards water security and water resources management will be encouraged. The Department is also working closely with the Water Research Commission (WRC) to find alternative innovation solutions that are not water-borne dependent, to help reduce the costs of providing dignified sanitation to all.

Water and sanitation is 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. This commitment to skills development contributes significantly to the future sustainability of the sector and country as a whole.

Umgeni Water as a state-owned entity is uniquely positioned and remains responsive to the Developmental State agenda, whilst maintaining principles of good leadership, transformation, service delivery, financial sustainability and collaboration with the water family. The end of the reporting year coincided with the end of term of the Umgeni Water Board, which served its Accounting Authority mandate with distinction. In addition, the Executive Management successfully implemented the strategy and ensured that Umgeni Water significantly met its performance and financial targets for the year. The Executive was under the sound guidance of the Chief Executive, Mr. Cyril Gamede, who also exited at year-end. Umgeni Water personnel are further to be commended for the competent, steadfast and resilient manner in which they serve the entity.

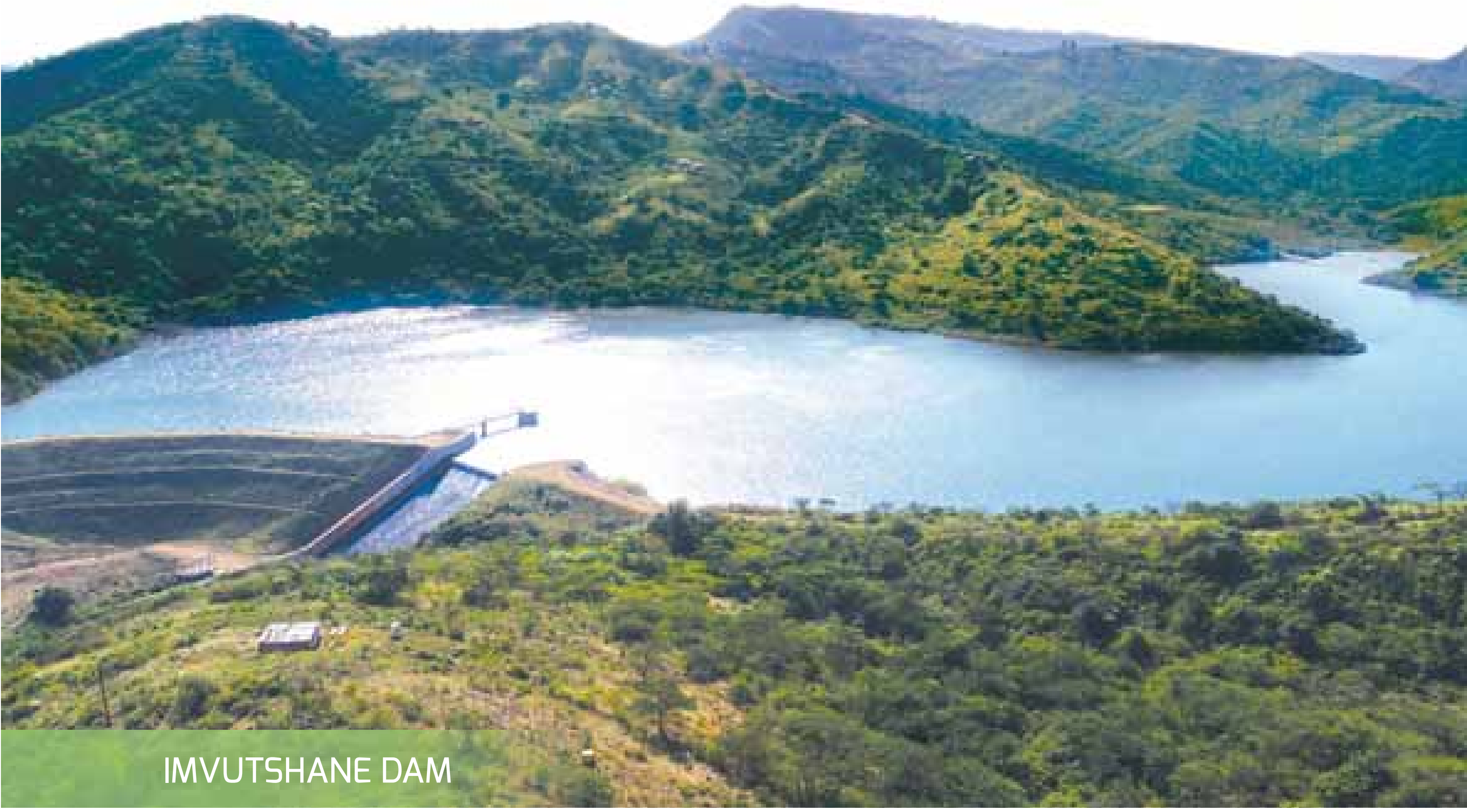
Umgeni Water has performed extremely well and maintained its strong performance trend over the past five years. The Department continues to look forward to realising the promise of water for all in KwaZulu-Natal through Umgeni Water and water sector collaborators in KwaZulu-Natal in the coming period.

Lastly, I would like to fully commit myself and my Department, on behalf of the Government of the Republic of South Africa, to provide the necessary shareholder support and political guidance to Umgeni Water so that the organisation's ability to continue to meet its mandate and maintain stakeholder confidence is not negatively hampered. Amongst issues that are on the priority list for me would be the fast-tracking of the process of appointing a new Board for Umgeni Water whilst ensuring that the process is aligned to legislative requirements and that it is completed before the end of the second quarter of the next reporting period.

Nomvula Mokonyane
Minister of Water and Sanitation
28 September 2017

4.0

Accounting Authority's Report



IMVUTSHANE DAM

Overview

This report deals with the key performance outcomes of Umgeni Water from a strategic perspective. Overall, Umgeni Water has demonstrated strong results in the key facets of its business, despite a difficult business climate associated with water resource shortages and reduced water sales. This Annual Report provides a synopsis of Umgeni Water's performance and status as a going concern as at the end of June 2017, consistent with the objectives and targets contained in the past year's Corporate Plan and Shareholder Compact, signed jointly with the Minister of Water and Sanitation. The activities of Umgeni Water in the period under review, remain closely aligned to and informed by key strategic plans and programmes of the Government of South Africa, including, amongst others:

- The National Development Plan for South Africa for 2030, together with the Medium-Term Strategic Framework (MTSF) 2014-2019;

- The Presidential Review Committee Report (2013) on reshaping state-owned-entities;
- The National Water Resources Strategy (NWRS2), the Department of Water and Sanitation's Strategy Plan and the key focus areas for water boards highlighted by the Minister of Water and Sanitation; and
- The KwaZulu-Natal Provincial Growth and Development Strategy and Plan 2030.

These manifest in progress towards achieving the fourteen (14) Strategic Outcomes of Government and pertinent outputs cascading to the Executive Authority, to which Umgeni Water continues to make a significant contribution in a multitude of ways.

Despite difficult business conditions caused by still-prevalent effects of drought, Umgeni Water produced a strong set of results. Notably, the core mandate and contractual obligations of Umgeni Water were effectively met in this period, demonstrated by the provision of bulk water supplies that met quantity and quality standards combined with the commissioning and progress made with bulk water infrastructure developments in support of both economic growth and increased water access to rural areas.

These results are underpinned by steady Group revenue growth of 5% (R2.51 billion in 2017 from R2.38 billion in 2016) and positive net surplus of R746 million, albeit a 4.5% decrease from prior year (R781 million surplus in 2016). The positive surplus achievement is crucial to the implementation of bulk water infrastructure that is required to improve service delivery to customers and extend water provision to rural areas. This surplus is also used to repay debt and ensure that Umgeni Water maintains affordable and sustainable bulk potable water tariffs to customers into the future.

Stakeholder Engagements

Umgeni Water places a great deal of emphasis on accountability to its customers, the Minister and Department of Water and Sanitation, National Treasury and other stakeholders. Discussions with stakeholders during the year straddled the entire spectrum of Umgeni Water's business.

The entity fully understands the expectations of its Executive Authority, as articulated in Government priority outcomes and plans, as well as the developmental needs of the KwaZulu-Natal Province, municipalities / customers and other stakeholders. In this regard, Umgeni Water continued to ensure through interventions in this reporting period that:

- Adequate water resources are secured for the future;
- Bulk water infrastructure is developed, adequately sized and well-maintained;
- An affordable and sustainable bulk water tariff is levied to customers; and
- The entity remains financially sound to continue to sustainably serve its mandate into the future.

Consistent with its commitment to keep customers fully apprised, municipalities were consulted on bulk water tariffs, infrastructure development plans, including rural and social projects and overall progress with projects and plans. Discussions further centred on identifying areas where Umgeni Water could be of assistance to municipalities that were still struggling with service delivery-related problems.

> "Umgeni Water places a great deal of emphasis on accountability to its customers, the Minister and Department of Water and Sanitation, National Treasury and other stakeholders."

A cohesive response to the drought that afflicted the region was made possible through the collaborative efforts and partnerships with the Minister and Department of Water and Sanitation, municipalities and provincial departments in KwaZulu-Natal, civil society and media and cooperation by end-users who responded appropriately to water restrictions and conservation initiatives. Umgeni Water employees and management worked steadfastly with these partners to implement measures that brought relief to some communities, whilst in parallel mitigating against a whole systems failure that will have caused greater devastation.

Engagements with school-going children, living in close proximity to a supply dam, were targeted for safety awareness and swimming training. This event, in which swimming professionals participated, assisted in creating heightened awareness regarding prevention of drowning and water-related incidents.

In support of the Government's objective of co-operation with foreign water and sanitation-focused entities, the Umgeni Water Board and Executive Management continued to identify organisations to partner with. These included engagement and shared thinking with colleagues from Southern Africa through the Water Institute of Southern Africa and Institute of Municipal Engineers of Southern Africa at trade exhibitions and conferences. In Europe and Asia, engagements took place with a vast array of sector institutions from Europe and Africa at the Stockholm World Water Week and Singapore Water Week and in South America, as well as with two Brazilian water boards who were visited and knowledge was shared and received.

Empowerment of Small Businesses

In the year under review a supplier forum / engagement session was held at which various issues were raised by emerging businesses, including ambiguity of their roles vis-à-vis that of large construction companies and limited growth opportunities. Through leveraging available opportunities, Umgeni Water continues to require large companies to provide meaningful participation of smaller companies in mainstream construction projects. Presentations made to existing and potential suppliers included, amongst other information, planned infrastructure developments, available contract opportunities and protocols for registering to become suppliers and service providers of Umgeni Water.

> "In the 2016/2017 financial year 43% of the capital expenditure implemented was spent on strategic rural development projects..."

Rural Development

A significant percentage of Umgeni Water's five-year capital infrastructure investment programme targets projects that support rural development and community sustainability. In the 2016/2017 financial year 43% of the capital expenditure implemented was spent on strategic rural development projects, including the Lower Thukela Bulk Water Supply Scheme, the uMshwathi Regional Bulk Water Supply Scheme and the Greater Mpofana Bulk Water Supply Scheme.

Corporate Governance

Board and Board Committee meetings were held according to the entity Business Cycle for the year and were well attended. (Full details are provided in the Corporate Governance chapter of this Annual Report). The critical issues presided over include the formulation of strategy aligned to the expectations of the Executive Authority and other national, provincial and customer growth and development needs, review of the entity's performance against strategy and overall fiduciary oversight over policy, statutory and related matters.

Members of the Board remained dedicated in carrying out their duties and providing leadership and guidance to Umgeni Water management in the year.

All corporate governance requirements were adhered to, together with compliance with the Water Services Act (Act 108 of 1997) and the Public Finance Management Act (Act 1 of 1999), internal policies and King III Code of Governance Principles, 2009. This Annual Report further discloses full details of Board and Executive Remuneration in the financial report chapter.

The Road Ahead: Risks, Challenges and Opportunities

Strategic priorities in the year ahead include:

- Pursuing growth and expansion opportunities;
- Co-operating with the process leading to the formation of the KwaZulu-Natal Utility as per programme;
- Increasing alignment to customer and provincial development plans;
- Strengthening relationships with all stakeholders; and
- Ensuring the entity remains well managed and financially viable.

Plans for the merger of Umgeni Water and Mhlathuze Water to form one regional entity for KwaZulu-Natal (KZN) are still on schedule. The single entity is expected to offer better coverage of KwaZulu-Natal, for which many parts, specifically rural areas, are not served by water boards, resulting in difficult or no access to safe drinking water. The next phase of the project plan is an independent due diligence study - expected to take eighteen to twenty-four months to complete - and will inform decision-makers as to the best option to take regarding the future of the two KZN water boards.

The move to amalgamate the two water boards is not isolated from other initiatives that government is engaged in to ensure the sustainability of water supply to the province. The Accounting Authority has no reason to believe that this process will negatively affect the going concern position of the entity during the 2017/2018 financial year, but rather that it will create growth opportunities for the merged entity (once all conditional processes have been achieved) with a clear mandate from the Executive Authority.

A watchful eye is being kept on the recovery progress of major dams. Of concern at this stage is the adequacy of water resources, notably the Mgeni system which supplies an estimated four million consumers in Durban, Pietermaritzburg, uMgungundlovu and parts of Ugu District Municipalities. It is not possible to predict exactly when above-average rainfall, needed to eradicate the deficit in major systems, will be received. At the time of compilation of this report, 15% water restrictions were still being implemented, continuing from the prior year, and expecting to continue for a further twelve-month period. The beneficial effects of imposing water restrictions are clearly evident, but on the flip-side, this impacts revenue with concomitant delays in the implementation of some infrastructure projects.

Umgeni Water is pleased that it continued to receive an Unqualified Audit Report from the Auditor-General. Accompanied with this is the Fitch Ratings Agency affirmation of Umgeni Water's long-term and senior unsecured ratings at AA+. Fitch also affirmed Umgeni Water's short-term rating at F1+. The outlook in relation to long-term rating is stable. 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, resulting in Umgeni Water national scale rating being AAA for long-term and AA- for short-term. This continues to signal confidence that will put investors at ease regarding the entity's Corporate Governance, Financial and Non-Financial performance.

The Accounting Authority remains satisfied that the entity is in a sound financial position and has adequate access to sufficient borrowing facilities to meet its cash requirements to continue into the foreseeable future as a going concern.

Accolades and Achievements

The 2016/2017 reporting year produced some satisfying moments for Umgeni Water when, as recognition for its contribution to society and socio-economic development in KwaZulu-Natal, it received the Pietermaritzburg Chamber of Business/Nedbank Business of the Year Award in the Utilities Sector.

The Accounting Authority is able to state that Umgeni Water has made a vital contribution to the province of KwaZulu-Natal and therefore to the socio-economic development of the people that live and work in the province.

Two significant developments occurred as financial year 2016/17 drew to a close. These were the end of term of the Board of Umgeni Water and the departure of the Chief Executive, Cyril Gamede. The Board has provided outstanding leadership to the entity and during its term, Umgeni Water continued to

> "Umgeni Water has made a vital contribution to the province of KwaZulu-Natal and therefore to the socio-economic development of the people that live and work in the province."

make its mark as a high-performing water utility, consistently able to deliver on the needs and expectations of its customers and stakeholders. Staff and Management extend their appreciation to the Board and wish its members all the best in future endeavours.

Stewardship of the outgoing Chief Executive was also characterised by customer and stakeholder satisfaction, in turn recognised through accolades in the form of awards. Mr. Gamede, in conjunction with the Executive, was instrumental in positioning Umgeni Water in the sector as a leader making significant impact on extending water services to the un-served and enhancing security of future water supply. Management and staff of Umgeni Water wish Mr. Gamede well in his future endeavours.

Acknowledgements

It is with a sense of appreciation that the Accounting Authority acknowledges the Minister of Water and Sanitation, Ms. Nomvula Mokonyane, for her leadership, the Portfolio Committee on Water and Sanitation and the Department of Water and Sanitation for their oversight and direction, Umgeni Water's customers, notably, eThekwini Metropolitan Municipality, iLembe District Municipality, Ugu District Municipality, Harry Gwala District Municipality, uMgungundlovu District Municipality and Msunduzi Local Municipality for their collaborative engagements in the year, the out-going Board for the robust, strategic and pragmatic deliberations during their term, Umgeni Water Executives, inclusive of the out-going Chief Executive, Cyril Gamede, for the steadfast manner in which the entity's strategies and plans were executed and importantly, the employees of Umgeni Water for their dedication and hard work in realising the continued good results and performance of Umgeni Water.

5.0

Chief Executive's Report

"Once again, excellent drinking water quality was provided to customers and communities, meeting the relevant SANS 241 standard at all seventeen (17) treatment works."

THAMI HLONGWA CA (SA)
ACTING CHIEF EXECUTIVE

This management report, covering the period 1 July 2016 to 30 June 2017 focuses on Umgeni Water's performance against targeted outcomes contained in the entity's strategy. The executive continued to successfully implement the strategy through providing focussed leadership and decision-making to drive key plans, projects, programmes and initiatives during the year. As a result, progress against strategic objectives was significantly achieved during this reporting period. These are summarised at a high level per outcome in this report with more detail provided in the chapters of the annual report that follow.

Product Quality

Once again, excellent drinking water quality was provided to customers and communities, meeting the relevant SANS 241 standard at all seventeen (17) treatment works.

Wastewater quality discharges met the target standards set for eight (8) of the nine (9) treatment works. The Darvill Wastewater Treatment Works capacity upgrade project was significantly advanced during this reporting period and will be completed in 2018, leading to improvements in the quality of treated wastewater from this site.

Investment in maintenance of water and wastewater treatment assets totalled R190 million in the past year. Maintenance investment has been consistent over the past five years, with 7.6% of revenue or 2.45% of Property, Plant and Equipment spent in the past year, thereby continuing to assure that no major assets pose a risk to Umgeni Water.

Customer Satisfaction

This financial year under review coincided with a prolonged drought period that required curtailment in supply volumes to customers and in turn end users. Bulk potable water treated and supplied from seventeen (17) water treatment works systems, totalled 410 million cubic metres (1 123 Ml/d) for the year, a 6% decrease from the prior year (436 million cubic metres in 2016), attributable to the water supply restrictions imposed.

Bulk wastewater treated increased by 7%, from 31 to 33 million cubic metres per annum (90 Ml/d).

Constructive meetings were held with major customers regarding performance against existing bulk supply agreements, water assurance levels for growth and development, infrastructure refurbishments, new schemes development and future tariffs.

Stakeholder Understanding and Support

All stakeholder engagement plans were successfully met in the year and straddled the full spectrum of stakeholders.

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.

Facilitation of drought-related joint operating committee sessions incorporating municipalities, the Department of Water and Sanitation and the Department of Cooperative Governance and Traditional Affairs CoGTA), continued during this period. Initiatives implemented through these engagements resulted in more judicious water management and savings measures that extended the duration of available supplies and successfully mitigated the risk of total system failure.

> “The drought joint operating committee initiatives continued resulting in more judicious management and savings measures that extended the duration of available supplies and successfully mitigated the risk of total system failure.”

Community and Environmental Sustainability

Umgeni Water facilitates participation of targeted enterprises in the economy, leveraging off its capital expenditure and other programmes. The Contract Participation Goal target of ≥ 35% for construction contracts and professional services was well met in the reporting year. Benefits of economic transformation are realised over several years with the total award to targeted enterprises reaching R2.2 billion since the initiative started in 2013.

A total of 1 258 temporary CAPEX Programme jobs was created in the year (1 514 in 2016) with R27.7 million paid in wages to local labour (R39.7 million in 2016), benefiting local communities.

Infrastructure Stability

During this reporting period, sixteen (16) strategic projects targeting five (5) water service authority customers were at various stages of planning, design and construction. These comprised nine (9) 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 R1.16 billion was achieved (R2 billion in 2016) of which R503 million (43%) was spent on projects 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) Lower Thukela Bulk Water Supply Scheme

Serves iLembe District Municipality and eThekwini Metropolitan Municipality, along the coastal strip from north of Durban to the uThukela River.

The infrastructure development comprises the uThukela River abstraction works, pump station, water treatment works and potable water pipelines to deliver 55 Ml/d in Phase 1 (upgradable to 110 Ml/d in Phase 2). Construction of access roads, the weir, abstraction works, gravity main, and water treatment works were completed in 2016/2017 and the scheme was commissioned. The defects liability period is underway, following which water will flow to customers.

(2) uMshwathi Regional Bulk Water Supply Scheme

Serves uMgungundlovu District Municipality and iLembe District Municipality.

This phased infrastructure development comprises four pipelines of total length 91 km, two booster pump stations and three reservoirs of total storage 30 Ml/d. Construction of the 27 km Pipeline from Claridge to Wartburg was completed in 2015/2016. In 2016/2017 construction of the next phase commenced comprising three pipelines, totalling 64 km, linking Wartburg to Ozwathini via Dalton and Efaye, two booster pump stations and two reservoirs sized 8 Ml and 10 Ml at Wartburg and Dalton respectively. These are targeted for completion in 2017/2018. A further 12 Ml reservoir is scheduled for construction at Ozwathini in 2018/2019.

(3) 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, which is currently under construction. The target date for full completion is March 2018.

(4) Greater Mpofana Bulk Water Supply Scheme

Serves uMgungundlovu District Municipality.

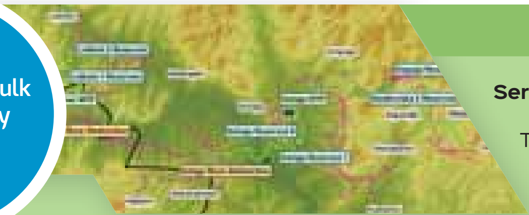
The infrastructure development comprises construction of a water treatment works, two storage reservoirs and two bulk pipelines. The construction of the 20 Ml/d Rosetta Water Treatment Works – adjacent to Spring Grove Dam – commenced in 2016/2017 and is scheduled for completion in 2019/2020. Construction of the 5 Ml and 12 Ml/d 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 Water Treatment Works to Bruntville Reservoir - is scheduled for completion in 2018/2019.

(5) Vulindlela Bulk Water Supply Scheme Upgrade

Serves Msunduzi Local Municipality.

In 2016/2017 the infrastructure design was in progress and is 60% complete. Design is scheduled for completion in 2017/2018 and construction is planned for completion in 2019/2020.

(6) Impendle Bulk Water Supply Scheme



Serves uMgungundlovu District Municipality.

The planning of the scheme is underway and design will commence in 2017/2018. Construction of the scheme is scheduled to commence in 2023.

(7) 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.

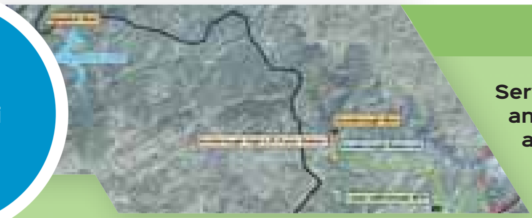
Phase 1, completed in 2013, comprised the iMvutshane River abstraction, 6 Ml/d Water Treatment Works (WTW), potable water pipelines, booster pump stations and reservoirs. Phase 2, construction of the iMvutshane Dam, was completed in 2015. Phase 3 includes the upgrade of the WTW from 6 to 12 Ml/d and upgrade of the raw water and booster pump stations for which design was well underway in 2016/2017 and construction is scheduled to commence in 2017/2018 for completion in 2018/2019.

(8) uMkhomazi Water Project

Serves eThekwini 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 the 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 for phase 1 was in progress.

(9) Lower uMkhomazi BWSS



Serves eThekwini 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 upgradable to 150 Ml/d), storage reservoir and bulk potable water pipeline. In 2016/2017 the detail feasibility and preliminary design were completed. The detailed design is planned for completion in 2018/2019.

(10) Nungwane Pipeline

Serves eThekwini Metropolitan Municipality and Ugu District Municipality.

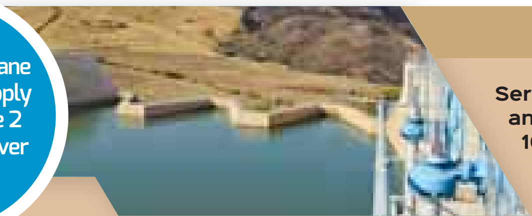
The construction stage of the 13.5 km raw water pipeline from Nungwane Dam to Amanzimtoti Water Treatment Works commenced in 2016/2017 and is scheduled for completion in 2018/2019.

(11) South Coast Pipeline Phase 2B

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

The pipeline is designed to supply approximately 16.5 Ml/d and will link Scottburgh South to Pennington and then to Malangeni Reservoir. Construction is scheduled to commence in 2017/2018 for completion in 2018/2019.

(12) 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 uMzimkhulu River, pump station and pipeline to deliver water to the Mhlabatshane Water Treatment Works and upgrade of the Water Treatment Works from 4 Ml/d to 8 Ml/d. Phase 1, the commissioning of the Bulk Water Supply Scheme, was completed in 2014/2015. Planning of Phase 2 was completed in 2016/2017 and project has progressed to the detailed design stage, which is scheduled for completion in 2019/2020.

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

Serves eThekwini 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 Ml/d to 375 Ml/d was in construction in 2016/2017 and completion is scheduled for 2017/2018.

(14) Darvill WWTW Capacity Increase

Serves Msunduzi Local Municipality.

The works capacity is being upgraded from 65 Ml/d to 100 Ml/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 2017/2018.

(15) Trustfeeds WWTW

Serves uMgungundlovu District Municipality and iLembe District Municipality.

The infrastructure development comprises 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 were completed at the end of 2016/2017. Construction of the bulk sewer and gravel access road will be completed in 2017/2018 and construction of the Wastewater Treatment works will be completed in 2019/2020.

(16) Mpophomeni WWTW

Serves uMgungundlovu District Municipality and uMngeni Local Municipality.

The infrastructure development comprises a 6 Ml/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 2017/2018. Following this, the project will move into construction phase, planned for completion by 2020/2021.

Water Resources Adequacy

The vulnerability associated with not having sufficient water resources was brought home with the recent drought which had devastating consequences for many parts of the country. Umgeni Water is ever mindful of its high dependence on the availability of sustainable water resources. To this end, the entity continued to balance supply availability with growth in demands and update its Infrastructure Master Plan towards ensuring long-term water resources and supply sustainability. Collaboration with the Department of Water and Sanitation remains essential to ensure there is intersection of national and regional water resource development priorities.

Progress was made with the following water resource infrastructure developments in the year:

- uMkhomazi (Smithfield) Dam (DWS and UW), which has progressed to detailed feasibility stage (construction by 2030);
- Lower Thukela Project (UW), for which construction is complete and the new supply system planned to be brought online in 2017/2018;
- iMvutshane Dam (UW), which finally impounded, thereby assuring supply to Maphumulo;
- Hazelmere Dam raising (DWS), for which construction is on-going; and
- Lower uMkhomazi (Ngwadini) Dam, for which the detailed design is planned for completion in 2018/2019.

Leadership and Employee Development

The entity seeks to maintain a workforce that enables it to deliver quality services to all stakeholders. In this regard, skills development remains a key focus area, as this enables employees to excel in their individual capacity and deliver on the entity's strategy.

Umgeni Water partnered with the University of KwaZulu-Natal to develop and implement a Senior Management Development Programme (SMDP) which was attended by a total of twenty (20) Senior Managers during the reporting period. The international leg of the programme provided opportunity for the Senior Managers to visit and benchmark with Sociedade de Abastecimento de Agua e Saneamento S.A (Sanasa), the State-owned water utility in Sao Paulo, as well as Aguas do Brasil, which is the largest private water utility in Brazil.

The Umgeni Water Learnerships and apprenticeships programmes provided sixty-nine (69) apprentices and artisans with training, development and exposure, including in Mechanical Engineering, Electrical Engineering and Instrumentation.

Umgeni Water's graduate trainee programme is aligned to guidelines provided by professional registration bodies and in the reporting period, the entity had a total of forty-one (41) graduates enrolled in engineering, science and other required professional fields, as well as thirty-one (31) in-service trainees receiving experiential training.

Umgeni Water continues to fund bursary students with twelve (12) students enrolled at various universities in disciplines of civil, mechanical and electrical engineering, chemistry, microbiology and finance.

In partnership with National Treasury, the entity continued to implement the graduate development programme for engineers, technologists, process support and technicians. As part of this programme, forty-three (43) graduates, fourteen (14) female and twenty-nine (29) male, were developed over the five-year period and all have submitted final engineering reports to the Engineering Council of South Africa (ECSA) for certification.

Sixty-seven (67) of the entity's employees are on an Assisted Education Programme of which thirty-two per cent (32%) are enrolled in programmes that are directly targeting critical and scarce skills.

The membership of Umgeni Water Young Professionals (UWYP) forum, established in 2014 totalled 174 at the end of this reporting period. The forum has created an enabling environment for professional growth of youth through affiliation and registration with professional bodies. In the year under review, five (5) young professionals had opportunity to travel to China, one (1) to Brazil and one (1) to Japan, further benefiting from international exposure.

"In partnership with National Treasury, the entity continued to implement the graduate development programme for engineers, technologists, process support and technicians."

Operational Resiliency

The entity's strategic risks are well aligned to its strategy. Of a total of ten (10) strategic risks, one (1) strategic risk is rated as a High risk, namely short-term water resources availability caused by continued low water levels in dams.

This risk has been mitigated in the short-term through emergency water transfer schemes and implementation of water restrictions that are scheduled to continue for another twelve-month period for the Mgeni System, subject to the receipt of above-average rainfall in catchment areas. Water resources and infrastructure developments will continue to advance as planned over the medium to long-term period, in order to ensure long-term supply sustainability for the region.

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.

Innovation, research and development projects are undertaken in partnership with academia, notably through the Umgeni Water–University of KwaZulu-Natal Chair of Water Resource Management and through active participation in Water Research Commission projects. The outputs continue to enhance water and wastewater treatment processes, thereby adding to the entity's core and distinctive competencies.

The SAP Enterprise Resource Planning (ERP) system went live on the 6th March 2017. Notwithstanding some gaps that still need to be addressed, the implementation is hailed a success. Going forward, automation and integration of the core business processes within the entity is expected to drive huge improvements in operational efficiency and effectiveness.

Operational Optimisation

The recent drought further entrenched the need to judiciously safeguard our scarce water resources and other natural resources. Water efficiencies are ensured in the bulk business through careful water balancing per system. Water loss was maintained well below the entity's target level of 5%, with a total of 2.29% recorded for the year (3.85% in 2016).

Energy is a crucial resource for water and wastewater treatment processes and several initiatives are underway to manage usage. Optimal pumping and other strategies remain inherent parts of the business psychology from planning, design and construction through to operation.

Financial Viability

Despite the drought, Umgeni Water maintained positive results in the year due to continued sound financial management:

- Revenue (Group) of R2.51 billion was generated (R2.38 billion in 2016);
- Net surplus (Group) was R746 million (R781 million in 2016), and
- Balance sheet reserves were strengthened to R6.82 billion (R5.98 billion in 2016).

The earned surplus for the year will be invested in support of the entity's future five-year R6.1 billion (not escalated) capital investment programme and used in debt reduction. As at 30 June 2017, a significant portion of capital investments were already committed. The five-year CAPEX programme excludes capital investment for areas outside the traditional supply area.

The entity has maintained its reputation as a financially viable entity, creating significant value for customers and shareholders. The strength of the balance sheet and access to other strategic financial resources remain vital for expanding services in KwaZulu-Natal.

> "The SAP Enterprise Resource Planning system (SAP ON TAP) went live on the 6th March 2017. Notwithstanding some gaps that still need to be addressed, the implementation is hailed a success."

Summary and Outlook

Umgeni Water has continued to demonstrate resilience as an entity through steadfastly maintaining its performance at a high level during this period and continuing to serve customers well, during a period beset by water shortages. This is attributable to a combination of solid enterprise-wide systems that the entity has in place, backed by highly competent employees and leadership provided by a robust executive team.

The entity's performance has been consistently good over the past five-years under the sound leadership of Mr. Cyril Gamede. I would like to take the opportunity to again wish Mr. Gamede well, and hail Umgeni Water's appreciation for having developed a level of fortitude/grit in Umgeni Water employees that bodes well for the future.

The Executive Authority of Umgeni Water has initiated a process towards the establishment of a single provincial water board in KwaZulu-Natal. As at the end of the reporting year, this process was still underway and is planned to culminate in a merger of Umgeni Water and Mhlathuze Water, with the former absorbing the latter. 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 process is expected to be concluded within the next eighteen to twenty-four months.

The position of strength that has been carefully maintained within the entity provides a stable base that can be leveraged for future growth and service delivery planning for KwaZulu-Natal.

Thami Hlongwa CA (SA)
Acting Chief Executive
20 September 2017

SPRING GROVE DAM PUMP STATION

6.0

Corporate Governance

6.1 Composition and Functioning of the Board

Board

The 2016/2017 year end coincided with the end of term of the Board of Umgeni Water and the departure of the Chief Executive, Cyril Gamede. The process of appointing a permanent Board for Umgeni Water is being fast-tracked by the Minister and Department of Water and Sanitation and is anticipated to be completed in the new year.

The Board during the reporting period comprised twelve (12) non-executive Board members and one (1) Executive Board member, the Chief Executive. The roles of the Chairman and that of the Chief Executive were separate as recommended in the King III Report on Corporate Governance (hereinafter referred to as "King III") to ensure the independence of the two positions and the clear definition of roles and responsibilities.

The Chairman of the Board and all other Board members (with the exclusion of the Chief Executive), were independent non-executive directors in the manner described in King III. All Board members executed their legal duties in a professional manner, with integrity and enterprise. In terms of the Water Services Act (Act 108 of 1997), Board members (save for the Chief Executive who is appointed by the Board) are appointed by the Minister of Water and Sanitation ("the Minister").

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
- Governance Committee

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

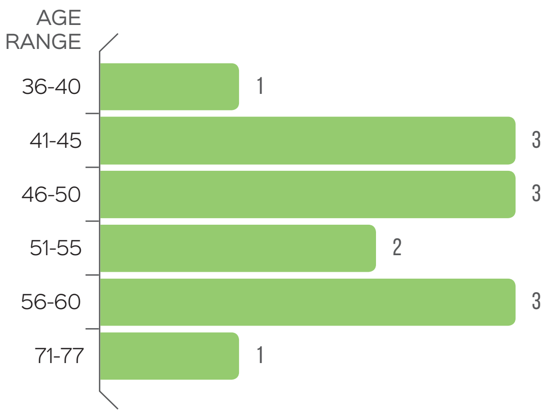
Table 6.1: Board and Committee Memberships for 2016/2017 Period

BOARD MEMBER	GENDER	AUDIT	REMCO	CAPEX
1. Mr. A Mahlalutye[1]	M			
2. Prof. I Vally[2]	M	✓		
3. Mr. V Gounden	M		✓	
4. Ms. T Shezi	F		✓	✓
5. Ms. N Afolayan[3]	F	✓		✓
6. Ms. Z Mathenjwa	F	✓	✓	
7. Dr. T Dube	F	✓		✓
8. Ms. N Chamane[4]	F		✓	✓
9. Mr. V Reddy	M		✓	✓
10. Mr. G Atkinson	M		✓	✓
11. Mr. T Nkhahle	M	✓		✓
12. Mr. T Zulu	M	✓		✓
13. Mr. C Gamede[5]	M		✓	✓

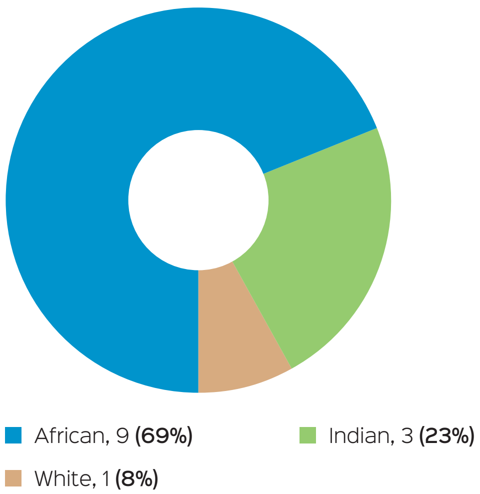
✓ Denotes Committee Member
[1] Chairman
[2] Audit Committee Chairman
[3] CAPEX, Fixed Assets and Procurement Committee Chairperson
[4] Human Resources and Remuneration Committee Chairperson
[5] Chief Executive

Figure 6.1: Board Member (a) Age, (b) Race and (c) Gender Profiles in 2016/2017

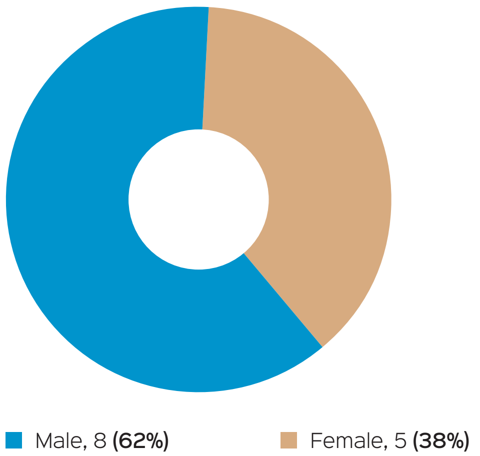
(a) Board Member Age Profile



(b) Board Member Race Profile



(c) Board Member Gender Profile



A Board Charter (reviewed in 2016) 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, 2009 (King III).

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 actively engages with the shareholder through various forums during the year.

As recommended by King III 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 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 139).

Summary of Board and Committee Meetings and Attendance in 2016/2017

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

- 95% for Board: Five (5) normal meetings, four (4) special meetings.
- 91% for Audit Committee: Six (6) normal meetings.
- 79% for HR and Remuneration Committee: Five (5) normal meetings.
- 79% for Procurement, Fixed Assets and Capital Projects Committee: Five (5) normal meetings.
- 100% for Governance Committee. Two (2) meetings.

Table 6.2: Board Meeting Attendance in 2016/2017

BOARD MEMBER	NORMAL MEETINGS						SPECIAL MEETINGS			
	GENDER	27-JUL-16	21-SEP-16	22-NOV-16	07-MAR-17	19-APR-17	19-MAY-17	27-MAY-17	08-JUN-17	28-JUN-17
1. Mr. A Mahlalutye [1]	M	✓	≠	✓	✓	✓	✓	✓	✓	N/A
2. Prof. I Vally [2]	M	✓	✓	✓	✓	✓	✓	✓	✓	N/A
3. Mr. V Gounden	M	✓	✓	✓	✓	✓	✓	N/A	N/A	✓
4. Ms. T Shezi	F	✓	≠	✓	✓	✓	✓	✓	✓	✓
5. Ms. N Afolayan [3]	F	✓	✓	✓	✓	✓	✓	N/A	N/A	✓
6. Ms. Z Mathenjwa	F	✓	✓	✓	✓	✓	✓	✓	✓	✓
7. Dr. T Dube	F	✓	✓	✓	✓	✓	≠	≠	✓	✓
8. Ms. N Chamane [4]	F	✓	✓	✓	✓	✓	✓	✓	✓	✓
9. Mr. V Reddy	M	✓	✓	✓	✓	✓	✓	✓	✓	✓
10. Mr. G Atkinson	M	✓	✓	✓	✓	✓	✓	✓	≠	✓
11. Mr. T Nkhahle	M	✓	✓	✓	✓	✓	✓	✓	✓	✓
12. Mr. T Zulu	M	✓	≠	✓	✓	✓	✓	✓	✓	✓
13. Mr. C Gamede [5]	M	✓	✓	✓	✓	✓	N/A	-	-	-

✓ Denotes Committee Member
[1] Chairman
[2] Audit Committee Chairman
[3] CAPEX, Fixed Assets and Procurement Committee Chairperson
[4] Human Resources and Remuneration Committee Chairperson
[5] Chief Executive

The membership of the following members, who exceeded the number of Board terms as per Schedule 1 of the Water Services Act (Act No. 108 of 1997), was terminated on 18 May 2017.

- Ms. N Afolayan
- Adv. V Gounden

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 through 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 a written Terms of Reference which is formally approved by the Board.

Audit Committee

The Committee consisted of six (6) non-executive Board members and Professor Imtiaz Vally served as chairman. 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 III, the Companies Act (Act 71 of 2008), the Public Finance Management Act (Act 29 of 1999) as amended and Treasury Regulations, 2005, to ensure alignment to best practice and legislation.

The Ethics Committee and Corporate Risk Committee also report through the Audit Committee.

Table 6.3: Audit Committee Meeting Attendance 2016/2017

MEMBERS	COMMITTEE MEETINGS					
	07-SEP-16	02-NOV-16	15-FEB-17	12-APR-17	24-MAY-17	28-JUN-17
Prof. I Vally[1]	✓	✓	✓	✓	✓	N/A
Ms. N Afolayan	✓	✓	✓	✓	N/A	N/A
Mr. T Nkhahle	≠	✓	✓	✓	✓	✓
Ms. Z Mathenjwa	✓	✓	≠	✓	✓	✓
Dr. T Dube	✓	✓	✓	✓	✓	✓
Mr. T Zulu	✓	✓	✓	✓	✓	✓

[1] Chairman ✓ Attendance ≠ Absence with apology

Ethics Committee

Umgeni Water has a Code of Ethics that provides guidelines for ethical decision-making by all employees and stakeholders. The code, which formally acknowledges the entity's intention to undertake business in an ethical manner, is communicated to all employees through various awareness and communication forums and programmes during the year.

The Ethics Committee, in conjunction with the Audit and Risk committees, deliberates on Umgeni Water's compliance with the Code of Ethics and reports all matters within its scope of mandate to the Board, through the Audit Committee. The committee was mandated to promote ethical behaviour, which includes preventing incidences of fraud, bribery and other corrupt activities and to monitor the entity's compliance with relevant social, ethical and legal requirements and best practice codes. The establishment of the committee shows a deepened commitment by Umgeni Water as a responsible corporate citizen to all it stakeholders.

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.

Composition

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 sector experience in Financial Management and Corporate Governance matters. He is currently the Managing Director of Ukukhanya Advisory Services, a Durban-based Accounting and Auditing company.

Responsibilities

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 promotion of equality, prevention of unfair discrimination, Corporate Social investment and reduction of corruption, sponsorship, media and advertising;
- Environment, health and public safety, including, 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 and wasteful and fruitless expenditure; and
- Fraud and hotline call management.

Whistle-blowing Hotline

Umgeni Water continues to provide an external whistle-blowing hotline service managed by an external service provider. This 24 hour - 365 days a year 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 up using a hotline protocol which ensures these 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 creates and maintains awareness of this facility and ensures that it is advertised by means deemed the most effective and appropriate.

Internal Audit

Internal Audit is an independent, co-sourced 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 Chairman. An internal audit charter has been approved by the Committee.

As at 30 June, Umgeni Water had a total of four (4) 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.
- The remaining three (3) findings have been allocated to responsible and accountable personnel for resolution. Management is closely monitoring progress to ensure there is closure of these in 2018.

Compliance with Laws and Regulations

Umgeni Water continues to enhance its compliance management system. The entity continued using its Legal Compliance register for monitoring and reporting Legal Compliance in 2017. During the year a total of twenty-eight (28) assessments were done. Three (3) areas were flagged of which one (1) was successfully addressed during the year. Two (2) outstanding matters, relating to property and security will be addressed by December 2017. An overall compliance of 99.9% has been achieved.

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. Amongst others, this is based on:

- 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 comprised six (6) non-executive directors and the Chief Executive and Ms. Nompumelelo Chamane served as chairperson. 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 2016/2017

MEMBERS	COMMITTEE MEETINGS				
	14-SEP-16	26-OCT-16	08-FEB-17	05-APR-17	21-JUN-17
Ms. N Chamane[1]	✓	✓	✓	✓	✓
Ms. T Shezi	✓	✓	✓	✓	✓
Mr. V Gounden	≠	≠	≠	✓	N/A
Ms. Z Mathenjwa	✓	✓	≠	✓	✓
Mr. G Atkinson	✓	≠	✓	≠	✓
Mr. V Reddy	✓	✓	✓	✓	✓
Mr. C Gamede	✓	✓	✓	✓	✓

[1] Chairperson ✓ Attendance ≠ Absence with apology

Capital Projects, Fixed Assets and Procurement Committee

This Committee was chaired by Ms. Nombuso Afolayan and comprised eight (8) non-executive Board members and the Chief Executive. The Committee recommends procurement policies to the Board for approval, assists the Board with capital expenditure programme related decisions, including approving the release of capital expenditure above executive management's delegated authority and within the Committee's delegated authority.

The Committee ensures that the entity's supply chain policies and procedures are equitable, transparent, competitive and cost effective. It reviews the organisation's infrastructure asset maintenance programme/performance. Contracts that 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.

Table 6.5: Capital Projects, Fixed Assets and Procurement Committee Meeting Attendance 2016/2017

MEMBERS	COMMITTEE MEETINGS				
	24-AUG-16	02-NOV-16	01-FEB-17	29-MAR-17	14-JUN-17
Ms. N Afolayan [1]	✓	✓	✓	✓	N/A
Ms. T Shezi	✓	✓	✓	≠	✓
Mr. G Atkinson	✓	≠	✓	≠	≠
Mr. T Nkhahle	✓	✓	✓	≠	≠
Ms. N Chamane	✓	✓	✓	✓	✓
Dr. T Dube	✓	✓	✓	✓	✓
Mr. V Reddy	✓	✓	✓	✓	✓
Mr. T Zulu	≠	✓	≠	✓	✓
Mr. C Gamede [2]	✓	✓	≠	✓	N/A

[1] Chairperson [2] Chief Executive ✓ Attendance ≠ Absence with apology

Governance Committee

The Governance Committee met on an ad-hoc basis. The Committee was chaired by the Chairman of the Board, Mr. Andile Mahlalutye, and further comprised the three (3) non-executive Committee Chairs.

The Committee assists the Board in monitoring and assessing the performance of Executive Management and the Company Secretary 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 2016/2017

MEMBERS	COMMITTEE MEETINGS	
	13-SEP-16	12-APR-17
Mr. A Mahlalutye (Chairman of the Board)	✓	✓
Ms. N Chamane (REMCO Chairperson)	✓	✓
Ms. N Afolayan (CAPEX Committee Chairperson)	✓	✓
Prof. I Vally (Audit Committee Chairman)	✓	✓

✓ Attendance

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 day-to-day running of the entity to the Chief Executive who works with Executives, each heading up a Division, to assist with this task. 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 are a Board matter.

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 135.

Post Annual Report Approval Developments

The Minister has appointed an interim Board effective from 28 September 2017. The interim Board members are as follows:

- Ms. Ziphozethu Mathenjwa (Chairperson);
- Mr. Visvin Reddy;
- Ms. Nompumelelo Chamane;
- Mr. Matshedisho D. Dikoko;
- Ms. Zodwa Manase;
- Adv. Matshidiso Hashatse; and
- Mr. Midiavhathu Tshivhase.

Board Members in 2016/2017

Mr. Andile Mahlalutye

MA Financial Management (London); MBL (UNISA); Graduate Diploma in Company Direction (GIMT); BSc Quantity Surveying (UCT); Certificate in NGO Development and Management (Israel); a Project Management Professional (PMP) & Professional Quantity Surveyor (PrQS); Programme Certificate on Economic Regulation from the London School of Economics and Political Science.

Appointed for 1st Board term in June 2009.
End of Board term: 30 June 2017.

Non-Executive Chairman of Umgeni Water Board from 2009 to June 2017; Non-Executive Board member of the Ports Regulator of South Africa since 2012; Non-Executive Director of the Richards Bay Industrial Development Zone Company since 2012; Member of the Free State Cluster Audit Committee since 2011; MD Ubudlelwane Capital Investments since 2010; Mvula Trust CEO from 2007 to 2010; Coega Development Corporation Executive from 2003 to 2007; General Manager/Project Leader with Blue IQ from 2000 to 2003; A former Non-Executive Board member of the Gauteng Gambling Board from 2011 to 2013; A former member of North West Provincial Audit Committee from 2009 to 2012.

Ms. Ziphozethu (Gabsie) Mathenjwa

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

Appointed for 1st Board term in June 2009.
End of Board term: 30 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; Environment and Tourism Audit Committee Chairperson.

Mr. Teboho Nkhahle

Registered Professional Scientist; MPhil Stellenbosch University; Environmental Auditor (IRCA).

Appointed for 1st Board term in June 2009.
End of Board term: 30 June 2017.

Owner and MD of Environmental Impact Management Services (EIMS); Non-Executive Chairman of Lesotho Highlands Development Authority (LHDA) from 2007 to 2011; Board member of US-based Global Decisions Inc. (Development of global environment, health and safety regulations and standards database) since 2008; Member of Institute of Directors-SA since 2007; Vice Chair IoD Sustainable Development Forum from 2008 to 2009; Environmental Auditor with Eskom from 1998 to 2004.

Mr. Vasu Gounden

MA Law (LLM) (Georgetown University); Graduate of Harvard; Wits Business School Senior Executive Programme; Honorary Doctorate of Social Sciences (UKZN).

Appointed for 3rd Board term in June 2009.
End of Board term: 18 May 2017.

Founder and Executive Director of the African Centre for the Constructive Resolution of Disputes (ACCORD) since 1992; Member of the Editorial Board of the Peace and Conflict Studies Journal since 1996; Elected by the World Economic Forum as a Global Leader for Tomorrow (GLT) in 2000. Board Member of the Gandhi Development Trust since 2003; Board member of Finland-based Crisis Management Initiative since 2007; Board member of the Old Mutual Science Education Foundation since 2007 (served as Chairman of the Board between 2009 – 2011); Board member of the Dutch based Inter-Church Organisation for Development Cooperation since 2009; Member of the Advisory Board of the Insight on Africa Journal since 2010.

Dr. Takalani Dube

MBChB, Medical (UKZN); Diploma in Anaesthesia (DASA); Diploma in Health Services Management (UKZN); Certificate in Business Development and Management (eThekwini Business Development); Postgraduate Diploma in HIV Management in the Workplace (Stellenbosch University).

Appointed for 1st Board term in June 2009.
End of Board term: 30 June 2017.

Director of eThekwini Community Church since 2005; Founder and President of Centre of HOPE (HIV and Community Development Organisation) since 2000; President of Women of Virtue (Women Empowerment and Investment Organisation) since 2002.

Ms. Thokozile Shezi

BSc in Social Psychology/Education (USA); MSc in Measurement and Evaluation (USA); Management Development Diploma (Wits); Project Management Diploma (UP).

Appointed for the 2nd Board term in June 2009.
End of Board term: 30 June 2017.

Senior Manager & Head of Secretariat; KwaZulu-Natal Climate Change and Sustainable Development Council in the office of the Premier; Non-Executive Director of KZN Playhouse Company.

Board Members *...continued*

Ms. Nombuso Afolayan

MBA (Finance) Luton University; Executive Leadership Development (UCT); Organisational Development Practitioner.

Appointed for 2nd Board term in June 2009.
End of Board term: 18 May 2017.

Chairperson of Umgeni Water CAPEX Committee from 2009 to May 2017; Founder and Executive Chairperson of FS Capital Investments; Chairperson of KwaZulu-Natal Sharks Board; Non-Executive Director at Ithala Development Finance Corporation; Executive at multinational shipping, maritime and petroleum companies in African markets.

Mr. Visvin Reddy

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

Appointed for 1st Board term in June 2009.
End of Board term: 30 June 2017.

Seventeen years local government experience; Served on the Executive Committee of eThekwini Metropolitan Municipality as well as Chairman of the Infrastructure Committee; A member of various community bodies.

Mr. Graham Atkinson

BSc Civil Engineering (UKZN); Postgraduate Diploma in Town and Regional Planning (UKZN).

Appointed for 1st Board term in June 2009.
End of Board term: 30 June 2017.

Member of KZN Planning and Development Commission from 1998 to 2004; City Engineer of Pietermaritzburg from 1977 to 1986; Chief Executive of Umgeni Water from 1987 to 1994; Board Member of Umgeni Water from 1978 to 1986; Honorary Member of the Water Institute of Southern Africa (WISA) since 2002; Honorary member of the former Union of African Water Suppliers (UADE).

Mr. Sbusiso Madonsela (Company Secretary)

Admitted Attorney of the High Court of South Africa.
LLB (UZ); Postgraduate Diploma in Compliance (UJ); holds qualifications in Construction Contracts and Construction Adjudication from the University of Pretoria.

Joined the Competition Commission and occupied various portfolios, the most recent being the Commission's Legal Counsel after leaving Private Legal Practice in 2007; Joined Umgeni Water as Legal Services Manager in 2011 and held the position until December 2013; Appointed as a Company Secretary from 01 January 2014; Served as a Trustee of the Umgeni Water Provident Fund and is now the current Fund Principal Officer.

Ms. Nompumelelo Chamane

Appointed for 1st Board term in June 2009.
End of Board term: 30 June 2017.

Chairperson of Umgeni Water Board HR and Remuneration Committee from 2009 to June 2017; Councillor with eThekwini 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); Chairperson of Finance Committee of St. Benedict Catholic Church.

Prof. Imtiaz Vally

Master of Accountancy; Chartered Accountant (SA); Chartered Management Accountant (ACMA).

Appointed for 1st Board term in June 2009.
End of Board term: 30 June 2017.

Chairman of Umgeni Water Board Audit Committee from 2009 to June 2017; Professor of Management Accounting and Finance at UKZN.

Mr. Thabani Zulu

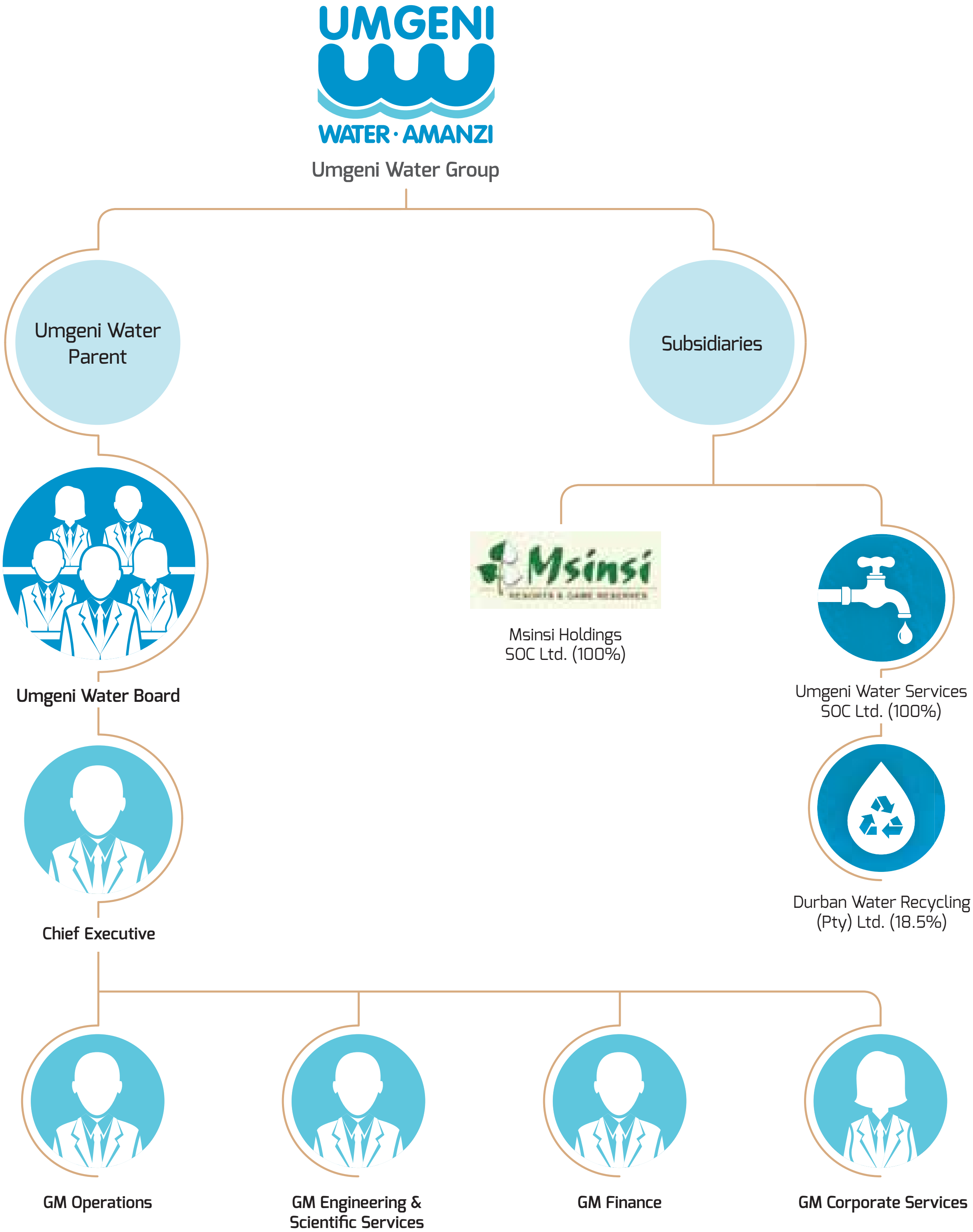
Chartered Accountant; BCom degree; Postgraduate Diploma in Accounting (UKZN).

Appointed for 1st Board term in December 2011.
End of Board term: 30 June 2017.

Director of Ngubane & Company (Auditing Firm); General Manager/Head of Internal Audit for Provincial Treasury; Member of SAFCOL Audit Committee; Member of UDW Audit Committee; Member of Ndwedwe Audit Committee; CEO of the KZN Gambling Board. Management Accountant of Unilever SA; Financial Accountant at Mercedes Benz of SA (now Daimler Chrysler SA).

6.2 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.



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's profiles on page 47). 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 in 2016/2017

Mr. Cyril Gamede

BSc (Eng) Mechanical; MSc (Eng) Industrial; MBA; Advanced Diploma in Labour Law; Certificate in Corporate Governance. Registered Professional Engineer (ECSA).

Appointed as Chief Executive: Umgeni Water in August 2012.
End of contract: 30 June 2017.

Chairperson and Director of Msinsi Holdings SOC Ltd. from 2014 to June 2017; President of ECSA since 2012; Managing Director of K2S Consulting from 2010 to 2012; Director AEL Mining Services from 2002 to 2010; Director of Operations, Umgeni Water, from 1996 to 2002.

Ms. Moketenyana Moleko

BCom; Management Development Certificate; International Management and Marketing Programme Certificate.

Appointed as General Manager Corporate Services in January 2014.

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

EXCO Members in 2016/2017 *...continued*

Mr. Msizi Cele

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

Appointed as General Manager: Operations in November 2014.

Managing Director of uThukela Water from 2007 to 2014; Executive Director – Engineering at uThukela Water from 2005 to 2007; Member of the Institute of Municipal Engineers of South Africa; Member of the Water Institute of South Africa.

Mr. Steve Gillham

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

Appointed as General Manager: Engineering and Scientific Services in 2012.

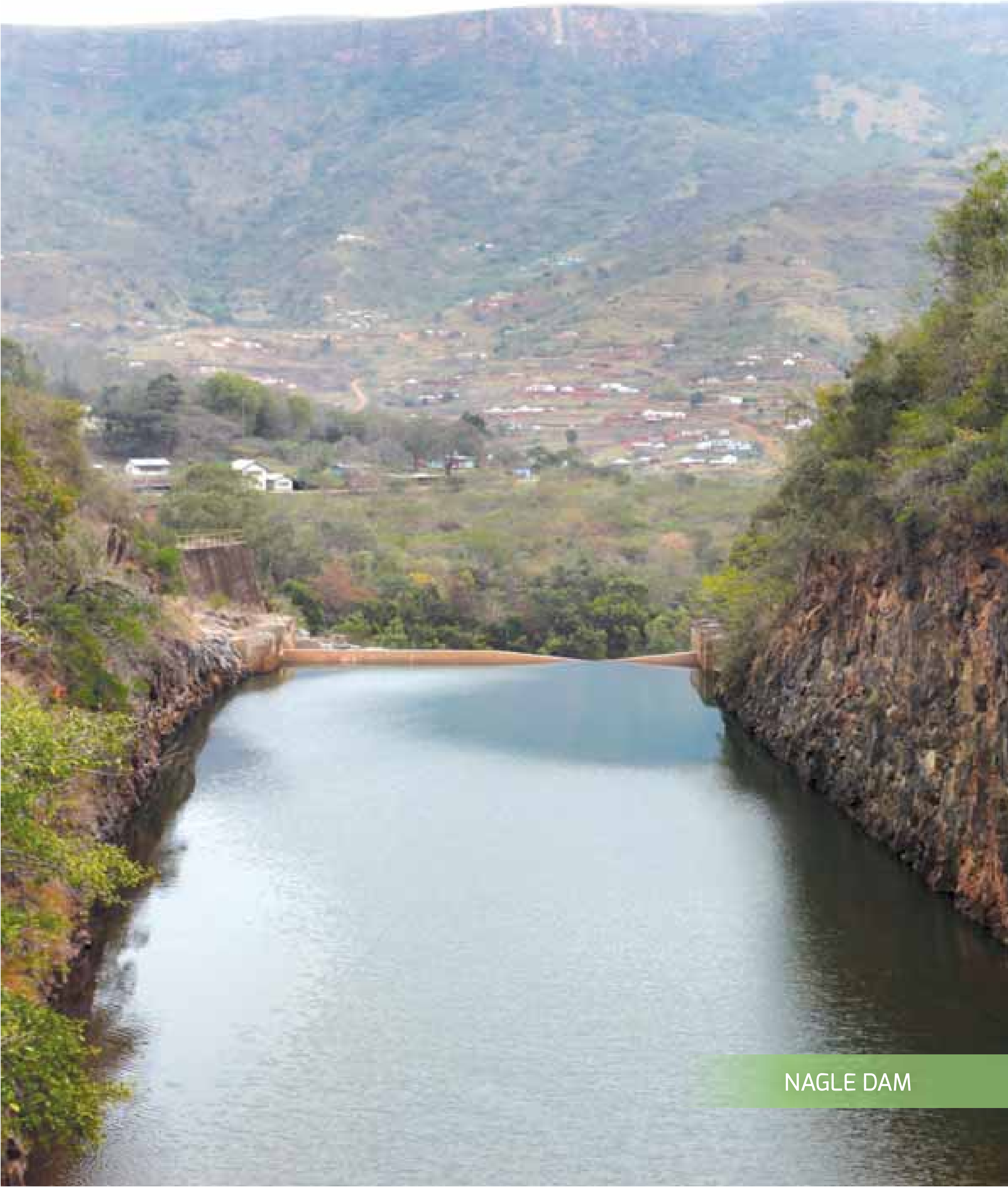
Director of Msinsi Holdings SOC Ltd. since 2014; Director of Msinsi Holdings (Pty) Ltd. from 2012 to 2014; Planning Manager from 1999 to 2012; Engineer: Umgeni Water from 1997 to 1999; Engineer with the Department of Water and Sanitation from 1984 to 1997.

Mr. Thamsanqa Hlongwa

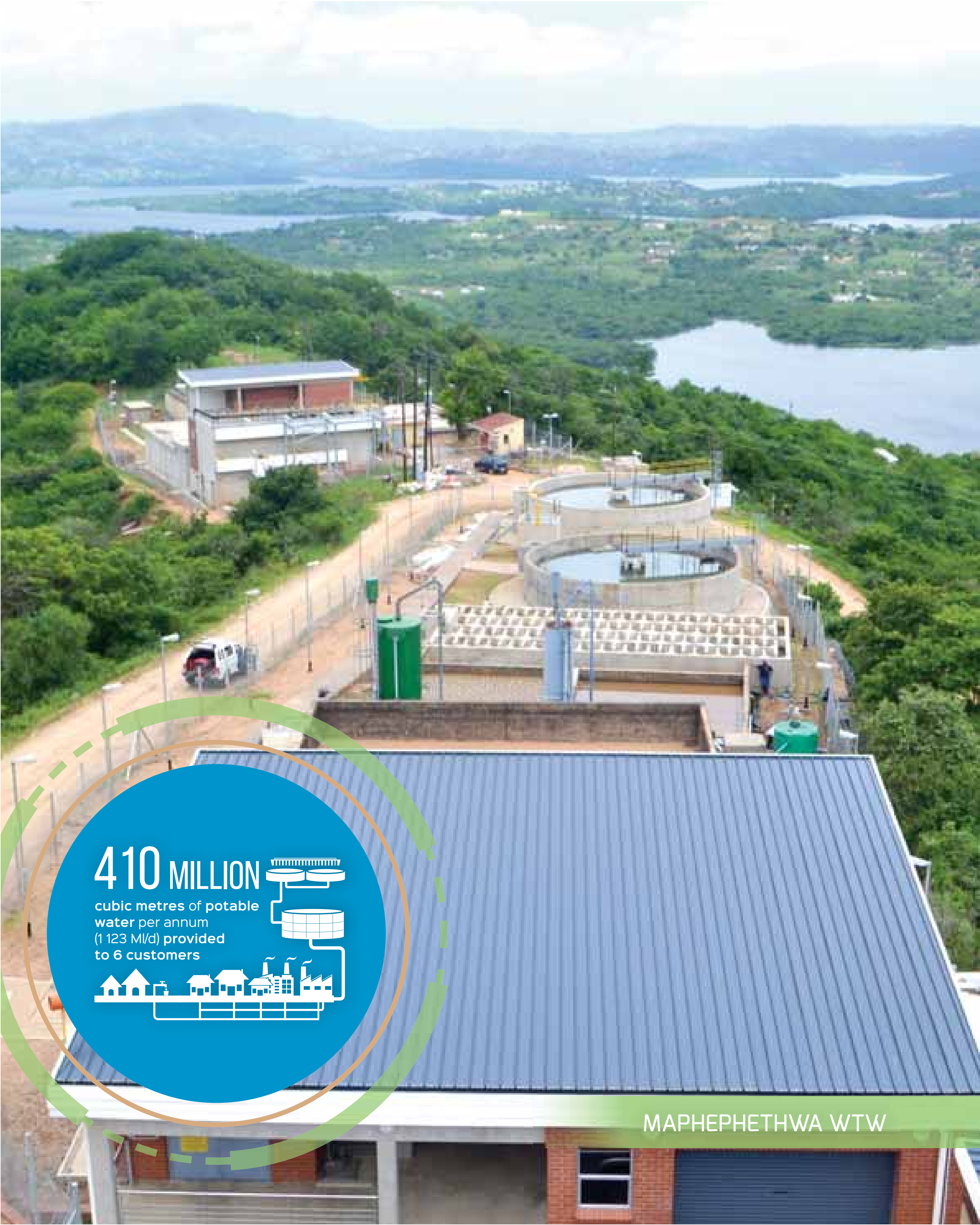
Chartered Accountant (SA); BCom Honours.

Appointed as General Manager: Finance in July 2013.
Currently Acting Chief Executive

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; Served in sub-committees of SAICA and ABASA.



NAGLE DAM


410 MILLION
cubic metres of potable water per annum
(1 123 Ml/d) provided
to 6 customers
MAPHEPHETHWA WTW

7.0

Stakeholder Understanding and Support

Stakeholder Interaction

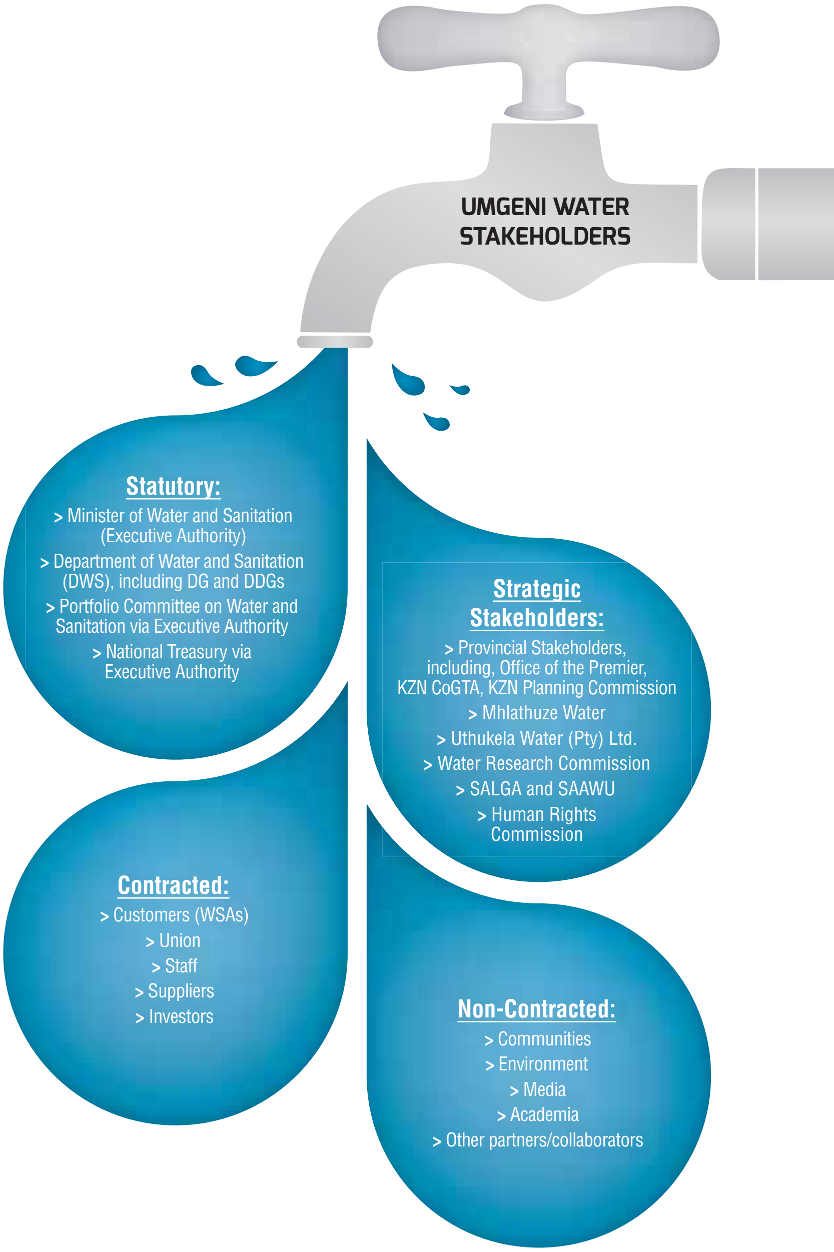
Umgeni Water interacts with a wide range of stakeholders that are impacted on or have an interest in the business activities of the entity. Stakeholders have been clustered into four groups:

- Statutory;
- Strategic;
- Contracted; and
- Non-Contracted;

Umgeni Water interacted with all stakeholder groupings in the year under review and generally received positive and constructive feedback, which informed future strategies, plans and programmes.

Engagement with the Minister of Water and Sanitation, the 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 regular Minister and DG forums and strategy sessions hosted by DWS.

All statutory documents were timely submitted for the year and were of high quality. Engagements with the Minister of Water and Sanitation also took place on the subjects of drought relief and drought mitigation measures and during the commissioning of Greater Eston Bulk Water Supply Scheme. Other engagements related to bulk potable water tariff for the financial year 2017, which took place with the Ministry of Water and Sanitation, Portfolio Committee on Water and Sanitation and all customers.



Umgeni Water had the opportunity to engage with the Office of the Premier and CoGTA on issues of water resources shortages in the Mgeni system and the joint development of the KZN universal water access plan.

A large number of customer engagements took place, including both strategic and operational engagements and focused on performance with bulk supply agreements, service delivery needs, infrastructure plans and water conservation. Engagements also took place with customers to explore cost-effective means of mitigating the effects of the drought.

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 regular staff information sessions and meetings with employee union, executive site visits, annual staff awards session, commemoration of special days in the year, sport fun days, induction programmes and communiqués informing employees of Ministerial announcements. In addition, the Chief Executive Blog ensured employees were kept updated on key water sector developments.

Interaction with communities 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.
- Special day/week events, including water week, environment and women's days, amongst several others, provided opportunities for community outreach and awareness creation.

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.

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 and current water resource shortages in the Mgeni System.

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

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 related to commissioning of the Hazelmere Water Treatment Works Upgrade;
- A dam safety event held to create awareness to help prevent drowning in dams and rivers;
- A supplier forum;
- Hosting of visiting delegation from Amatola Water; 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.

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

Table 7.1: Summary of Stakeholders, the Nature of Engagement and Value Proposition

SUMMARY OF STAKEHOLDERS, THE NATURE OF ENGAGEMENT AND VALUE PROPOSITION

Statutory Stakeholders
Stakeholders who have a regulatory or oversight function over Umgeni Water, among them; the Minister of Water and Sanitation, the Department of Water and Sanitation, the Portfolio Committee on Water and Sanitation and National Treasury. As a State-Owned Entity, Umgeni Water is required to interact with these stakeholders on a formal and regular basis in order to ensure that statutory requirements are met and there is alignment with government's objectives, strategies and plans.

- Minister of Water and Sanitation
- Department of Water and Sanitation
- National Treasury
- Portfolio Committee on Water and Sanitation

Basis for engagement: *delivery on mandate, responsive to 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 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 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
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.

- Provincial Planning Commission
- KwaZulu-Natal Provincial Government Departments
- South African Local Government Association (SALGA)
- South African Association of Water Utilities (SAAWU)
- Mhlathuze Water
- uThukela Water (Pty) Ltd.
- Water Research Commission
- South African Human Rights Commission

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
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.

Water Service Authorities in KwaZulu-Natal with whom Umgeni Water has bulk supply agreements comprise:
- eThekwini Metropolitan Municipality
- Ugu District Municipality
- uMgungundlovu District Municipality
- iLembe District Municipality
- Harry Gwala District Municipality
- Msunduzi Local Municipality

Basis for engagement with customers: 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.*

- Employees of Umgeni Water
- 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, regular feedback regarding progress towards dis-establishment of Umgeni Water and Mhlathuze Water and establishment of one regional entity, 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.*

Table 7.1: Summary of Stakeholders, the Nature of Engagement and Value Proposition *...continued*

SUMMARY OF STAKEHOLDERS, THE NATURE OF ENGAGEMENT AND VALUE PROPOSITION *...continued*	
Contracted Stakeholders *...continued* *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.*	
› Suppliers and Service Providers	› 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 BBBEE 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 supplier's desire:*** *an equitable company, whose policies, practices, systems and feedback create responsive and high-performing suppliers that deliver against contractual agreements.*	
› Chambers of Business ***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 safe guarding of water supply resources.* ***Umgeni Water and business desire:*** *a sustainable entity that adds value to society through a sound balance of economic growth, social development and environmental sustainability.*	
Non-Contracted Stakeholders *Stakeholders to whom Umgeni Water demonstrates its value as a socially responsible, efficient and high-performing entity.*	
› Community and Civil Society Institutions ***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.* ***Umgeni Water and communities/civil society desire:*** *a sustainable entity that adds value to society through a sound balance of economic growth, social development and environmental sustainability.*	
› Media and General Public ***Basis for engagement:*** *access to information, demonstrating accountability, transparency and good governance. In turn, Umgeni Water expects accurate and balanced reporting and media integrity.* ***Umgeni Water and media/public desire:*** *a sustainable entity that adds value to society.*	
› National Sector Institutions	› International sector institutions
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.* ***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.*	

HAZELMERE WTW

MHLABATSHANE DAM

8.0

Performance against Umgeni Water Strategy and Shareholder Compact Indicators 2016/2017

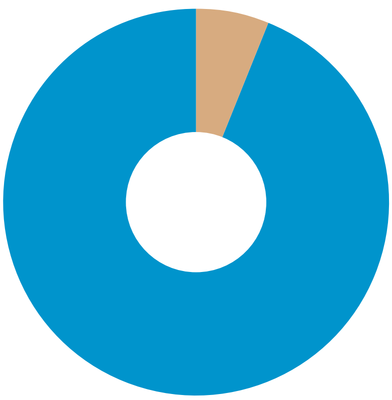
Umgeni Water implements its strategy through a balanced scorecard, comprising four (4) *Perspectives*, four (4) *Strategic Goals*, nine (9) *Strategic Objectives* and nine (9) *Key Performance Indicators (KPIs)*.

The KPIs are further made up of fifty-five (55) total annual measurable *Result Indicators*, for which responsibilities and accountabilities are agreed and targets approved within the entity. 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.

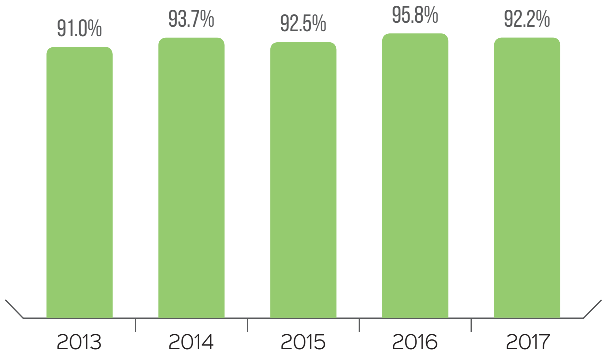
For the period 1 July 2016 to 30 June 2017, the planned initiatives were implemented and progress assessed by the entity. The detailed scorecard follows. Performance against the strategy is also illustrated graphically in Figures 8.1 to 8.4.

Figure 8.1: 2016/2017 Performance



■ Performance **(92.2%)** ■ Variance **(7.8%)**

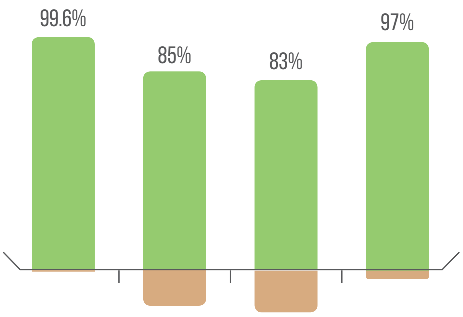
Figure 8.2: Performance Trend



Per cent targets met: 92.2%
Per cent targets not met: 7.8%

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

Figure 8.3: Performance Against Strategic Goals



	Goal 1	Goal 2	Goal 3	Goal 4
Performance	99.6%	85%	83%	97%
Variance	-0.4%	-15%	-17%	-3%

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,* **99.6%** performance was achieved, for which:

SO 1 - Increase services and customers achieved 100% and
SO 2 - Increase customer and stakeholder value achieved 99.6%.

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,* **85%** performance was achieved, for which:

SO 3 - Increase mobilisation of funds achieved 100%;
SO 4 - Increase financial sustainability 82.7%; and
SO 5 - Improve financial ratios 75%.

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,* **83%** performance was achieved.

For **SO 6 -** Improve service delivery systems, the entity continues to improve its systems and is progressively closing gaps.

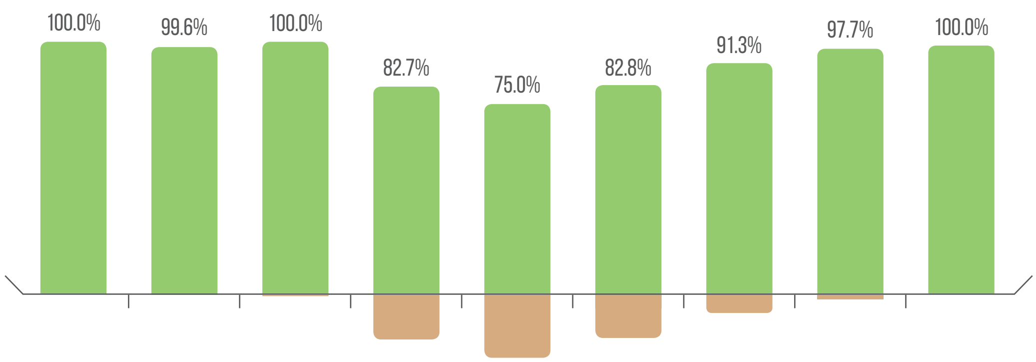
Key outcomes: Operational Resiliency, Operational Optimisation, Community and Environmental Sustainability.

For the **Organisational Capacity Perspective** *and* **Strategic Goal 4:** *Strengthen and develop quality human resources, infrastructure capacity and water resources sustainability to support growth,* **97%** performance was achieved, for which:

SO 7 - Improve and increase infrastructure assets achieved 91.3%;
SO 8 - Increase water resources sustainability 97.7%; and
SO 9 - Increase skills and competency 100%.

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

Figure 8.4: Umgeni Water Performance by Strategic Objective



	SO 1	SO 2	SO 3	SO 4	SO 5	SO 6	SO 7	SO 8	SO 9
Achieved	100.0%	99.6%	100.0%	82.7%	75.0%	82.8%	91.3%	97.7%	100.0%
Variance	0.0%	-0.4%	0.0%	-17.3%	-25.0%	-17.2%	-8.7%	-2.3%	0.0%

The detailed performance of the organisation against indicators and targets for 2016/2017 follows, with further expansion in each of the Annual Report chapters.

Scorecard 2016/2017[i]

#	RESULT INDICATOR	TARGET	ACTUALS	VARIANCE	PG#
Balanced Scorecard Perspective: Customer and Stakeholder					
OUTCOMES: Stakeholder Understanding and Support, Community and Environmental Sustainability, Customer Satisfaction and Product Quality.					
Strategic Objective 1: Increase services and customers					
KPI 1: The extent to which UW has grown its services and customers					
1.1	Number of new schemes and signed contracts for implementing new schemes.	≥ 2 new schemes and signed contracts by WSAs for implementation.	2 new schemes and signed contracts by WSAs for implementation.	Nil	71
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)**	N/A (There are no current directives)	N/A (There are no current directives)	N/A (There are no current directives)	71
2.2	Number of engagements with statutory stakeholders: Minister, DWS, PC and NT. **(DWS SHC Indicator)**	≥ 10	> 10	Nil	51
2.3	Number of engagements with contractual stakeholders: customers, employees, union and suppliers.	≥ 6 Customers ≥ 3 Staff Sessions ≥ 3 Union Meetings ≥ 1 Supplier Forum	6 Customers 4 Staff Engagements 8 Union Meetings 1 Supplier Forum	Nil	51
2.4	Number of engagements with strategic stakeholders.	≥ 8	≥ 8	Nil	51
2.5	Number of engagements with non-contractual stakeholders.	≥ 1 Community ≥ 4 Media ≥ 1 Business ≥ 1 National ≥ 1 International	≥ 1 Community ≥ 7 Media ≥ 1 Business ≥ 1 National ≥ 1 International	Nil	51
2.6	Number of signed contracts (bulk supply agreements) in place as a % of total customers. **(DWS SHC Indicator)**	100% 6 customers/signed contracts.	100% 6 customers/signed contracts.	Nil	69
2.7	Number of signed contracts/ MOUs with rural Municipalities for provision of support. **(DWS SHC Indicator)**	≥ 3 signed contracts/MOUs.	5 signed contracts/MOUs.	Nil	71
2.8	Number of submissions in respect of Monthly Reports, Quarterly Reports, Annual Report, Tariff, Corporate Plan, SHC and Policy Statement **(DWS SHC Indicator)**	21 of 21 submissions: 4 Quarterly Reports, Annual Report, Tariff, Corporate Plan, SHC, Policy Statement and 12 Monthly Reports required.	21 of 21 submissions: 4 Quarterly Reports, Annual Report, Tariff, Corporate Plan, SHC, Policy Statement and 12 Monthly Reports required.	Nil	51
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. Four (4) UMDM schemes compliant with **Good** SANS 241.	13 WTW systems 100% compliant with **Excellent** SANS 241. Four (4) UMDM schemes compliant with **Good** SANS 241.	Nil	66

[i] Parent Only

Scorecard 2016/2017[i] *...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 and Product Quality. *...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.	7 WWTW ≥ 85% compliant. 0 WWTW ≥ 80% compliant. 1 WWTW ≥ 60% compliant.	1 WWTW < 80% compliant.	67
2.11	Number of schools/community initiatives undertaken.	≥ 3 initiatives implemented.	3 initiatives implemented.	Nil	80
2.12	Number of CSI initiatives undertaken. **(DWS SHC Indicator)**	≥ 3	≥ 3	Nil	81
2.13	Per cent PSP and contractor order values (CPGs) awarded to B-BBEE suppliers	≥ 35%	36% (R149m of R414m)	Nil	79
	PSP and contractor order values (CPGs) awarded to B-BBEE suppliers that are women.	≥ 14%	28% (R41m of R149m)		
2.14	Actual B-BBEE spend as a % of total discretionary expenditure.	≥ 80% spend	≥ 80% spend (estimated)	Nil	80
	Number of new B-BBEE entrants awarded work. **(DWS SHC Indicator)**	≥ 2 new entrants.	5 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	≥ R800m	R818m	Nil	144
3.2	Current ratio **(DWS SHC Indicator)**	1.5 to 2.1	2.35	Nil	126
3.3	Debt to Equity ratio **(DWS SHC Indicator)**	≤ 0.4	0.29	Nil	126
3.4	Interest cover ratio	≥ 2.5	2.86	Nil	126
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 expenditure, Rm and per cent variance. **(DWS SHC Indicator)**	R2.20bn±10%	R1.78bn (R0.44bn below budget)	Nil	141
4.2	Total surplus (loss), Rm and per cent variance.	R598m±10%	R751m R153m above target	Nil	141
4.3	Number of debtor days. **(DWS SHC Indicator)**	≤ 40	41	41 debtor days against a target of 40.	172
4.4	Total S30 revenue, Rm and per cent of turnover. **(DWS SHC Indicator)**	R342m ±12% of turnover.	R165m 7% of turnover.	R177m below budget. 5% below budget % of turnover.	159
4.5	Per cent return on assets. **(DWS SHC Indicator)**	≥ 5%	7.19%	Nil	126
4.6	Number of breaches or instances of non-compliance to the approved materiality and significance framework. **(DWS SHC Indicator)**	Nil	The entity incurred Fruitless and Wasteful Expenditure, Irregular Expenditure and breaches or instances of non-compliance to the materiality and significance framework.	R9.4m Irregular expenditure incurred. R5.2m Fruitless and Wasteful expenditure incurred.	184

Scorecard 2016/2017 [i] *...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 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)**	R1 320m of R2 448m ≥ 50%	R1 306m of R2 331m 56%	Nil	159
5.2	Net profit margin % for primary activity (Bulk Water and Wastewater). **(DWS SHC Indicator)**	R582m of R2 448m ≥ 20%	R756m of R2 331m 32%	Nil	159
5.3	Gross profit margin % for secondary activity. **(DWS SHC Indicator)**	R17.9m of R341.6m ≥5%	R11.5m of R165m 7%	Nil	159
5.4	Net profit margin % for secondary activity. **(DWS SHC Indicator)**	R16.2m of R341.6m ≥ 4%	Loss of R4.95m against a profit of R165m. 3% loss	7% below target profit level of 4%.	159
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.				76
	Working days from tender advert to issuing intention of award.	≤ 90	97 days average 2 of 7 tenders < 90	5 of 7 tenders > 90	
	Working days for CPG negotiations, measured from expiry of appeals period.	≤ 45	61 days average 0 of 4 tenders < 45	4 of 4 tenders > 45	
	Working days for issuing of signed contracts, measured from conclusion of CPG negotiations.	≤ 15	26 days average 0 of 2 tenders < 15	2 of 2 tenders > 15	
6.2	Per cent Enterprise Resource Planning (ERP) system reviewed and implemented.	Final Preparation Stage Complete. ERP System Go Live implemented. Post-Go Live Support implemented.	Final Preparation Stage Complete (100%). ERP System Go Live (90%) implemented. Post-Go Live Support (95%) implemented.	Slight variance on outstanding SAP project related issues. Planning of future support.	107
6.3	Number of environmental sustainability initiatives implemented.	≥ 3 initiatives implemented.	1 initiative completed.	2 initiatives in planning.	89
6.4	Number of research and development/innovation initiatives implemented.	At least one (1) new technology project implemented.	Darvill Final Effluent Reuse Pilot Project in progress.	N/A	84
6.5	Unqualified external audit report with no matters of emphasis (clean audit). **(DWS SHC Indicator)**	Unqualified external audit report with no matters of emphasis (clean audit).	An unqualified external audit report was received in respect of financial and pre-determined objectives.	Two findings were incurred with the audit of compliance with legislation, one of which was material	130
6.6	Number of repeat and unresolved findings. **(DWS SHC Indicator)**	≤ 10	4 unresolved findings.	Nil	39

Scorecard 2016/2017[i] *...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*					
6.7	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 91% - REMCO 79% - CAPEX 79% - GOVERNANCE 100% 100% (47 of 47) resolutions taken	- REMCO < 80% - CAPEX < 80%	37
6.8	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	38
6.9	Disabling Injury Frequency Ratio (DIFR).	≤ 0.5	0.05	Nil	98
6.10	Per cent compliance against legal Compliance Register.	100% against Compliance Register.	99.9% against Compliance Register.	0.1% non-compliance	39
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 451 of R1 814m 20% variance	R1 163m 36% variance	16% variance	76
7.2	Number of CAPEX projects within target completion dates against planned number and % variance. **(DWS SHC Indicator)**	≥ 85% completion ≤ 15% variance	72% projects within target dates 28% variance 13% variance from target	13% variance	76
7.3	CAPEX spend on rural expansion related projects as % of budget. **(DWS SHC Indicator)**	± 30% of annual CAPEX budget. ± R566m of R1814m on rural expansion.	43% of annual CAPEX spend. 28% of annual CAPEX budget. R503m of R1814m on rural expansion.	Nil	76
7.4	Repairs and maintenance as % of PPE and Investment Property (Carrying Value). **(DWS SHC Indicator)**	R206m ± 10% ≥ 2% of PPE.	R190m (within allowable variance) 2.45% of PPE	Nil	71
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.	Quarterly status report Quarterly plant utilisation report. Infrastructure Master Plan updated to include long-term integrated water resources plans.	4 Quarterly status reports submitted. 4 Quarterly plant utilisation reports submitted. Infrastructure Master Plan updated and approved.	Nil	70

Scorecard 2016/2017[i] *...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*					
8.2	Per cent supply disrupted > 24 hours (over total supply days). **(DWS SHC Indicator)**	0 days	Supply disruptions: (i) 10 of 365 supply days disrupted (3%). (ii) Disruptions occurred in 3 of 17 systems (18%). (iii) Average of 0.03% of planned sales volumes were not supplied (99.97% supplied). Overall Performance 93%.	Supply disruptions: (i) 10 of 365 supply days disrupted (3%). (ii) Disruptions occurred in 3 of 17 systems (18%). (iii) Average of 0.03% of planned volumes were not supplied. Overall Variance 7%.	68
8.3	Avoidable water lost (mil m³) over total water produced (mil m³). **(DWS SHC Indicator)**	≤ 5% of total sales	2.29%	Nil	87
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 Senior Management Development Programme (SMDP).	≥ 20 employees (80% of programme completed).	20 employees enrolled (> 80% of programme completed).	Nil	100
9.2	Number of Artisans and Apprentices (Learnerships). **(DWS SHC Indicator)**	≥ 40	150 plans met: - 69 Artisans and Apprentices. - 81 Process Controllers.	Nil	32; 100
9.3	Number of Bursar degree plans met. **(DWS SHC Indicator)**	≥ 10	12	Nil	101
9.4	Number of Graduate Trainees (Graduates, In-service Trainees, Interns) development plans met. **(DWS SHC Indicator)**	≥ 28 Graduate Trainees ≥ 28 In-Service Trainees ≥ 10 Interns	41 Graduate Trainees 31 In-Service Trainees 10 Interns	Nil	101
9.5	Number of candidate engineers/ professionals developed (NT) and number of professional registration submissions.	≥ 29 developed. 7 certification submissions.	≥ 29 developed. 25 certification submissions.	Nil	101
9.6	Number of Young Professionals (YPs) enrolled and developed through Youth Development projects.	≥ 30 YPs successfully completed. ≥ 20 new YPs registered. ≥ 10 other employees registered.	34 YPs successfully completed. 24 new YPs registered. 12 other employees registered.	Nil	101
9.7	Number of permanent jobs created. Number of temporary jobs created. **(DWS SHC Indicator)**	N/A ≥ 900 temporary (CAPEX programme)	N/A 1 258 temporary (CAPEX programme)	Nil Nil	79
9.8	Number of staff terminations, excluding normal retirements, as a % of the total staff complement. **(DWS SHC Indicator)**	≤ 8% turnover	2.8% turnover	Nil	98
9.9	Staff remuneration % of total operating expenditure. **(DWS SHC Indicator)**	≤ 35%	33%	Nil	141


1 258
CAPEX JOBS
CREATED
and R27.7m in wages
paid to local labour
DARVILL WWTW

9.0

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 implements a rigorous, and system-wide, water quality management programme to give effect to its commitment to provide all its customers with safe potable water suitable for lifetime consumption and to ensure that wastewater discharges are not deleterious to the environment and downstream users.

This manifests as carefully planned monitoring programmes, independent auditing, compliance reporting, catchment-consumer water quality assessments and implementation of water safety plans.

Sampling and analysis are undertaken in accordance with an ISO 9001 certified monitoring programme and SANAS 17025 accredited laboratory methods, respectively. Water quality monitoring programmes are annually reviewed for all operational sites to ensure they continue to provide sufficient information to meet legislative requirements, customer bulk supply agreements and water treatment process requirements, whilst taking into account new risks that may have been identified in the water value-chain system.

Water quality risks associated with abstraction, conveyance, treatment and bulk distribution are continuously reviewed to ensure control effectiveness and quality assurance. All operational sites are equipped with Incident Management Protocols aligned to SANS 241: Drinking Water Specification.

In line with our stakeholder communication plan, information on water quality performance is conveyed to all customers, stakeholders and legislative decision-makers. The entity also remains committed to providing customer support towards ensuring progressive achievement of full system (i.e. including retail) Blue and Green Drop Certifications.

Information on the entity's approach to ensuring laboratory proficiency is covered in more detail in a later chapter (Improving Resiliency) of this report.

Potable Water Quality Performance

South African National Drinking Water Specification (SANS 241:2015) dictates compliance requirements for potable water systems and requires the 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

	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%

Overall compliance of 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: Bulk Systems Potable Water Quality Compliance (%) with SANS 241

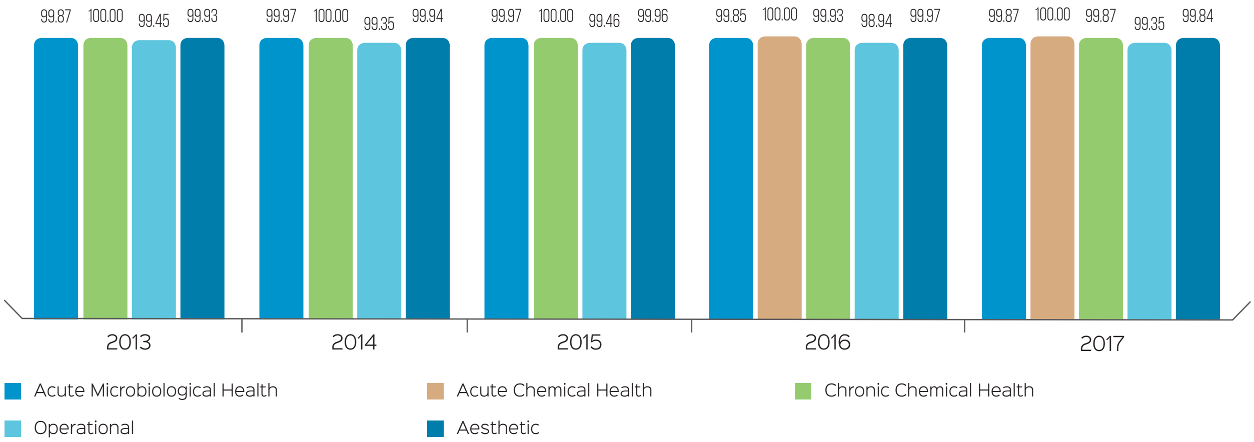


Table 9.1: 2016/2017 Potable Water Quality Compliance (%) with SANS 241:2015 Per Water Supply System

WATER SUPPLY SYSTEM	AVERAGE DAILY VOLUME TREATED (ML/D)	% VOLUME	PER CENT COMPLIANCE WITH SANS 241:2015				
			ACUTE MICROBIOLOGICAL HEALTH	ACUTE CHEMICAL HEALTH	CHRONIC CHEMICAL HEALTH	OPERATIONAL	AESTHETIC
1 Durban Heights	447.28	37.12	99.82	100	100	99.95	100
2 Wiggins	252.04	20.92	99.73	100	100	99.79	100
3 Midmar	218.41	18.13	100	100	100	99.4	99.94
4 DV Harris	83.56	6.94	99.79	100	100	99.72	100
5 Amanzimtoti	77.01	6.39	100	100	100	99.12	99.91
6 Hazelmere	53.55	4.44	100	100	99.9	99.73	100
7 Maphumulo	21.35	1.77	98.92	100	98.73	96.99	98.4
8 Umzinto	12.67	1.05	100	100	100	100	100
9 Mvoti	12.26	1.02	100	100	99.85	96.68	99.69
10 Mtwalume	10.78	0.89	100	100	100	100	100
11 Mpofana	6.45	0.54	100	100	100	98.57	99.6
12 Mhlabatshane	3.53	0.29	100	100	100	98.51	100
13 Maphephethwa	3.32	0.28	100	100	100	99.38	100
14 Ixopo	1.99	0.17	100	100	99.65	99.12	98.33
15 Appelsbosch	0.28	0.02	100	100	100	94.87	99.15
16 Rosetta	0.21	0.02	100	100	97.92	99.62	96.27
17 Lidgetton	0.14	0.01	100	100	98.92	91.21	95.45

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 Lidgetton system reported excellent compliance, except for the operational risk category which was classified as good.

Wastewater Quality Performance

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

Table 9.2: Wastewater Compliance Per Treatment Works

WASTEWATER TREATMENT WORKS SYSTEM	VOLUME (ML/D)	VOLUME (%)	2013	2014	2015	2016	2017 TARGET	2017 ACTUAL
1 Darvill	72.6	80%	87%	78%	85%	82%	≥ 80%	72%
2 Mpofana	10.3	11%	-	-	-	65%	≥ 60%	72%
3 Howick	5.6	6.2%	83%	87%	87%	89%	≥ 85%	86%
4 Richmond	1.2	1.3%	-	-	-	89%	≥ 85%	87%
5 Cool Air	0.5	0.6%	-	-	-	90%	≥ 85%	98%
6 Ixopo	0.3	0.3%	88%	95%	96%	93%	≥ 85%	94%
7 Lynnfield Park	0.2	0.2%	-	66%	87%	86%	≥ 85%	96%
8 Camperdown	0.1	0.2%	-	-	-	91%	≥ 85%	97%
9 Applesbosch	0.1	0.1%	-	-	-	94%	≥ 85%	91%

Bulk Wastewater Supply Systems

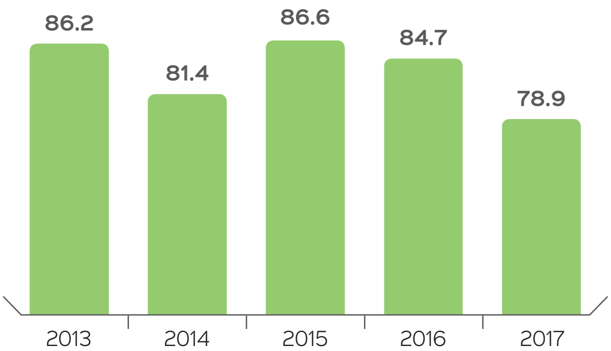
Overall effluent compliance for the reporting period was 79%. One works, Darvill WWTW, did not meet the set target, achieving 72.4% against the target of 80% (7.6% variance).

The non-compliance recorded for Darvill WWTW was mainly due to process overloading, accentuated by the following:

- Power outages and construction related activities;
- The intermittent spilling of the storm dam in particular caused *E. coli* failures;
- Sludge related problems resulted in elevated suspended solids, phosphate solubilisation and COD overloading;
- Total chlorine non-compliances were due to the increase in dosage to improve disinfection, particularly, when the storm dam was spilling; and
- Aluminium non-compliance remains a long term problem at the site due to industrial inputs.

The completion of the works upgrade project, which is significantly advanced, will increase capacity and enable compliance to be improved. The proposed wetland, for detention of some storm dam spills, will also have a significant benefit once completed.

Figure 9.2: Bulk Wastewater Water Quality Compliance (%)



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: for 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, wastewater services and/or water related services will progressively be increased in customer areas, driven by the regionalisation timeframe:

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

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 and potential for reuse.

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

- Approximately 1 260 kilometres of pipelines and sixty-seven (67) kilometres of tunnels;
- Fourteen (14) impoundments;
- Seventeen (17) water treatment works; and
- Nine (9) wastewater treatment works.

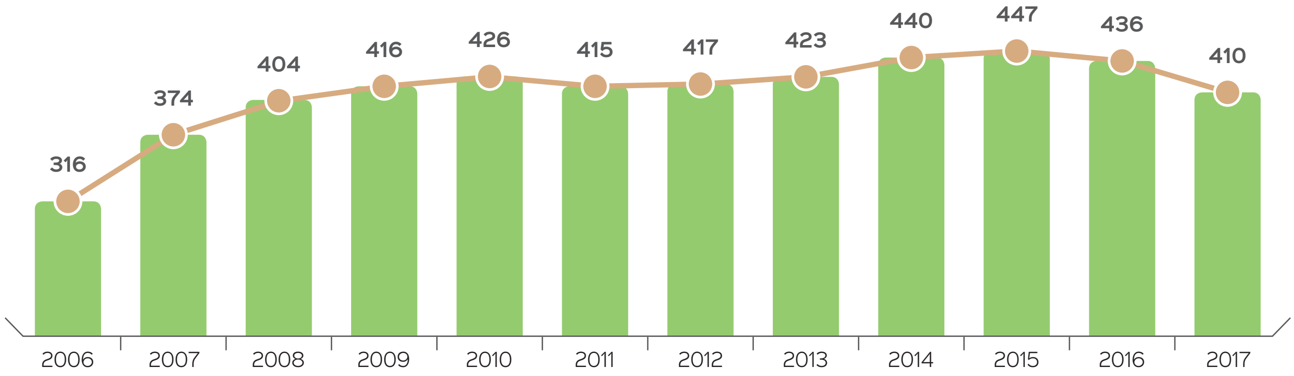
A total of 410 million cubic metres of potable water per annum (1 123 Ml/d) are currently supplied to customers (**Figure 9.3**) who serve a population of 6.7 million or 1.9 million households through reticulation networks.

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

In the year, there were 10 of 365 (3%) supply days with unplanned supply disruptions that exceeded 24 hours. These occurred in 3 of the 17 supply systems. Supply was successfully restored in these systems and the customers were kept informed on progress with the identified interventions. An average of 0.03% of planned sales volumes was not supplied (99.97% supplied). Umgeni Water continues to engage regularly with its customers, in line with service level agreements.

The entity treats bulk wastewater totalling 33 million cubic metres per annum (90 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.

Water demand projections are updated based on trends in historical water sales volumes and customer demand trends. In parallel, analyses 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)

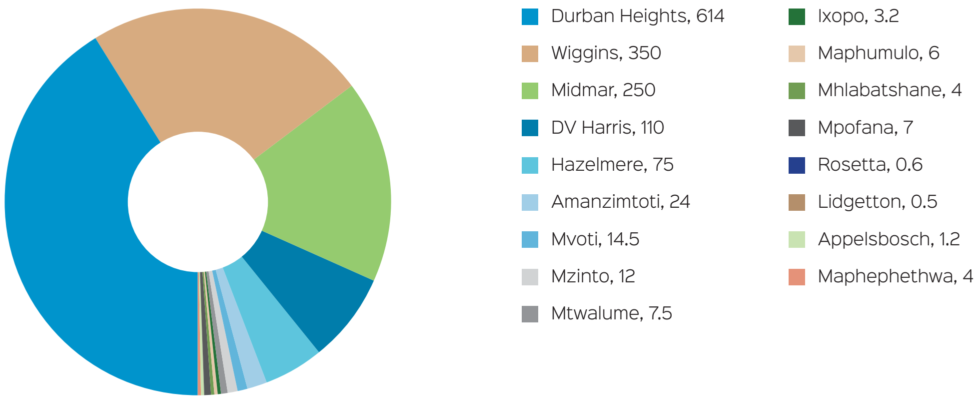


Figure 9.4 (b): WTW % Utilisation

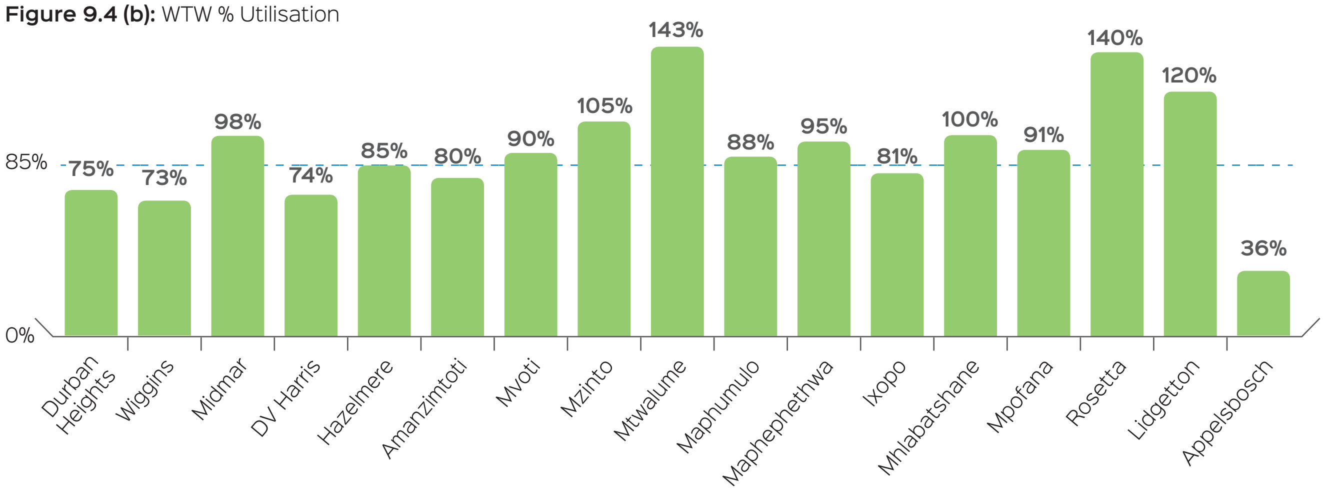


Figure 9.4 (c): WWTW Design Capacity (Ml/d)

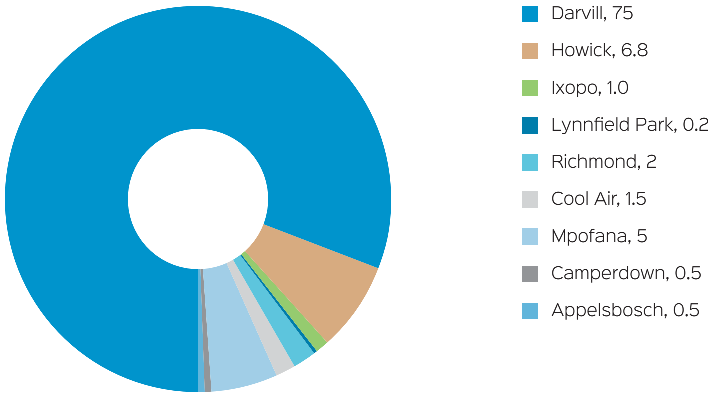
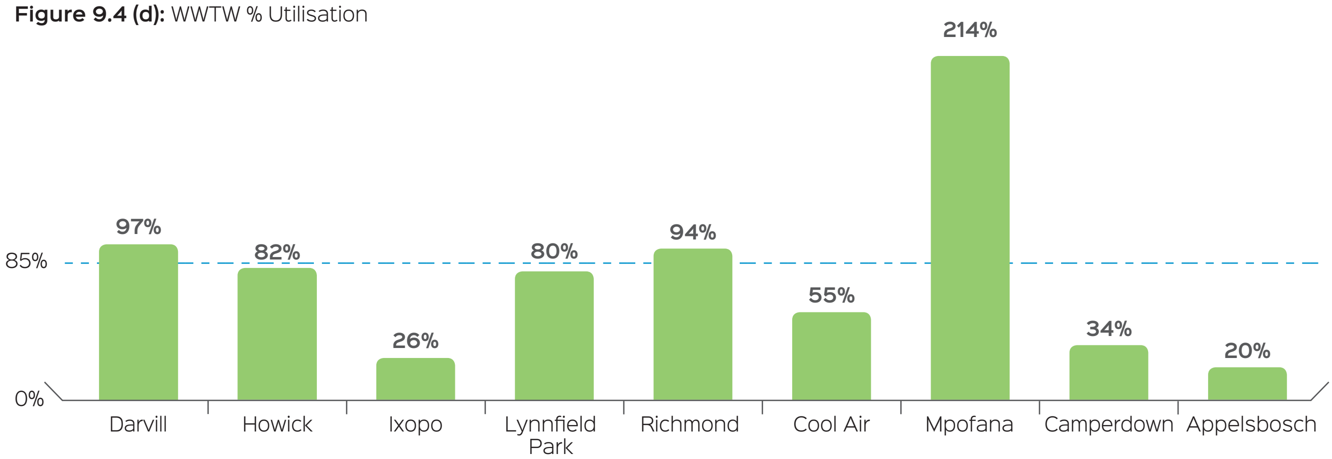


Figure 9.4 (d): WWTW % Utilisation



Supply Capacity and Constraints

Several works, as shown in **Figures 9.4 (b&d)** are currently operated above their design capacity to meet demands or needs 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 as an 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). The growth plans were further refined in the reporting period. 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:

- Alfred Nzo District Municipality for water quality monitoring.
- Ugu District Municipality for water quality monitoring.
- Msunduzi Local Municipality for water quality analysis.
- uMgungundlovu District Municipality for water quality sampling, analysis and meter reading.

Drought Management

In the past year, rainfall received in the catchment area was mostly average or below-average and insufficient to improve the storage, notably of the Mgeni System, to target-sustainable levels. The latest data on the status of El Niño or La Niña shows an inconsistent trend and it is inconclusive as to which event is likely to take place in the next summer season. With rainfall forecasts being inconclusive, restrictions and curtailments are still required and a 15% restriction is continuing to be imposed on all domestic, commercial and industrial consumers for the Mgeni System.

Umgeni Water continued to work with customers and communities affected by the water shortages to mitigate supply constraints. Drought management initiatives have included the facilitation of Mgeni System Drought Joint Operating Committee and imposition of daily water rationing from the water treatment works that supply the system. Close monitoring of the water resources - dam storage, abstractions and demand patterns will continue with mitigation measures implemented where necessary.

Support to Harry Gwala District Municipality

Water Resource constraints were experienced in the Ixopo System as a result of the drought. An emergency scheme was developed to transfer water from the St. Isidore Dam to Home Farm Dam to mitigate low levels in the dam. In addition, a 50% restriction was applied to all demand nodes that received water from the Ixopo Water Treatment Plant. As a result of these initiatives being implemented, the water supply to the town was constantly maintained and restrictions were eventually lifted in November 2016. Home Farm Dam reached full supply capacity at the beginning of 2017.

Support to uThukela District Municipality

Condition assessments of water and wastewater infrastructure were completed during the reporting period. Work advanced on development of proposals for operation and maintenance of schemes in discussion with the municipality.

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.

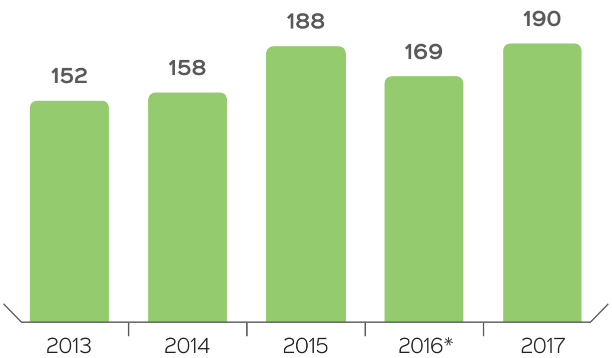
Maintenance is implemented in accordance with the asset management strategy and implementation plan for the year.

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.

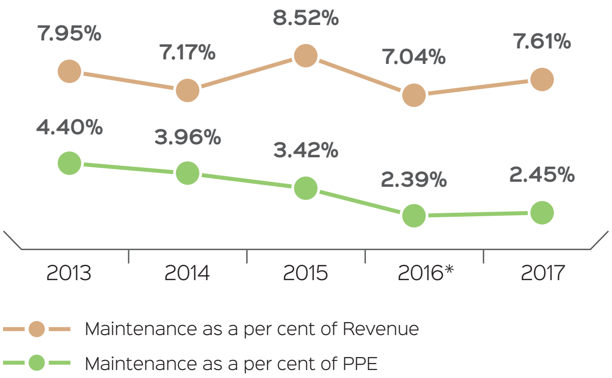
In the year, the total asset maintenance spend was 190 million (**Figure 9.5 (a)**). Over the years, Umgeni Water has continued to maintain its assets and on average invests 7.0% of its revenue on asset maintenance. Based on assessments conducted over the past year, there are no assets that pose significant 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)



* restated - capitalised maintenance included in CAPEX spend

Figure 9.5 (b): Maintenance (%)



9.3 Infrastructure Stability

Management Approach

Infrastructure stability is continually assessed at Umgeni Water and informs infrastructure planning and development. This includes assessment of the capacity and condition of existing infrastructure to meet current and future needs, consistent with customer service and statutory-supported service levels, acceptable risk levels, anticipated growth and to ensure long-term system reliability goals are met. Infrastructure developments therefore comprise:

- 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 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

Overall access to piped (tap) water, inside the dwelling/house/yard, is approximately 70% of the total number of people with access to water (Community Survey 2016). There are many areas that are still outside Umgeni Water's bulk water infrastructure supply footprint that receive no water from schemes. Access categories are shown in **Figure 9.6 (a)** (Community Survey 2016). 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 - UW Operational Area (Community Survey 2016)

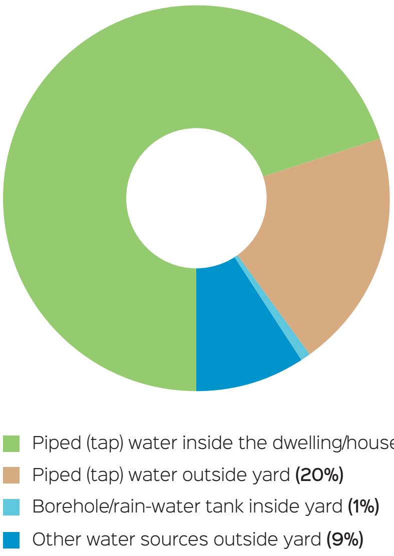


Figure 9.6 (b): Main Source of Water for Drinking by WSA - UW Operational Area (Community Survey 2016)

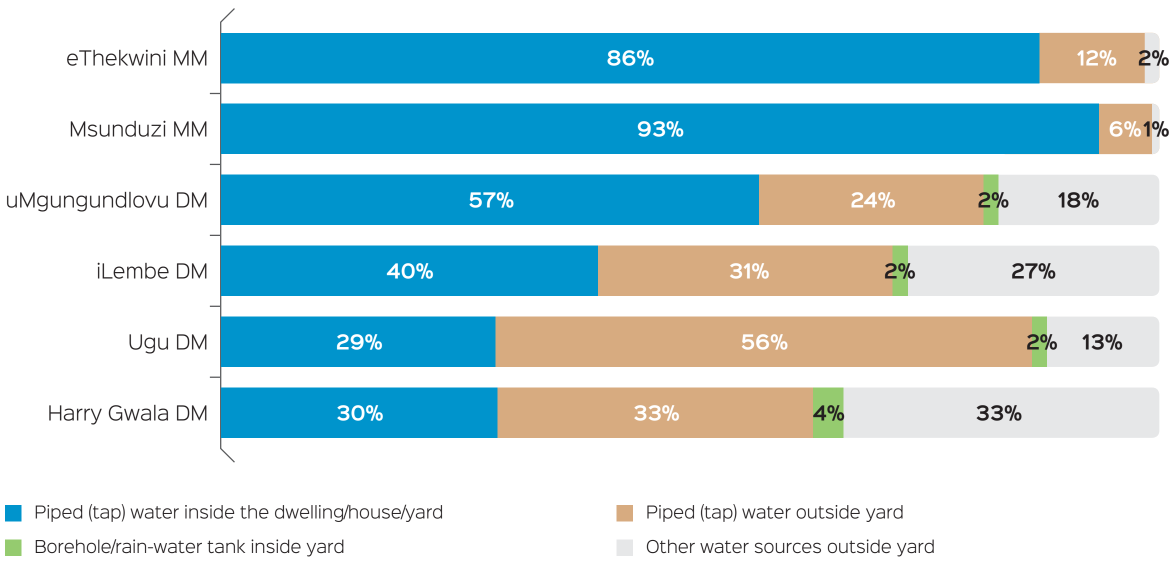
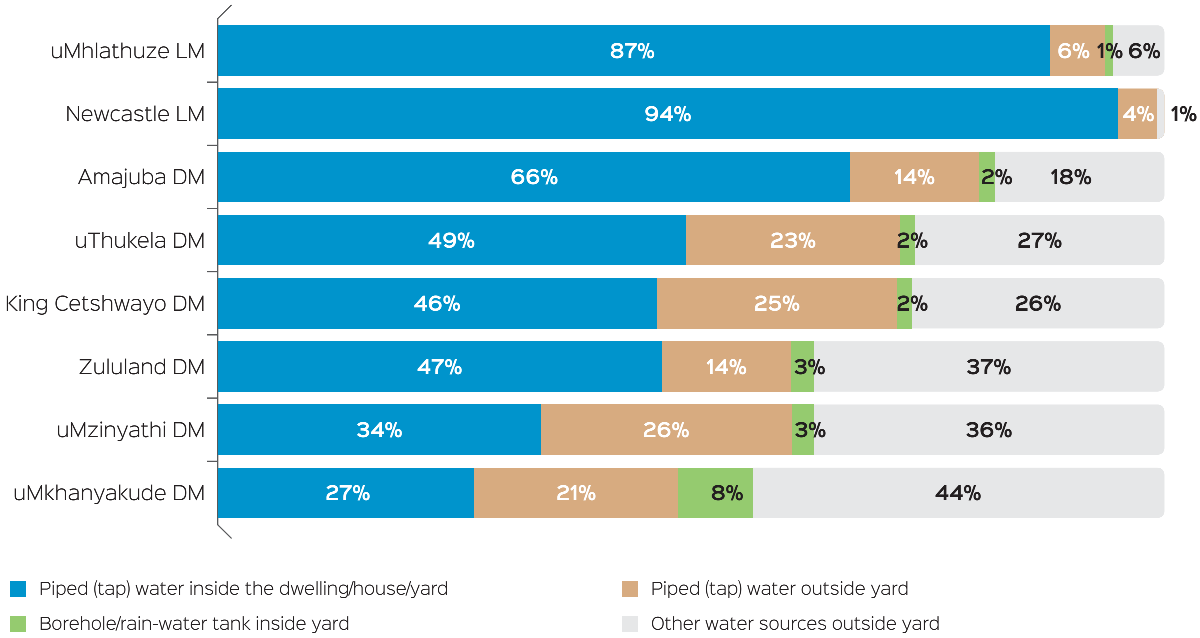


Figure 9.6 (c): Main Source of Water for Drinking by WSA - Rest of KZN (Community Survey 2016)



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. The output comprises conceptual plans for bulk water supply schemes developed to cover all of KZN. The plans reconcile backlogs and growth in demands with bulk infrastructure to meet the needs to 2045 planning horizon.

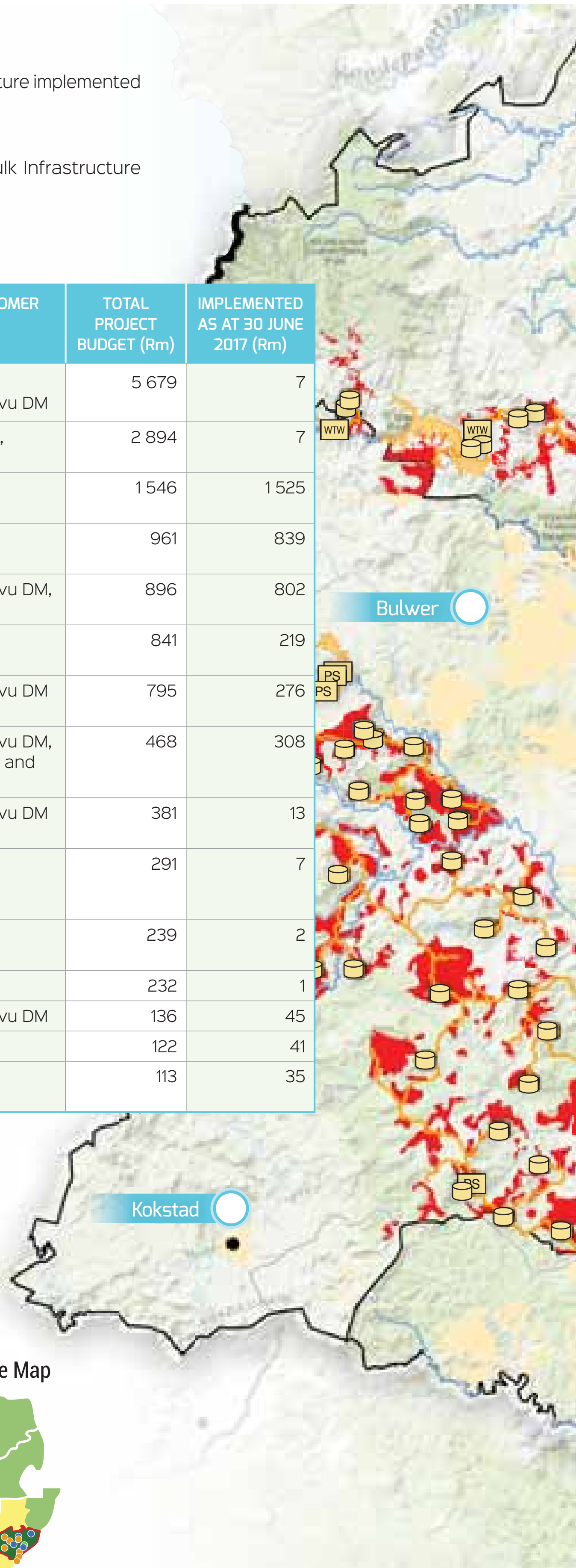
Plans are being presented and discussed with customers and stakeholders to get further inputs that will drive implementation, funding and financing priorities.

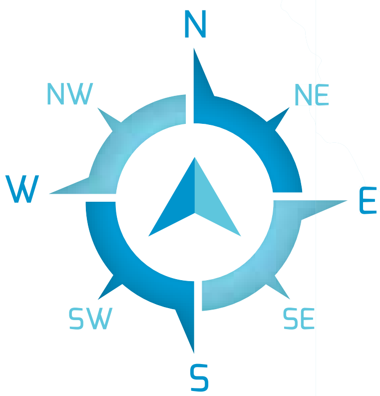
Current bulk infrastructure and supply footprint and the status of bulk infrastructure implemented in the reporting period is shown in **Figure 9.7.**

Figure 9.7: Umgeni Water Current Bulk Supply Footprint and Status of Bulk Infrastructure Implemented in 2016/2017

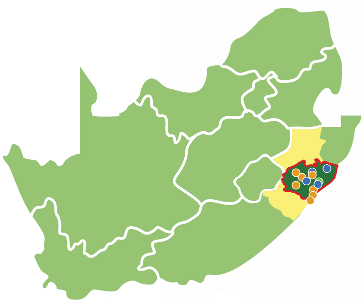
Table 9.3: Major Projects Implemented in 2016/2017

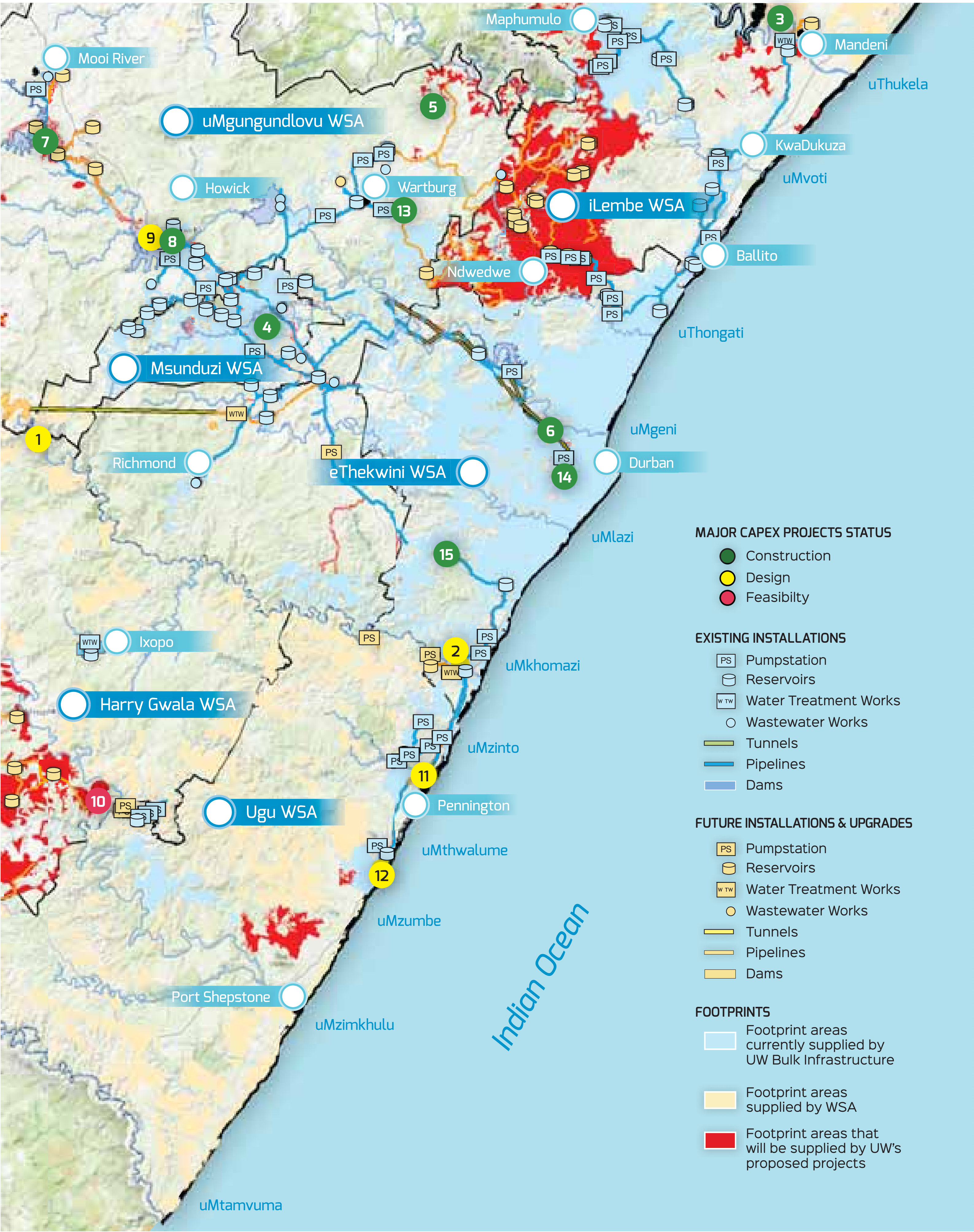
	PROJECT NAME	OBJECTIVE	MAJOR CUSTOMER	TOTAL PROJECT BUDGET (Rm)	IMPLEMENTED AS AT 30 JUNE 2017 (Rm)
1	Mkhomazi Bulk Water Supply	Augmentation	eThekwini MM uMgungundlovu DM	5 679	7
2	Lower uMkhomazi Bulk Water Supply Scheme	Rural Development	eThekwini MM, Ugu DM	2 894	7
3	Lower Thukela BWSS Phase1	Rural Development	iLembe DM	1 546	1 525
4	Darvill Wastewater Treatment Works Upgrade	Upgrade	Msunduzi LM	961	839
5	uMshwathi Bulk Water Supply Scheme (Wartburg Phases 1 - 3)	Rural Development	uMgungundlovu DM, iLembe DM	896	802
6	Durban Heights WTW - Various Projects	Upgrade	eThekwini MM	841	219
7	Greater Mpofana Bulk Water Supply Scheme Phase 1	Rural Development	uMgungundlovu DM	795	276
8	Midmar WTW Upgrade (250-375Ml/d) - New Raw Water Pipeline and Pump Station	Augmentation	uMgungundlovu DM, eThekwini MM and Msunduzi LM	468	308
9	Mpophomeni Wastewater Treatment Works	Expansion	uMgungundlovu DM	381	13
10	Mhlabatshane Sub-Regional Scheme Phase 2 – Mzimkhulu River Abstraction	Rural Development	Ugu DM	291	7
11	South Coast Phase 2b Kelso to Umdoni	Expansion	Ugu DM	239	2
12	Elysium Desalination Plant	Augmentation	Ugu DM	232	1
13	Wartburg to Bruyns Hill Pipeline	Augmentation	uMgungundlovu DM	136	45
14	Wiggins WTW - Various Projects	Upgrade	eThekwini MM	122	41
15	Nungwane Raw Water Aqueduct (450dia x 18km)	Rehabilitation	Ugu DM and eThekwini DM	113	35





Umgeni Water Infrastructure Map




Maphumulo
Mandeni
Mooi River
uThukela
uMgungundlovu WSA
KwaDukuza
uMvoti
Howick
Wartburg
iLembe WSA
Ballito
Ndwedwe
uThongati
Msunduzi WSA
uMgeni
Richmond
eThekwini WSA
Durban
uMlazi
Ixopo
uMkhomazi
Harry Gwala WSA
uMzinto
Pennington
Ugu WSA
uMthwalume
uMzumbe
Indian Ocean
Port Shepstone
uMzimkhulu
uMtamvuma
MAJOR CAPEX PROJECTS STATUS
Construction
Design
Feasibilty
EXISTING INSTALLATIONS
Pumpstation
Reservoirs
Water Treatment Works
Wastewater Works
Tunnels
Pipelines
Dams
FUTURE INSTALLATIONS & UPGRADES
Pumpstation
Reservoirs
Water Treatment Works
Wastewater Works
Tunnels
Pipelines
Dams
FOOTPRINTS
Footprint areas currently supplied by UW Bulk Infrastructure
Footprint areas supplied by WSA
Footprint areas that will be supplied by UW's proposed projects

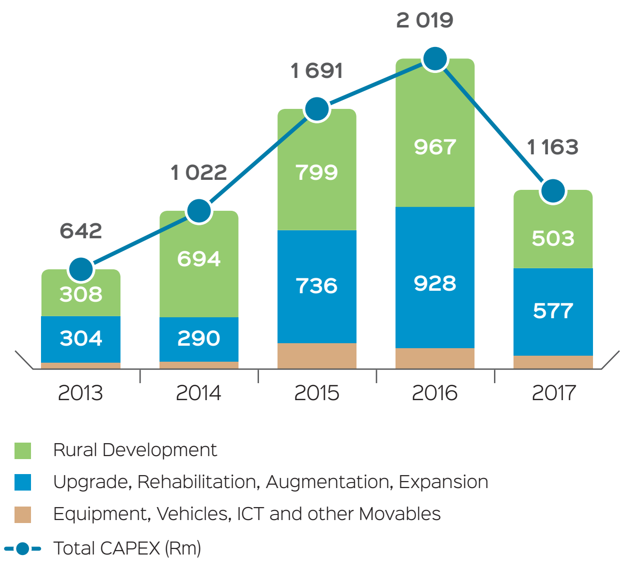
Performance with Capital Infrastructure plan

Significant progress with capital infrastructure implementation was achieved during the reporting period. Spend performance for the year was R1 163 million. Of this, R503 million (43%) 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 be monitored during the reporting period. Umgeni Water will continue to streamline its processes and introduce more robust systems to improve turnaround.

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



Customers targeted and progress with key bulk infrastructure developments

- **Lower Thukela BWSS**

  Serves iLembe District Municipality and eThekwini Metropolitan Municipality, along the coastal strip from north of Durban to the uThukela River.

  The infrastructure development comprises an abstraction works, pump station and weir on the uThukela River, water treatment works and potable water pipelines to deliver 55 Ml/d in Phase 1. The WTW is upgradable to deliver 110 Ml/d in Phase 2.

  - *The weir was completed during 2014/2015.*
  - *In 2015/2016 construction of Access Roads, the Weir and Abstraction Works, Gravity main, Water Treatment Works civil works, Command Reservoir, Rising main and power supply were completed.*
  - *Mechanical, Electrical and Instrumental works were completed in 2016/2017 and the scheme was commissioned. Snag items are being addressed during the defects liability period.*

- **Darvill WWTW Capacity Increase**

  Serves The Msunduzi Local Municipality.

  Upgrade of plant capacity from 65 Ml/d to 100 Ml/d. The new or additional components include an inlet works, primary and secondary settling tanks, pumps and pump station, reactor, chlorination house and anaerobic digesters, amongst other components.

  - *Construction of WWTW upgrade was in progress during 2015/2016.*
  - *Completion scheduled mid-way in 2017/2018.*

- **uMshwathi RBWSS**

  Serves uMgungundlovu District Municipality and iLembe District Municipality.

  - *Phase 1: 27 km pipeline from Claridge to Wartburg. Design completed in 2012/2013. Construction was completed mid 2015/2016.*
  - *Phase 2: 17 km pipeline from Wartburg to Dalton, booster pump stations, an 8 Ml reservoir at Wartburg and a 10 Ml reservoir at Dalton. Design completed in 2013/2014. Construction will be completed mid 2017/2018.*
  - *Phase 3.2: 29 km pipeline from Dalton to Efaye via Fawn Leas and a booster pump station Design completed in 2013/2014. Construction will be completed mid 2017/2018.*
  - *Phase 3.3b: 18 km pipeline from the Fawn Leas to Ozwathini pipeline. Construction will be completed mid 2017/2018.*
  - *Phase 3.3c: 12 Ml reservoir at Ozwathini construction phase planned. Construction expected to be completed mid 2018/2019.*

- **Wartburg to Bruynshill Pipeline and the pump station**

  uMgungundlovu District Municipality.

  The construction of the potable water pipeline entails the 10.5 km pipe with associated works; and the construction of the pump station.

  - *Construction of the potable water pipeline and pump station is in progress.*
  - *Full construction will be completed by end of March 2018.*

- **Midmar Raw Water Pipeline Augmentation, Raw Water Pump Station and WTW Upgrade**

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

  The construction of the raw water pipeline entails the pipeline with associated works. Upgrade of plant capacity from 250 Ml/d to 375 Ml/d.

  - *Construction of Duplicate Raw Water pipeline has been completed during 2016/2017.*
  - *Construction of WTW upgrade was in progress during 2016/2017.*
  - *Completion will be achieved mid-way in 2017/2018.*

Wiggins Ozone Plant Replacement

- *Detail Design and Construction of the Wiggins Ozone Upgrade: In Progress.*
- *Completion expected end of March 2018.*

Mpophomeni WWTW

Serves uMgungundlovu District Municipality and uMngeni Local Municipality.

The infrastructure development comprises a 6 Ml/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 2017/2018.*
- *Following this the project will move to construction phase that is planned for completion by 2020/2021.*

Trustfeeds WWTW

Serves uMgungundlovu District Municipality and iLembe District Municipality.

The infrastructure development comprises 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 were complete at the end of 2016/2017.*
- *Construction of the bulk sewer and gravel access road will be completed in 2017/2018.*
- *Construction of the Wastewater Treatment works will be completed in 2019/2020.*

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.

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 16.7 Ml/d of which 10 Ml/d will supply the Hibberdene area, under a different phase of the South Coast Pipeline.

- *Phase 2B comprises an 800 mm diameter 8.1 km steel pipeline from Scottburgh South to Pennington and a further 0.7 km 355 mm diameter pipeline to Malangeni Reservoir.*
- *The project is currently at procurement stage with signing of construction contracts expected by end of November 2017.*
- *Construction is scheduled to commence in January 2018 and completion by December 2018.*

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, Nhlangwini (west), KwaCele 1, Hlubi, Mabhaleni (west), KwaCeleK, 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/d to 8 Ml/d.

- *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 detailed design stage for implementation thereafter.*

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 iMvutshane River abstraction, 6 Ml/d WTW, potable water pipelines, booster pump stations and reservoirs. Phase 2 comprises 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.*
- *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 newly constructed Spring Grove Dam. Design completed in 2014. Construction started in 1 August 2016, the planned completion date is October 2019.*
- *Reservoirs: Construction of 5 Ml/d and 12 Ml/d reservoirs feeding Nottingham Road and Bruntville reservoirs respectively were completed in July 2016. Commissioning of these reservoirs is in progress.*
- *Nottingham Road Pipeline: The construction of an 8 km 650 mm 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 13 km 650 mm diameter steel pipeline from Rosetta WTW to Bruntville Reservoir, all pipes have been procured and delivered to site. The signing of the contract for the appointment of the pipelay contractor is nearing completion. Construction is scheduled to start in September 2016 and the anticipated completion date is November 2018.*

uMkhomazi Water Project

Serves eThekwini 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 detailed feasibility studies for the uMWP-1 are presently being undertaken in the following module:

- *Module 1 – Raw Water Module by DWS.*
- *Module 2 – Environmental Impact Assessment by DWS and UW.*
- *Module 3 – Potable Water Module by UW.*
- *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 eTthekwini 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 eThekwini 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 August 2018.*
- *Water Treatment Plant (100 Ml/d upgradable to 150 Ml/d) and reservoir near Quarry including portable water pipeline: the detail design planned completion date is September 2018 and the commissioning is planned for August 2023.*
- *The detailed feasibility and preliminary design of the preferred scheme has been completed and project will move into detailed design stage.*

Nungwane Raw Water Aqueduct

Serves eThekwini 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 450 mm diameter pipeline with associated works from Nungwane Dam to Amanzimtoti Water Treatment Works.

- *Construction of the Nungwane Raw water pipeline will continue during 2017/2018.*
- *Completion expected by March 2019.*

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.

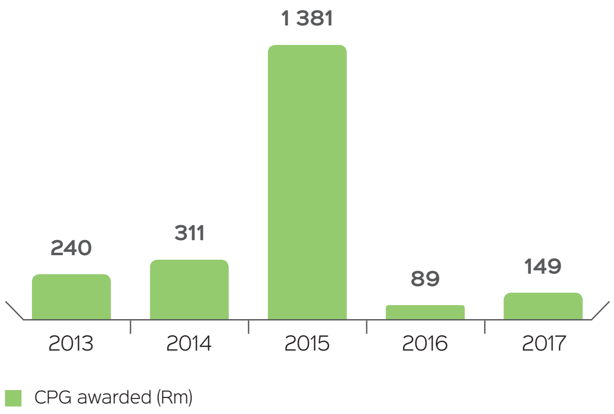
Performance with Contract Participation Goals (CPG) Targets in 2016/2017

CPG targets set for 2016/2017 were 35% for construction contracts and professional services projects (and 14% for Black Women-Owned Businesses).

Thirty-six (36) contracts were awarded during the 12-month reporting period to 30 June 2017. An average of 36% CPG was achieved with a total CPG award value of R148.8 million. Of the total CPG R41.1 million (28%) was awarded to Black Women-Owned businesses.

R2.2 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 improving its systems for the implementation of CPGs to improve alignment with regulatory amendments and strategy.

Figure 9.9: Contract Participation Goals (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 ≥ 80% for the reporting period was achieved.
The calculation of this percentage is based on the B-BBEE levels of the companies that have been awarded work by Umgeni Water, which includes other SOEs. If the spend with non-discretionary spend is excluded, the B-BBEE spend recognition level exceeds 100%.

Seven (7) new entrants were added to the database, of which, five (5) 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 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.

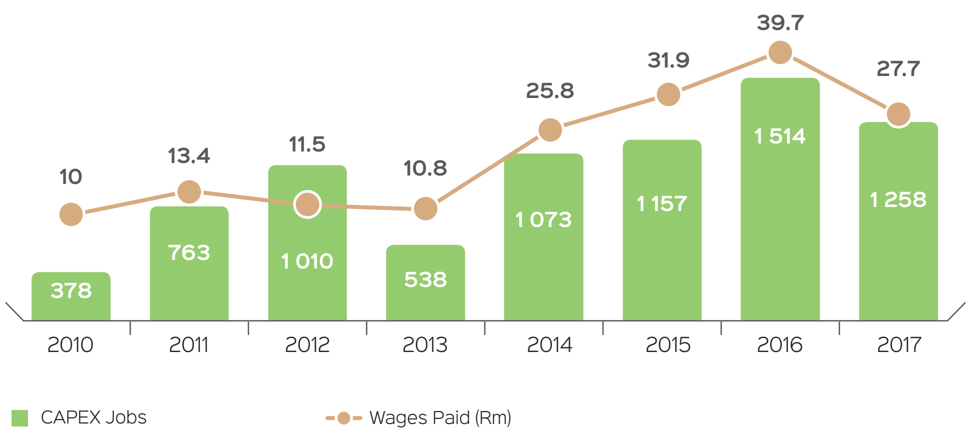
Skills Development and Job Creation

Infrastructure construction jobs are targeted at 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 result in a meaningful flow of income to these communities.

In the 2016/2017 reporting period, Umgeni Water created a total of 1 258 temporary jobs through its CAPEX Programme.

A total of R27.7m (R39.7 million in 2016) was paid in wages to local labour.

Figure 9.10: CAPEX Jobs



9.5 Community Outreach and Corporate Social Investment (CSI)

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.

Onsite 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.

In the reporting period 136 water classroom lessons were delivered from these sites reaching seventy-seven (77) institutions and 4 059 participants.

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. In the reporting year, the entity continued to raise awareness on water scarcity and the importance of water conservation. Drought and water conservation campaigns were part of Umgeni Water's community outreach programmes, rolled out at various platforms and communities.

Other Educational Programmes implemented in the year include:

- Over twenty (20) events commemorating National Arbour Day and Water Week events at more than fifty (50) schools, reaching over 6 000 learners;
- Facilitation of the MiniSASS programme, a river health programme initiative, for schools in the Mpophomeni area, Howick (National Water Week);
- World Wetland Week Exhibitions at all adopted schools and at Edendale Mall, Pietermaritzburg reaching over 200 participants;
- A Careers Expo for high schools in the Edendale area, Pietermaritzburg;
- A dam safety awareness campaign conducted at Henley Dam in Msunduzi Local Municipality targeting schools and communities living near the dam;
- A river clean-up campaign at uMzinto in collaboration with Ugu District Municipality; and
- A beach clean-up at Blythedale Beach with local schools and community during International Coastal Clean-up Day.

Educator workshops on drought awareness were conducted for educators coming from twenty (20) rural schools within iLembe District Municipality and eThekwini Metropolitan Municipality. Water scarcity and the importance of water conservation were emphasised across various water education platforms.

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 contribution to 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 on 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 supply 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.

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 comprise 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.

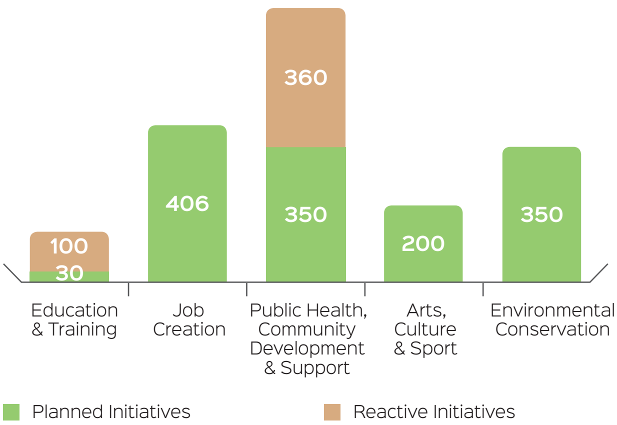
Corporate Social Investment (CSI) Programme

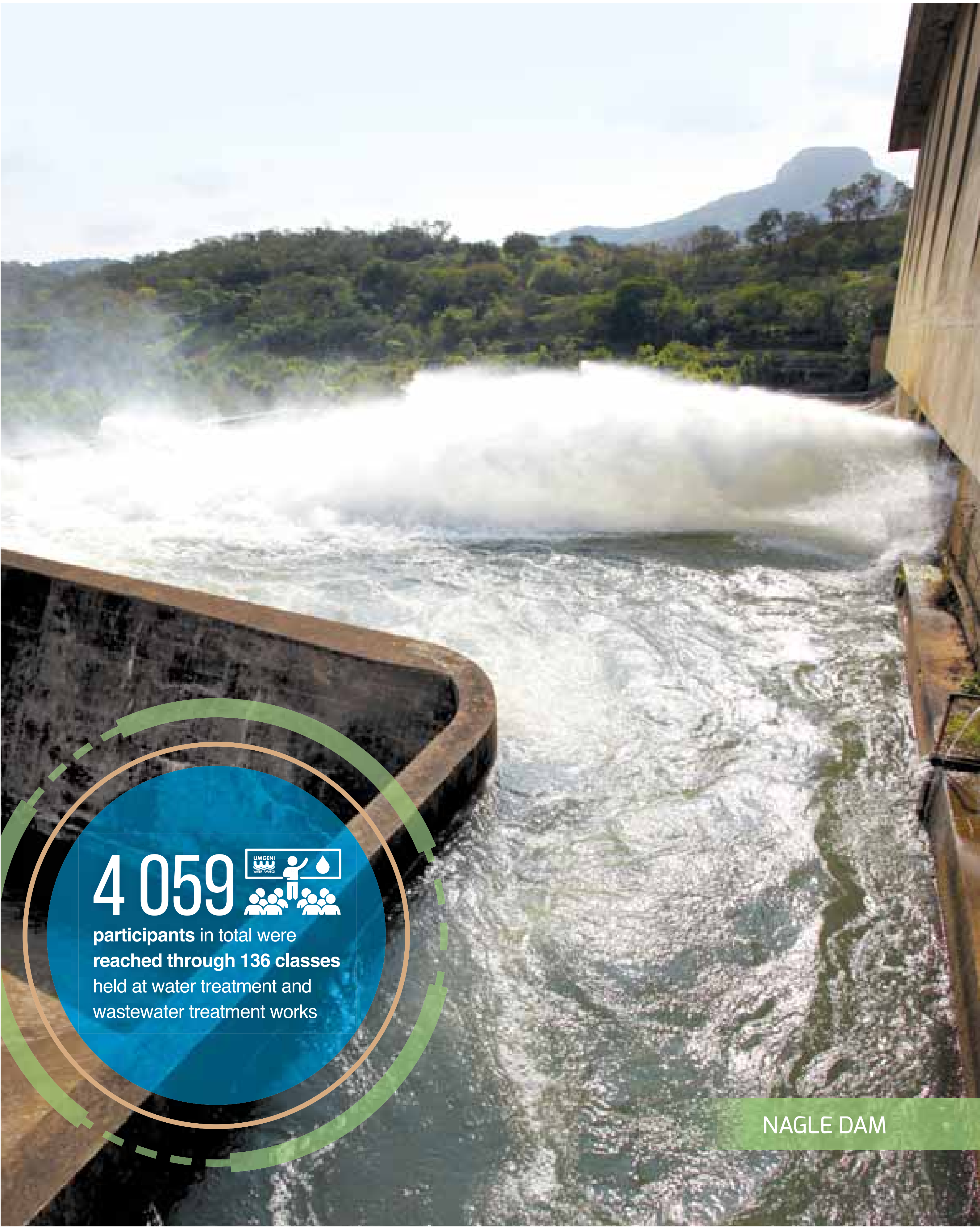
Umgeni Water implemented the following Corporate Social Investment (CSI) programmes in the year:

- Umgeni Water contributed towards social improvement projects in celebration of Mandela Day by contributing towards charitable initiatives to commemorate the late president's social improvement ideologies. Multiple beneficiaries received sponsorship, namely:
  - Zamuthule Primary School in Mngeni Local Municipality, where three (3) classrooms were painted;
  - Ethembeni Place of Hope orphanage in Mngeni Local Municipality, where a vegetable garden was established and a meal for over seventy (70) children provided;
  - Joseph Baynes Child and youth Care centre in Msunduzi Local Municipality, which received baby care products for over thirty (30) infants;
  - Melokuhle crèche in uMgungudlovu District Municipality, which received play facilities;
  - Ekukhanyeni Primary School in eThekwini Metropolitan Municipality, which received school uniforms and appliances;
  - Slangspruit Primary School in Msunduzi Local Municipality which received school uniforms;
  - Zamimpilo Orphanage in uMgungudlovu District Municipality which received food parcels and furniture; and
  - Eastwood Primary and neighbouring schools in Msunduzi Local Municipality, which received food parcels.
- Public Health and Community development initiatives completed in the year included:
  - Inyaninga Primary School, for which funds were allocated towards refurbishment and electrification of three (3) classrooms and purchase of five (5) computers for the school's resource centre;
  - Sponsorship of a community centre to provide meals for over 200 school children a day residing in informal settlements in Umlazi U Section;
  - Rehabilitation of a local spring for irrigation of communal gardens in Willowfontein, Pietermaritzburg; and
  - Six (6) months' supply of sanitary towels for over 200 girls distributed across eight (8) Umgeni Water Adopted Schools in Harry Gwala, iLembe, Ugu and uMgungundlovu District Municipalities.
- Youth empowerment initiative, included:
  - Assistance provided to a group of eight (8) youth to establish a cooperative and to gain skills in business management. The cooperative is progressively expanding its services in order to sustain itself in future.
- Sports and Culture initiative, included:
  - Funds allocated towards development of twenty (20) young local canoeists of the Lembethe Canoe Club, Nagle Dam Area, to be used for the purchase of canoeing equipment and entrance fees to major canoeing competitions.

2016/2017 CSI spend for these initiatives is shown in **Figure 9.11.**

Figure 9.11: CSI Projects Spend (R thousands)





4 059

participants in total were **reached through 136 classes** held at water treatment and wastewater treatment works

NAGLE DAM

10.0

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, chemicals for water treatment 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.

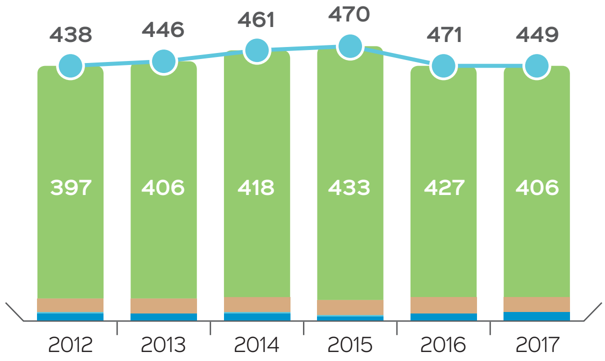
Umgeni Water, as a public water services entity in South Africa, complies with all mandatory environmental disclosure requirements. Notwithstanding this, the entity continues to improve alignment of environmental indicators with other national and internationally accepted indicator disclosure requirements, including the Global Reporting Initiative (GRI) and King III 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 that is 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.

Umgeni Water sources water primarily from fourteen (14) impoundments (includes weir/run of river abstractions) 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)



In the year, progress was made with the following water resource infrastructure developments:

- iMvutshane Dam (UW) was commissioned and reached full supply capacity in April 2017.
- uMkhomazi Water Project (DWS and UW) feasibility study is complete.
- Hazelmere Dam raising (DWS) construction is in progress.
- Construction of the Mshwathi Bulk Water Supply Scheme is under way and the first phase of the project should be commissioned in 2017/2018.
- Lower Thukela Bulk Water Supply Scheme (UW) construction was completed in 2016 and commissioning of the plant took place in 2017. Supply to customers is planned to commence in 2017/2018.
- Lower uMkhomazi Bulk Water Supply Scheme (UW) feasibility study is complete. Detailed design to commence in 2017/2018.
- East Coast Desalination Plant detailed feasibility study (completed in 2015).

Climate Change and Water Resources

The natural climate is the principal driver of water availability whether surface or groundwater. The impacts of potential climate change are therefore crucial to the business of Umgeni Water and need to inform infrastructure planning and design, particularly given the significant costs and long planning period required for major infrastructure investments such as dams, pipelines, structures, buildings and transport infrastructure.

In alignment with the National Climate Change Response Strategy, the main response to climate change is coherent planning of water resources, as well as developing water resilience. Umgeni Water has largely been proactive in considering the potential impacts of climate change on water resources and has incorporated projections into its planning processes.

The results of recent studies indicate that the majority of the climate models project an increase in runoff in the catchments along the east coast of South Africa. Most models show very high impacts, likely to be accompanied by significant increases in flooding risk, whilst a few models project an increase in dry conditions, likely to be accompanied by drought risk. Umgeni Water is planning to update the above study in 2017/2018 by investigating potential impacts of climate change on future water supply using outputs from recent Global Circulation Models (GCMs) as inputs to appropriate hydrological models. The project will use climate scenarios from the most recent IPCC (International Panel on Climate Change) accredited GCMS, including the World Climate Research Programme sponsored Coordinated Regional Climate Downscaling Experiment (CORDEX).

> "Umgeni Water is piloting a reuse plant at its Darvill Wastewater Treatment Works. The 2 Ml/d direct reuse demonstration plant consists of a conventional water treatment works to provide high pressure wash water followed by an advanced treatment process plant."

Umgeni Water has recently upgraded its Water Resources Decision Support System with improved functionality in terms of the data capture system, calculation and validation scripts as well as the dashboard manager. The project was completed in February 2017 and is the precursor to the development of a flood forecasting and early warning system which will be a partnership between Umgeni Water, the South African National Biodiversity Institute (SANBI) and uMgungundlovu District Municipality. The project is aimed at developing an adaptation strategy to reduce the vulnerability and minimise the impacts of future flood events on the infrastructure and communities residing in close proximity to river systems within the municipality. The output, expected in 2019, will provide a real-time flood forecasting and early warning system to alert communities of impending flood events.

Wastewater Reuse

Umgeni Water is piloting a reuse plant at its Darvill Wastewater Treatment Works. The 2 Ml/d direct reuse demonstration plant consists of a conventional water treatment works to provide high pressure wash water followed by an advanced treatment process plant. Construction of the works was completed during the reporting period and is scheduled for commissioning early in 2018.

Raw Water Quality

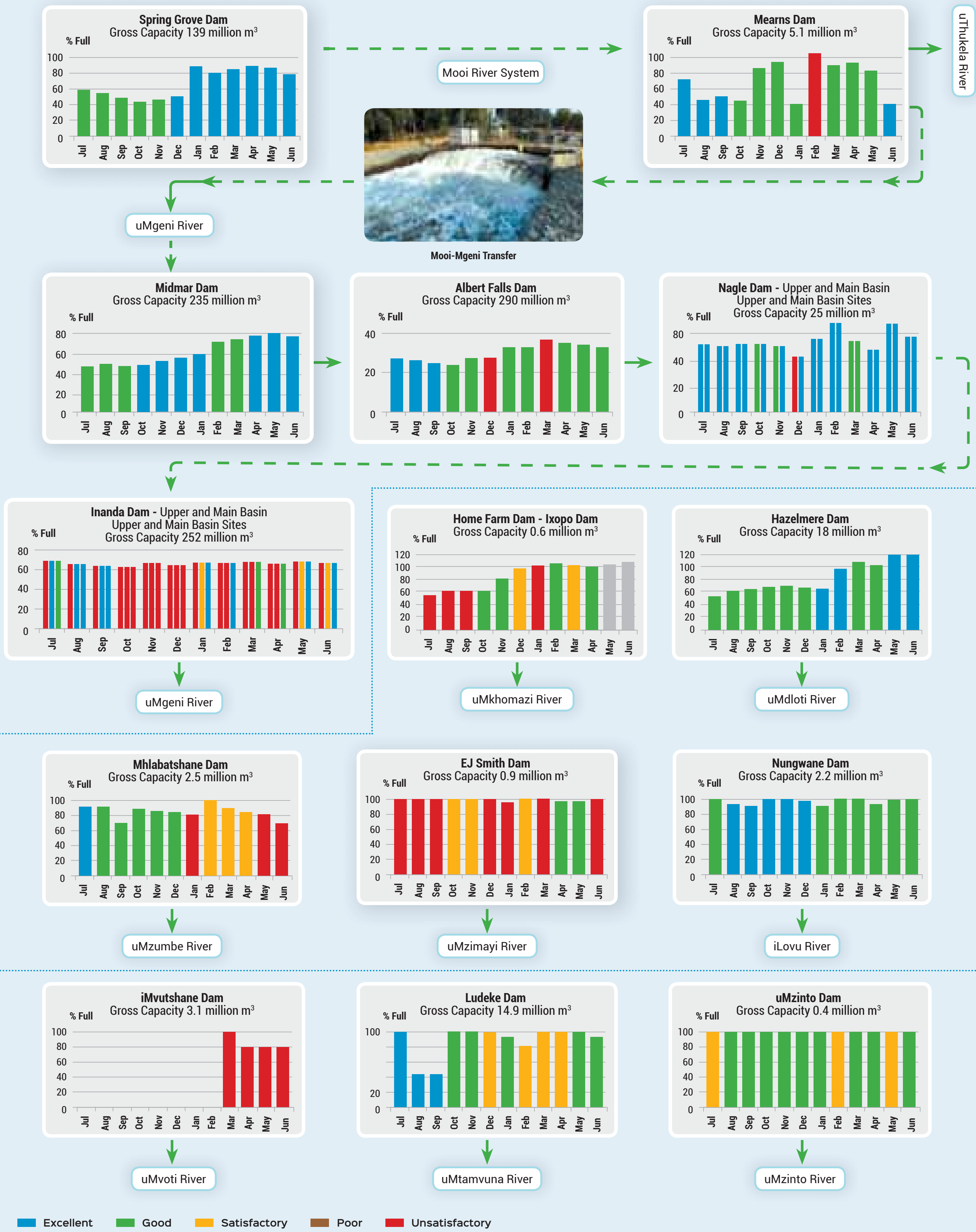
The status of raw water quality per supply source/catchment is shown in **Table 10.1** and **Figure 10.2.** Water quality risks associated with these supply resources arise from the presence of feedlots in some catchment areas, the presence of wastewater treatment works upstream of some impoundments, sewer reticulation problems in some towns and seasonal changes, (including rainfall/ storm events and impoundment stratification). Water quality variables associated with these include: algal blooms and aquatic weed problems associated with eutrophication, chemical contamination (including high concentrations of iron and manganese), elevated turbidity and suspended solids levels, faecal contamination, with concomitant pathogen risk and other erosion runoff contamination. Umgeni Water has set resource quality objectives for water treatment abstraction purposes and will continue to use these as the basis for setting alert level triggers to safeguard public health and optimise water treatment costs.

Table 10.1: Resource Water Quality

SYSTEM	CATCHMENT	IMPOUNDMENT	ABSTRACTION WATER QUALITY STATUS AND TRENDS					POOR RAW WATER QUALITY
			2013	2014	2015	2016	2017	
Mooi-Mgeni	Mooi, uMgeni	Spring Grove	-	-	Filling	Excellent	Excellent	-
		Mearns weir	Good	Good	Good	Good	Good	
		Midmar	Good	Good	Good	Excellent	Excellent	-
		Albert Falls	Good	Good	Good	Good	Good	-
		Nagle	Moderate	Moderate	Good	Good	Excellent	-
		Inanda	Moderate	Moderate	Moderate	Moderate	Moderate	Elevated nutrient and total organic carbon concentrations, as well as elevated algal counts.
North Coast	uMdloti	Hazelmere	Good	Excellent	Moderate	Poor	Good	Occasional nutrient inputs from the catchment that resulted in elevated algal counts in this impoundment.
	uMvoti	River Abstraction	Moderate	Good	Good	Moderate	Good	Occasional nutrient inputs from the catchment.
	iMvutshane uMvoti	River and Dam Abstraction	-	Good	Good	Moderate	Unsatisfactory	Occasional elevated turbidity and ammonia concentration arising from organic degradation during the initial filling of the dam.
	uThukela	River Abstraction	-	Poor	Poor	Moderate	Poor	High turbidity and total organic carbon inputs from the catchment arising from poor agricultural practices.
South Coast	iNungwane, iLovu	Nungwane Dam	Moderate	Moderate	Good	Good	Good	Occasional nutrient inputs from the catchment that resulted in elevated algal counts in this impoundment.
	uMzimayi	E.J Smith Dam	Poor	Poor	Poor	Moderate	Poor	Elevated *E. coli*, iron, total organic carbon and turbidity associated with several major rainfall events and sewer problems.
	uMhlabatshane	Mhlabatshane Dam	-	-	-	-	Satisfactory	
	uMzinto	Dam Inflow and River Abstraction	Moderate	Moderate	Moderate	Good	Good	Occasional elevated *E. coli* counts due to several major rainfall events in the catchment.
	uMtamvuna	Ludeke	-	--	-	-	Good	Occasional nutrient and turbidity inputs from the catchment.
	uMthwalume	River Abstraction	Moderate	Moderate	Moderate	Good	Good	Occasional elevated turbidity arising from rain events in the catchment.
	iXobho	Home Farm Dam	Poor	Poor	Poor	Poor	Poor	Eutrophication due to sewer inputs from Ixopo Town and catchment.

Note: The water quality in most impoundments has been influenced by the severe drought conditions experienced in this geographical region. This has resulted in limited runoff, very low river levels (proportionally more rivers affected by sewer problems or treated effluent discharges) and also reduced dam volumes. Lower dam volumes have resulted in a decrease in the dilution factor and reduced assimilative capacity. In some cases, management and selection of some dam abstractions have been affected, resulting in poorer quality water being abstracted at some water treatment works.

Figure 10.2: Water quality status of water resources per supply source/catchment



* River and dam water quality is based on the revised Umgeni Water Quality Index. This Index is calculated using the following determinands: *E. coli*, Iron, Manganese, Turbidity, Conductivity, Nitrate, Total Phosphorus (TP), Soluble Reactive Phosphorus (SRP), Total Organic Carbon (TOC), Biotic Index scores, algal numbers, Chlorophyll *a*, Taste and Odour and Algal Toxins.

Water quality management plans include:

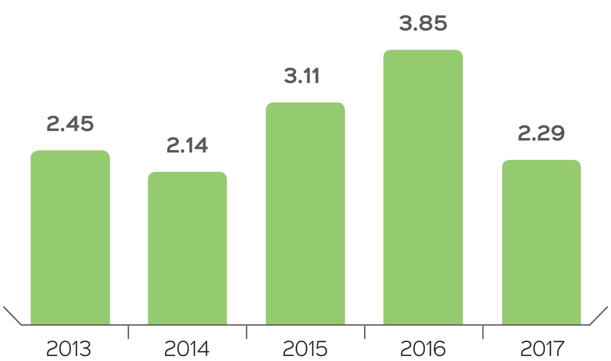
- Monitoring the quality of raw water resources to assess quality for potable water treatment;
- Assessing risks associated with negative trends in eutrophication, chemical contamination, pathogens and suspended solids and progress toward achieving raw water quality objectives;
- Engaging in catchment management activities to influence resource quality and quantity objectives that will balance environmental objectives and safeguarding consumer health; and
- Improving the quality of waste discharges from operational sites.

The Department of Water and Sanitation (DWS) is kept continuously apprised of the quality, trends and potential risks associated with raw water supply resources. DWS, as the custodian of South Africa's water resources will continue to ensure there is long-term sustainability of 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. The total water loss level is low, at 2.29% and has been maintained below the entity's target level of 5% over the years. (**Figure 10.3**).

Figure 10.3: Water Loss (%)



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 is shown in **Figure 10.4.**

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

- Chemical selection process. Technical testing of chemical effectiveness for each treatment plant is conducted based on the regulatory requirements. This process prevents excessive chemical use which leads to increased operational costs and unsustainable use of natural resources;
- Water treatment process evaluation audits, which identifies areas of improvement in terms of process and operational efficiency;
- Monitoring and reviewing seasonal variation of the water column / dam levels, to optimise raw water quality;
- Participating in catchment management activities and forums, and contributing to the information base, including water quality. This influences decisions for sustainable catchment land use activities and development; and
- 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.

Figure 10.4: Chemical Usage and Efficiency Trends

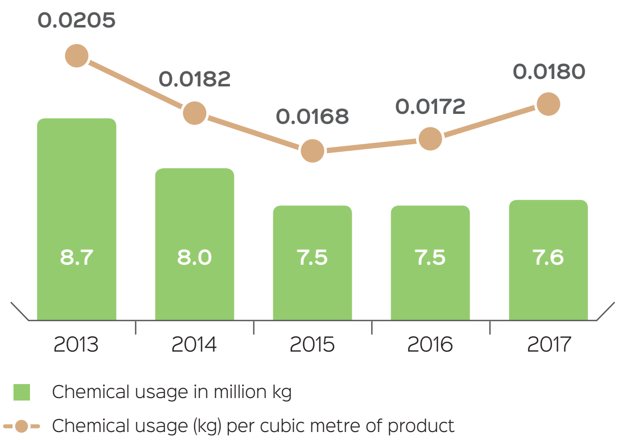
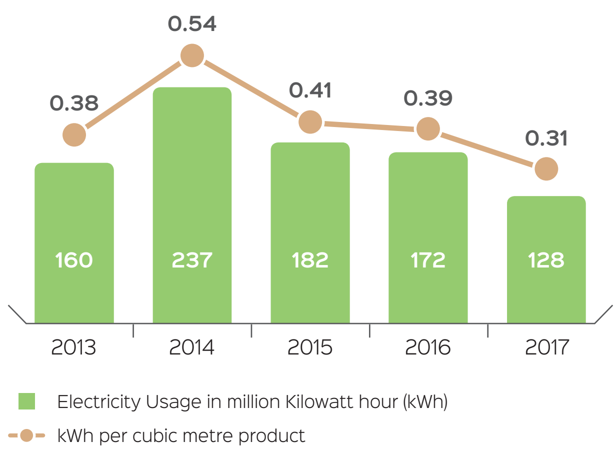


Figure 10.5: Electricity Usage and Efficiency Trends



Energy Usage, Carbon Footprint and Emissions Reduction Initiatives

Total electricity usage for the reporting year was 128 million KWh. Electricity usage and efficiency trends are shown in **Figure 10.5.**

This decrease is associated with reduction in raw and potable water pumping in the year.

Umgeni Water's direct CO_2 emissions contributions emanate from vehicles, boats, generators and other fuels. Indirect CO_2 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.

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

Figure 10.6: CO_2 Equivalents (Tonnes)

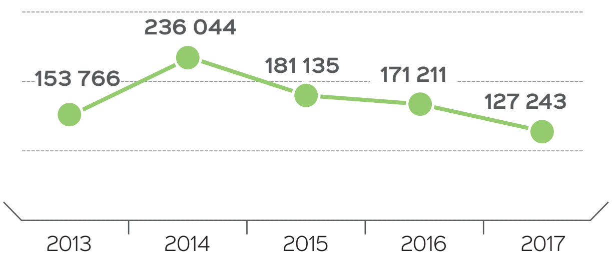


Table 10.2: CO_2 Equivalents (tonnes)

CO_2 EQUIVALENTS (TONNES) PER ACTIVITY	2010	2011	2012	2013	2014	2015	2016	2017
Electricity	131 851	163 392	208 071	153 280	234 575	180 117	170 287	126 326
Travel: Car	1 407	1 334	2 086	137	1 035	204	177	94
Travel: Air	143	143	81	71	87	91	99	66
Waste	989	299	262	196	305	684	620	720
Other fuel	40	40	98	82	42	39	29	37
TOTAL	**134 430**	**165 208**	**210 598**	**153 766**	**236 044**	**181 135**	**171 211**	**127 243**

Energy management, including carbon off-setting initiatives include:

- Continuing work on a strategy for energy conservation and demand management for new infrastructure - pipelines, pump stations and reservoirs.
    - *A draft energy and demand management strategy for new infrastructure focusing on new pipelines and pump stations was prepared during the reporting period. It is intended to finalise the strategy in 2017/2018.*
- Continuing work on the entity's Green Building Initiative.
    - *Further elaboration is provided under the next heading.*
- Implementing the Darvill Wastewater Treatment Works wetland construction project.
- Implementing the Darvill Wastewater Treatment Works Co-generation project.
- On-going replacement of old light fittings with more energy efficient ones.
- On-going tree planting initiatives.

Green Building Initiative

Green building or green construction takes place when there is mindful and deliberate inclusion of resource-efficiency processes into the building or construction life-cycle, i.e. from planning to design, construction, operation, maintenance, renovation to final decommissioning. The need for green building has risen in importance in South Africa as the country increasingly faces shortages in energy and water amongst other key resources.

Umgeni Water's approach to the Green Building includes:

- Carrying out a Green Building Assessment using the Green Buildings Council of SA (GBCSA) 'Existing Building Performance' tool as a framework for a selection of Umgeni Water sites;
- Developing Green Building strategies that can be integrated into the Existing Building Energy Water Performance (EWP) benchmark tool;
- Assessing energy efficiency, water efficiency, materials efficiency, waste and toxicity reduction, indoor Environmental Quality (IEQ), operations and maintenance optimisation, and emissions; and
- Developing, selecting, funding and financing value-adding initiatives/interventions.

During the reporting period, one (1) of the buildings assessed against the GBCSA 'Existing Building Performance Tool Version 1' obtained a "One Star" status, on the journey to a better, greener building.

Biodiversity Management

uMngeni Ecological Infrastructure Partnership (UEIP)

The UEIP is a joint partnership committed to the management and harnessing of the potential eco-system resources in the Mgeni River catchment. Umgeni Water, as a signatory of this partnership, has been involved in various projects which the UEIP has implemented, supplying valuable experience, information and analytical water quality data. This information has been utilised to create awareness on the issues relating to land use, community based water supply and water quality monitoring. Progress with this initiative is shown below and will continue into 2018.

2015/2016	2016/2017
› *Role of the Lions River Wetland, highlighting soil conditions, vegetation and water quality.* › *Green Fund Ecological Infrastructure Investment Project, which focuses on the Upper uMngeni, Mpendle, Lions and Karkloof catchments, which look at long-term, cost effective ecological service delivery, human settlements and commercial agriculture.*	› *Midmar-Mpophomeni working-group, raising funds to rehabilitate and restore the Mpophomeni wetland.* › *Successful Enviro-Champs Project.* › *Solid waste collection and private sector engagement.* › *The Green Fund Ecological Infrastructure Investment Project continued.*

Biodiversity Offsets

During the reporting period, Umgeni Water researched the possibility of the implementing biodiversity offsets. Biodiversity offsets are interventions specifically implemented to counterbalance the adverse environmental impacts of land-use change, resource use, discharge, emission or other activity at one location that is implemented at another location to deliver a net environmental benefit. Progress with this research is shown below. Work is on-going and research will continue into 2018.

2015/2016	2016/2017
› *Biodiversity assessment of Umgeni Water infrastructure was completed.* › *All sites were considered in terms of the Ezemvelo Wildlife (MinSet Plan and Biodiversity Sector Plans), which highlighted areas of concern that are considered threatened or endangered.*	› *Biodiversity Offsets: Umgeni Water "as-built" infrastructure was assessed to determine if the infrastructure was within biomes considered threatened or endangered in terms of the Ezemvelo Wildlife (MinSet Plan and Biodiversity Sector Plans).* › *This highlighted areas that require the implementation of net environmental benefit at another location which is considered either threatened or endangered.*

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 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 water bodies as these exponentially grow and invade the riverine environment. Progress with this initiative is shown below and will continue into 2018.

2015/2016	2016/2017
› *Closer cooperation with a multi-stakeholder group, the Alien Weed Working-Group.* › *Release of bio-control in several river systems.* › *Monitoring and assessment of the weed status.* › *Improved response time.* › *A reduction of cost of control was achieved.*	› *Maintain cooperation with a multi-stakeholder group, the Alien Weed Working-group.* › *Problems due to budget constraints and lack of trained staff meant limited control was achieved.* › *Monitoring and assessment of the weed status continued.* › *Release of bio-control in several river systems.*

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;
- Hazelmere Dam; and
- Shongweni 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. Three (3) rhinoceroses were lost through poaching during the year under review. Mitigation measures include controlled rhino dehorning. In addition, collaboration with other stakeholders is being undertaken in order to strengthen security measures for the game reserves. A comprehensive game reserve security plan will be finalised during 2017/18.

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 these water bodies and surrounding environments continue to be sustainably managed.

Stakeholder engagement successfully created value for Msinsi's operations and the communities at large during this reporting period. As a result, there was no interruption of Msinsi's operations as a result of community instability in the neighbouring areas.

Msinsi continued with the implementation of planned CSI initiatives targeting surrounding communities. Ten (10) initiatives were implemented which included sponsorships for a senior citizen's club, a career exhibition for local schools and a sports tournament.

Msinsi continued providing environmental education targeting surrounding communities. Twenty-nine (29) environmental education initiatives in areas of water conservation, environmental awareness and commemoration of environmental special days were implemented.

2 765 learners, forty-six (46) learning institutions and two (2) youth organisations were reached through this programme during the year under review.

Sourcing labour within the communities around Msinsi operations, created job opportunities for the communities with a total of 436 temporary jobs created during the reporting period.

A total of thirty-one (31) learners recruited from the communities were enrolled in the Learnership Programme of Accommodation Services, NQF Level 2.

Continuous engagement with the Amakhosi in the area of Shongweni has been crucial towards achieving the successful handover of Shongweni Dam and Game Reserve to the community following the transfer of that land from Umgeni Water to Zwelibomvu Community Trust. Msinsi will continue to implement programmes that benefit communities in the area.

Waste Management

Waste management studies in progress include:

- Waste recycling;
- Classification of Water Treatment Works Residues;
- Classification of the Wastewater Treatment Works Sludge; and
- Assessment of Management Options for Water and Wastewater Treatment Works Sludge.

During the reporting period, the entity focused on recycling. Three-in-one Recycling and War on Waste (WOW) bins were placed at the strategic locations to encourage waste separation at source and a recycling campaign was conducted to educate staff on the importance of recycling and correct procedures for waste separation.

The total waste produced during the reporting period is 1 706 kg per mil m³. 0.37% of this waste was recycled. Trends in waste management are shown in **Figures 10.7** and **10.8.**

Figure 10.7: Waste Produced

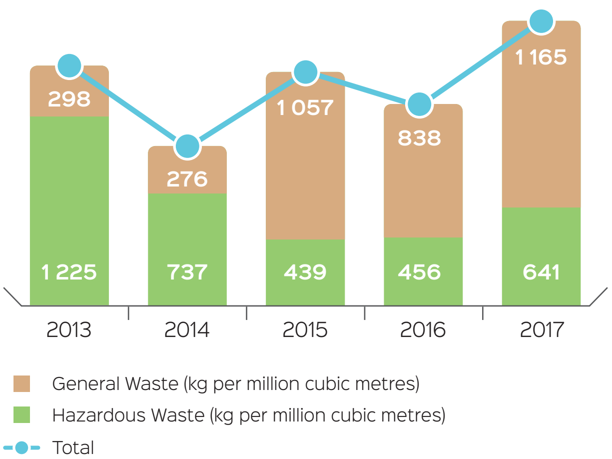
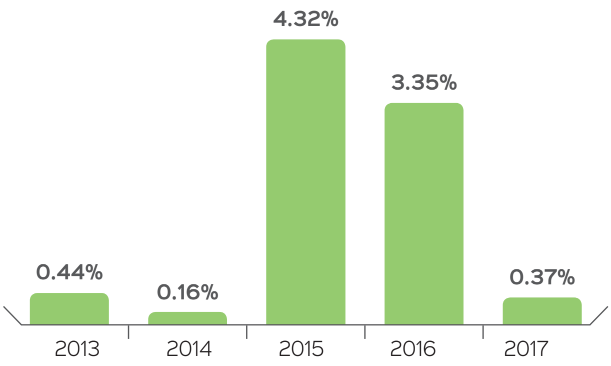


Figure 10.8: Per Cent Waste Recycled



Environmental performance of Operational sites

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

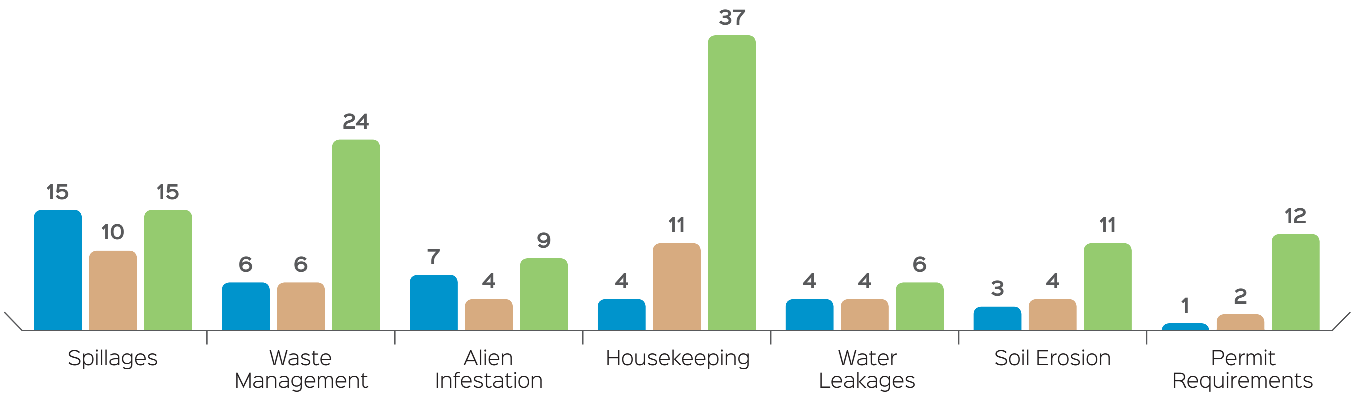
- To assess whether the site is complying with all applicable environmental legislation and regulations;
- To assess internal policy and procedural compliance in relational to environmental management;
- To assess the status of energy consumption, waste management and biodiversity management at the site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

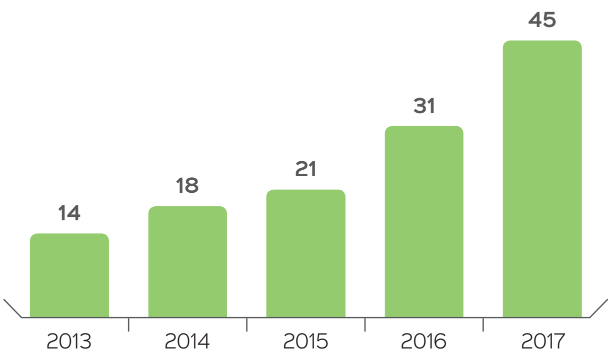
Figure 10.9: Environmental Management Findings from Audits



Environmental Incidents

There were forty-five (45) environmental incidents recorded for the 2016/2017 year, compared to thirty-one (31) in the prior 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



Integrated Environmental Management

The entity has sixteen (16) projects in planning and design phases that are being managed through the Integrated Environmental Management System. This is in accordance with the provisions of the Environmental Impact Assessment Regulations of the National Environmental Management Act (NEMA), which stipulates 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 be either through a basic assessment (BA) process or a scoping and full environmental impact assessment process (EIA). The status of some key Bulk 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
Lower uMkhomazi BWSS	EIA application in progress
Elysium Desalination Project	EIA application in progress
uMshwathi BWSS Phase 4	EIA application in progress
Mhlabatshane Pipeline and Plant Upgrade	BA application in progress
South Coast Phase 2A	EA obtained
Nungwane Raw Water Pipeline: Pipe Supply	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.

Eight (8) projects are currently in the construction phase and are monitored for compliance against the Environmental Management Plans, 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 of 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 practice will continue to be pursued and all activities will diligently be conducted in an environmentally sustainable manner.

AMANZIMTOTI WTW

69

Apprentices and Artisans were Developed in trades including: mechanical engineering, electrical engineering and instrumentation fields

ARTISANS' GRADUATION CEREMONY

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, training and development.

Social and economic development

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 records 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 and 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.
- 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.

Table 11.1: 2016/2017 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)

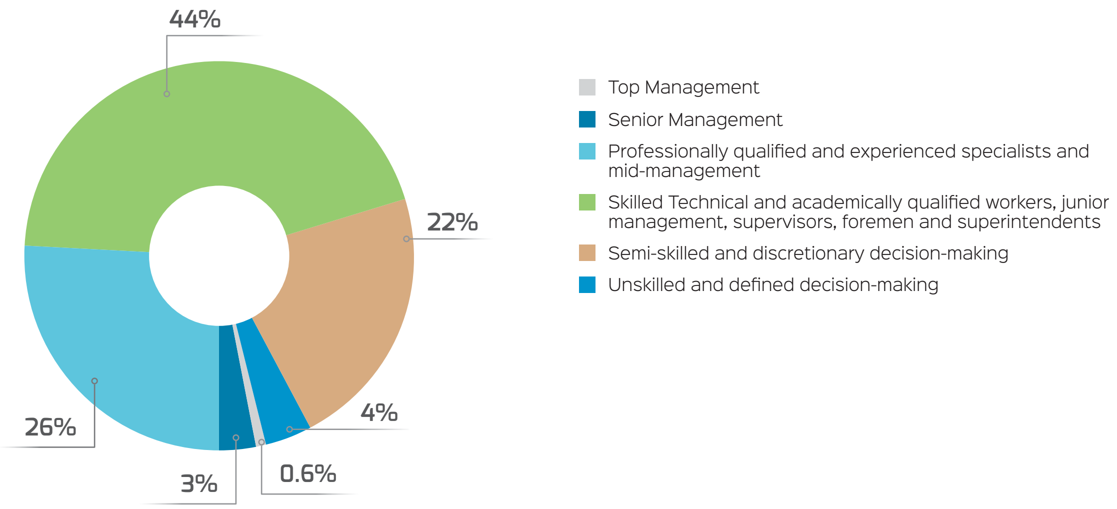
OCCUPATIONAL CATEGORY	TOTAL	MALE				FEMALE			
		AFRICAN	COLOURED	INDIAN	WHITE	AFRICAN	COLOURED	INDIAN	WHITE
Top management	5	3	0	0	1	1	0	0	0
Senior management	28	6	2	8	3	5	0	3	1
Professionally qualified and experienced specialists and mid-management	231	78	3	33	21	70	2	17	7
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	385	170	6	37	12	126	6	26	2
Semi-skilled and discretionary decision-making	191	170	2	0	0	15	0	4	0
Unskilled and defined decision-making	40	30	0	0	0	10	0	0	0
Total	**880**	457	13	78	37	227	8	50	10

(b) Msinsi Holdings SOC Ltd. (Permanent Establishment)

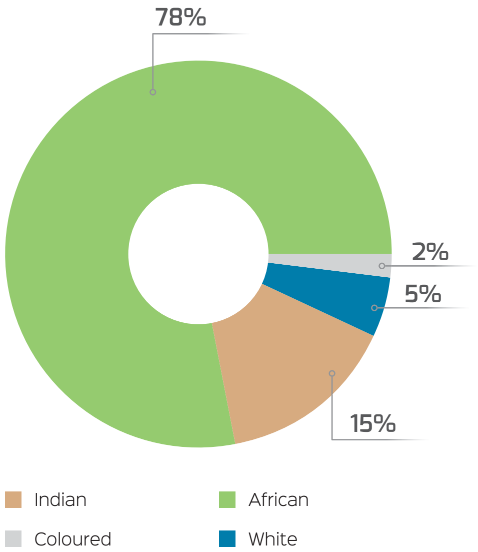
OCCUPATIONAL CATEGORY	TOTAL	MALE				FEMALE			
		AFRICAN	COLOURED	INDIAN	WHITE	AFRICAN	COLOURED	INDIAN	WHITE
Top management	1	1	0	0	0	0	0	0	0
Senior management	1	0	0	0	0	1	0	0	0
Professionally qualified and experienced specialists and mid-management	7	2	0	0	0	4	0	1	0
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	22	6	0	0	0	16	0	0	0
Semi-skilled and discretionary decision-making	44	36	0	0	0	8	0	0	0
Unskilled and defined decision-making	41	21	0	0	0	20	0	0	0
Total	**116**	66	0	0	0	49	0	1	0

Figure 11.1: Employment in 2016/2017 Showing (a) Category, (b) Race, (c) Gender, (d) Age and (e) Disability

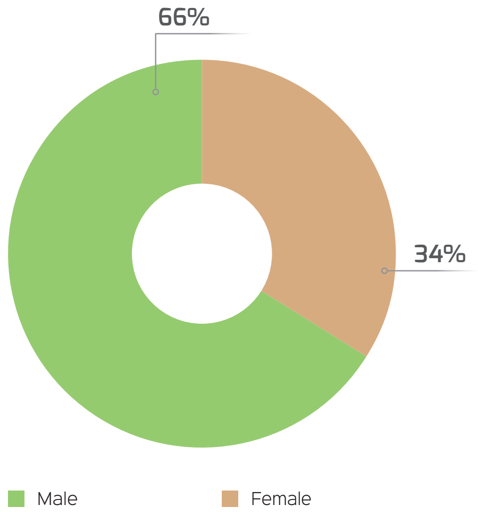
(a) Employment Status (Parent) by Category



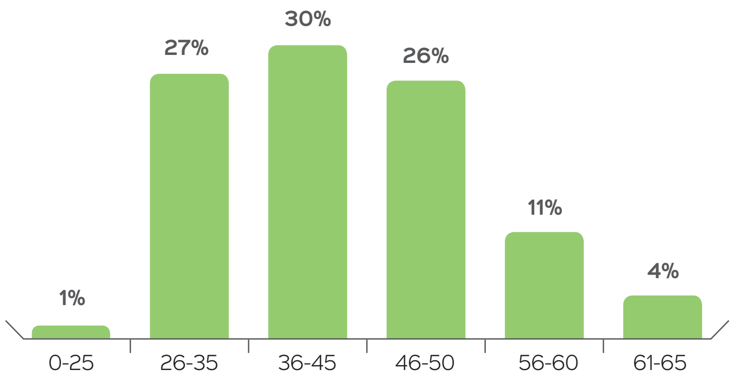
b) Employment Status (Parent) by Race



c) Employment Status (Parent) by Gender



(d) Age Profile (Parent)



(e) Employee Disability Profile (Parent)

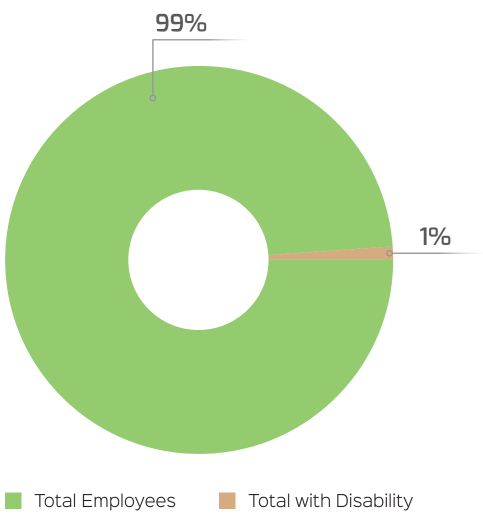


Table 11.2: Summary of Staff Numbers as at 30 June 2017

STAFF NUMBERS	TOTAL
Parent permanent	880
Msinsi permanent	116
Group permanent	**996**
Group fixed term contracts	154
Group Total	**1 150**

RECRUITMENT AND TURNOVER

In the reporting period the entity recruited one hundred and thirty three (133) employees, comprising:

- Fifty-one (51) permanent employees;
- Twenty-four (24) contract employees; and
- Fifty-eight (58) graduates, apprentices, interns and in-service trainees.

Turnover was fifty-six (56) including:

- Twenty-four (24) resignations;
- Eleven (11) natural deaths;
- Fourteen (14) early retirements;
- Five (5) dismissals; and
- Two (2) medical boardings.

The entity's turnover percentage for the year is 2.8% 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 per cent (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 on important issues. 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 believes that achievement of its strategic SHEQ objectives and goals depends on its very important resource which is people. It is for this reason that the entity has always concentrated its efforts in improving the working environment, through proactive identification of hazards, management of risks and continuous monitoring of plans aimed at minimising/ mitigating the risk.

SHEQ performance continues to improve and this can be attributed to its embedding in all organisational processes. The level of leadership participation and employee commitment is a key factor contributing to continuous improvement in performance of the SHEQ system.

The organisation is aligned to the ISO 14001:2004 standard, and annual internal audits are conducted against the requirements of this standard. SHEQ management systems were further audited by SABS as scheduled. The outcome for the entity's operations was maintenance of ISO 9001: 2008 certification during the surveillance audit and maintenance of the OHSAS 18001: 2007 certification after a re-certification audit.

Over and above these achievements, the entity:

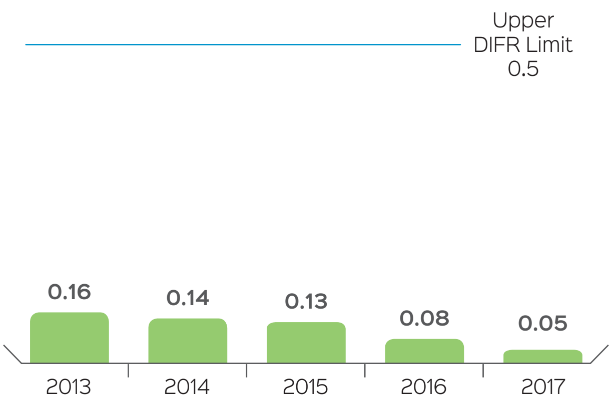
- Continued to internally conduct integrated management system audits;
- Implemented focused initiatives, activities and programmes to reduce vehicle incidents;
- Held annual Safety Imbizos for all operational regions to ensure employee and leadership participation in improving SHEQ performance as well as behaviour towards safety;
- Improved its contractor management programmes to align its service providers/stakeholders to Umgeni Water SHEQ requirements, thus ensuring delivering of quality service; and
- Introduced a new initiative where for the first time an Annual Fire Competition was held in partnership with local fire department, to up-skill internal fire teams to better respond and handle emergency situations.

One of the measures adopted by Umgeni Water in measuring its safety performance is the Disabling Injury Frequency Rate (DIFR). For the reporting period the recorded corporate DIFR was 0.05 against a target of 0.5 (**Figure 11.2**).

The entity's occupational health programmes are aligned to Occupational Health and Safety Act and standards and assist employees and the entity with the following:

- Provision of health education;
- Provision of guidance and counselling;
- Management of Employee Assistance Programme;
- Management of HIV/ AIDS pandemic;
- Primary health care including minor ailments treatment and referrals where necessary;
- Workplace observation and intervention if circumstances become hazardous to health; and
- Medical Surveillance Programmes are conducted annually to screen employees exposed to hazardous environments and ultimately ensuring a safe workforce.

Figure 11.2: 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, divided by the number of rolling man-hours worked over the exposure period.

SKILLS DEVELOPMENT

Continued skills development is essential and enables employees to excel in their individual and organisational roles and functions and deliver on the entity's strategy. 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.

Progress with each of these 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 32 606 hours spent in Training and Development.

Figure 11.3 (a): Training Hours by Gender

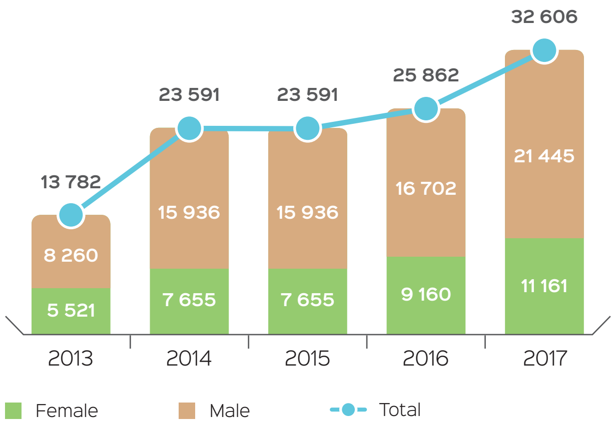


Figure 11.3 (b): Training Spend (Rm)

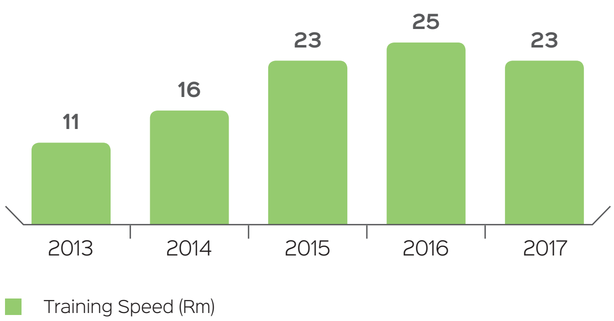


Table 11.3: Training Hours by Occupational Level, Gender and per Employee in 2016/2017

OCCUPATIONAL LEVELS	TOTAL EMPLOYEES TRAINED	TOTAL FEMALE	TRAINING HOURS FEMALE	TOTAL MALE	TRAINING HOURS MALE	TOTAL HOUR PER CATEGORY
Top management	5	1	54	4	96	150
Senior management	29	8	304	21	750	1 054
Professionally qualified and experienced specialists and mid-management	112	39	1 890	73	2 931	4 821
Skilled technical and academically qualified workers, junior management, supervisors, foreman and superintendents	161	72	2 747	89	2 798	5 545
Semi-skilled and discretionary decision-making	233	92	2 994	141	7 417	10 411
Unskilled and defined decision-making	176	19	613	157	3 768	4 381
Non-permanent	194	83	2 559	111	3 685	6 244
Total	**910**	**314**	**11 161**	**596**	**21 445**	**32 606**

Leadership, Learnership and Apprenticeships

Umgeni Water partnered with the University of KwaZulu-Natal to develop and implement programmes for leadership and management development. A Senior Management Development Programme (SMDP) was implemented during the reporting period with a total of twenty (20) Senior Managers successfully completing this programme. The programme consisted of five (5) block sessions and included an international module.

The Learnerships and Apprenticeships Programme in the year provided training, development and exposure to both internal and external candidates. Fifty-eight (58) Apprentices were recruited into the following trades: Mechanical Engineering, Electrical Engineering, Boiler-making, Motor/Diesel Mechanical and Instrumentation. The Apprentices completed the second phase in April 2017 and are currently receiving workplace training at respective Umgeni Water workshops. EWSETA confirmed that all the entity's Apprentices are registered as Apprentices, which is one of the trade test application pre-requisites.

There are currently eleven (11) Artisan Trainees who passed their trade tests and were employed within the entity over a two-year period as artisan trainees: Three (3) are in Electrical Engineering, two (2) in Instrumentation, three (3) in Boiler-making, two in (2) Mechanical Fitting and one in (1) Motor Mechanics.

Umgeni Water assessed the skills and competency levels of internal personnel against requirements of 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 256 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

Sixty-seven (67) of the entity's employees are on an Assisted Education Programme, of which, thirty-two per cent (32%) are enrolled in programmes that are directly targeting critical and scarce skills.

Umgeni Water Young Professionals

The Umgeni Water Young Professionals (UWYP) forum, established in 2014, is a solutions-oriented platform set up to cultivate professional development, leadership and social responsibility in the entity's young workforce. The membership of the forum consists of employees under the age of 35. Forum membership as at 30 June 2017 was 174.

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 resource 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.

Five (5) Umgeni Water Young Professionals had the opportunity to travel to China to attend a seminar on Small Hydropower and Sustainable Development of Rural Communities for officials and African Countries. One (1) Umgeni Water Young Professional was successful in obtaining the DST Hitachi Scholarship training offered in Japan. The objective of the programme is to enhance the capacity of South African engineers in the areas of water and sanitation treatment and service in support of South Africa's social infrastructure development programme.

The UWYP continued to grow in stature as a socially-responsible forum by conducting career guidance seminars in rural schools in the province. One (1) such seminar was successfully conducted during 2016/2017, where more than 200 learners were assisted with online applications to various institutions of higher learning.

Umgeni Water also partnered with the Msunduzi Mayoral Office for the Take a Girl Child to Work initiative, where twenty (20) girls from six (6) schools in Pietermaritzburg were introduced to the engineering field. The learners were given the opportunity to engage with engineering professionals from Umgeni Water to gain more insight on what it means to be an engineer.

The Umgeni Water Toastmasters Programme, under the ambit of Toastmasters International, continued to grow from strength to strength in equipping Umgeni Water employees, particularly, Young Professionals, to be effective communicators and leaders.

Since its introduction within the entity in 2016, a total of sixty-two (62) employees have been developed through this programme. The Toastmasters Programme continues to be a resounding success in enabling its members to become effective communicators and leaders. As a result of this, enrolment figures are expected to rise as more employees seek to be participants and ultimately beneficiaries of this development programme.

In the reporting year, thirty-four (34) Young Professionals (YPs) completed the entry-level Competent Communicator® programme by September 2016, with a further thirty-six (36) employees (comprising 24 YPs and 12 non-YP) recruited into the programme.

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 forty-one (41) graduates enrolled in engineering, science and other required professional fields and thirty-one (31) in-service trainees receiving experiential training.

The entity also has a one-year internship programme that provides work experience to unemployed graduates. Ten (10) interns were contracted in the reporting year to work in multi-disciplinary fields across the organisation.

Umgeni Water is funding twelve (12) 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.

Umgeni Water, 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.

Forty-three (43) graduates, fourteen (14) female and twenty-nine (29) male, were developed under the National Treasury Graduate Development Programme. All 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)
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)
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, 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

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 performance 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, 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.

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 66 of 1995), Basic Conditions of Employment Act (Act 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 1996). 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.


12 BURSARY STUDENTS
are being **funded by** **Umgeni Water** through the Umgeni Bursary Scheme
MIDMAR

12.0

Improving Resiliency

12.1 Operational Optimisation

ISO 17025 Accredited Laboratory Services Assuring Water Quality

Four 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 which 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; and
- Undertaking catchment and river health monitoring to assess the status of water resources and quality of raw water supply.

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 Agreements with end users. Supported by LabWare Laboratory Information Management System (LIMS), water quality results are captured, validated, stored and reported. In addition, direct access is provided to external users via the Electronic Water Quality Management System (eWQMS), the Blue Drop System (BDS) and the Green Drop System (GDS).

Early warnings and alerts are provided to stakeholders immediately when a breach of quality standards is detected. An incident management protocol is followed, to contain and remedy the breach. The laboratory generates 20 000 to 30 000 analyses per month. Over 265 000 analyses were generated in 2016/2017.

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 Blue and Green Drop compliance.

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

Many South African impoundments exhibit high nutrient enrichment (eutrophication) with consequent 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 80 impoundments in South Africa. Umgeni Water Laboratory Services received approximately 2 000 samples from these impoundments through DWS.

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.

Umgeni Water undertakes research with various sector partners, including the University of KwaZulu-Natal (UKZN) and Water Research Commission and has also established links with other academic institutions both nationally and internationally, and continues to collaborate with researchers worldwide.

In 2011, the Umgeni Water Chair for Water Resources Management was established at UKZN to expand and complement its internal research programme. 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. In 2016, ten (10) students graduated with research degrees (seven MSc degrees, and three BSc Hons degrees). There were also six (6) journal publications. To date, over twenty (20) research projects are being undertaken by postgraduate students through the Chair for Water Resources Management. These straddle: water quality and land-use management, hydrology, community, 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. 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.*
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.*
Durban Heights WTW filter investigations.	*To investigate problems related to poor filter performance including the identification and evaluation of practical, sustainable and cost-effective solutions.*
Darvill WWTW 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.*
Disinfection for rural water systems.	*The Aim is to investigate a novel disinfectant system especially designed for small water treatment systems. The disinfection system will be monitored and used as a model for new disinfection systems to be installed in the area.*
** WRC K5/2361/3: Establishing the current practice and prospective management strategies for water treatment residues handling, disposal and re-use in South Africa.	*To give a clear direction on future strategies for WTR management and provide guidance on the cost and economy of scale applicable to each process, as well as suitability for recycling/reuse and recommend actions and changes needed to optimise and secure recycling opportunities.*
** WRC K5/2396/3: evaluation and selection of an appropriate automatic coagulant dose control system for conventional water treatment plants.	*To determine appropriate methods for automatic coagulant dose control and investigate the use of a mathematical model based on historical plant data to control coagulant dose.*
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.*
** Completed projects	

Assurance Through Robust Information and Communications Technology Systems

The implementation of the SAP Enterprise Resource Planning (ERP) system continued to be a significant entity-wide focus during the reporting period. Umgeni Water's core business processes includes responding to customer and stakeholder requirements, effectively scheduling operations, managing and maintaining assets, managing projects, procurement and inventory records, enabling human resources and managing financial data, amongst many other business processes.

During the reporting period the entity set itself targets to complete the Final Preparation stage, Cutover / Go-Live with the new system and put in place Post-Go-Live Support.

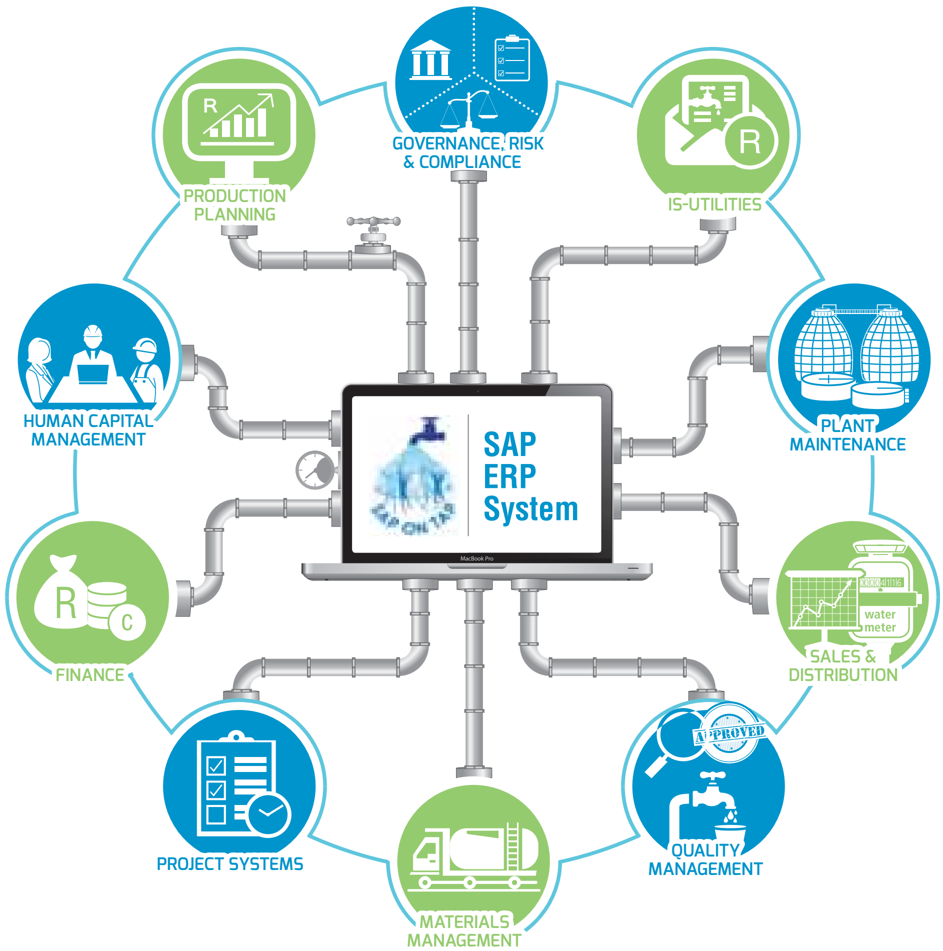
As at 30 June 2017, the entity successfully completed the Final Preparation stage and Cutover / went Live with 90% of the components of the new system. Plans to resolve outstanding SAP project elements will be finalised and implemented in the new year. In addition, 95% of Post-Go-Live support was implemented as planned and planning for on-going sustainable support will be finalised in the new year.

The ERP system is set up to drive huge improvements in our operational efficiency and effectiveness, including:

- Assisting in better defining and reviewing business processes;
- Ensuring business processes are complied with throughout the process value chain;
- Planning of workloads based on existing orders and forecasts, such as asset maintenance;
- Providing tools to ensure the entity can provide a high level of service to customers;
- Protecting critical business data through well-defined roles and security access; and
- Translating data into decision-making information for all levels of stakeholders.

The successful implementation of SAP during the reporting period will ensure the entity is well positioned for its current future business as a leading water entity.

Figure 12.1: Schematic of SAP ERP System Implemented by Umgeni Water in 2016/2017.



12.2 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, as well as indicate how the risks have been treated/mitigated.

Of a total of ten (10) strategic risks, one (1) strategic risk is rated as a High risk and is being mitigated as shown below.

Table 12.2: Strategic Risks as at 30 June 2017

RISK #	RISK NAME, SCORE AND STATUS	CAUSE, CONTEXT AND TREATMENT	MAIN STRATEGIC, PERSPECTIVE, OBJECTIVES AND OUTCOMES IMPACTED
1	**Short-term water resources availability.** › Overall response effectiveness: Poor 40%. › Severity: Significant: 300. › Probability: 100% Virtually certain and/ or already occurred. Risk Owner: GM Engineering and Scientific Services. SCORE 300 HIGH **Risk Appetite and Tolerance** › Outside Appetite › Outside Tolerance	Cause and Context: Dam levels are such that there is a threat of non-supply if mitigation measures are not put in place. (Restrictions, emergency schemes). ***Treatment Approach: On-going short-term water resources and demand management initiatives. Implementation of appropriate operating rules. Water rationing implemented as per the target percentage for applicable systems. Collaboration and partnerships to pool efforts, such as Joint Operating Committees.***	Customer and Stakeholder Perspective: SO1: Increase services and customers. SO2: Increase customer and stakeholder value. Organisational Capacity Perspective: SO8: Increase water resources sustainability. **Outcomes:** Water Resources Adequacy. Customer Satisfaction. Stakeholder Understanding and Support. Community and Environmental Sustainability.
2	**Stability of integrated systems.** › Overall response effectiveness: Reasonable 60%. › Severity: Moderate-High: 40. › Probability: 80% likely and/or could occur within 1 year. › Risk Owner: GM Corporate Services. SCORE 32 LOW **Risk Appetite and Tolerance** › Outside Appetite › Outside Tolerance	Cause and Context: The Enterprise Resource Planning software does not optimise business as envisaged; mainly in consolidated reporting. Change management processes not addressing the culture changes emanating from the implementation of integrated systems, exacerbated by inadequate training & go-live support. Outstanding project items not delivered, including untested DRP and automated fail-over of production environment. ***Treatment Approach: Implementation of business warehouse and business intelligence consolidated reporting. Additional training. Support and maintenance of the system and system controls.***	Financial Perspective: SO4: Increase financial sustainability. Process Perspective: SO6: Improve service delivery systems. Organisational Capacity Perspective SO9: Increase skills and competency. **Outcomes** Operational Optimisation Operational Resiliency Leadership and Employee Development Financial Viability.

Table 12.2: Strategic Risks as at 30 June 2017 *...continued*

RISK #	RISK NAME, SCORE AND STATUS	CAUSE, CONTEXT AND TREATMENT	MAIN STRATEGIC, PERSPECTIVE, OBJECTIVES AND OUTCOMES IMPACTED
3	**Long-term water resources availability.** › Overall response effectiveness: Reasonable 55%. › Severity: Moderate-High: 40. › Probability: 50% fairly poor and/or could possibly occur within 2 years. › Risk Owner: GM Engineering & Scientific Services. **SCORE** 20 LOW **Risk Appetite and Tolerance** › Outside Appetite › Within Tolerance	Cause and 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 ministerial approval for the implementation of the Mkhomazi water project increases the risk of non-supply and the need for restrictions. ***Treatment Approach: Integrated planning and implementation for medium and long-term augmentation of systems with stakeholders. Water conservation and demand management initiatives. Review of water resources mix including reuse and desalination.*** ***Timely completion of target water resources projects including:*** ***Mgeni system: Completion of the uMkhomazi Water Project is projected for 2028.*** ***North Coast system: Completion of the Lower Thukela Bulk Water Supply Scheme.*** ***South Coast system: Delay in implementation of the Lower uMkhomazi BWSS. Construction expected to start in 2020.***	Customer and Stakeholder Perspective: SO1: Increase services and customers. SO2: Increase customer and stakeholder value. Organisational Capacity Perspective: SO8: Increase water resources sustainability. **Outcomes:** Water Resources Adequacy. Customer Satisfaction. Stakeholder Understanding and Support. Community and Environmental Sustainability.
4	**Ability to adequately fund infrastructure investment.** › Overall response effectiveness: Reasonable 60%. › Severity: Moderate-Low: 20. › Probability: 80% likely and/or could occur within 1 year. › Risk Owner: GM Engineering and Scientific Services. **SCORE** 16 LOW Risk Appetite and Tolerance › Outside Appetite › Within Tolerance	Cause and Context: Inability to secure required project grant funding and/or timing of receipt not aligned to funding requirements. Budgetary pressure resulting in fiscal constraints and rising cost of capital. Funding constraints imposed by borrowing limits & loan covenants. Disagreement of tariff by customer resulting in it being reduced could result in infrastructure not being implemented as planned. Alignment and prioritization of the infrastructure plan. Pressure to implement rural development projects without commensurate grant funding. Timeous approval to build infrastructure. Implementation of non-viable infrastructure resulting in inadequate return on investment. Mismatch between volume in customer's original request and actual off-take- the latter being either larger or smaller volumes. (Misaligned integrated planning between UW and the municipalities resulting in municipalities demanding more water from UW than they can distribute to the end-user, or alternatively utilising less water since their off-take infrastructure has not been completed as originally planned. ***Treatment Approach: 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 cashflows, optimal debt level and covenants.*** ***Planning meetings with the customers to ensure alignment of infrastructure plans.*** ***Internal meetings to ensure that the CAPEX plan addresses the customers' needs and is in accordance with the organisational quality standards and affordability.***	Customer and Stakeholder Perspective: SO1: Increase services and customers. SO2: Increase customer and stakeholder value. Organisational Capacity Perspective: SO7: Improve and increase infrastructure assets. **Outcomes** Infrastructure Stability. Product Quality. Customer Satisfaction. Stakeholder Understanding and Support. Community and Environmental Sustainability.

Table 12.2: Strategic Risks as at 30 June 2017 *...continued*

RISK #	RISK NAME, SCORE AND STATUS	CAUSE, CONTEXT AND TREATMENT	MAIN STRATEGIC, PERSPECTIVE, OBJECTIVES AND OUTCOMES IMPACTED
5	**Performance of bulk wastewater infrastructure assets.** › Overall response effectiveness: Good 75%. › Severity: Moderate-Low: 20. › Probability: 80% likely and/or could occur within 1 year. › Risk Owner: GM Operations. SCORE 16 LOW **Risk Appetite and Tolerance** › Outside Appetite › Within Tolerance	Cause and Context: Influent quality-illegal discharges from industries and storm water infiltration. Capacity and technology constraints, resulting in non-compliance with effluent discharge requirements. Unanticipated complexity of the Darvill upgrade project has led to project delays. ***Treatment Approach: Initiatives planned and implemented at each WWTW and critical refurbishment and upgrades of major works included and implemented as part of capital programme by target dates.***	Customer and Stakeholder Perspective: SO2: Increase customer and stakeholder value. Organisational Capacity Perspective: SO7: Improve and increase infrastructure assets. **Outcomes** Infrastructure Stability Product Quality Customer Satisfaction Stakeholder Understanding and Support Community and Environmental Sustainability.
6	**Sustainable Tariff** › Overall response effectiveness: Good 70%. › Severity: Moderate-Low: 20. › Probability: 65% Even probability and/or could occur within 1- 2 years. › Risk Owner: GM Finance. SCORE 13 LOW **Risk Appetite and Tolerance** › Outside Appetite › Within Tolerance	Cause and Context: constraints on ability to charge a tariff that will ensure financial viability of Umgeni Water and protection of operating cashflows in view of low sales volumes resulting from the drought & higher than inflation input costs (major cost drivers). High energy cost impacted by changes in operating rules. Current raw water tariff pricing strategy and capital unit charge. High CAPEX investments with low returns and high impairment costs. Surpluses earned are not retained. Currently not all customers are breaking-even, significant cross subsidisation from Umgeni system. ***Treatment Approach: 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 cashflows, optimal debt level and covenants.***	Customer and Stakeholder Perspective: SO1: Increase services and customers. SO2: Increase customer and stakeholder value. Financial Perspective: SO4: Increase financial sustainability. Organisational Capacity Perspective: SO7: Improve and increase infrastructure assets. **Outcomes:** Financial Viability. Infrastructure Stability. Customer Satisfaction. Stakeholder Understanding and Support. Community and Environmental Sustainability.
7	**Breach of materiality and significance framework.** › Overall response effectiveness: Good 80%. › Severity: Minor-Low: 5. › Probability: 80% likely &/or could occur within 1 year. › Risk Owner: GM Finance. SCORE 4.0 LOW **Risk Appetite and Tolerance** › Outside Appetite › Within Tolerance	Cause and Context: Incurring irregular, fruitless and wasteful expenditure as a result of lack of understanding and adherence to Supply Chain Management policies and procedures and other quantitative and qualitative aspects as identified in the entity's materiality and significance framework. ***Treatment Approach: Supply Chain Management policies and procedures reviewed, simplified and linked to legislation. Bid Committee oversight and assurance of compliance through on-going assessment of control effectiveness. Ongoing review and alignment of internal controls and systems.***	Customer and Stakeholder Perspective: SO2: Increase customer and stakeholder value. Financial Perspective: SO4: Increase financial sustainability. Process Perspective: SO6: Improve service delivery systems. **Outcomes:** Financial Viability. Stakeholder Understanding and Support. Operational optimisation. Operational resiliency.

Table 12.2: Strategic Risks as at 30 June 2017 *...continued*

RISK #	RISK NAME, SCORE AND STATUS	CAUSE, CONTEXT AND TREATMENT	MAIN STRATEGIC, PERSPECTIVE, OBJECTIVES AND OUTCOMES IMPACTED
8	**Protection and safeguarding of assets.** › Overall response effectiveness: Reasonable 65%. › Severity: Minor-Low: 5. › Probability: 65% even probability and/or could occur within 1-2 years. › Risk Owner: GM Corporate Services. SCORE 3.0 LOW **Risk Appetite and Tolerance** › Outside Appetite › Within Tolerance	Cause and Context: Illegal settlements and unauthorised construction on properties and servitudes. Potential land claims on existing registered and servitudes to be acquired. Umgeni Water's right of access limited. General encroachment and impact on assets. 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. Service delivery protests affecting site accessibility and damage to infrastructure. ***Treatment Approach: Implementation of servitude management procedure. Safety and security measures to protect staff and public. 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.***	Customer and Stakeholder Perspective: SO2: Increase customer and stakeholder value. Organisational Capacity Perspective: SO7: Improve and increase infrastructure assets. **Outcomes** Infrastructure Stability. Stakeholder Understanding and Support. Community and Environmental Sustainability.
9	**Ability to deliver projects on time and within budget.** › Overall response effectiveness: Good 70%. › Severity: Minor-Low: 5. › Probability: 50% fairly poor and/or could possibly occur within 2 years. › Risk Owner: GM Engineering and Scientific Services. SCORE 3.0 LOW **Risk Appetite and Tolerance** › Within Appetite › Within Tolerance	Cause and 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. Limited CPG validation in terms of technical, geographical match and financial capacity. ***Treatment Approach: Continued effective engineering, procurement and construction management (EPCM) process alignment within the specified time-frames.***	Customer and Stakeholder Perspective: SO1: Increase services and customers. SO2: Increase customer and stakeholder value. Organisational Capacity Perspective: SO7: Improve and increase infrastructure assets. **Outcomes** Infrastructure Stability. Product Quality. Customer Satisfaction. Stakeholder Understanding and Support. Community and Environmental Sustainability.
10	**Performance of bulk potable water infrastructure assets.** › Overall Response Effectiveness: Excellent 95%. › Severity: Negligible: 1. › Probability: 35% doubtful and/or unlikely to occur within next 2 years. › Risk Owner: GM Operations. SCORE 1 LOW **Risk Appetite and Tolerance** › Within Appetite › Within Tolerance	Cause and Context: Process failures, capacity and technology constraints at water treatment plants resulting in final water non-compliance with potable water standard. ***Treatment Approach: Initiatives planned and implemented at each WTW and critical refurbishment and upgrades of works included and implemented as part of asset programme.***	Customer and Stakeholder Perspective: SO2: Increase customer and stakeholder value. Organisational Capacity Perspective: SO7: Improve and increase infrastructure assets. **Outcomes:** Infrastructure Stability. Product Quality. Customer Satisfaction. Stakeholder Understanding and Support. Community and Environmental Sustainability.

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 e.g. Cyber Security risk.

IMVUTSHANE DAM

FINANCIAL VIABILITY

Umgeni Water maintained positive results in the year due to continued sound financial management:

Revenue (Group) generated was	Surplus for the year (Group) was	Balance sheet reserves were
R2.5 BILLION IN 2017	R746 MILLION IN 2017	R6.8 BILLION IN 2017

13.0 Financial Review

13.1 Introduction

The 2017 financial year has had both challenges and successes. The operating environment continued to put a strain on the organisation as the drought continued. However, Umgeni Water has continued with good operating performance by managing factors within its control. The organisation had a successful SAP implementation during the year which went live in March 2017. All major organisational business processes are now managed in SAP.

Operating profits were 8% lower at R593m (2016: R645m), while gross profit margins reduced by a further 3% and profits for the year declined by 4%. These were as a direct result of the drought which has impacted negatively on both the sales volumes and some of the direct operating costs. Some of the capital expenditure has been delayed in order to defer raising new debt and manage costs so as not to risk any breaches in loan covenants. To this end the prioritisation of capital expenditure is a key focus area for the organisation.

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 key performance indicators 2016/2017 section of the annual report, page 57 to 63.

13.2 Operating Performance

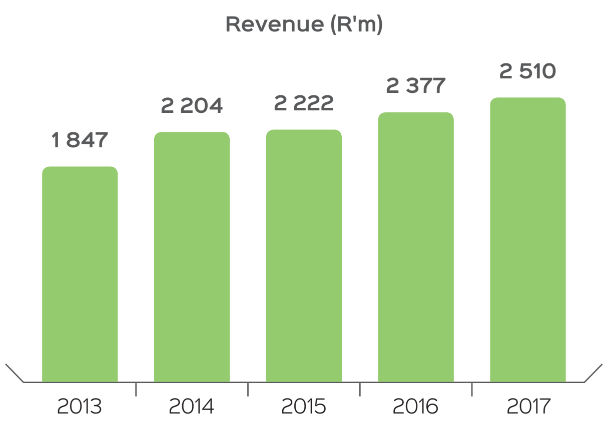
13.2.1 Overview of operating performance

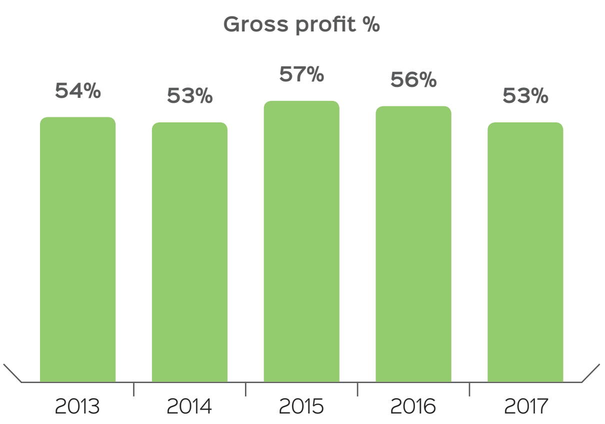
13.2.1.1 Year on year changes of group operating performance

Bulk water revenue grew by 3% as a result of the combined impact of a 9% bulk water tariff increase and a 6% reduction in sales volumes, whilst the direct operating costs increased by 13% driven primarily by the main cost drivers. The 25% increase in wastewater is due to new operating and maintenance contracts to manage wastewater treatment works on behalf of some of our customers, some of which came into effect in the prior year and were fully operational in the current year.

Other operating and administrative expenses were up by 6%. Impairments on property, plant and equipment were lower in the current year at R42m (2016: R133m). Net finance income has increased by 12% mainly due to higher interest income earned on funds invested due to delays in the capital expenditure programme.

	2017	Movement	2016
	R'm	%	R'm
Revenue	**2 510**	**6**	**2 377**
Water	2 187	3	2 132
Wastewater	145	25	116
Section 30	178	38	129
Cost of sales	**(1 179)**	**13**	**(1 040)**
Water	(937)	9	(856)
Wastewater	(88)	17	(75)
Section 30	(154)	41	(109)
Gross profit	**1 331**	**0**	**1 337**
GP%	*53%*	*(3%)*	*56%*
Other income	32	(14)	37
Other operating and administration expenses	(770)	6	(729)
Profit from operations	**593**	**(8)**	**645**
Net finance income	148	12	132
Share of profit from associate	5	25	4
Profit before tax	**746**	**(4)**	**781**

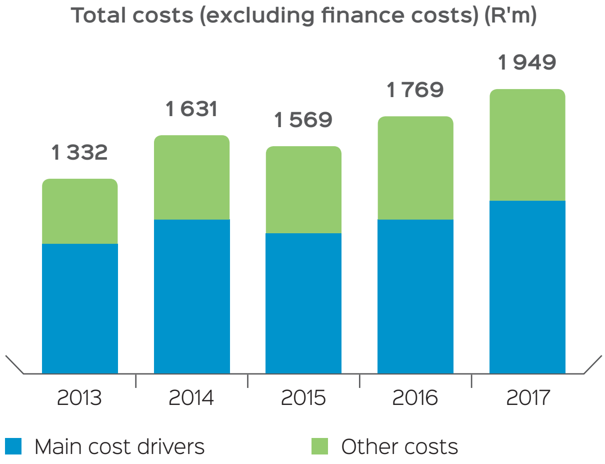


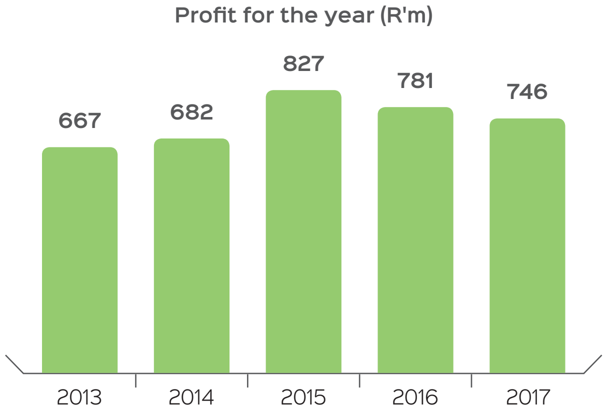


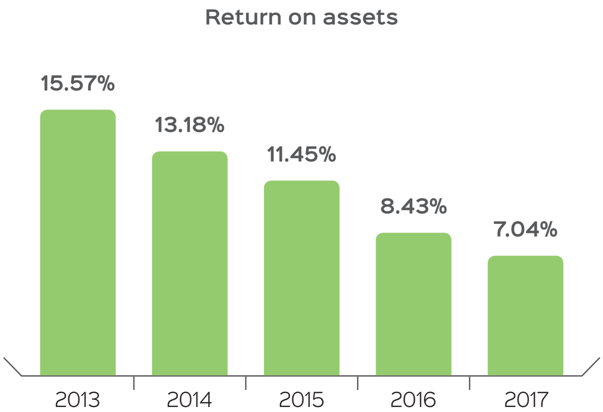
13.2 Operating Performance (continued)

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 72% (2016: 72%) of cost of sales. Cost of sales increased by 13% year on year as a result of increases in the main cost drivers.

Energy costs were up by 14% as pumping continued throughout the year to assist with alleviating the drought, whilst the average energy tariff increase for the year was 9%.

Staff costs grew by 12%, as a result of the average salary increases of 8% for the year and additional contract staff to support new business and the SAP ERP implemented in March 2017.

Raw water costs increased by 9%. The average raw water tariff increase was 12%, whilst volumes extracted from the Mgeni system which is the main source of supply were 8% lower as restrictions remained in place in this system for the year under review.

Maintenance costs increased by 13% due to renewals undertaken at some of the major plants to ensure these assets are maintained at a standard that continues to ensure the required quantity and quality of product can be delivered.

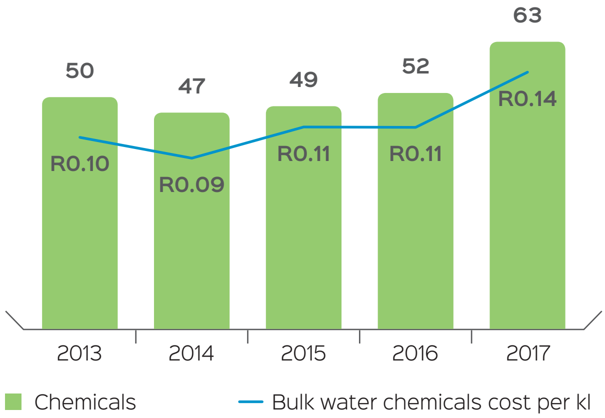
Chemical costs increased by 21% primarily due to increased usage as a result of additional treatment required for poor quality raw water influenced to a major extent by the drought. The average price increase for chemicals was 4% for the year.

13.2 Operating Performance (continued)

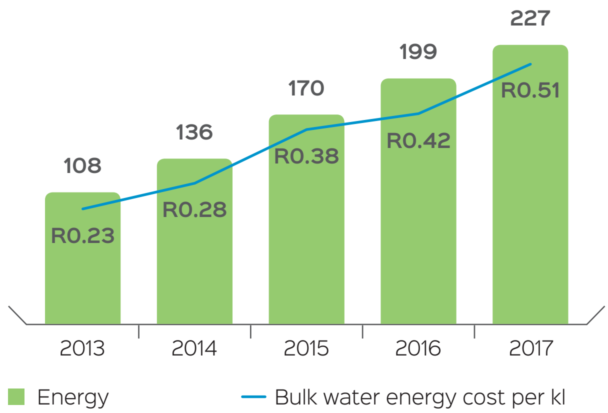
13.2.1 Overview of operating performance (continued)

13.2.1.2 Main cost drivers included in cost of sales (continued)

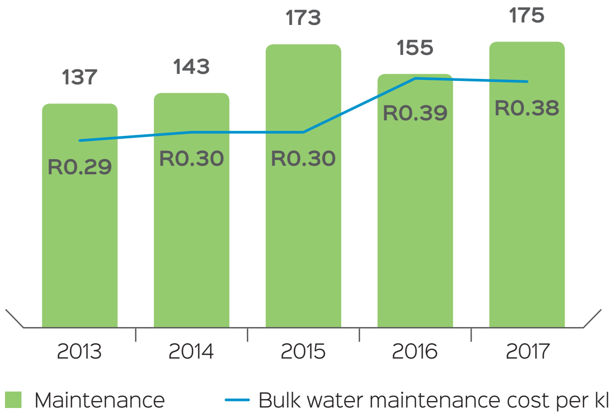
Chemicals (R'm)



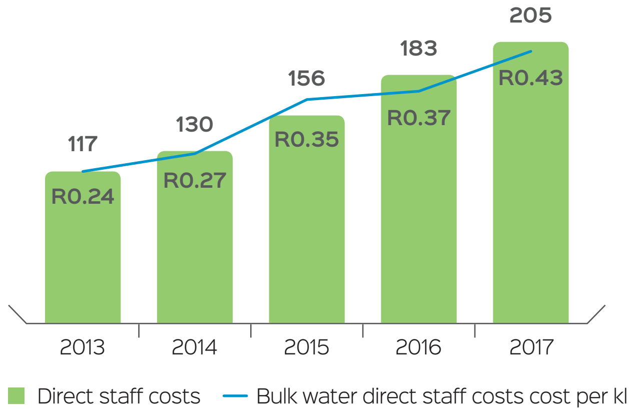
Energy (R'm)



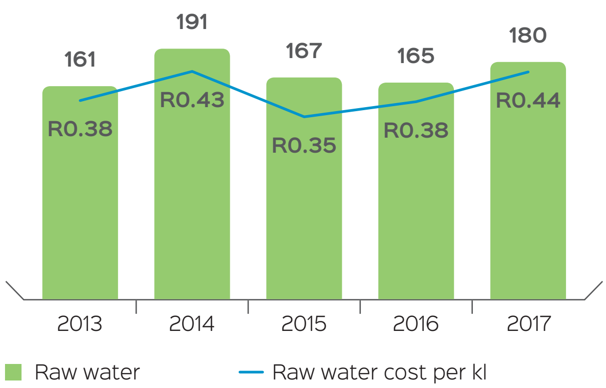
Maintenance (R'm)



Direct staff costs (R'm)



Raw water (R'm)



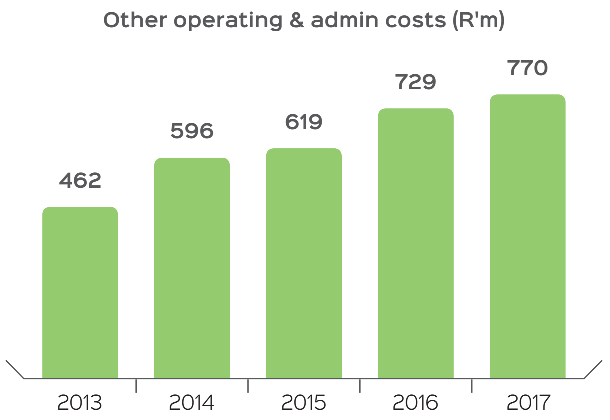
13.2 Operating Performance (continued)

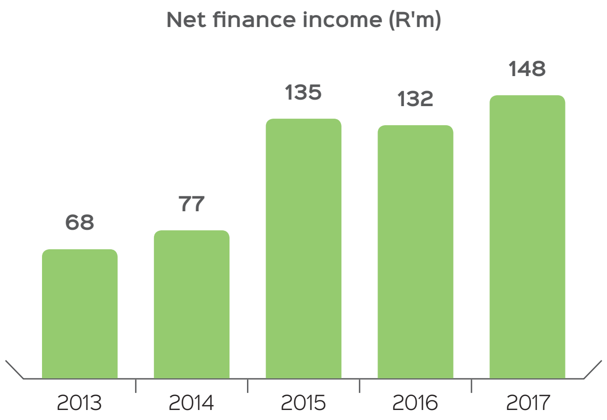
13.2.1 Overview of operating performance (continued)

13.2.1.3 Other operating and administration expenses and net finance income

Other operating and administration costs increased by 6%. Impairments on property, plant and equipment were lower at R42m (2016: R133m), while indirect staff costs were up by 24% as a result of incentive bonuses provided for in line with the approved policy in terms of the retention mechanisms in place as well as the settlement reached with the Chief Executive which was accrued for at year end.

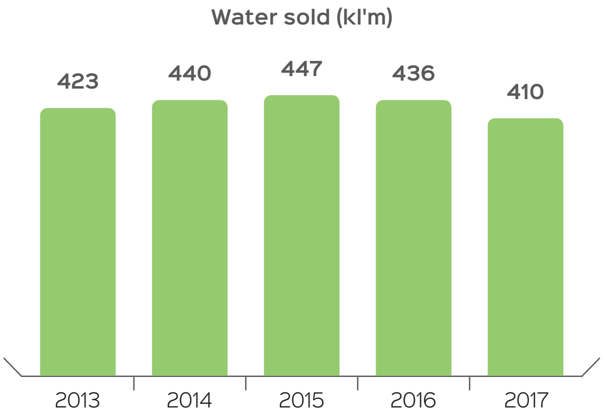
Net finance income increased by 12%. Interest income on investments was 13% higher at R150m (2016: R133m) while finance costs after borrowing costs capitalised were R1m (2016: R1m). Borrowing costs capitalised to qualifying assets totalled R211m (2016: R142m).





13.2.2 Bulk water sales volume analysis

Bulk water sales volumes reduced by a further 5.9% in the current year as the drought continued to put a strain on the main Mgeni system which provides approximately 90% of the water supply. The positive volume growth for customers in the northern regions is due to the lifting of restrictions in the Hazelmere system in the current year.



13.2 Operating Performance (continued)

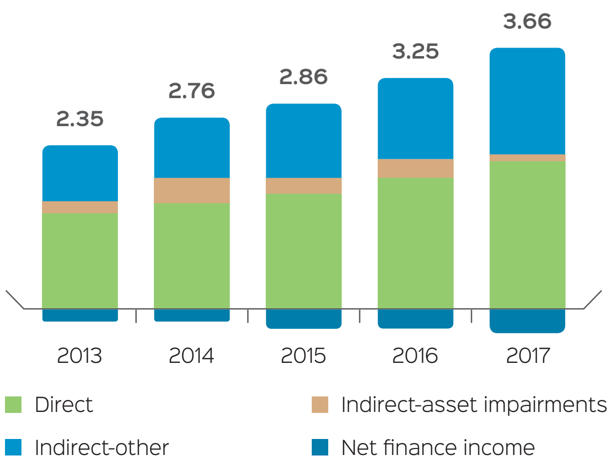
13.2.2 Bulk water sales volume analysis (continued)

	Volume by customer and % change									
	2013		2014		2015		2016		2017	
	kl'000	%	kl'000	%	kl'000	%	kl'000	%	kl'000	%
eThekwini MM	315 669	1.4%	327 011	3.6%	331 347	1.3%	320 151	(3.4%)	299 045	(6.6%)
Other customers	107 122	1.5%	112 533	5.1%	115 201	2.4%	115 575	0.3%	110 843	(4.1%)
Msunduzi LM	64 668	(0.4%)	66 991	3.6%	70 362	5.0%	69 944	(0.6%)	62 513	(10.6%)
uMgungundlovu DM	14 772	31.9%	15 052	1.9%	15 041	(0.1%)	19 417	29.1%	18 475	(4.8%)
Sembcorp Siza Water	4 352	(3.0%)	4 767	9.5%	4 438	(6.9%)	3 338	(24.8%)	3 360	0.6%
Ugu DM	9 012	9.9%	9 890	9.7%	10 317	4.3%	11 295	9.5%	12 916	14.4%
iLembe DM	13 244	5.8%	14 810	11.8%	14 060	(5.1%)	10 790	(23.3%)	12 716	17.9%
Harry Gwala DM	936	0.7%	862	(7.9%)	837	(2.9%)	661	(21.0%)	743	12.5%
Other	138	(95.8%)	161	16.0%	146	(8.9%)	130	(9.5%)	119	(8.5%)
Total	**422 791**	**1.4%**	**439 544**	**4.0%**	**446 548**	**1.6%**	**435 726**	**(2.4%)**	**409 887**	**(5.9%)**

13.2.3 Bulk water cost per kilolitre (kl)

The average cost of bulk water per kl increased by 12.6%, primarily due to the increases in the main cost drivers included in cost of sales and lower sales volumes.

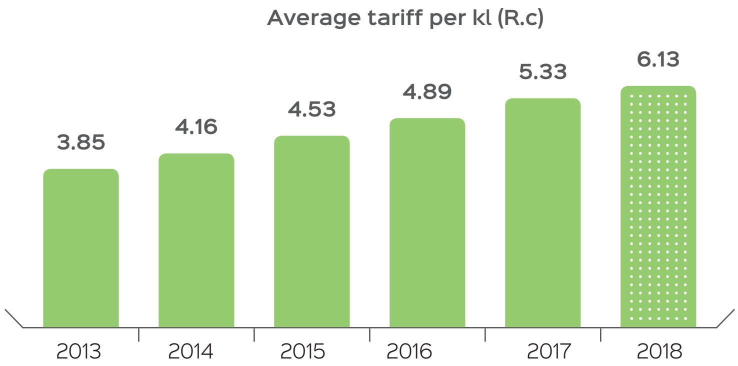
Cost per kl of bulk water (R.c)



13.3 Bulk Water Tariff

The average Umgeni Water bulk water tariff increase for 2016/2017 was 9% and the bulk water tariff increase for the next financial year, effective 1 July 2017, has been approved at 15% after taking into consideration the impact of the drought and the operating cash flows required to repay debt.

13.3 Bulk Water Tariff (continued)

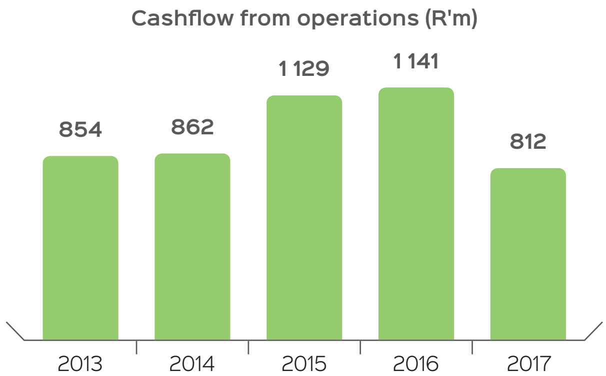


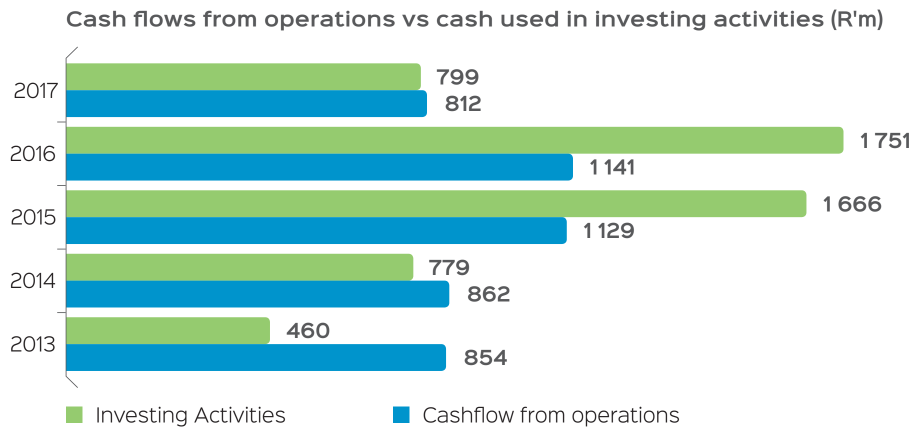
13.4 Cash Flow Analysis

Operating cash flows were R812m (2016: R1 141m) a 29% reduction year on year as a result of the lower sales volumes as well as increased working capital requirements.

Cash used in investing activities totalled R799m (2016: R1 751m) mainly due to the investment in infrastructure as R1 126m (2016: R1 978m) was spent on capital projects and R371m (2016: R280m) grant funding was received for development projects.

Cash used in financing activities was R32m (2016: R617m) which consisted of R79m (2016: R78m) loan repayments and R110m (2016: R5m) net interest paid whilst investments reduced by R156m. The operating cash after scheduled repayment of debt was not sufficient to fund investing activities requirements, thus investments were utilised to fund the shortfall required for capital expenditure.





13.5 Capital Projects

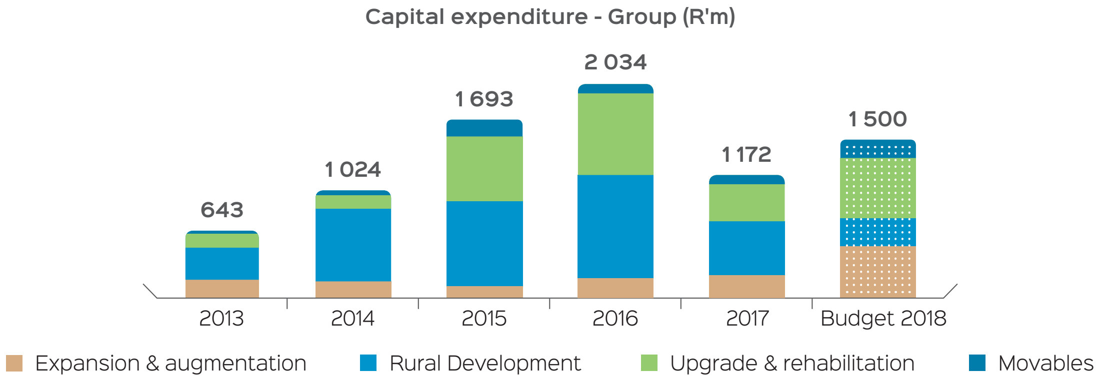
The capital expenditure programme is based on Umgeni Water's infrastructure master plan which is aligned to the KZN provincial and local strategic priorities and is estimated at R6 127m for the next 5 years as per the Corporate Business Plan for 2018.

The capital expenditure commitments for the next five years will be funded through a combination of available cash investments, operating cash flows, R647m from regional bulk infrastructure grants and new debt in 2018.

For further details on the funding requirements, refer to section 13.7.1.

13.5.1 Capital expenditure

During the year capital expenditure including intangible assets totalled R1 172m (2016: R2 034m). Details of major projects are included in the infrastructure section of the annual report on page 74. Umgeni Water had a successful SAP implementation during March 2017 which has resulted in all major business processes being streamlined and managed in a single ERP with a fully integrated approach for all modules implemented.



13.5.2 Development projects

In response to customer water demands and the need to eliminate water service delivery backlogs, a specific allocation of R837m for development projects has been made for the period 2018 to 2022.

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 2017

			Projected funding split				
Project	System	Total Projected cost	Regional bulk infrastructure grant funding	UW funding	Total project Cost June 2017	2017 Impairment	2017 Impairment
		R'000	R'000	R'000	R'000	%	R'000
Impendle	Upper Umgeni	604 043	- 0%	604 043 100%	386	100%	386
Greater Mpofana Phase 1	Mooi	876 218	441 935 50%	434 283 50%	300 507	46%	38 758
Lower Thukela Bulk Water Supply Phase 1	Lower Thukela	1 713 318	946 263 55%	767 055 45%	1 667 184	0%	-
uMshwathi Bulk Water Supply Scheme (Wartburg Phase 1 - 3)	Wartburg System	1 048 344	1 020 685 97%	27 659 3%	899 833	0%	-
TOTAL		**4 241 924**	**2 408 884** **57%**	**1 833 040** **43%**	**2 867 911**		**39 144**

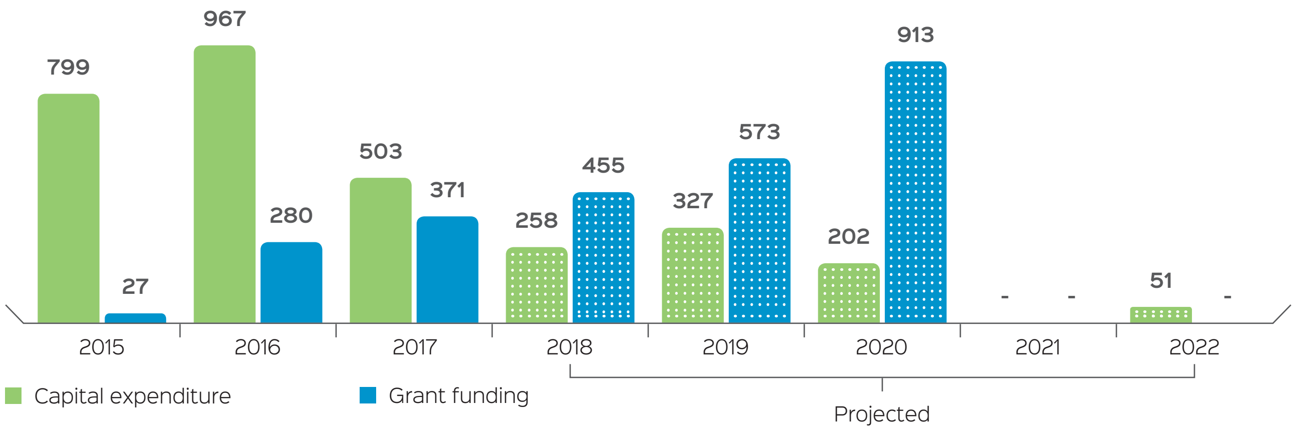
* Total project cost include interest and escalation

Impairments on development infrastructure commissioned and included under buildings and infrastructure totalled R3m (2016: R95m). Further details on impairments are included in note 9 of the financial statements.

13.5 Capital Projects (continued)

13.5.2 Development projects (continued)

Capital expenditure on development projects and grant funding (R'm)

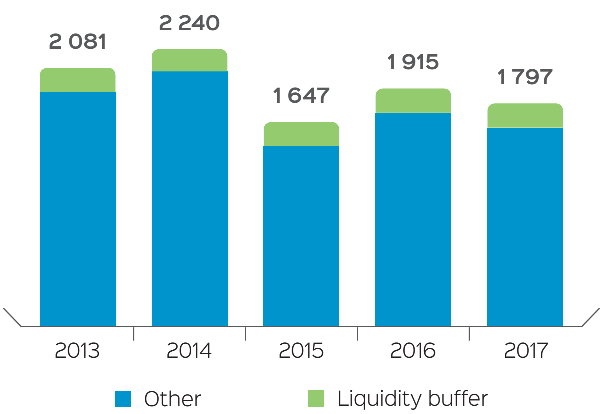


The projected capital expenditure is per the approved 2018 business plan, whilst the projected grant funding is per the latest approved RBIG funding schedule received from the Department of Water and Sanitation in June 2017.

13.6 Investments

Financial investments decreased by 6% from R1 915m in 2016 to R1 797m in the current year. Investments were utilised to fund the capital expenditure shortfall not met by operating cash flows and grant funding received. It is anticipated that investments will further decrease in the short to medium-term to fund the organisations capital expenditure programme.

Investments (R'm)



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.

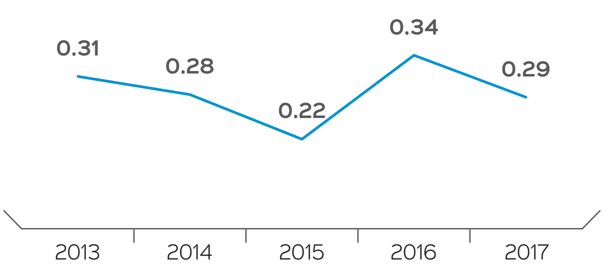
The debt: equity ratio improved by 15% to 0.29 (2016: 0.34) while the interest rate structure is 86% fixed and 14% variable (2016: 85% fixed and 15% variable). The high fixed rate structure is as a result of the two bonds in issue (UG21 and UG26) which comprise 79% of the total interest bearing liabilities. The gross weighted average cost of capital was 10.59% (2016: 10.53%) at the end of June.

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

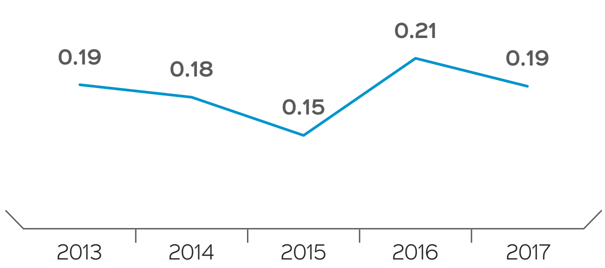
13.7 Debt Management (continued)

	2017 R'm	2016 R'm
Debt		
Long-term	1 872	1 951
Short-term	79	78
Total Debt	**1 951**	**2 029**
(Decrease)/Increase in debt	(78)	857

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 2018 the detailed cash flow forecasts have been prepared for the next five years, taking into account the group's R6 127m planned capital expenditure (unescalated) and is detailed in the table that follows:

Financial year	Short-term	Medium-term			Long-term
	2018 R'm	2019 R'm	2020 R'm	2021 R'm	2022 R'm
Operational cash flows	1 132	1 319	1 433	1 688	1 874
Capex (Escalated)	(1 500)	(1 660)	(1 293)	(1 360)	(1 577)
Net operating cash (shortfall) after capex	**(368)**	**(341)**	**140**	**328**	**297**
Capex-grants: confirmed	337	162	148	-	-
Net financing activities	161	(346)	(302)	(638)	(211)
Annual funding requirements	**130**	**(525)**	**(14)**	**(310)**	**86**

The funding requirements in the short to medium term will be funded via the utilisation of existing financial investments and new debt in 2018. Further details of the various sources of funding available to Umgeni Water can be found in note 30 of the financial statements.

13.7 Debt Management (continued)

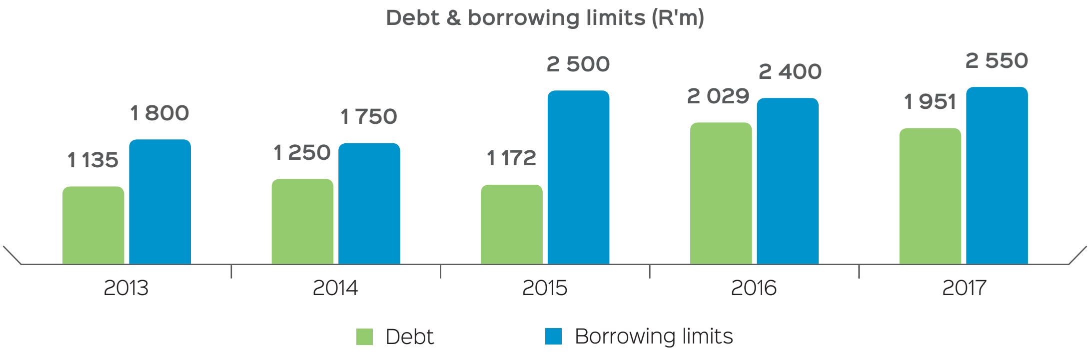
13.7.2 Borrowing limits

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

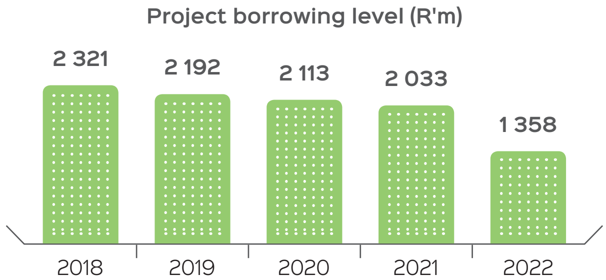
Utilisation of the borrowing limit as at 30 June 2017 was as follows:

	R'm
Actual gross borrowings	1 951
Collateral and guarantees	1
Total actual borrowings	1 952
Borrowing limit	2 550
Underutilisation	**598**



13.7.3 Projected borrowing level

Umgeni Water expects to remain within the approved borrowing limits for the 5 year projected period 2018 to 2022 and will closely monitor the borrowing levels and capital expenditure costs in line with the approved borrowing limits.



13.7 Debt Management (continued)

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 nation and regional scale mapping table, resulting in Umgeni Water national scale rating being AAA for long-term and AA- short-term.

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 R172m (2016: R203m) 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 to 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 R397m (2016: R390m).

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 Section of the annual report on page 108 to 111.

13.10 Future Prospects

The strategy going forward will be to ensure financial resilience as the drought continues to put a strain on financial resources with a specific focus on managing costs to ensure that debt covenants are not breached. To this end capex projects will continue to be prioritised in accordance with assurance of water supply and there will be continued increased efforts to secure grant funding.

Group five-year key performance indicators

	2017	2016	2015	2014	2013	2016-2017 Movement
Performance criteria/indicators						
Total revenue (R'm)	2 510	2 377	2 223	2 204	1 909	5.60%
Profit from operations/revenue	0.24	0.27	0.31	0.27	0.31	(11.11%)
Total expenditure/revenue	0.72	0.69	0.65	0.71	0.66	4.35%
Cost of sales/revenue	0.47	0.44	0.43	0.47	0.46	6.82%
Capex spend (R'm) (including intangibles)	1 172	2 034	1 693	1 024	643	(42.38%)
Bulk water business segment						
Treated water volume sold (kl'000)	409 887	435 726	446 548	439 542	422 791	(5.93%)
Raw water volume sold (kl'000)	619	630	574	574	595	(1.75%)
Total water sold (kl'000)	410 506	436 356	447 122	440 116	423 386	(5.92%)
Bulk water tariff 1 (Rc/kl)	5.397	4.951	4.593	4.225	3.901	9.00%
Bulk water tariff 2 (Rc/kl)	5.290	4.853	4.502	4.142	3.825	9.00%
WRC levy (Rc/kl)	0.062	0.057	0.054	0.049	0.046	8.77%
Total bulk cost/volume sold (Rc/kl)(1)	3.66	3.25	2.86	2.76	2.35	12.62%
kl'000 sold per employee(1)	357	396	449	431	433	(9.85%)
Operating risk indicators						
Working ratio Operating costs (excl depreciation and amortisation) divided by revenue	0.70	0.68	0.64	0.69	0.65	2.94%
Rate of return on assets Profit from operations divided by assets (excl investments)	7.04%	8.43%	11.45%	13.18%	15.57%	(1.39%)
Gross profit margin ratio	53.02%	56.22%	57.25%	53.05%	54.43%	(3.20%)
Debtors collection period (days) after provision for doubtful debts Trade and other receivables (excl VAT; grant funding and advance invoicing) divided by revenue x 365	41	41	41	39	35	-
Financial risk indicators						
Current ratio Current assets divided by current liabilities	2.36	2.10	2.48	3.55	3.21	12.38%
Interest cover before interest capitalised Profit from operations divided by finance costs before interest capitalised	2.80	4.50	5.93	5.12	5.26	(37.78%)
Debt: equity ratio Total interest-bearing debt divided by capital and reserves	0.29	0.34	0.22	0.28	0.31	(14.71%)
Debt: asset ratio Total interest-bearing debt divided by total assets	0.19	0.21	0.15	0.18	0.19	(9.52%)

(1) These indicators have been calculated using treated water volumes only.

Group five-year key performance indicators (continued)

	2017 R'000	2016 R'000	2015 R'000	2014 R'000	2013 R'000
Financial position					
Capital and reserves	6 823 327	5 983 758	5 239 108	4 416 184	3 613 872
Net debt	153 834	114 345	(474 916)	(990 325)	(945 624)
Assets excluding investments	8 426 434	7 642 701	5 999 900	4 565 172	3 826 892
Total interest-bearing debt	1 950 724	2 029 388	1 171 764	1 250 029	1 135 381
Total investments	1 796 890	1 915 042	1 646 680	2 240 354	2 081 005
Total assets	10 223 324	9 557 743	7 646 580	6 805 526	5 907 897
Financial performance					
Revenue	2 509 520	2 377 324	2 222 565	2 204 140	1 908 834
Cost of sales	(1 178 925)	(1 040 846)	(950 054)	(1 034 890)	(869 910)
Gross Profit	**1 330 595**	**1 336 478**	**1 272 511**	**1 169 250**	**1 038 924**
Other income	32 503	36 881	33 871	28 778	18 814
Other operating and administration expenses	(770 097)	(728 800)	(619 147)	(596 217)	(461 925)
Profit from operations	**593 001**	**644 559**	**687 235**	**601 811**	**595 813**
Net finance income	148 202	132 269	135 152	76 991	67 519
Share of profit from associate	4 995	4 427	4 602	3 627	3 482
Profit before taxation	**746 198**	**781 255**	**826 988**	**682 429**	**666 814**
Taxation	(101)	(65)	-	-	-
Profit for the year	**746 097**	**781 190**	**826 989**	**682 429**	**666 814**
Cash flow					
Net cash from operating activities	812 225	1 140 609	1 128 715	861 767	854 426
Net cash used in investing activities	(799 158)	(1 751 245)	(1 666 383)	(778 880)	(459 932)
Net cash (utilised) generated	**13 067**	**(610 636)**	**(537 668)**	**82 887**	**394 494**
Net cash (used in) from financing activities	(32 035)	616 588	542 908	(57 805)	(398 461)
Net decrease (increase) for the year	18 969	(5 952)	(5 240)	(25 082)	3 967
Net cash generated (utilised)	**(13 067)**	**610 636**	**537 668**	**(82 887)**	**(394 494)**

Value added statement

	2017 R'000	2016 R'000	2015 R'000	2014 R'000	2013 R'000
Gross revenue	2 509 520	2 377 324	2 222 565	2 204 140	1 908 834
Paid to suppliers for materials and services	(969 874)	(906 129)	(794 708)	(964 126)	(762 494)
Value added	**1 539 646**	**1 471 195**	**1 427 857**	**1 240 014**	**1 146 340**
Income from investments	149 601	133 454	137 857	122 546	134 026
Total wealth created	**1 689 247**	**1 604 649**	**1 565 714**	**1 362 560**	**1 280 366**
Salaries, wages and other benefits	765 151	658 277	597 270	525 240	454 190
Providers of debt capital	1 399	1 185	2 705	45 555	66 507
Depreciation	176 601	163 997	138 750	109 336	92 855
Profit for the year	746 097	781 190	826 989	682 429	666 814
Total wealth distributed	**1 689 247**	**1 604 649**	**1 565 714**	**1 362 560**	**1 280 366**

2017

2016

Employee statistics

	2017	2016	2015	2014	2013	2016-2017 Movement
Number of employees as at year-end	1 150	1 101	996	1 020	976	4.45%
Gross revenue per employee (R'000)	2 182	2 159	2 231	2 161	1 956	1.06%
Value added per employee (R'000)	1 339	1 336	1 434	1 216	1 175	0.22%
Wealth created per employee (R'000)	1 469	1 457	1 572	1 336	1 312	0.82%

Statement of Accounting Authority Responsibilities and Approval of the Financial Statements

The Accounting Authority is responsible for the integrity and preparation and fair presentation of the annual financial statements of Umgeni Water and its subsidiaries (the group). The Accounting Authority is required by the Public Finance Management Act No.1 of 1999 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), as amended, 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, Marsha Phillips CA (SA).

The Accounting Authority is 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 implement 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 Accounting Authority believes 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 Accounting Authority to indicate that any material breakdown in the functioning of controls, procedures and systems has occurred during the year under review. The Accounting Authority is 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 consolidated 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 Accounting Authority. The Audit Committee's approval is set out on page 129.

The Accounting Authority has reviewed the group's forecast financial performance for the year to 30 June 2018 as well as the longer term business plans and, in light of this review and the current financial position, he is satisfied that the group has access to adequate resources to continue as a going concern for the foreseeable future.

In the opinion of the Accounting Authority, 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 2017 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 135 to 196 were approved by the Accounting Authority on 20 September 2017.

Approved by
Mr. T Hlongwa CA (SA)
Acting 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 judgments and estimates.

In line with the principles of combined assurance as outlined in King III 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 2017 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 Accounting Authority 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 2017, the adoption of the financial statements by the Accounting Authority.

Dr. B Mkhize
Audit Committee Chair
12 September 2017

Report of the Auditor-General

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 set out on pages 135 to 196 , which comprise the consolidated and separate statements of financial position as at 30 June 2017, the consolidated and separate statements of profit or loss and other comprehensive income, statements of changes in equity and statements 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 Umgeni Water as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) applicable and the requirements of the Public Finance Management Act of South Africa (Act 1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act 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 my 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 for 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 on them, I do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in the audit
Impairment of capital work in progress	
The impairment of capital work in progress of R39.14 million in note 9 of the consolidated and separate financial statements is considered significant for Umgeni Water and its subsidiaries. Significant judgements and assumptions are applied by management to determine the appropriate value of capital work in progress based on the value in use of each appropriate cash-generating unit. The value in use calculation requires judgements and key assumptions to determine the following: › Future sales volumes; › Future cash flows; and › Discount rates. Accordingly, the impairment of capital work in progress is considered a key audit matter.	My audit procedures included considering the appropriateness of the judgements and assumptions applied by management to the determination of the impairment of capital work in progress in terms of the requirements of International Accounting Standard 36: Impairment of assets (IAS 36). My audit procedures focused on the significant inputs used by management in their calculation. I obtained an understanding and tested the operating effectiveness of relevant internal controls over the determination of impairments and I was satisfied with the results thereof. I assessed the appropriateness of the model and assumptions made by management that impacted the calculation. I found management's model and assumptions to be reasonable and consistent with my expectations. I recalculated the impairment for capital work in progress for a sample of cash generating units utilising the same assumptions used by management and determined that management's estimate to be within a reasonable range to my expectations.

Report of the Auditor-General (continued)

Report of the Auditor-General to Parliament on Umgeni Water (continued)

Report on the audit of the consolidated and separate financial statements (continued)

Key audit matters (continued)

Key audit matter (continued)	How the matter was addressed in the audit (continued)
Information technology (IT) system and controls	
The entity implemented SAP, a new integrated accounting and reporting system during the year. The implementation of the SAP system required significant audit attention and was considered a significant audit risk due to an inherent risk of the potential loss of integrity of key financial data and the possible breakdown in IT dependent controls within business cycles. Accordingly, this was considered a key audit matter.	I examined the entity's overall IT governance framework and key policies and procedures on programme development, systems security, programme access and general IT operations. In addition, aspects of security relating to access management and segregation of duties were also tested. In combination with my IT specialist auditors, I tested the data migration from the previous IT system to the new SAP system and when required, assessed and tested compensating controls to ensure that critical business processes continued post implementation, using substantially accurate data. In instances where SAP implementation issues impacting on significant financial statements items were still being resolved, I obtained audit evidence by alternative means. Based on the procedures performed, I was satisfied with the existing status of the implementation of SAP as relates to my audit of the current year financial statements.

Emphasis of matter

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

Legislative Changes – Consolidation of Water Boards

8. As disclosed in note 32 to the consolidated and separate financial statements, the Executive Authority of Umgeni Water has initiated a process of establishing a single water board in KwaZulu-Natal to amalgamate the work that is currently being done by the water boards.

Responsibilities of the accounting authority responsible for the consolidated and separate financial statements

9. The board members of Umgeni Water, which constitutes the accounting authority, are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the 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 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 intends to liquidate the entity or 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 International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 the auditor's report.

Report of the Auditor-General (continued)

Introduction and scope

13. In accordance with the Public Audit Act of South Africa, 2004 (Act 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 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 objectives presented in the annual performance report of the entity for the year ended 30 June 2017:

Objectives	Pages in annual performance report
Strategic objective 2: Increase customer and stakeholder value	59 - 60
Strategic objective 3: Increase mobilisation of funds	60
Strategic objective 4: Increase financial sustainability	60
Strategic objective 5: Improve financial ratios	61
Strategic objective 7: Improve and increase infrastructure assets	62
Strategic objective 8: Increase water resources sustainability	62 - 63

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 identify any material findings on the usefulness and reliability of the reported performance information for the objectives tabulated in paragraph 15 of my report.

Other matter

18. I draw attention to the matter below.

Achievement of planned targets

19. The annual performance report on pages 57 to 63 includes information on the achievement of planned targets for the year and explanations are also provided for the under achievement of a significant number of targets.

Report on 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 finding in respect of the compliance criteria for the applicable subject matter is as follows:

Expenditure management

22. Effective steps were not taken to prevent fruitless and wasteful expenditure disclosed in note 29 to the consolidated and separate financial statements, in contravention of section 51(1)(b)(ii) of the PFMA. This was the result of a payment to the outgoing chief executive in terms of a settlement agreement, which included the payment of his remuneration in respect of his extended employment contract for the period 20 August 2017 to 19 August 2019.

Report of the Auditor-General (continued)

Other information

23. The accounting authority of Umgeni Water 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 remuneration report. 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 on in the auditor's report.

24. My opinion on the consolidated and separate 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. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiency

26. 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 thereon. The matter reported below is limited to the significant internal control deficiency that resulted in the finding on the compliance with legislation included in the report.

Leadership

27. The accounting authority did not adequately ensure compliance with the PFMA in terms of its fiduciary responsibility to prevent fruitless and wasteful expenditure.

Other reports

28. 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 consolidated and separate financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the consolidated and separate financial statements or my findings on the reported performance information or compliance with legislation.

Audit Related Services and Special Audits

29. I performed agreed upon procedures in terms of International Standard on Related Services (ISRS) 4400 and the report was issued to the Department of Water and Sanitation in respect of the expenses incurred by Umgeni Water on the Working-for-Water Natural Resource Management Project, for the period 1 April 2016 to 31 March 2017.

30. I performed a review engagement of the interim financial information of Umgeni Water, in terms of International Standard on Review Engagements (ISRE) 2410, for the six-month period ended 31 December 2016, and issued an unqualified review conclusion.

Investigations

31. Investigations are in progress based on allegations of procurement and other irregularities.

Auditor - General

Pietermaritzburg
03 October 2017

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Report of the Auditor-General (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, the procedures performed on reported performance information for selected objectives and on the entity's compliance with respect to the selected subject matters.

Consolidated and separate financial statements

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in the 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 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 accounting authority's use of the going concern basis of accounting in the preparation of the consolidated and separate 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 the auditor's report. However, future events or conditions may cause the entity to cease operating as a going concern.
   - evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate 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 entity's or business activities within the group to express an opinion on the consolidated and separate 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.

Accounting Authority 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 Board had expired as at 30 June 2017 and as at the date of approval of the financial statements the Executive Authority was still in the process of appointing a new Board. This report is the Report of the Accounting Authority, the Acting Chief Executive, as appointed by the Minister of Water and Sanitation.

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, environmental management and 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 No. 1 of 1999), as amended (PFMA); and
- Public Audit (Act No. 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 annual financial statements.

Corporate governance and risk management

The Board supports the Code of Governance Principles as set out in King III. The organisation's policies, procedures and processes are continuously reviewed to align with King III 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 III is concerned. Where the organisation has not complied with a certain principle of King III, a rational reason and explanation for such deviation exists and is provided when required.

The Board is responsible for monitoring the risk management process. For further details on corporate governance and risk management refer to the section on corporate governance detailed on pages 35 to 41.

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 constituted during the reporting period is set out on pages 42 to 45 of the annual report.

Members of the Board and Executive Committee's emoluments are disclosed in the remuneration report on pages 139 to 140 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

310 Burger Street
Pietermaritzburg
3201

Postal address

PO Box 9
Pietermaritzburg
3200

Auditors

The Auditor-General of South Africa will continue to conduct external audit services to Umgeni Water for the next financial year.

Accounting Authority Report (continued)

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 2017/2018 effective 1 July 2017 has been approved at 15.0% for all Water Service Authorities after taking into account the drought which has continued over the last two years. The directors, after full analysis of its projected cash flows, are of the opinion that the tariff for 2017/2018 is appropriate and will not adversely affect Umgeni Water's gearing levels or its financial sustainability.

Price per kilolitre	2016	2017	2018
Bulk Tariff 1: Water Service Authorities			
Base tariff	R4.593	R4.951	R5.397
Tariff increase	R0.358	R0.446	R0.810
Umgeni Water bulk tariff	**R4.951**	**R5.397**	**R6.207**
% increase	*7.8%*	*9.0%*	*15.0%*
Capital unit charge Spring Grove dam	R0.458	R0.484	R0.518
uMkhomazi bulk water supply charge	-	R0.108	R0.124
New Tariff	**R5.409**	**R5.989**	**R6.849**
% increase	*7.8%*	*10.7%*	*14.4%*
Bulk Tariff 2: eThekwini Metropolitan Municipality			
Base tariff	R4.502	R4.853	R5.290
Tariff increase	R0.351	R0.437	R0.794
Umgeni Water bulk tariff	**R4.853**	**R5.290**	**R6.084**
% increase	*7.8%*	*9.0%*	*15.0%*
Capital unit charge Spring Grove dam	R0.458	R0.484	R0.518
uMkhomazi Scheme bulk water supply charge	-	R0.106	R0.122
New Tariff	**R5.311**	**R5.880**	**R6.724**
% increase	*7.8%*	*10.7%*	*14.4%*
Bulk Tariff 3: Sembcorp Siza Water			
Base tariff	R4.633	R6.518	R7.105
Tariff increase	R1.885	R0.587	R1.066
Umgeni Water bulk tariff	**R6.518**	**R7.105**	**R8.171**
% increase	*40.7%*	*9.0%*	*15.0%*
Capital unit charge Spring Grove Dam	R0.458	R0.484	R0.518
uMkhomazi Scheme bulk water supply charge	-	R0.142	R0.163
New Tariff	**R6.976**	**R7.731**	**R8.852**
% increase	*37.9%*	*10.8%*	*14.5%*

Accounting Authority Report (continued)

Financial performance

The group achieved a profit for the year of R746m (2016: R781m). The 4% decrease year on year is primarily attributable to the lower sales volumes as a result of the drought and increased cost of sales resulting from the main cost drivers also to some extent influenced by the drought as the quality of raw water was poor and pumping continued throughout the year to assist with assurance of potable water supply within the areas of operation.

Impairments to property, plant and equipment totalled R42m (2016: R133m). Impairments to existing assets included in buildings and infrastructure was R3m (2016: R95m) and impairments to capital work in progress was R39m (2016: R38m). The impairments during the current and prior years relate primarily to development infrastructure and reflect the social component carried by Umgeni Water. Refer to note 9 of the financial statements for further details on impairments.

Operating cash flows were R812m (2016: R1 141m), a reduction of 29% year on year as a result of the lower sales volumes combined with increased working capital requirements. This was not sufficient after the repayment of debts to fund the capital expenditure in the current year and as a result the shortfall was funded through the utilisation of investments of R156m and grant funding of R371m from the Department of Water and Sanitation for development projects in progress.

Capital expenditure on property, plant and equipment totalled to R1 125m in the current year, a 43% reduction from R1 978m in the prior year. Expenditure on intangible assets (software) totalled to R46m (2016: R56m). The group's capital commitments are set out in note 9.3 of the financial statements and the funding thereof is discussed in the financial review on page 120.

Loan covenants remain un-breached at financial year end and Umgeni Water remained within its approved borrowing limits of R2 550m.

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 113 to 124.

Subsidiary and associate companies

Umgeni Water is the sole shareholder of 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.

The Executive Authority of Umgeni Water has initiated a process towards the establishment of a single provincial water board in KwaZulu-Natal. As at the end of the reporting year, this process was still underway and is planned to culminate in a merger between Umgeni Water and Mhlathuze Water. 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.

Accounting Authority Report (continued)

The move to amalgamate the two water boards is not isolated from other initiatives that government is engaged in to ensure the sustainability of water supply to the province. The accounting authority has no reason to believe that this process will negatively affect the going concern position of the entity during the 2017/2018 financial year, but albeit that it will create growth opportunities for the merged entity (once all conditional processes have been achieved) with a clear mandate from the Executive Authority.

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 R13m (2016: R12m). Management also apply a qualitative aspect to all errors found.

Fruitless and wasteful expenditure

Fruitless and wasteful expenditure incurred for the year was R5.2m (2016: R0.007m) which arose as a result of a settlement agreement entered into with the Chief Executive. Further details are set out in note 29 of the financail statements.

Irregular expenditure

Irregular expenditure totalling R9.8m (2016: R0.4m) arose primarily as a result of non-compliance to the supply chain management policy and was subsequently condoned as valid expenditure incurred in support of the business requirements. 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 and 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 none led to fraud nor 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 59 to 63 of the 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 (General Managers (GM's)).

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, General Managers and Senior Managers at grade level 4 for meeting the organisational objectives set by the shareholder.

Directors' and Executives' Emoluments

	Fees for services/ salary	Allowances and Bonuses	Expense allowances	Retirement contributions	2017 Total	2016 Total
	R'000	R'000	R'000	R'000	R'000	R'000
Non-Executive Board Members						
Ms. N Afolayan N1	314	-	6	-	320	347
Mr. GDJ Atkinson N1	316	-	8	-	324	334
Ms. NB Chamane N1	389	-	6	-	395	417
Ms. TMV Dube N1	334	-	4	-	338	376
Mr. VG Gounden N1	248	-	4	-	252	288
Mr. A Mahlalutye (Chairman) N1	548	-	6	-	554	616
Ms. ZB Mathenjwa N1	370	-	4	-	374	446
Mr. T Nkhahle N1	369	-	3	-	372	354
Mr. VG Reddy N1	368	-	5	-	373	389
Ms. TC Shezi N1	362	-	6	-	368	388
Mr. IAS Vally N1	367	-	7	-	374	399
Mr. T Zulu N1	354	-	5	-	359	352
Total Non-Executive Board Members	**4 338**	**-**	**65**	**-**	**4 403**	**4 707**
Executive Board Member						
Mr. C Gamede (CE) N2	8 688	8 797	206	-	17 691	3 721
Total - Parent	**13 027**	**8 797**	**271**	**-**	**22 093**	**8 428**
Msinsi Holdings SOC Ltd.						
Non-Executive Board Members	296	-	-	-	296	117
Total Subsidiaries	**296**	**-**	**-**	**-**	**296**	**117**
Total Group	**13 323**	**8 797**	**271**	**-**	**22 389**	**8 545**
Exco Members						
Mr. M Cele	1 503	268	150	-	1 920	1 864
Mr. S Gillham	1 537	7 950	50	354	9 890	2 367
Mr. T Hlongwa	1 794	647	202	-	2 644	2 454
Ms. M Moleko	1 564	555	150	-	2 269	2 158
Total Exco	**6 398**	**9 420**	**552**	**354**	**16 723**	**8 843**

Remuneration Report (continued)

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, General Managers 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 2016, as a result the following long-term incentive bonuses have accrued to Executives:

Name	Designation	Opening Balance 1 July 2016	Accrued 2017	Sub-total 30 June 2017	Utilised 2017	Total provided 30 June 2017
		R'000	R'000	R'000	R'000	R'000
Mr. C Gamede [N2]	Chief Executive	3 507	4 137	7 644	(7 644)	-
Mr. S Gillham [N3]	GM Engineering	3 507	3 830	7 337	(7 337)	-
Mr. T Hlongwa	GM Finance	3 507	4 137	7 644	-	7 644
Ms. M Moleko	GM Corp Service	3 507	4 137	7 644	-	7 644
Mr. M Cele	GM Operations	3 507	4 137	7 644	-	7 644
Long-term incentive bonus provided		**17 533**	**20 380**	**37 912**	**(14 981)**	**22 932**

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	Chief Executive	20 August 2012	n/a	n/a [N2]
Mr. M Cele	GM Operations	03 November 2014	n/a	02 November 2019
Mr. S Gillham	GM Engineering and Scientific Services	01 February 2012	n/a	01 February 2019 [N3]
Mr. T Hlongwa	GM Finance	01 July 2013	n/a	01 July 2018
Ms. M Moleko	GM Corporate Service	01 January 2014	n/a	01 January 2019

Umgeni Water Executives are also directors in the wholly owned subsidiaries 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. C Gamede [N4]	Non-Executive Director	16 April 2014	✓	X
Mr. S Gillham	Non-Executive Director	15 March 2012	✓	X
Mr. T Hlongwa	Non-Executive Director	16 April 2014 [N5]	✓	✓
Ms. M Moleko	Non-Executive Director	16 April 2014	X	✓

N1: Term ended 30 June 2017.

N2: The Board entered into a settlement agreement with the CE who exited his contract of employment on 30th June 2017. The amount disclosed under fees for services/salary includes R5.2m accrued in terms of the settlement agreement. Allowances and bonuses comprise of R7.6m long-term incentive accrued in terms of the settlement agreement.

N3: Contract ended 01 February 2017 and extended for two years to 31 January 2019. Long-term Incentive paid at end of contract R7.3m included under allowances and bonuses.

N4: Resigned from Msinsi Holding SOC Limited as at 1 July 2017.

N5: Appointment date for both Msinsi Holdings SOC Limited and Umgeni Water Services SOC Limited.

Statements of Profit and Loss

For the year ended 30 June 2017

	Note	Group		Parent	
		2017	2016	2017	2016
		R'000	R'000	R'000	R'000
Revenue	4	2 509 520	2 377 324	2 496 605	2 363 290
Cost of sales		(1 178 925)	(1 040 846)	(1 178 925)	(1 040 846)
Changes in water inventory		823	(698)	823	(698)
Chemicals		(62 516)	(51 742)	(62 516)	(51 742)
Depreciation		(133 698)	(129 421)	(133 698)	(129 421)
Energy		(226 894)	(199 086)	(226 894)	(199 086)
Maintenance		(174 586)	(154 952)	(174 586)	(154 952)
Raw water		(180 160)	(164 578)	(180 160)	(164 578)
Section 30 activities		(150 942)	(108 063)	(150 942)	(108 063)
Staff costs		(205 421)	(183 312)	(205 421)	(183 312)
Other direct operating expenses		(45 531)	(48 994)	(45 531)	(48 994)
Gross profit		**1 330 595**	**1 336 478**	**1 317 680**	**1 322 444**
Other income	5	32 503	36 881	34 532	40 583
Other operating and administration expenses		(770 097)	(728 800)	(749 027)	(704 779)
Profit from operations	6.1	**593 001**	**644 559**	**603 185**	**658 248**
Net finance income		148 202	132 269	148 076	131 260
Interest income	7	149 601	133 454	149 431	132 421
Finance costs	8	(1 399)	(1 185)	(1 355)	(1 161)
Share of profit from associate	12	4 995	4 427	-	-
Profit before taxation		**746 198**	**781 255**	**751 261**	**789 508**
Taxation	6.2	(101)	(65)	-	-
Profit for the year		**746 097**	**781 190**	**751 261**	**789 508**

Statements of Other Comprehensive Income

For the year ended 30 June 2017

	Group		Parent	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
Profit for the year	746 097	781 190	751 261	789 508
Other comprehensive income:				
Items that will not be reclassified to profit and loss:				
Remeasurement of gains and losses - retirement plans	93 472	(36 540)	93 472	(36 540)
Total other comprehensive income for the year	**839 569**	**744 650**	**844 733**	**752 968**

Statements of Financial Position

For the year ended 30 June 2017

	Note	Group		Parent	
		2017	2016	2017	2016
		R'000	R'000	R'000	R'000
ASSETS					
Non-current assets		**8 152 485**	**7 452 095**	**8 133 886**	**7 445 282**
Property, plant and equipment	9	7 774 146	7 043 119	7 752 927	7 026 173
Intangible assets	10	133 140	96 002	132 913	95 801
Biological assets	11	4 244	4 911	-	-
Subsidiaries and associates	12	6 005	6 005	13 096	21 250
Investments	13	230 175	295 142	230 175	295 142
Other financial assets	14	4 774	6 916	4 774	6 916
Current assets		**2 070 839**	**2 105 648**	**2 054 843**	**2 075 206**
Investments	13	1 566 715	1 619 900	1 566 715	1 619 900
Inventories	15	15 735	14 721	15 735	14 721
Trade and other receivables	16	427 887	398 776	420 456	392 381
Interest receivable	17	35 585	28 366	35 585	28 366
Bank and cash	18.1	24 917	43 885	16 352	19 838
Total assets		**10 223 324**	**9 557 743**	**10 188 729**	**9 520 488**
EQUITY AND LIABILITIES					
Capital and reserves		**6 823 327**	**5 983 758**	**6 790 174**	**5 945 441**
Capital	19	442 847	442 847	442 847	442 847
OCI Reserve		(11 350)	(104 822)	(11 350)	(104 822)
Accumulated profit		6 391 830	5 645 733	6 358 677	5 607 416
Non-current liabilities		**2 523 549**	**2 571 252**	**2 522 537**	**2 570 194**
Long-term debt	20	1 871 914	1 950 770	1 870 902	1 949 712
Other non-current liabilities	21	43 110	3 152	43 110	3 152
Provisions	22	39 120	25 046	39 120	25 046
Post-retirement benefit obligations	26	569 405	592 284	569 405	592 284
Current liabilities		**876 448**	**1 002 733**	**876 018**	**1 004 853**
Short-term debt	20	78 810	78 618	78 810	78 618
Provisions	22	113 727	88 780	110 473	85 365
Accounts payable	23	626 453	776 470	629 277	782 005
Interest payable		57 458	58 865	57 458	58 865
Total equity and liabilities		**10 223 324**	**9 557 743**	**10 188 729**	**9 520 488**

Statements of Changes in Equity

For the year ended 30 June 2017

	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 2015	**442 847**	**(68 282)**	**4 864 543**	**5 239 108**
Movement for the year				
Total comprehensive income	-	(36 540)	781 190	744 650
Profit for the year	-	-	781 190	781 190
Other comprehensive income	-	(36 540)	-	(36 540)
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**

	Parent			
	Capital	OCI Reserve	Accumulated profit	Total
	R'000	R'000	R'000	R'000
Balance as at 30 June 2015	**442 847**	**(68 282)**	**4 817 908**	**5 192 473**
Movement for the year				
Total comprehensive income	-	(36 540)	789 508	752 968
Profit for the year	-	-	789 508	789 508
Other comprehensive income	-	(36 540)	-	(36 540)
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**

Statements of Cash Flows

For the year ended 30 June 2017

	Note	Group		Parent	
		2017	2016	2017	2016
		R'000	R'000	R'000	R'000
OPERATING ACTIVITIES					
Cash receipts from customers		2 475 551	2 362 766	2 462 141	2 350 030
Cash paid to suppliers and employees		(1 663 326)	(1 222 157)	(1 643 878)	(1 197 700)
Net cash from operating activities	18.2	**812 225**	**1 140 609**	**818 263**	**1 152 330**
INVESTING ACTIVITIES					
Proceeds on disposals of assets		1 845	2 457	1 845	2 457
Receipt of grants	9	371 056	280 016	371 056	280 016
Additions to property, plant and equipment	9	(1 126 025)	(1 978 099)	(1 118 301)	(1 963 217)
Additions to intangible assets	10	(46 240)	(55 707)	(45 917)	(55 647)
Additions to biological assets	11	-	(510)	-	-
Proceeds on disposal of biological assets		206	598	-	-
Decrease/(increase) of investments in subsidiaries		-	-	1 730	(11 555)
Net cash used in investing activities		**(799 158)**	**(1 751 245)**	**(789 587)**	**(1 747 946)**
FINANCING ACTIVITIES					
Long-term borrowings raised		-	936 587	-	935 000
Long-term borrowings repaid	20	(78 619)	(78 434)	(78 619)	(78 434)
Decrease/(increase) in investments		156 296	(236 593)	156 296	(236 593)
Interest received		103 989	106 367	103 819	105 335
Finance costs paid		(213 701)	(111 339)	(213 658)	(111 316)
Net cash (used in) from financing activities		**(32 035)**	**616 588**	**(32 162)**	**613 992**
CASH AND CASH EQUIVALENTS					
Net (decrease)/increase for the year		(18 968)	5 952	(3 486)	18 376
At beginning of year		43 885	37 933	19 838	1 462
At end of year	18.1	**24 917**	**43 885**	**16 352**	**19 838**

Notes to the Consolidated Financial Statements

For the year ended 30 June 2017

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 were otherwise stated. The following principal accounting policies were applied by the group for the year ended 30 June 2017.

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 Judgments in Applying the Group's Accounting Policies

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

2.1. Basis of Preparation and Measurement (continued)

Critical Judgments in Applying the Group's Accounting Policies (continued)

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 judgments in the process of applying the group's accounting policies.

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 programmes, 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 2017. 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 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,

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

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 (continued)

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 it's 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 group does not expect the adoption of IFRS9 to have a significant impact on total assets and total liabilities.

IFRS 15 Revenue from Contracts with Customers Effective 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.

Extensive disclosures will be required under this standard. The group does not expect the adoption of the standard to have a significant impact on total revenue.

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 recognize 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 as the leases held by the group which are not material.

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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

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 below.

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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

2.2. Summary of Significant Accounting Policies (continued)

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.

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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

2.2. Summary of Significant Accounting Policies (continued)

Associates (continued)

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.

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 are charged to the statement of profit and loss.

Subsequent expenditure is only capitalized if it is probable that the future economic benefits associated with the expenditure will flow to the group.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

2.2. Summary of Significant Accounting Policies (continued)

Property, Plant & Equipment (continued)

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.

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%
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.

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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

2.2. Summary of Significant Accounting Policies (continued)

Leases (continued)

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;
- 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 assets are 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 programmes 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 and plantations 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

2.2. Summary of Significant Accounting Policies (continued)

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.

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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

2.2. Summary of Significant Accounting Policies (continued)

Employee Benefits (continued)

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.

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 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

2.2. Summary of Significant Accounting Policies (continued)

Financial Assets (continued)

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 statement 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.

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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

2.2. Summary of Significant Accounting Policies (continued)

Financial Liabilities (continued)

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).

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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

2.2. Summary of Significant Accounting Policies (continued)

Revenue (continued)

Rendering of services (continued)

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.

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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

2.2. Summary of Significant Accounting Policies (continued)

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.

(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.

Segment results that are reported include items directly attributable to the segment as well as those that can be allocated on a reasonable basis. Additional information on the major customers per segment are included in note 16.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

3. Operating Segments and Segment Reporting (continued)

		Group			
		Primary activities			
		Bulk water	Waste water	Other activities	Total
		kl'000	kl'000	kl'000	kl'000
For the year ended 30 June 2017					
Treated water volume sold		409 887	28 568	-	438 455
Raw water volume sold		619	-	-	619
		R'000	R'000	R'000	R'000
Revenue		2 186 687	144 708	178 125	2 509 520
Cost of sales		(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)	(78 990)	(770 097)
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	6.2	-	-	(101)	(101)
Profit for the year		**748 236**	**44 975**	**(47 114)**	**746 097**
Capital expenditure		**958 498**	**204 201**	**9 566**	**1 172 265**
Segment assets		7 100 295	1 095 329	139 550	8 335 174
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 2017

3. Operating Segments and Segment Reporting (continued)

		Group			
		Primary activities			
		Bulk water	Waste water	Other activities	Total
		kl'000	kl'000	kl'000	kl'000
For the year ended 30 June 2016					
Treated water volume sold		435 726	28 764	-	464 490
Raw water volume sold		630	-	-	630
		R'000	R'000	R'000	R'000
Revenue		2 131 950	116 336	129 038	2 377 324
Cost of sales		(856 495)	(75 308)	(109 043)	(1 040 846)
Changes in water inventory		(698)	-	-	(698)
Chemicals		(47 024)	(4 718)	-	(51 742)
Depreciation		(126 416)	(3 005)	-	(129 421)
Energy		(180 947)	(18 139)	-	(199 086)
Maintenance		(136 958)	(17 271)	(723)	(154 952)
Raw water		(164 578)	-	-	(164 578)
Section 30 activities		-	-	(108 063)	(108 063)
Staff costs		(159 093)	(23 978)	(241)	(183 312)
Other direct operating expenses		(40 781)	(8 197)	(16)	(48 994)
Gross profit		**1 275 455**	**41 028**	**19 995**	**1 336 478**
Other income		31 261	3 822	1 798	36 881
Other operating and administration expenses		(692 130)	(12 557)	(24 113)	(728 800)
Profit from operations		**614 586**	**32 293**	**(2 320)**	**644 559**
Interest income		132 421	-	1 033	133 454
Finance costs		(446)	(715)	(24)	(1 185)
Share of profit from associate		-	-	4 427	4 427
Profit before tax		**746 561**	**31 578**	**3 116**	**781 255**
Taxation	6.2	-	-	(65)	(65)
Profit for the year		**746 561**	**31 578**	**3 051**	**781 190**
Capital expenditure		**1 654 156**	**356 596**	**23 054**	**2 033 806**
Segment assets		6 513 837	834 609	189 451	7 537 897
Interest in associate		-	-	6 005	6 005
Investments		1 785 438	-	129 604	1 915 042
Unallocated					98 799
Consolidated total assets					**9 557 743**
Segment liabilities		2 019 197	10 191	167 503	2 196 891
Unallocated					1 377 094
Consolidated total liabilities					**3 573 985**

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

4. Revenue

	Group		Parent	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
Sale of goods	**2 331 395**	**2 262 320**	**2 331 395**	**2 248 286**
Water sales	2 186 687	2 131 950	2 186 687	2 131 950
Wastewater	144 708	130 370	144 708	116 336
Rendering of services - Other activities	**178 125**	**115 004**	**165 210**	**115 004**
Water Infrastructure	116 305	81 345	116 305	81 345
Scientific and environmental	20 136	16 603	20 136	16 603
Operating and Maintenance	6 391	1 633	6 391	1 633
Other	35 293	15 423	22 378	15 423
Included in revenues arising from water sales are revenues of approximately R1 582m (2016: R1 554m) from sales to the group's largest customer. (Refer to note 27)				
Total revenue	**2 509 520**	**2 377 324**	**2 496 605**	**2 363 290**

5. Other Income

	Group 2017	Group 2016	Parent 2017	Parent 2016
Sundry income	28 723	33 182	31 498	37 541
Rental income	3 780	3 699	3 034	3 042
Total other income	**32 503**	**36 881**	**34 532**	**40 583**

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 2017

6.1. Profit from Operations

	Group		Parent	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
Profit from operations is stated after taking the following items into account:				
Asset impairments and write-offs	57 872	140 088	57 872	140 088
Buildings & infrastructure impairments (refer to note 9)	2 741	94 755	2 741	94 755
Buildings & infrastructure write-offs (refer to note 9)	-	5 584	-	5 584
Capital work-in-progress impairments (refer to note 9)	39 144	38 126	39 144	38 126
Other asset impairments and write-offs	15 987	1 623	15 987	1 623
Amortisation	11 857	6 916	11 559	6 730
Right of use agreement (refer to note 14)	2 754	2 694	2 754	2 694
Intangible assets (refer to note 10)	9 103	4 222	8 805	4 036
Auditors remuneration	3 714	2 748	2 839	1 836
Audit fees - current year	3 363	2 944	2 488	2 032
Audit fees - prior year under (over) provision	351	(196)	351	(196)
Board members' emoluments (refer to pg 139)	4 699	4 824	4 403	4 707
Depreciation	176 601	163 997	173 150	161 916
Buildings and infrastructure (refer to note 9)	139 742	135 990	139 742	135 990
Equipment and vehicles (refer to note 9)	36 859	28 007	33 408	25 926
Doubtful debts provision	47 206	3 805	47 206	3 805
Fair value adjustment of biological assets (refer to note 11)	788	(691)	-	-
Impairment (Impairment reversal) on investment in subsidiary	-	-	6 424	(915)
Legal fees	4 941	7 228	4 816	6 350
Maintenance	199 192	175 986	190 043	169 331
Direct costs	174 586	154 952	174 586	154 952
Indirect costs	24 606	21 034	15 457	14 379
Operating lease payments	1 023	423	805	423
(Profit)/loss on disposal of property, plant and equipment	(1 026)	4 749	(1 026)	4 749
(Profit)/loss on disposal of biological assets	(327)	425	-	-
Retirement benefits	105 594	94 714	105 594	94 714
Post retirement medical aid (refer to note 26.3)	47 307	40 634	47 307	40 634
Pension - defined benefit (refer to note 26.2)	58 287	54 080	58 287	54 080
Salaries and other staff costs	659 557	563 563	625 570	532 361
Direct	205 421	183 312	205 421	183 312
Indirect	354 753	289 734	320 766	258 531
Maintenance	99 383	90 518	99 383	90 518
	No.	No.	No.	No.
Number of employees at 30 June				
Permanent	996	990	880	873
Fixed term contracts	154	111	154	111
Total number of employees	**1 150**	**1 101**	**1 034**	**984**

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

6.2 Taxation

	Group		Parent	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
Taxation arose from a 100% owned subsidiary Umgeni Water Services SOC Ltd.				
Taxation expense	101	65	-	-
Reconciliation of taxation				
Accounting profit	5 305	4 597	-	-
Permanent differences	(4 945)	(4 365)	-	-
Dividend received	(4 995)	(4 427)	-	-
Disallowed expenses	50	62	-	-
Taxable income	360	232	-	-
Taxation expense	**101**	**65**	**-**	**-**

7. Interest Income

	Group 2017 R'000	Group 2016 R'000	Parent 2017 R'000	Parent 2016 R'000
Interest received - investments	148 819	131 719	148 819	131 719
Interest received - other financial assets (refer to note 14)	612	702	612	702
Interest received - other	170	1 033	-	-
Total interest income	**149 601**	**133 454**	**149 431**	**132 421**

8. Finance Costs

	Group 2017 R'000	Group 2016 R'000	Parent 2017 R'000	Parent 2016 R'000
Bank overdrafts and other	1 325	1 155	1 325	1 155
Bonds	64 200	64 376	64 200	64 376
Loans	146 410	77 838	146 366	77 814
Less: borrowing costs capitalised (refer to note 9)	(210 536)	(142 184)	(210 536)	(142 184)
Interest was capitalised to work-in-progress at the gross weighted average cost of capital of 10.59% (2016: 10.53%).				
Total finance costs	**1 399**	**1 185**	**1 355**	**1 161**

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

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 2017							
Carrying Amount 1 July 2016	3 543	3 800 931	84 359	3 137 339	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**	**3 713 457**	**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**	**3 713 457**	**7 752 927**	**21 219**	**7 774 146**

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

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 2016							
Carrying Amount 1 July 2015	3 543	3 589 768	87 749	1 821 732	5 502 792	4 145	5 506 937
Cost	3 543	5 175 637	186 838	2 345 678	7 711 696	14 705	7 726 401
Accumulated impairments	-	(452 666)	-	(91 121)	(543 787)	-	(543 787)
Accumulated grant funding	-	(147 148)	-	(432 825)	(579 973)	-	(579 973)
Accumulated depreciation	-	(986 055)	(99 089)	-	(1 085 144)	(10 560)	(1 095 704)
Additions	-	-	24 159	1 939 058	1 963 217	14 882	1 978 099
Grant funding	-	-	-	(280 016)	(280 016)	-	(280 016)
Borrowing costs capitalised	-	-	-	142 184	142 184	-	142 184
Disposals/Asset write-offs	-	(5 584)	(1 623)	-	(7 207)	-	(7 207)
Cost	-	(18 614)	(13 342)	-	(31 956)	-	(31 956)
Accumulated depreciation	-	13 030	11 719	-	24 749	-	24 749
Depreciation charge	-	(135 990)	(25 926)	-	(161 916)	(2 081)	(163 997)
							-
Impairment	-	(94 755)	-	(38 126)	(132 881)	-	(132 881)
Commissioning	-	447 492	-	(447 492)	-	-	-
Cost	-	650 978	-	(650 978)	-	-	-
Accumulated grant funding	-	(173 562)	-	173 562	-	-	-
Accumulated impairment	-	(29 924)	-	29 924	-	-	-
Total property, plant and equipment	**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)
Total property, plant and equipment	**3 543**	**3 800 931**	**84 359**	**3 137 340**	**7 026 173**	**16 946**	**7 043 119**

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

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 it 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 10.59% (2016: 9.46%). 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

	Accumulated Impairment 30 June 2016	Impairment expense 30 June 2017	Accumulated Impairment 30 June 2017
	R'000	R'000	R'000
Buildings & infrastructure			
Greater Eston	731	(159)	572
Richmond	2 158	(346)	1 812
257 Piepline	-	3 219	3 219

	Progressive Impairment 2016	Progressive Impairment 2017	Accumulated Impairment 30 June 2016	Impairment expense 30 June 2017	Accumulated Impairment 30 June 2017
	%	%	R'000	R'000	R'000
Work in progress					
Greater Mpofana (Phase 1)	15%	46%	99 322	38 758	138 036
Impendle BWSS	74%	100%	-	386	386

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

9.1. Capital Commitments

	Group		Parent	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
Commitments in respect of capital expenditure for the expansion, augmentation and upgrades of pipelines and water works:				
- contracted for but not provided for in the financial statements	947 551	1 764 031	946 604	1 754 781
- authorised but not contracted for	1 585 868	966 240	1 585 868	964 690
Total capital commitments	**2 533 419**	**2 730 271**	**2 532 472**	**2 719 471**
Estimated capital expenditure to be incurred as follows:				
- Within one year	1 058 258	353 106	1 057 311	342 306
- Two to five years	1 106 030	735 531	1 106 030	735 531
- More than five years	369 131	1 641 634	369 131	1 641 634
	2 533 419	**2 730 271**	**2 532 472**	**2 719 471**

The proposed capital expenditure will be financed through internally generated funds, borrowings and grants.

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 2017					
SOFTWARE					
Carrying Amount value 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	**117 863**	**15 050**	**132 913**	**227**	**133 140**

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

10. Intangible Assets (continued)

	Intangible Asset	Work in progress	Parent Total	Subsidiary	Group
	R'000	R'000	R'000	R'000	R'000
As at 30 June 2016					
SOFTWARE					
Carrying Amount value 1 July	15 642	28 548	44 190	327	44 517
Cost	43 537	28 548	72 086	338	72 424
Accumulated amortisation	(27 896)	-	(27 896)	(11)	(27 907)
Additions	470	55 177	55 647	60	55 707
Amortisation	(4 036)	-	(4 036)	(186)	(4 222)
Total intangible assets	**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)
Total intangible assets	**12 076**	**83 725**	**95 801**	**201**	**96 002**

11. Biological Assets

	Group		Parent	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
11.1. Game	**4 244**	**4 911**	**-**	**-**
Opening carrying amount	4 911	4 733	-	-
Additions	1 519	510	-	-
Disposals	(457)	(1 023)	-	-
Write off of animals poached	(940)	-	-	-
Fair value adjustment	(788)	691	-	-
The carrying amount was based on an estimated 492 (2016: 539) 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 is it pledged as security.				
Total biological assets	**4 244**	**4 911**	**-**	**-**

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

12. Subsidiaries and Associates

	Group 2017 R'000	Group 2016 R'000	Parent 2017 R'000	Parent 2016 R'000
12.1. Investments in Subsidiaries and Associates	**6 005**	**6 005**	**-**	**6 424**
Cost	2 590	2 590	30 000	30 000
Accumulated impairment	-	-	(30 000)	(23 576)
Share of post-acquisition reserves	3 415	3 415	-	-
12.2. Loans to (From) Subsidiaries and Associates	**-**	**-**	**13 096**	**14 826**
Msinsi Holdings SOC Limited	-	-	13 041	14 771
Umgeni Water Services SOC Limited	-	-	55	55
The loan with Umgeni Water Services has no set date for repayment and bears no interest. The loan with Msinsi Holdings SOC Limited is unsecured and bears interest at 7.35% per annum. The loan is expected to be paid by 2026.				
Total subsidiaries and associates	**6 005**	**6 005**	**13 096**	**21 250**

Investments in Subsidiaries			Proportion of ownership interest		Proportion of voting power held	
Subsidiary	Principal activity	Place of incorporation	2017	2016	2017	2016
			%	%	%	%
Umgeni Water Services SOC Limited	Water services	RSA	100	100	100	100
Msinsi Holdings SOC Limited	Land and environmental management	RSA	100	100	100	100

The above entities remained subsidiaries throughout the year.

During the year Umgeni Water impaired its investment in Msinsi SOC Limited by R6 424m as it is expected to be in a net loss position in the next 5 years. The impairment amount was based on value- in- use calculations using the projected operating cashflows of Msinisi and the weighted average cost of capital as at 30 June 2017 of 10.59%.

Umgeni Water continues to provide financial support to Msinsi Holdings SOC Limited to ensure that the company continues to trade in the foreseeable future without any disruption in its business. Msinsi SOC Limited has an investment of 16.67% in Powaprops 31 (Proprietary) Limited. The investment has been fully impaired in 2013.

Investments in associate of Umgeni Water Services SOC Limited			Proportion of ownership interest		Proportion of voting power held	
Associate	Principal activity	Place of incorporation	2017	2016	2017	2016
			%	%	%	%
Durban Water Recycling (Pty) Limited	Water recycling	RSA	18.5	18.5	18.5	18.5

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

12. Subsidiaries and Associates (continued)

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 R27m declared by the Board of Durban Water Recycling on 19 May 2017.

	Carrying amount		Directors' valuation	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
Investments in associate of Umgeni Water Services (SOC) Limited				
Durban Water Recycling (Pty) Limited	6 005	6 005	6 005	6 005
Investments held by Msinsi Holdings (SOC) Limited				
Powaprops 31 (Pty) Limited	-	-	-	-
Net Investment	**6 005**	**6 005**	**6 005**	**6 005**

	2017	2016
	R'000	R'000
Summarised financial information of associates:		
Total non-current assets of associates	24 473	29 955
Total non-current liabilities of associates	9 527	13 792
Total current assets of associates	56 711	52 427
Total current liabilities of associates	12 200	12 201
Total capital and reserves	59 456	56 389
Total revenue of associates	80 224	74 070
Share of profit for the year of associates	4 995	4 427

13. Investments

	Group		Parent	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
13.1. Long-term Investments	230 175	295 142	230 175	295 142
Held-to-maturity	230 175	150 142	230 175	150 142
Loans and receivables	-	145 000	-	145 000

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.

Loans receivables represents money market funded investments.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

13. Investments (continued)

	Group		Parent	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
13.2. Short-term Investments	**1 566 715**	**1 619 900**	**1 566 715**	**1 619 900**
Loans and receivables	1 566 715	1 619 900	1 566 715	1 619 900
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.				
Total investments	**1 796 890**	**1 915 042**	**1 796 890**	**1 915 042**
13.1.1 Analysis of Held-to-Maturity Financial Assets				
Opening Balance	150 142	77 097	150 142	77 097
Receipt of capital and interest	80 033	73 045	80 033	73 045
Closing Balance	**230 175**	**150 142**	**230 175**	**150 142**
14. Other Financial Assets				
Opening balance	6 916	8 908	6 916	8 908
Amortisation	(2 754)	(2 694)	(2 754)	(2 694)
Interest income	612	702	612	702
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.				
Total other financial assets	**4 774**	**6 916**	**4 774**	**6 916**
15. Inventories				
15.1. Stores	**13 809**	**13 618**	**13 809**	**13 618**
Pipe inventories	612	627	612	627
Maintenance spares	1 216	1 284	1 216	1 284
Chemicals	5 512	6 060	5 512	6 060
Miscellaneous	6 469	5 647	6 469	5 647
15.2. Water Inventory				
Water inventory consists of closing inventory of raw and treated water.	1 926	1 103	1 926	1 103
Total inventories	**15 735**	**14 721**	**15 735**	**14 721**

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

16. Trade and Other Receivables

	Group		Parent	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
Trade receivables	407 697	334 271	407 697	334 271
Less: provision for doubtful debts	(66 429)	(31 678)	(66 429)	(31 678)
Opening Balance	(31 678)	(22 964)	(31 678)	(22 964)
Written off during the year	12 455	34	12 455	34
Provided for during the year	(47 206)	(8 748)	(47 206)	(8 748)
Sub-total trade receivables	**341 268**	**302 593**	**341 268**	**302 593**
Sundry debtors	86 635	96 199	79 188	89 788
Less: provision for doubtful debts	(16)	(16)	-	-
Sub-total sundry debtors	**86 618**	**96 183**	**79 188**	**89 788**
Total trade and other receivables	**427 887**	**398 776**	**420 456**	**392 381**

Trade debtors comprise bulk water and wastewater sales to municipalities of which eThekwini Metrpolitian Municipality and Msunduzi Local Municipality comprise a significant proportion - 87% (2016:84%)

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 41 Days (2016: 41 days)

	Amount Due	Provision	Total 2017	Total 2016
	R'000	R'000	R'000	R'000
Customer				
eThekwini Metropolitan Municipality	195 695	-	195 695	151 676
iLembe District Municipality	51 169	(26 380)	24 789	12 772
Msunduzi Local Municipality	42 215	-	42 215	35 722
Ugu District Municipality	10 098	-	10 098	6 146
uMgungundlovu District Municipality	12 271	-	12 271	9 929
Harry Gwala District Municipality	6 297	(2 040)	4 257	1 366
Sembcorp Siza Water	19 102	(12 231)	6 871	5 249
Other bulk customers	267	(92)	175	185
Trade receivables - primary activities	337 114	(40 743)	296 371	223 045
Trade receivables - secondary activities	70 583	(25 686)	44 897	79 548
Total trade receivables	**407 697**	**(66 429)**	**341 268**	**302 593**

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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

17. Interest Receivable

	Group		Parent	
	2017	2016	2017	2016
	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.	35 585	28 366	35 585	28 366
Interest and premium receivable relating to investments are classified as loans and receivables, the carrying amount approximates fair value.				
Total interest receivable	**35 585**	**28 366**	**35 585**	**28 366**

18.1. Bank and Cash

	Group 2017 R'000	Group 2016 R'000	Parent 2017 R'000	Parent 2016 R'000
Cash and cash equivalents consist of:				
Bank and cash on hand	24 917	43 885	16 352	19 838
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	**24 917**	**43 885**	**16 352**	**19 838**

18.2. Reconciliation of Profit for the Year to Net Cash Generated from Operating Activities

	Group 2017 R'000	Group 2016 R'000	Parent 2017 R'000	Parent 2016 R'000
Profit for the year	746 097	781 190	751 261	789 508
Interest income	(149 601)	(133 454)	(149 431)	(132 421)
Finance costs	1 399	1 185	1 355	1 161
Adjusted for non-cash items:				
Fair value adjustment of biological assets	788	(691)	-	-
(Profit)/loss on disposal of biological assets	(1 013)	425	-	-
Impairment of investment in subsidiary	-	-	6 424	(915)
Asset impairments and write-offs	57 053	132 881	57 053	132 881
Amortisation - financial assets	2 754	2 694	2 754	2 694
Amortisation - amount owing to customer	(3 572)	(3 572)	(3 572)	(3 572)
Amortisation - intangible asset	9 103	4 222	8 805	4 036
Depreciation	176 601	163 997	173 150	161 916
(Profit)/Loss on disposal of property, plant and equipment	(1 026)	4 749	(1 026)	4 749
Increase in provisions and non-current liabilities	153 147	76 699	153 307	74 961
Increase in doubtful debts provision	37 350	3 805	37 350	3 805
Income Tax expense	101	-	-	-
Share of profit from associate	(4 995)	(4 427)	-	-
Tax paid	(105)	-	-	-
Operating surplus before working capital changes	**1 024 081**	**1 029 703**	**1 037 430**	**1 038 803**
Working capital changes	**(211 856)**	**110 906**	**(219 167)**	**113 527**
Increase in accounts receivable	(67 804)	(53 110)	(65 425)	(56 145)
(Decrease)/increase in accounts payable	(143 038)	166 669	(152 728)	172 325
Increase in inventory	(1 014)	(2 653)	(1 014)	(2 653)
Net cash from operating activities	**812 225**	**1 140 609**	**818 263**	**1 152 330**

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

19. Capital

	Group		Parent	
	2017	2016	2017	2016
	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

	Group 2017 R'000	Group 2016 R'000	Parent 2017 R'000	Parent 2016 R'000
Long-term	1 871 914	1 950 770	1 870 902	1 949 712
Short-term	78 810	78 618	78 810	78 618
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	**1 950 724**	**2 029 388**	**1 949 712**	**2 028 330**

20.1. Analysis of Debt Held at Amortised Cost

	Weighted average interest rate as at 30 June 2017	Group 2017 R'000	Group 2016 R'000	Parent 2017 R'000	Parent 2016 R'000
Bank loans		117 131	170 911	117 131	170 911
Fixed rate	5.00%	17 131	20 911	17 131	20 911
Variable	9.62%	100 000	150 000	100 000	150 000
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		297 581	322 419	297 581	322 419
Fixed rate	9.08%	149 194	161 129	149 194	161 129
Variable	8.42%	148 387	161 290	148 387	161 290
Other		1 012	1 058	-	-
Total debt		**1 950 724**	**2 029 388**	**1 949 712**	**2 028 330**

Refer to note 30 financial risk management and financial instruments for maturity profile and fair value of debt.

	Group 2017 R'000	Group 2016 R'000	Parent 2017 R'000	Parent 2016 R'000
Reconciliation of movement in debt for the year				
Balance at the beginning of the year	2 029 388	1 171 764	2 028 330	1 171 764
Loans repaid	(78 664)	(78 434)	(78 618)	(78 434)
Loans raised	-	936 058	-	935 000
Balance at the end of the year	**1 963 764**	**2 029 388**	**1 949 712**	**2 028 330**

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

21. Other Non-Current Liabilities

	Group		Parent	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
Amounts received in advance	43 110	3 152	43 110	3 152
Amount received in advance relates to uMkhomazi Bulk Water supply charge for bulk infrastructure which will be amortised to revenue over the life of the asset.				
Total other non-current liabilities	**43 110**	**3 152**	**43 110**	**3 152**

22. Provisions

	Leave pay	Legal claims	Bonus	Sub-total current provisions	Non-current Incentive bonus provision	Total 2017	Total 2016
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Group							
Opening balance	29 547	8 388	50 845	88 780	25 046	113 826	94 727
Provided during the year	11 033	3 963	80 816	95 812	21 411	117 223	92 112
Utilised during the year	(8 533)	(2 279)	(60 053)	(70 866)	(7 337)	(78 203)	(73 013)
Closing balance	**32 047**	**10 072**	**71 608**	**113 727**	**39 120**	**152 847**	**113 826**
Parent							
Opening balance	27 634	8 388	49 343	85 365	25 046	110 411	93 028
Provided during the year	9 918	3 963	78 306	92 187	21 411	113 597	89 804
Utilised during the year	(7 457)	(2 279)	(57 343)	(67 079)	(7 337)	(74 416)	(72 421)
Closing balance	**30 095**	**10 072**	**70 306**	**110 473**	**39 120**	**149 593**	**110 411**

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 Management Scheme.

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 pages 139-140 for further detail.

All provisions are raised in the ordinary course of business and no material unutilised provisions were written back.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

23. Accounts Payable

	Group		Parent	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
Trade accounts payable	281 681	422 437	277 122	421 031
Accruals	150 279	123 315	148 723	122 049
Amounts due to related parties:				
Water purchases accrual - DWS	22 799	13 876	22 799	13 876
Sundry creditors	28 111	20 731	37 114	28 938
Section 30 customer advances	134 342	167 503	134 342	167 503
Current portion of non current liabilities	3 152	2 782	3 152	2 782
SARS	6 089	25 826	6 025	25 826
Total accounts payable	**626 453**	**776 470**	**629 277**	**782 005**

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 relate primarily to implementing agent agreements.

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.

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 R3.0m (2016: R3.7m) was earned. Rentals are received from staff and tele-communications companies.

	Group 2017	Group 2016	Parent 2017	Parent 2016
At the reporting date, the group had contracted with tenants for the following future minimum lease payments.	6 367	1 082	6 367	1 082
0 - 1 year	646	422	646	422
1 - 5 years	3 704	660	3 704	660
> 5 years	2 017	-	2 017	-
Total operating lease arrangements	**6 367**	**1 082**	**6 367**	**1 082**

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

25. Contingent Liabilities

	Group		Parent	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
SARS				
During the current financial year Umgeni Water received an assessment of R19m from SARS on Input VAT claimed on a bad debt write off relating to the reticulation debtors which were handed over to Msundizi Local Municipality. The matter is undergoing appeal and pending the outcome of the Dispute Resolution process.	19 627	-	19 627	-
Guarantees				
Guarantees have been given by certain financial institutions in respect of payments to utility service providers.	822	1 925	822	1 925
Total contingent liabilities	**20 449**	**1 925**	**20 449**	**1 925**

26. Post-Retirement Benefit Obligations

	Group & Parent	
	2017	2016
	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 note 26.2)	172 087	202 757
Post-retirement healthcare benefits (refer note 26.3)	397 318	389 527
Total post-retirement benefit obligations	**569 405**	**592 284**

26.1 Defined Benefit Contribution

	Group		Parent	
	2017	2016	2017	2016
	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.	27 148	34 211	24 846	32 190

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

26. Post-Retirement Benefit Obligations (continued)

26.2 Defined Benefit Plan

	Group & Parent		
	2017	2016	2015
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 2017. 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:			
Key assumptions used in the actuarial valuation were as follows:			
Discount rate	9.90%	9.60%	9.40%
Expected rate of salary increases	7.90%	8.20%	8.00%
Future pension increase	4.60%	4.80%	4.67%
	R'000	R'000	R'000
Amounts recognised in profit/loss in respect of the defined benefit plan are as follows:			
Current service cost	36 376	36 939	35 152
Interest on obligation	94 365	86 304	76 207
Expected return on plan assets	(72 454)	(69 163)	(61 947)
Total included in staff costs in statement of profit and loss	**58 287**	**54 080**	**49 412**
Amounts recognised in other comprehensive income in respect of the defined benefit plan are as follows:			
Net actuarial (gain) loss	(64 111)	20 277	12 406
Total included in statement of other comprehensive income	**(64 111)**	**20 277**	**12 406**
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	943 151	961 604	897 740
Fair value of plan assets	(771 064)	(758 847)	(737 150)
Net liability in statement of financial position	**172 087**	**202 757**	**160 590**

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

26. Post-Retirement Benefit Obligations (continued)

26.2 Defined Benefit Plan (continued)

	Group & Parent		
	2017	2016	2015
	R'000	R'000	R'000
Movement in the net liability recognised in the statement of financial position is as follows:			
Net liability at the beginning of the year	202 757	160 590	134 004
Net expense recognised in the statement of profit and loss	58 287	54 080	49 412
Net expense (income) recognised in the statement of other comprehensive income	(64 111)	20 277	12 406
Company contributions	(24 846)	(32 190)	(35 232)
Net liability at end of year	**172 087**	**202 757**	**160 590**
Movements in the defined benefit obligation for the year:			
Defined benefit obligation at beginning of the year	961 604	897 740	793 345
Current service cost	36 376	36 939	35 152
Member contributions	8 273	7 974	7 740
Interest cost	94 365	86 304	76 207
Actuarial (gain) loss	(116 121)	(24 450)	28 926
Benefits paid	(36 114)	(36 749)	(36 202)
Risk premiums	(3 943)	(4 970)	(6 151)
Expenses	(1 289)	(1 184)	(1 277)
Defined benefit obligation at end of year	**943 151**	**961 604**	**897 740**
Movements in the present value of plan assets in the current period were as follows:			
Fair value of plan assets at beginning of year	758 847	737 150	659 341
Interest on plan assets	72 454	69 163	61 947
Member contributions	8 273	7 974	7 740
Employer contributions	24 846	32 190	35 232
Actuarial gain	(52 010)	(44 727)	16 520
Benefits paid	(36 114)	(36 749)	(36 202)
Risk premiums	(3 943)	(4 970)	(6 151)
Expenses	(1 289)	(1 184)	(1 277)
Fair value of plan assets at end of year	**771 064**	**758 847**	**737 150**
Actual Return on Assets	20 444	24 436	78 467

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

26. Post-Retirement Benefit Obligations (continued)

26.2 Defined Benefit Plan (continued)

	Group & Parent		
	2017	2016	2015
	%	%	%
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	11.01%	12.37%	15.24%
Equity	37.27%	40.49%	38.01%
Bonds	20.33%	18.49%	14.44%
Property	5.81%	4.21%	6.82%
International	24.33%	23.49%	23.97%
Other	1.25%	0.95%	1.52%
Total	**100.00%**	**100.00%**	**100.00%**

Percentages reflected in 2017 are based on June 2017 asset composition.

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:

Sensitivity Factor	Central Assumption	Accrued Liability			
		Increase		Decrease	
		%	R'000	%	R'000
1% change in discount rate	9.60%	(14.20%)	(133 956)	17.90%	168 834
1% change in inflation rates	7.20%	14.90%	140 606	(12.40%)	(116 976)
1% change in salary increase rate	8.20%	9.20%	86 358	(8.10%)	(76 144)

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

26. Post-Retirement Benefit Obligations (continued)

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 2017.

Employees who joined Umgeni Water after 28 February 2002 cannot elect to join this scheme.

	Group & Parent		
	2017	2016	2015
	%	%	%
Key assumptions used in the actuarial valuation were as follows:			
Discount rate	10.90%	9.80%	9.40%
Expected rate of increase in medical indices	10.00%	9.40%	9.00%
	R'000	R'000	R'000
Amounts recognised in profit and loss in respect of the post-retirement healthcare costs are as follows:			
Current service cost	9 650	8 984	8 941
Interest on obligation	37 657	31 650	30 934
Total included in staff costs in statement of profit and loss	**47 307**	**40 634**	**39 875**
Amounts recognised in other comprehensive income in respect of the post-retirement healthcare costs are as follows:			
Actuarial (gain) loss	(29 361)	16 263	(8 341)
Total included in statement of other comprehensive income	**(29 361)**	**16 263**	**(8 341)**
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	389 527	341 150	316 379
Net expense recognised in the statement of profit and loss	47 307	40 634	39 875
Company contributions	(10 155)	(8 520)	(6 763)
Net (income) expense recognised in the statement of other comprehensive income	(29 361)	16 263	(8 341)
Liability at end of year	**397 318**	**389 527**	**341 150**
Movements in the post-retirement healthcare obligation in the current period were as follows:			
Projected benefit obligation at beginning of year	389 527	341 150	316 379
Current service cost	9 650	8 984	8 941
Interest cost	37 657	31 650	30 934
Actuarial (gain) loss	(29 361)	16 263	(8 341)
Employer contributions	(10 155)	(8 520)	(6 763)
Projected benefit obligation at end of year	**397 318**	**389 527**	**341 150**

The group expects to make a contribution of R10.2m to the post retirement medical aid during the next financial year.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

26. Post-Retirement Benefit Obligations (continued)

26.3 Post-Retirement Healthcare Benefits (continued)

An analysis of the impact of changes in the underlying assumptions used in the actuarial valuation are presented in the table below:

Sensitivity Factor	Central Assumption	Accrued Liability			
		Increase		Decrease	
		%	R'000	%	R'000
1% change in medical aid inflation rates	10.00%	18.00%	71 690	(14.40%)	(57 213)
1 year change in expected retirement age	60 years	(3.70%)	(14 786)	3.80%	15 026
1% change in discount rate	10.90%	(14.10%)	(56 196)	18.0%	71 555

The information presented above is as per the latest valuation, which was performed on 30 June 2017.

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.

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 include the group's Board of directors and the executive management (EXCO) and their remuneration is disclosed in the remuneration report pages 139-140.

IAS 24 Related Party disclosures provides government related entities 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

27. Related Parties (continued)

	Group		Parent	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
Revenue: Sale of goods and services				
Bulk water and wastewater				
Local government (includes municipalities)*	2 161 847	2 109 245	2 161 847	2 109 245
Revenue: Section 30				
Local government (includes municipalities)	99 123	57 665	99 123	57 665
National Department	55 876	52 301	55 876	52 301
Cost of sales				
Raw water purchases				
National Department	180 160	164 578	180 160	164 578
Section 30				
Local government (includes municipalities)	96 339	57 320	96 339	57 320
National Department	52 639	49 143	52 639	49 143
Other operating and administration expenses				
Subsidiaries and associates	-	-	37 000	33 132
Interest income				
Subsidiaries and associates	-	-	931	874
Work-in-progress: Grant funding for rural development projects				
National Department	371 056	280 016	371 056	280 016
Loans to (from) entities:				
Subsidiaries and associates	-	-	13 096	14 826
Investments in subsidiaries				
Subsidiaries and associates	6 005	6 005	-	6 424
Other payables				
Subsidiaries and associates	-	-	8 862	10 120
Revenue in advance: Local government and municipalities	3 152	2 782	3 152	2 782
Raw water purchases accrual	22 799	13 876	22 799	13 876
Right of use agreement				
Local government (includes municipalities)	4 774	6 916	4 774	6 916
Revenue in advance				
Local government (includes municipalities)	43 110	3 152	43 110	3 152

* Included in local government is sales to the group's largest customer of R1 582m (2016: R1 554m)

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

28. Irregular Expenditure

	Group		Parent	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
Opening balance 1 July	-	-	-	-
Add: irregular expenditure relating to current year	4 479	356	2 891	356
Add: prior year irregular expenditure identified in current year	6 882	-	6 882	-
Less: amounts condoned by appropriate authority	(379)	(356)	(379)	(356)
Less: amounts awaiting condonement	(10 982)	-	(9 394)	-
Closing balance 30 June	**-**	**-**	**-**	**-**

Details of irregular expenditure - current and prior year:

All incidents relate to expenditure which arose as a result of non compliance to the supply chain management policy. Disciplinary steps/criminal proceedings were not instituted as the expenditure was incurred in support of the business requirements.

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.

29. Fruitless and Wasteful Expenditure

	Group 2017	Group 2016	Parent 2017	Parent 2016
Opening balance 1 July	-	-	-	-
Fruitless and wasteful expenditure relating to current year	5 232	7	5 226	-
Less: amounts condoned by appropriate authority	(2)	(4)	-	-
Less: amounts transferred to receivable	-	(3)	-	-
Less: amounts awaiting condondment	(5 230)	-	(5 226)	-
Closing balance 30 June	**-**	**-**	**-**	**-**
Analysis of fruitless and wasteful expenditure				
Remuneration from 20th August 2017 to 19th August 2019	5 226	-	5 226	-
20th August 2017 to 19th August 2018	2 613	-	2 613	-
20th August 2018 to 19th August 2019	2 613	-	2 613	-
Interest paid	6	7	-	-
Total fruitless and wasteful expenditure	**5 232**	**7**	**5 226**	**-**

Details of fruitless & wasteful expenditure current year:

Incident	Details
Remuneration paid in terms of a settlement agreement.	The Board entered into a settlement agreement with the Chief Executive as at 30 June 2017, which included the settlement of remuneration to the contract extension period to August 2019.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

30. Financial Risk Management and Financial Instruments

	Group		Parent	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
30.1.1 Capital Management				
Capital and reserves is consistent with the prior year and consists of:				
Capital	442 847	442 847	442 847	442 847
Accumulated profit	6 391 830	5 645 733	6 358 677	5 607 416
Other comprehensive income	(11 350)	(104 822)	(11 350)	(104 822)
Total	**6 823 327**	**5 983 758**	**6 790 174**	**5 945 441**
Total interest bearing debt	1 950 724	2 029 388	1 949 712	2 028 330

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	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
Gross Debt (Refer note 20)	1 950 724	2 029 388	1 949 712	2 028 330
Interest Rate Structure				
Fixed	86%	85%	86%	85%
Floating	14%	15%	14%	15%
Gearing Ratio	0.29	0.34	0.29	0.34

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

30. Financial Risk Management and Financial Instruments (continued)

30.1.2 Debt Management (continued)

(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.

(c) Managing debt within approved borrowing limits

The borrowing limits for Umgeni Water for the period 2016 to 2019 are as follows:

	2019	2018	2017	2016
	R'000	R'000	R'000	R'000
Borrowing Limit				
Unconditional	2 400 000	2 450 000	2 550 000	2 400 000
Conditional	300 000	300 000	300 000	-
Total	**2 700 000**	**2 750 000**	**2 850 000**	**2 400 000**

	Group & Parent	
	2017	2016
	R'000	R'000
Utilisation of borrowing limits		
Borrowing limit	2 550 000	2 400 000
Gross borrowings (refer to note 20)	(1 949 712)	(2 028 330)
Collateral and guarantees (refer to note 25)	(822)	(1 925)
Unutilised borrowing limits	**599 466**	**369 746**

(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**	Long-term rating	Short-term rating
Standard & Poors	09 August 2017	zaAAA	zaAA-
FitchRatings	13 July 2017	AA+(zaf)	F1+(zaf)

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

30. Financial Risk Management and Financial Instruments (continued)

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).

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	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
A) Investments	1 796 890	1 915 042	1 796 890	1 915 042
B) Trade and other receivables (excluding provision for bad debts)	494 332	430 470	486 885	424 059
C) Cash and cash equivalents (excluding petty cash)	24 865	43 833	16 329	19 812

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.

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 Fitch rating agency definitions.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

30. Financial Risk Management and Financial Instruments (continued)

30.2. Financial Risk Management (continued)

30.2.1 Credit Risk (continued)

Financial Instruments

Counterparty	FitchRatings	Credit Limit	Group & Parent	
			2017	2016
		R'000	R'000	R'000
Held-to-maturity			230 175	150 142
Nedbank Limited	A/A-1+	1 000 000	230 175	150 142
Loans and receivables			1 566 715	1 764 900
ABSA Bank Limited	A/A-1+	1 000 000	163 905	341 965
First Rand Bank Limited	A/A-1+	1 000 000	168 950	678 000
Standard Bank of South Africa Limited	A/A-1+	1 000 000	106 500	
Nedbank Limited	A/A-1+	1 000 000	640 390	403 411
Investec Limited	A/A-1+	300 000	94 015	95 128
Nedgroup Money Market Fund Limited	AA+	100 000	100 000	100 000
Investec Money Market Fund Limited	AA+	100 000	100 000	100 000
Stanlib Money Market Fund Limited	AA+	100 000	143 000	-
Corporation for Public Deposits	Government Guarantee	3 000 000	49 955	46 396
Total			**1 796 890**	**1 915 042**

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 2017

30. Financial Risk Management and Financial Instruments (continued)

30.2. Financial Risk Management (continued)

30.2.1 Credit Risk (continued)

	Group		Parent	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
Gross Amounts (excluding provision for bad debts)				
Bulk	330 737	323 145	330 737	323 145
Wastewater	17 639	11 126	17 639	11 126
Other activities	145 956	96 199	138 509	89 788
Total amounts (excluding provision for bad debts)	**494 332**	**430 470**	**486 885**	**424 059**

The group's most significant customer accounts for R196m of the trade and receivables carrying amount at 30 June 2017. (2016:R152m)

Impairment Losses
Refer to note 16 for impairment of trade and other receivables.

	Group & Parent	
	2017	2016
	R'000	R'000
There were no financial assets past due or impaired and whose terms have been renegotiated.	-	-
Analysis of the ageing of financial assets (trade receivables) which are past due but have not been impaired:	22 109	31 678
30 days	12 804	875
60 days	9 161	419
90 days	18	862
120+ days	126	29 522

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.

Cash and Cash Equivalents
The group held cash and cash equivalents of R25m at 30 June 2017 (2016: R38m) of the following which represents the maximum credit exposure on these assets.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

30. Financial Risk Management and Financial Instruments (continued)

30.2. Financial Risk Management (continued)

30.2.1 Credit Risk (continued)

Counterparty	Rating	Group		Parent	
		2017	2016	2017	2016
		R'000	R'000	R'000	R'000
Cash		24 865	43 833	16 329	19 812
First Rand Bank Limited	A/A-1+	8 536	24 021	-	-
ABSA Bank Limited	A/A-1+	16 329	19 812	16 329	19 812
Total		**24 865**	**43 833**	**16 329**	**19 812**

The remaining balance of 51 (2016: 51) for the Group and 23 (2016: 26) for the parent represents petty cash in Rands per thousand for which there is no credit risk attached.

Guarantees
At 30 June 2017 the group had R0.8m (2016:R1.9m) of guarantees outstanding and this represents the maximum exposure to the Group.

Collateral
At 30 June 2017 the group has no collateral held as security.

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 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 the Umgeni Water anticipates that the cash flow will occur in a different period.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

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)

	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	R'000
Financial Assets							
2017							
Fixed interest rate instruments*	9.21%	(5 241)	(10 483)	(47 172)	432 276	-	369 379
Variable interest rate instruments	7.90%	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**
2016							
Fixed interest rate instruments	9.21%	(5 241)	(10 483)	(47 172)	369 379	-	306 483
Variable interest rate instruments	7.91%	623 487	470 151	364 872	422 888	-	1 881 398
Trade and other Receivables	n/a	-	363 209	35 567	-	-	398 776
Total		**618 246**	**822 877**	**353 267**	**792 267**	**-**	**2 586 658**

* 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 1-3 months of R375 821 (2016: R363 209) and 3 months -1 year R446 349 in Rands per thousand for the current year.

The following tables summarises 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)

For the year ended 30 June 2017

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)

	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	R'000
Financial Liabilities							
2017							
Fixed interest rate instruments	10.84%	-	86 604	113 337	1 320 420	1 480 325	3 000 685
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**	**367 348**	**1 462 066**	**1 592 016**	**3 963 254**
2016							
Fixed interest rate instruments	10.81%	-	88 062	112 962	1 393 735	1 606 951	3 201 710
Variable interest rate instruments	9.00%	-	32 220	56 788	206 976	133 844	429 828
Trade and other payables	n/a	-	239 769	536 702	-	-	776 471
Total		**-**	**360 051**	**706 452**	**1 600 711**	**1 740 795**	**4 408 009**

The group and parent figures remain the same with the exception of parent trade and other payables maturity of <1 month R98 519, 3 months - 1 year of R359 524 (2016:R541 228) and 3 months-1 year R171 231 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 UG26 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 2017 is R2 465m.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

30. Financial Risk Management and Financial Instruments (continued)

30.2. Financial Risk Management (continued)

30.2.2 Liquidity Risk (continued)

30.2.2.2 Primary source of funding and unused facilities (continued)

	Group & Parent	
	Committed	Uncommitted
	R'000	R'000
(b) General banking facilities		
Umgeni Water has the following committed and uncommitted bank facilities available:		
Type of facility		
Working capital facility	20 000	49 980
General Banking facility	100 020	-

(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.

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 cashflow 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.

	Recommended Ratio	Group & Parent	
		2017	2016
		R'000	R'000
Ratio of fixed to floating interest rate			
Fixed	70%	86%	85%
Floating	30%	14%	15%

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

30. Financial Risk Management and Financial Instruments (continued)

30.2. Financial Risk Management (continued)

30.2.3 Interest rate risk (continued)

	Group		Parent	
	2017	2016	2017	2016
	R'000	R'000	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	230 175	150 142	230 175	150 142
Financial liabilities	(1 701 325)	(1 717 040)	(1 701 325)	(1 717 040)
Net position	**(1 471 150)**	**(1 566 900)**	**(1 471 150)**	**(1 566 900)**
Variable rate instruments				
Financial assets	1 566 715	1 764 900	1 566 715	1 764 900
Financial liabilities	(249 399)	(312 348)	(248 387)	(311 290)
Net Position	**1 317 316**	**1 452 552**	**1 318 328**	**1 453 610**

Sensitivity Analysis

A sensitivity analysis to a change in interest rates has been performed based on the exposure to interest rates for both derivatives 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 2017 would decrease/increase by R2.2m (2016: R1.9m).

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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2017

30. Financial Risk Management and Financial Instruments (continued)

30.4. Accounting Classifications and Fair Values (continued)

	Group		Parent	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
CARRYING VALUES				
CATEGORIES OF FINANCIAL INSTRUMENTS				
Financial Assets				
Held-to-maturity	230 175	150 142	230 175	150 142
Loans and receivables	2 055 103	2 235 927	2 039 108	2 205 485
Other investments	1 566 715	1 764 900	1 566 715	1 764 900
Trade and other receivables	427 887	398 776	420 456	392 381
Interest and premium receivable	35 585	28 366	35 585	28 366
Cash and cash equivalents	24 917	43 885	16 352	19 838
Financial Liabilities				
Held at amortised cost	2 677 743	2 867 875	2 679 557	2 872 351
Long and short-term debt	1 950 724	2 029 388	1 949 712	2 028 330
Other non current liabilities	43 110	3 152	43 110	3 152
Accounts payable	626 453	776 470	629 277	782 004
Interest payable	57 458	58 865	57 458	58 865

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 Value Hierarchy Level	Group		Parent	
		2017	2016	2017	2016
		R'000	R'000	R'000	R'000
FAIR VALUES					
CATEGORIES OF FINANCIAL INSTRUMENTS					
Held-to-maturity financial assets	Level 2	269 569	169 043	269 569	169 043
Long and short-term debt	Level 2	(2 113 113)	2 137 368	(2 113 113)	2 137 368

Financial Instrument	Valuation Technique	Significant unobservable inputs
Held-to-maturity financial assets	Discounted cashflow analysis using prices from observable current market transactions for similar instruments.	N/A
Long-term and short-term debt	Discounted cashflow analysis using prices from observable current market transactions for similar instruments.	N/A

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.

The Executive Authority of Umgeni Water has initiated a process towards the establishment of a single provincial water board in KwaZulu-Natal. As at the end of the reporting year, this process was still underway and is planned to culminate in a merger between Umgeni Water and Mhlathuze Water. 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.

The move to amalgamate the two water boards is not isolated from other initiatives that government is engaged in to ensure the sustainability of water supply to the province. The accounting authority has no reason to believe that this process will negatively affect the going concern position of the entity during the 2017/2018 financial year, but albeit that it will create growth opportunities for the merged entity (once all conditional processes have been achieved) with a clear mandate from the Executive Authority.

NAGLE DAM


R1 163 MILLION
total **Capex Spend (Parent)**, of which **R503 million** went towards **projects** for **rural development**.
UMGENI RIVER

14.0

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