UMGENI
WATER · AMANZI

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

2015 the Year of the Freedom Charter

ANNUAL REPORT

2014/2015

VISION

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

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

MISSION

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

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

STRATEGIC INTENT

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

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

BENEVOLENT INTENT

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

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

UMGENI WATER · AMANZI

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.

Umgeni Water Operational Area

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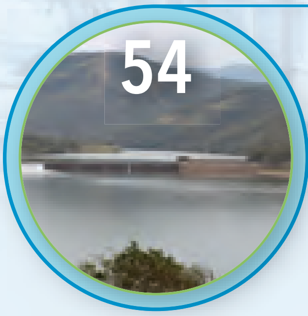
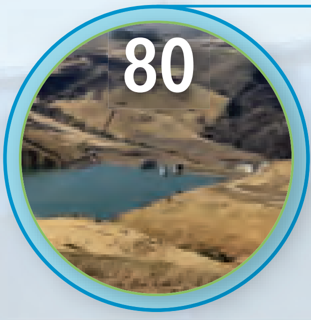
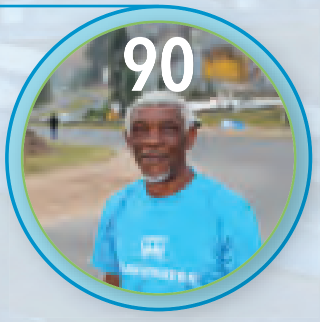






1.0 Report Profile

Umgeni Water as a state-owned public entity has a mandatory obligation to prepare an annual report and as such has prepared annual reports every year since its establishment in 1974. This report covers the twelve-month period 1 July 2014 to 30 June 2015. This report also includes information on Umgeni Water subsidiaries.

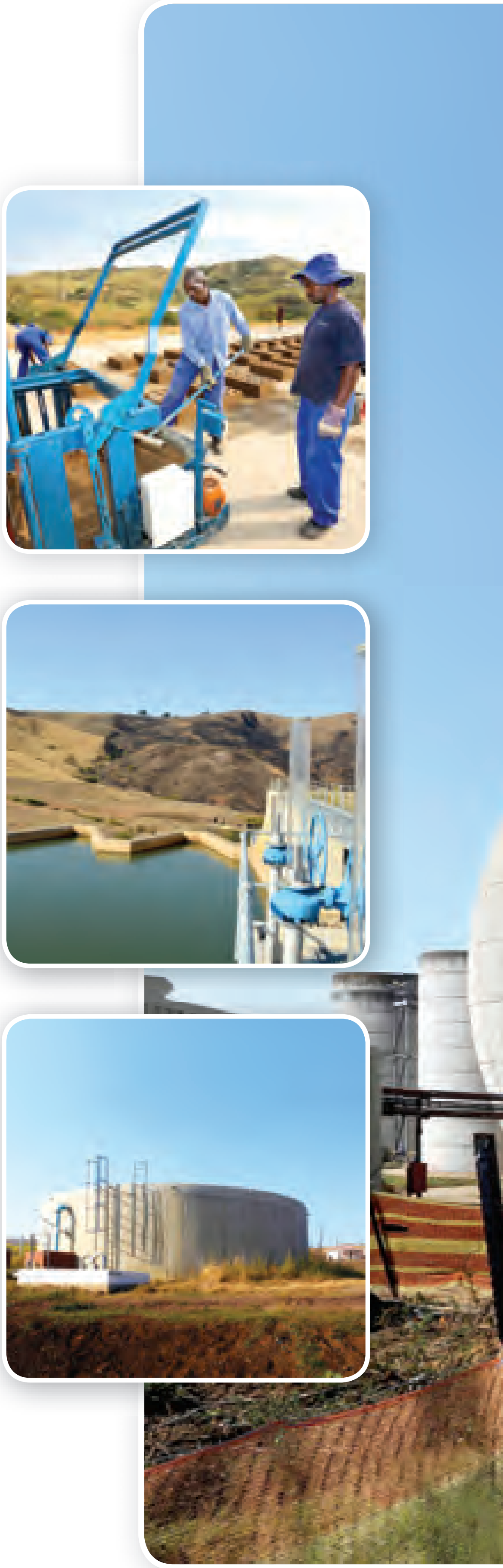
Umgeni Water's annual report complies with statutory disclosure requirements of the Water Services Act (Act 108 of 1997), section 55 of the Public Finance Management Act (Act 1 of 1999) and relevant regulations. Notwithstanding the legislative requirements, Umgeni Water has committed to aligning the organisation to the King III Code of Governance for South Africa, 2009. There is a significant amount of convergence of Umgeni Water's Annual Report with the King III requirements for integrated reporting, both due to Umgeni Water already having in place an integrated strategy and value creation model which straddles four sustainability perspectives and Umgeni Water's alignment with government's outcomes approach for performance reporting. 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.

The performance content of this annual report shows Umgeni Water's progress with meeting predetermined objectives and performance indicators as per its approved Business Plan and Shareholder Compact, and contains an audited performance scorecard for 2014/2015. The financial content of the annual report further contains the audited financial statements for 2014/2015. Over the years, Umgeni Water developed and maintained in-house processes for identifying, collecting, collating, verifying and storing information used in managing its performance and these will continue to be enhanced.

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 Audit is provided in the Corporate Governance chapter of this report. In addition to assurance via these routes, vital areas of the organisation's business, 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 progress towards moving the organisation in a direction that supports sustainable development. Specific stakeholder information is contained in the Stakeholder Understanding and Support chapter of this report.



ADDITIONAL INFORMATION CONCERNING ALL ASPECTS OF THE REPORT AND ITS CONTENTS CAN BE OBTAINED FROM:

Umgeni Water
P.O. Box 9, Pietermaritzburg, 3200 or at the organisation's head office, at 310 Burger Street, Pietermaritzburg, 3201

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www.umgeni.co.za
www.facebook.co/umgeniwater
@umgeniwater
https://www.youtube.com/UWA1974

2.0 Organisational Profile

2.1 LEGISLATIVE MANDATE

Umgeni Water is a public entity established in 1974 to provide water services - water supply and sanitation services - to other water services institutions in its service area. The organisation 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 Chairman of the Board and the Chief Executive and its Executive Authority is the Minister of Water and Sanitation.

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 organisation'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.

Umgeni Water has 100% investment in two subsidiaries, Msinsi Holdings SOC Ltd and Umgeni Water Services SOC Ltd.

2.3 SUPPLY AREA AND CUSTOMERS (shown on map)

Umgeni Water's current operational area is bounded by the uThukela River in the North, the Mtamvuna River in the South, the Indian Ocean in the East and Drakensberg Mountains in the West and covers a total of 21 155 square kilometres and has a population of 6 million people (1.64 million households). Umgeni Water has its head office in Pietermaritzburg and is supported by Regional Offices spanning its supply area.

The organisation derives its revenue from the sale of bulk potable water to its six customers:

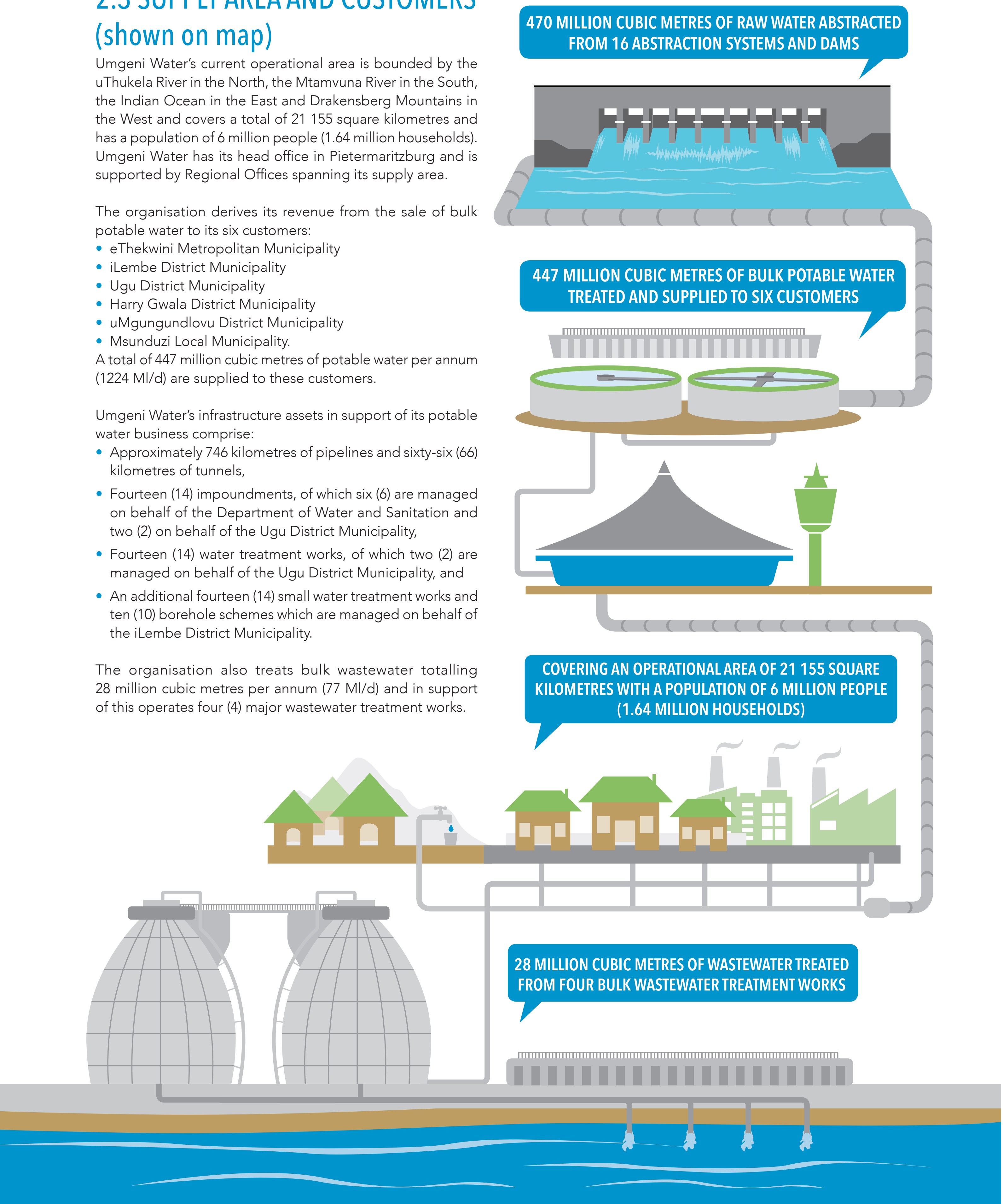
- eThekwini Metropolitan Municipality
- iLembe District Municipality
- Ugu District Municipality
- Harry Gwala District Municipality
- uMgungundlovu District Municipality
- Msunduzi Local Municipality.

A total of 447 million cubic metres of potable water per annum (1224 Ml/d) are supplied to these customers.

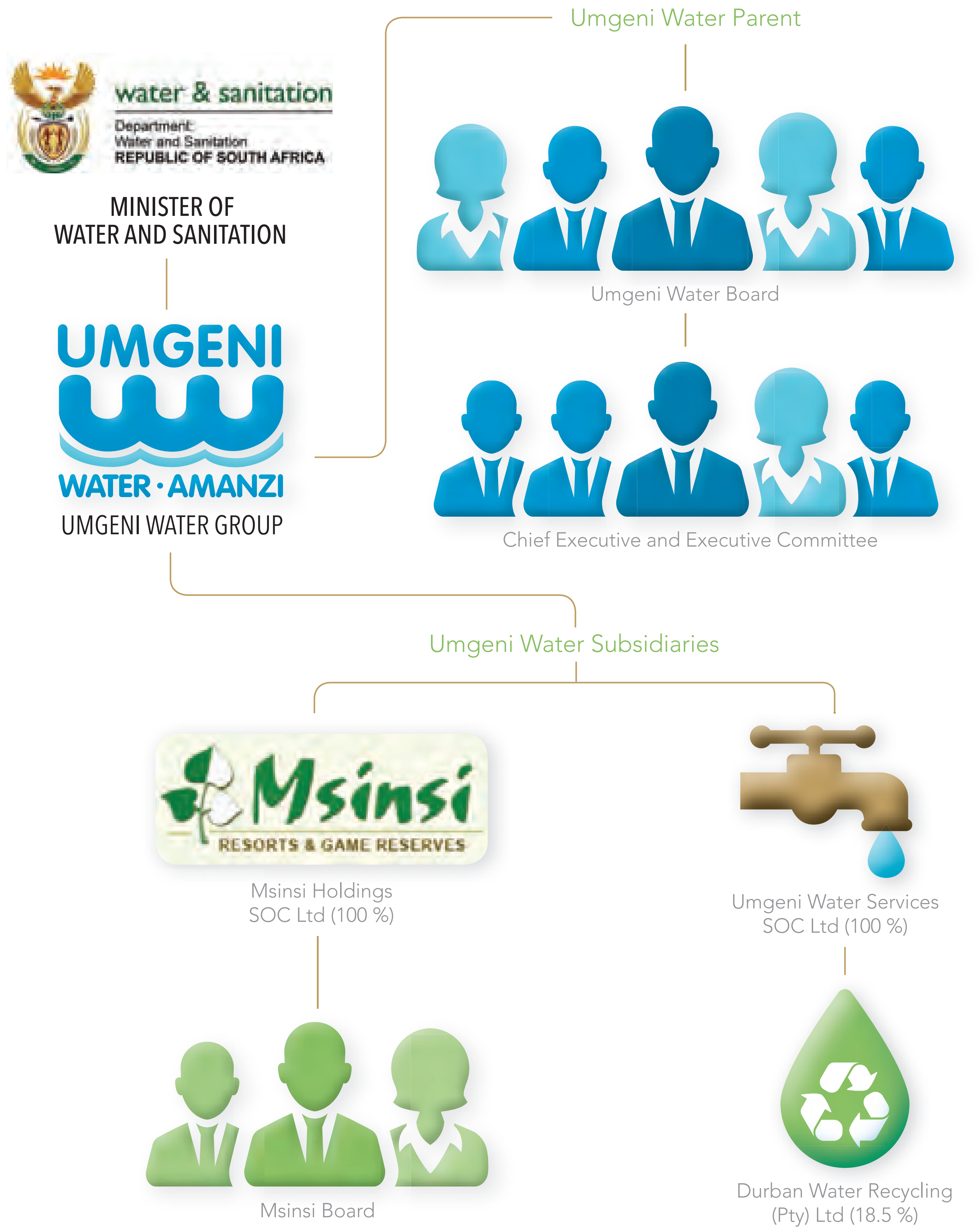
Umgeni Water's infrastructure assets in support of its potable water business comprise:

- Approximately 746 kilometres of pipelines and sixty-six (66) kilometres of tunnels,
- Fourteen (14) impoundments, of which six (6) are managed on behalf of the Department of Water and Sanitation and two (2) on behalf of the Ugu District Municipality,
- Fourteen (14) water treatment works, of which two (2) are managed on behalf of the Ugu District Municipality, and
- An additional fourteen (14) small water treatment works and ten (10) borehole schemes which are managed on behalf of the iLembe District Municipality.

The organisation also treats bulk wastewater totalling 28 million cubic metres per annum (77 Ml/d) and in support of this operates four (4) major wastewater treatment works.



2.4 STRUCTURE OF UMGENI WATER



There have been no changes in the organisation's top structure in the past year, which, in addition to the Office of the Chief Executive, comprises divisions for: Operations, Engineering and Scientific Services, Finance, and Corporate Services, each of which is headed by a General Manager. The Chief Executive guides the day-to-day activities of the organisation, while a non-executive Board, whose members are appointed by the Minister of Water and Sanitation, is the Accounting Authority and provides strategic leadership to the organisation.

The Umgeni Water Group has a head count of 996 employees (906 permanent and 90 fixed-term contracts). There are two subsidiaries in which Umgeni Water has 100% shareholding, Umgeni Water Services SOC Ltd and Msinsi Holdings SOC Ltd. Umgeni Water Services holds an 18.5% investment in Durban Water Recycling (Pty) Ltd.

In 2014/2015, Umgeni Water's income was R2.22 billion and the net surplus generated was R827 million. Umgeni Water has a total balance-sheet asset value of R7.6 billion of which its reserves total R4.8 billion.

2.5 FUTURE SUPPLY AREA AND CUSTOMERS

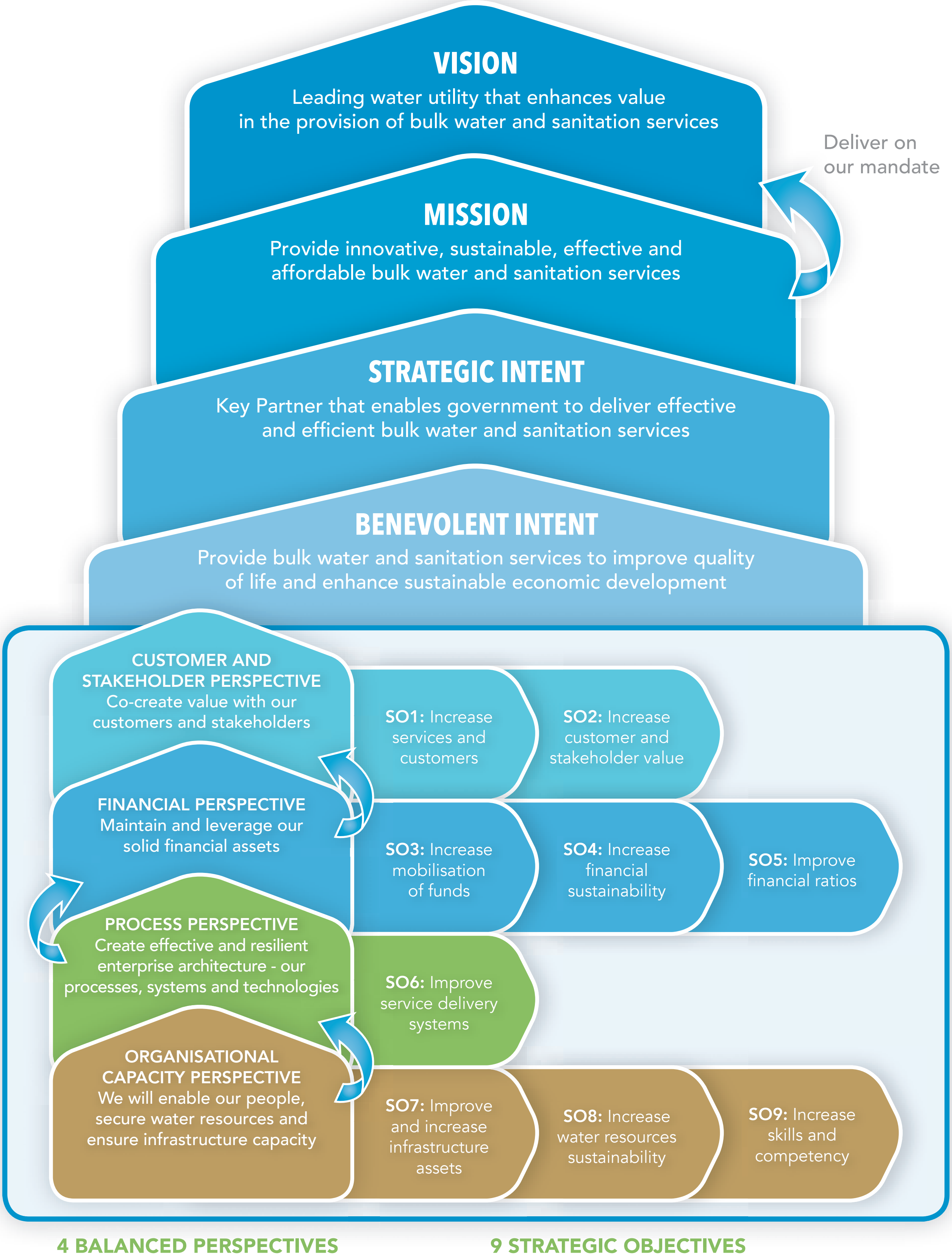
The water board consolidation strategy, an outcome of a national government realignment project, in the prior year translated into proposed expansion of areas of operation of Umgeni Water to include expansion into the North of KwaZulu-Natal to include the uThukela District Municipality, Umzinyathi District Municipality, Amajuba District Municipality and Newcastle Local Municipality.

The Executive Authority has initiated a process that will culminate in the establishment of a single water board for KwaZulu-Natal during the 2016/2017 financial year. The proposed new entity which will have a Regional Water Utility (RWU) status, will amalgamate the areas served by both Umgeni Water and Mhlathuze Water. This will straddle a total geographical area of 94 361 km^2 and is home to 10.2 million people and 2.5 million households. The primary function of the Regional Water Utility (RWU) would be to plan, construct, operate and maintain Regional Bulk Infrastructure. The RWU will take on more responsibility for regional water resources infrastructure to achieve greater integration with bulk systems. In addition, the RWU will provide support functions to municipalities as a secondary activity.

Municipalities in the area, covering the entire province of KwaZulu-Natal, will comprise: one (1) Metropolitan Municipality, ten (10) District Municipalities and fifty (50) Local Municipalities. Fourteen (14) of these municipalities are Water Services Authorities (direct retail customers) as defined in the Water Services Act.

2.6 UMGENI WATER STRATEGY

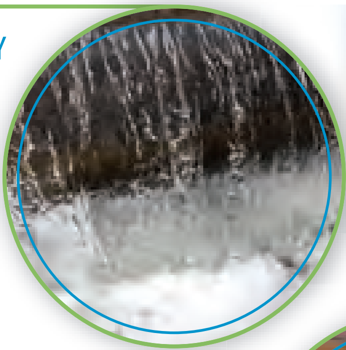
Umgeni Water's strategy map, illustrates the manner in which sustainable value is created through integrating nine (9) strategic objectives through four (4) balanced scorecard perspectives in support of the mission and mandate.



2.7 TEN OUTCOMES FOR SUSTAINABLE VALUE CREATION

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

1. PRODUCT QUALITY (WATER AND WASTEWATER)



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

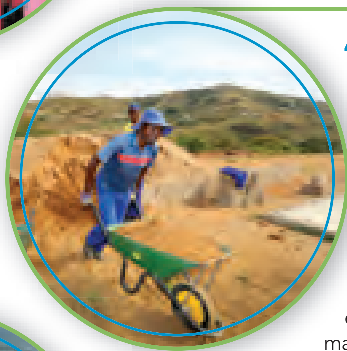
2. CUSTOMER SATISFACTION

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

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



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

5. FINANCIAL VIABILITY

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

6. OPERATIONAL OPTIMISATION

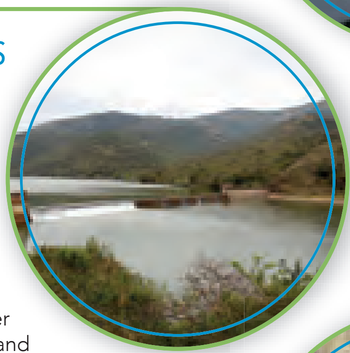
achieved when Umgeni Water has on-going, timely, cost-effective, reliable, and sustainable performance improvements in all facets of its operations, minimises resource use, loss, and impacts from day-to-day operations and maintains awareness of information and operational technology developments to anticipate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

7. OPERATIONAL RESILIENCY

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

8. INFRASTRUCTURE STABILITY

achieved when Umgeni Water's understands the condition and costs associated with critical infrastructure assets and maintains and enhances the condition of all assets over the long-term. This is done at the lowest possible life-cycle cost and acceptable risk levels, 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, and 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, partner with stakeholders, to deliver organisational objectives, to achieve a well governed, vibrant, committed, sector-relevant and engaged organisation that delivers on its mandate.

Operations: We will position ourselves, plan, structure, mobilise resources, source, specify, operate and maintain our infrastructure, abstract, treat, sell, distribute, monitor, conserve and re-use water, to deliver quality, effective, 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 and 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 and computing infrastructure and Legal services to enhance organisational service delivery capacity.

3.0 Chairperson's Report

ANDILE MAHLALUTYE
CHAIRMAN OF THE BOARD

OVERVIEW

It gives me great pleasure to present the Chairperson's Report for the period July 2014 to June 2015. The financial year reporting period underlined by positive results, but punctuated by challenging times as parts of Umgeni Water's service area is experiencing a prolonged drought.

This Annual Report summarises at a high level the performance of Umgeni Water, in line with the objectives and targets set in its Five-Year Business Plan and the Shareholder Compact that has been signed with the Executive Authority, the Minister of Water and Sanitation. The theme of Umgeni Water, *Improving Quality of Life and Enhancing Sustainable Economic Development*, now gives additional impetus to the Mission and Strategic Intent of the organisation, and is also closely aligned to key strategic plans and programmes of the Government of South Africa. These strategic plans and programmes include the National Development Plan (NDP) of South Africa for 2030; the fourteen (14) Strategic Outcomes of Government; pertinent outputs cascaded to the Minister and Department of Water and Sanitation; the National Water Resources Strategy (NWRS); and focus areas for Water Boards in the Medium-Term Strategic Framework (MTSF) 2014 to 2019.

In respect of organisational performance, Umgeni Water has shown excellence by delivering a strong set of results in all facets of its business. Again this year the entity received a Clean Audit from the Auditor-General, due to there being no audit qualifications for its predetermined objectives and financial performance for the year. The mandate and contractual obligations of Umgeni Water were effectively implemented through the provision of an uninterrupted supply of South African National Standards 241-compliant bulk potable water, and the implementation and commissioning of infrastructure that will make it possible for customers to extend and improve water services to communities in un-served or inadequately served areas.

While the organisation relished in these achievements, it was also mindful of the effects of the prevailing drought. Umgeni Water employees stood every step of the way with customers and communities that were, and are still, affected by water shortages in the supply area of the Hazelmere Water Treatment Works.

The critical situation has been the consequence of below-average rainfall and a prolonged drought. Umgeni Water worked tirelessly and around the clock in mounting an extensive communication campaign. The programmes and information-provision initiatives that were undertaken were invaluable in creating heightened awareness of the impact of drought and of the imperative need for proper water conservation and demand management. The support provided by the Minister of Water and Sanitation, Nomvula Mokonyane, during her visit to Hazelmere Dam and her expression of solidarity with consumers, demonstrated empathetic and hands-on leadership.

Before I deal with key aspects of performance, I want to mention briefly a highlight of the year under review, namely, Umgeni Water's 40th anniversary celebrations, held from July 2014 to May 2015. The many and varied events that were organised brought together an array of stakeholders to share in a joyous occasion and in the success of the organisation. The top-of-mind brand awareness created by these events and positive recognition received were invaluable in the endeavours to strongly position Umgeni Water in the water sector in this region.

An event that had a significant and emotional impact was a community function at Inanda Dam, held to inculcate a sense of water safety when using dams and rivers. There have been numerous cases of drowning in the community and in response to this, Umgeni Water facilitated training of children and adults by professional lifesavers. The legacy Umgeni Water left in the community is an important one as it will save lives through the swimming skills that were imparted. Similar events will be replicated in other communities that live close to dams and rivers.

I will return now to key performance outcomes: again Umgeni Water has illustrated its strong financial status which, in the reporting year, resulted, among others, in revenue growth to R2.22 billion and a net surplus of R827 million. The surplus achieved is crucial to continue the implementation of infrastructure that is required by customers to improve service delivery and extend water provision to under-serviced and un-serviced communities. This surplus will also be used to repay debt and ensure the entity is able to keep its bulk potable water tariffs affordable.

As the reporting year drew to a close, the water sector, under the leadership of the Minister of Water and Sanitation, was given a broad overview of the Department of Water and Sanitation's thinking and plans for sanitation - and of where the water sector is likely to fit in this equation - at a sanitation summit held in Durban. This summit underscored the fact that future sanitation solutions are to be driven by technology.

In this context, therefore, the time is opportune for sector players to be creative and develop cost-effective technology models to contribute to the eradication of sanitation backlogs in South Africa, currently estimated at 20%. This could be both an interesting and a daunting challenge, but indisputably one of the most significant gestures towards eliminating the racial inequalities of the past and restoring human dignity. Minister Mokonyane has achieved much in consolidating the water sector under a new vision and in fostering like-mindedness that will go a long way towards positioning water and sanitation at the centre of socio-economic development in South Africa.

The water sector can now proudly proclaim that it speaks in unison in the execution of the mandate given under the Water Services Act and allied legislation. Umgeni Water placed a great deal of emphasis on accountability to its customers, the Ministry and Department of Water and Sanitation, the Provincial Government of KwaZulu-Natal, Civil Society, the Media and Organised Business Fraternity. The expectations of the Executive Authority and other stakeholders are clearly understood, as per aforementioned programmes and to which Umgeni Water ensured there is complete alignment. In addition, alignment to customer integrated development plans is paramount and to this end Umgeni Water has ensured:

- Adequate water resources are secured,
- Bulk infrastructure is developed, is adequate and is well maintained, and
- An affordable and sustainable bulk tariff can be provided.

EXPANDED SERVICE AREA

The water board consolidation strategy, an outcome of a national government realignment project, in the prior year translated into proposed expansion of areas of operation of Umgeni Water to include expansion into the North of

KwaZulu-Natal to include the uThukela District Municipality, Umzinyathi District Municipality, Amajuba District Municipality and Newcastle Local Municipality.

The Executive Authority has initiated a process that will culminate in the establishment of a single water board for KwaZulu-Natal during 2016/2017 financial year. The proposed new entity which will have a Regional Water Utility (RWU) status, will amalgamate the areas served by both Umgeni Water and Mhlathuze Water. This will straddle a total geographical area of 94 361 km^2 and is home to 10.2 million people and 2.5 million households.

The primary function of the Regional Water Utility (RWU) would be to plan, construct, operate and maintain Regional Bulk Infrastructure. The RWU will take on more responsibility for regional water resources infrastructure to achieve greater integration of bulk systems. In addition, the RWU will provide support functions to municipalities as a secondary activity.

Municipalities in the area, covering the entire province of KwaZulu-Natal, will comprise: One (1) Metropolitan Municipality, ten (10) District Municipalities and fifty (50) Local Municipalities. Fourteen (14) of these municipalities are Water Services Authorities (direct retail customers) as defined in the Water Services Act.

A due diligence of the new area is underway, overseen by the Department of Water and Sanitation, and will be completed during the 2015/2016 period.

STAKEHOLDER ENGAGEMENTS

Umgeni Water places a great deal of emphasis and invests a significant amount of time in engaging its stakeholders and achieving stakeholder understanding and support. In the period under review numerous interactions and engagements took place with a wide spectrum of stakeholders who form the political and/or executive management of their organisations. These engagements were structured in nature and set out to achieve, as their key outcomes, the formation of new relationships, consolidation of relationships and enhancement of existing relationships.

INTERACTIONS TOOK PLACE WITH:

Statutory Stakeholders:

- The Executive Authority,
- The Department of Water and Sanitation,
- The Portfolio Committee on Water and Sanitation, and
- National Treasury.

Strategic Stakeholders:

- The Cabinet of the Provincial Government of KwaZulu-Natal,
- The Planning Commission of KwaZulu-Natal, and
- South African Local Government Association.

Contracted Stakeholders:

- Political Leadership of iLembe District Municipality,
- Political Leadership of Ugu District Municipality,
- Political Leadership of Harry Gwala District Municipality,
- Political Leadership of Msunduzi Local Municipality,
- Political Leadership of uMgungundlovu Local Municipality,
- Political Leadership of eThekwini Metropolitan Municipality,
- Staff of Umgeni Water,
- Organised labour (National, Education, Health and Allied Workers' Union), and
- Investors and financial institutions.

Non-Contracted Stakeholders:

- Civil Society representatives,
- The Media,
- Organised Business (Pietermaritzburg Chamber of Business; Durban Chamber of Commerce and Industry, and National African Federated Chamber of Commerce and Industry).

Potential Customers:

- Amajuba District Municipality,
- Umzinyathi District Municipality,
- uThukela District Municipality, and
- Newcastle Local Municipality.

The discussions with these stakeholders covered almost the entire spectrum of Umgeni Water's business and were at times accompanied by presentations on organisational performance against the Business Plan and Shareholder Compact.

Consistent with Umgeni Water's commitment to keep customers fully apprised, all customers were consulted on bulk water tariffs, the Five-Year Infrastructure Development Programme and progress with projects and plans for the development of rural and social projects for the reduction of backlogs.

Engagements took place with some Civil Society representatives, comprising Ward Councillors and Amakhosi, to prevent construction of informal dwellings within or close to pipeline servitudes that put infrastructure and community at risk and for increasing safety of communities near water resources. Two functions with communities were held to celebrate the completion of infrastructure projects. The first was held in Maphumulo, within iLembe, to celebrate the completion of construction of Imvutshane Dam, as Phase 2 of the Maphumulo Bulk Water Supply Scheme, and the handover of a sports field and food gardens to the community of Maphumulo. This function was graced by the presence of the Deputy Minister of Water and Sanitation, Pamela Tshwete; the MEC for Co-operative Governance and Traditional Affairs Nomusa Ncube-Dube and the leadership of the iLembe District Municipality. The other function took place in Thornville, within uMgungundlovu, to commission the Richmond Pipeline. It was attended by three Mayors, of uMgungundlovu, Msunduzi and Richmond. Both projects will play a crucial role in enabling the recipient municipalities to extend and enhance water services to communities. Sector collaboration was entrenched at a function that was held during National Water Week at Hazelmere Dam. This function served to illustrate to water sector partners the measures that Umgeni Water has implemented to mitigate the effects of the drought and also create first-hand knowledge of the state of Hazelmere Dam as a result of below average rainfall in the Hazelmere catchments.

In relation to the media, Umgeni Water continues to enjoy excellent relations with newspapers, radio stations and television channels. The majority of coverage that was received in the period under review was positive in nature.

POSITIONING UMGENI WATER IN AFRICA AND EUROPE

In support of the Government's objective of continental co-operation, Umgeni Water's Board and Executive Management continued to identify water sector entities in Africa for possible partnerships. In this regard the Executive Management had occasion to host a group from Dar-es-Salaam, Tanzania, representing the Ministry of Water and Irrigation; Energy and Water Utilities Regulatory Authority, and Water and Sewage Authority. The visit by the Tanzanian group was to learn about Umgeni Water's growth strategy, asset management strategy, infrastructure development programme and the regulatory environment in which it operates. This engagement allowed Umgeni Water to learn about the water sector environment in Tanzania.

Closer to home, the Board undertook a visit to the Highlands water project in Lesotho – commonly known as the Katse Project - to obtain first-hand knowledge about the scheme which was built to accommodate South Africa's increasing need for water. The visit was a success and, apart from seeing the scheme, the Board was able to witness the nearby Muela Hydro Power Station at work. The Katse Project has had an amazing impact on the local populace through empowerment, job creation and the provision of health care by the construction of a hospital. In many respects this two-day visit was both a wonderful experience and an eye-opener.

Umgeni Water also had the privilege of attending the World Water Week that was held in Stockholm, Sweden, from 31st August – 5th September 2014. The event is hosted and organised by the Stockholm International Water Institute and attracts, on average, 2 500 experts, practitioners, decision makers and business innovators to exchange ideas, foster new thinking and develop solutions. The theme was energy and water nexus, which explored the complex inter-linkages between the two resources.

EMPOWERMENT OF SMALL BUSINESSES

Umgeni Water has pledged to communicate and provide information on a regular basis to small, medium and micro enterprises to contribute to development of this sector. Structured supplier engagements are held and presentations made to existing and potential suppliers on how to register to become suppliers and service providers to Umgeni Water and about contract opportunities that are available. Umgeni Water actively implements Contract Participation Goals (CPGs) in its tenders, as a means to promote and sustain Broad-Based Black Economic Empowerment. CPGs require tenderers to commit a certain percentage of the tender scope of work and value for which the tenderer will contract targeted enterprises through provision of meaningful economic opportunities. In the year under review, a supplier forum engagement took place in Durban, where the concept of CPG was explained in detail. The responses to numerous questions from the floor provided an improved awareness and increased understanding.

RURAL DEVELOPMENT

A significant percentage of Umgeni Water's five-year infrastructure budget targets infrastructure projects that support rural development and community sustainability. In the 2014/2015 financial year R799 million - or 47% - of the infrastructure capital expenditure implemented was spent on key rural development projects which included:

- Greater Eston Bulk Water Supply Scheme,
- Richmond Pipeline,
- Maphumulo Bulk Water Supply Scheme Phase 2 (Imvutshane Dam),
- Lower Thukela Bulk Water Supply Scheme,
- Mhlabatshane Bulk Water Supply Scheme,
- UMshwathi Regional Bulk Water Supply Scheme, and
- Maphephethwa Water Treatment Works Upgrade.

Umgeni Water also implemented the Greater Mbizana Regional Bulk Water Supply Scheme to increase access to rural areas in Alfred Nzo District Municipality, Eastern Cape.

Umgeni Water strives to ensure positive socio-economic impacts in all its initiatives. In this regard, 1157 jobs were created through implementation of capital infrastructure projects, with R31.9 million paid in salaries and wages, and 1164 jobs were created through implementing other projects. Construction opportunities are used to impart skills and expertise that will hold workers in good stead to compete for other jobs.

CORPORATE SOCIAL INVESTMENT

A structured approach has been adopted for Corporate Social Investment (CSI). CSI initiatives in the year included:

- Support for a block-making initiative at Maphephethwa, which was completed and is owned by a community in Inanda,

- Support to local schools in the form of refurbishment of water and sanitation infrastructure,
- Incentives to six (6) schools through funding totalling R196 000. The funding was used for the purchase of water tanks, fencing and rehabilitation of facilities. A total of twenty (20) schools also received sponsorship of trees and vegetable seedlings.

Umgeni Water continues to reap success from its Water Classrooms and Water Education Programmes it hosts at three operational sites, namely Durban Heights Water Treatment Works, Midmar Water Treatment Works and Darvill Wastewater Treatment Works. A total of 118 water classrooms were conducted which reached 87 institutions and 5 251 participants.

Umgeni Water also continued to reach out to schools through special environmental day awareness programmes. A range of water related educational materials were provided to communities in the year to raise awareness.

Umgeni Water worked with the twenty (20) schools it has adopted as part of a multi-year initiative which includes environmental education. Interventions in the year saw partnerships being forged with various state departments in assisting schools within Umgeni Water's operational area.

CORPORATE GOVERNANCE

The Board and Board Committee meetings were held according to the organisational Business Cycle and were well attended. (Full details are provided in the Corporate Governance chapter of this Annual Report). The critical issues are: the formulation of organisational strategy, oversight of organisational performance and alignment of the organisation to the expectations of the Executive Authority, among others. Members of the Board have skills that are put to good use in providing leadership and guidance in the development of strategy. This is a clear indication that the Board is functioning at a strategic level, and in line with its mandate.

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. Performance evaluations are conducted for Board members through a combination of self-assessment and peer review. The performance of the Board and Board Committees is also assessed and the evaluation reports that emerge from this process are submitted to the Minister of Water and Sanitation.

ACCOLADES AND ACHIEVEMENTS

The 2014/2015 reporting year produced some proud moments for Umgeni Water when, as recognition for its contribution to society and socio-economic development in KwaZulu-Natal, it received the KZN Top Business Award for best performing utility in KwaZulu-Natal that has made a significant contribution to KwaZulu-Natal's economy and society.

THE ROAD AHEAD: RISKS, CHALLENGES AND OPPORTUNITIES

Strategic priorities in the year ahead include:

- Growth and expansion,
- Strengthening relationships and working closer with customers, communities and all other stakeholders, specifically in the area of alleviation and managing the effects of the drought,
- Increasing support to municipalities, and
- Sound positioning of Umgeni Water for amalgamation into the KwaZulu-Natal Regional Water Utility.

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

The move to amalgamate the two water boards is not isolated from other government initiatives that seek to improve sustainability of water supply in the province. This will create growth opportunities for the new entity from the 2016/2017 financial year, with a clear mandate from the executive authority.

The acquisition of new customers outside of the traditional area of supply will provide an increased footprint for the KwaZulu-Natal entity to improve service delivery access. Rural or developmental projects are financed through a mix of grant funding and the balance sheet. In this regard, efforts to secure Government grant funding to facilitate infrastructure development will continue.

The Board will continue into the foreseeable future to provide guidance and support to Umgeni Water management to develop appropriate strategies to accelerate these initiatives. Key among the initiatives is the implementation of a series of high-level engagements with stakeholders in all three tiers of Government, all existing stakeholders and with future customers.

as the Board, we are able to state that Umgeni Water has made a significant contribution to the Province of KwaZulu-Natal and its people.

ACKNOWLEDGEMENTS

It is with a sense of appreciation the Board would like to acknowledge the following:

- The Minister of Water and Sanitation, Ms Nomvula Mokonyane, for her leadership,
- The Deputy Minister of Water and Sanitation, Ms Pamela Tshwete, for her leadership,
- The Portfolio Committee for Water and Sanitation for oversight and direction,
- The Department of Water and Sanitation for support, oversight and direction,
- Umgeni Water's six customers: eThekwini Metropolitan Municipality, iLembe, Ugu, Harry Gwala and uMgungundlovu District Municipalities and Msunduzi Local Municipality for collaborative engagements in the year,
- Colleagues on the Board for robust, strategic and solution-seeking deliberations and leadership,
- Umgeni Water Executive for the manner in which the organisation's strategies were executed in the year, and
- Employees of Umgeni Water for their dedication and hard work in realising these excellent results.

A. Mahlalutye

ANDILE MAHLALUTYE
CHAIRMAN OF THE BOARD
16 September 2015

4.0 Chief Executive's Report

MR CYRIL VUYANI GAMEDE
CHIEF EXECUTIVE

Umgeni Water further developed as a credible brand in the water sector over this reporting period - 1 July 2014 to 30 June 2015. The sound implementation track record and strength of the entity's balance sheet will be leveraged for the future growth and service delivery planning for KwaZulu-Natal.

In the past year, the entity's plans continued to respond positively to the business environment, achieved through targeting the resources, activities and outputs to realise the organisational performance outcomes.

PRODUCT QUALITY

Excellent drinking water quality was provided to customers and communities. The water quality at all treatment works improved since the previous period. In roads with implementing the multi-year project to refurbish and upgrade the Darvill Wastewater Treatment Works to address wastewater quality gaps continued, with commissioning expected in 2017.

Umgeni Water's commitment to assure product quality is corroborated by a sound asset management strategy. This is supported by a consistent investment in maintenance of water and wastewater treatment assets over the past five years. A total of R188 million was spent on asset maintenance in the past year (R158 million in 2014). A solid average of 7% of revenue has been spent on maintenance over the past five years.

R188 million was **spent on asset maintenance** in the past year (R158 million in 2014)

7% of **revenue** has been **spent on maintenance** over the past five years

CUSTOMER SATISFACTION

Umgeni Water focused its customer engagement sessions in the year on issues of growth, expansion and extending access to rural communities. The organisation has been committed to ensuring long-term sustainability of bulk water services delivery for each customer area. Customer satisfaction was assured through meeting all requirements of bulk supply agreements in the year. There were no service disruptions that exceeded 24 hours. The extraordinary situation that arose due to drought in the region was well managed through focused interventions, teamwork and interaction with customers.

THERE WERE **NO SERVICE DISRUPTIONS** THAT **EXCEEDED 24 HOURS**

For the year, volumes totalling 447 million cubic metres (1224 Ml/d) were reliably supplied to six major water service authority customers, which is a 1.6% increase over the prior year (440 million cubic metres in 2014). At the same time, the organisation treated 28 million cubic metres (77 Ml/d) of wastewater.

STAKEHOLDER UNDERSTANDING AND SUPPORT

Umgeni Water remains closely aligned to the agenda of government, details of which are comprehensively presented in the Chairperson's Report. In the coming period, the entity will work ever more closely with the Minister, the Department of Water and Sanitation and other key partners to deliver an optimal institutional arrangement that will ensure acceleration of water services delivery to communities in the KwaZulu-Natal province.

COMMUNITY AND ENVIRONMENTAL SUSTAINABILITY

Programmes previously introduced to increase meaningful economic participation, continued in earnest in the reporting period. The Contract Participation Goal (CPG) targets set for construction contracts and professional services for 2014/2015 were well met.

Fifty-two (52) contracts were awarded and signed as at 30 June 2015. For these, an average of 35% CPG was achieved with a total CPG value of R1381 million being awarded (R311 million in 2014), showing a significant increase in award value over the years.

BBBEE implementation was also improved and expanded with 74.4% (93.2% if SOEs excluded) of total spend allocated to BBBEE enterprises (65.6% in 2014). Fifteen (15) new BBBEE entrants were added to the database (14 in 2014) of which two (2) were awarded work. Efforts to develop sustainable suppliers will continue and increase.

In undertaking its business in the year, Umgeni Water created a total of 2321 temporary jobs, comprising 1157 (1073 in 2014) from its Capex Programme and 1164 through programmes implemented as an Implementing Agent.

A total of R31.9 million was paid in wages to local labour (R25.8 million in 2014), while implementing the Capex Programme.

INFRASTRUCTURE STABILITY

The entity planned, designed and implemented bulk water infrastructure aligned to its strategy and business plan with significant success in the year. This included pipelines, bulk water supply schemes, many targeting rural areas, as well as critical refurbishments and upgrades of major treatment works.

Total capex spend achieved in 2014/2015 was commendable at R1693 million (group) (R1024 million in 2014).

R799 million, 47% (R694 million in 2014) was spent on infrastructure projects that increase access to rural communities.

Largely, the capital expenditure supported implementation of Ten (10) major capital infrastructure projects in the year for which progress is summarised below. In addition, Umgeni Water also implemented the separately funded Greater Mbizana Regional BWSS as an Implementing Agent.

CUSTOMERS TARGETED AND PROGRESS WITH KEY BULK INFRASTRUCTURE DEVELOPMENTS DURING 2014/2015 WERE AS FOLLOWS:

(1). Lower Thukela BWSS

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

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

Construction of access roads, weir and abstraction works, gravity main, water treatment works, reservoir, rising main and power supply were in progress in 2014/2015.

(2). Maphumulo BWSS, Phase 2 Imvutshane Dam

Serves iLembe District Municipality, and KwaMaphumulo, Ndwedwe, and KwaDukuza Local Municipalities, and will serve 150 000 people in Maqumbi and Ashville.

The construction of Imvutshane Dam was completed in May 2015.

(3). Hazelmere WTW Upgrade

Serves eThekwini Metropolitan Municipality and iLembe District Municipality.

The works capacity was upgraded from 45 Ml/d to 75 Ml/d and was commissioned in February 2015.

(4). '61 Pipeline Augmentation, Richmond Off-take to Umlaas Road

Serves uMgungundlovu District Municipality and eThekwini Metropolitan Municipality.

This infrastructure development includes a Bulk Potable Water Pipeline from Richmond Off-take to Umlaas Road. Progress included work on a new intake structure at Umlaas Road reservoir, which will be completed before the end of 2015. The environmental rehabilitation component of the project will be completed during the 2015/2016 rainy season.

(5). Richmond Pipeline

Serves Msunduzi Local Municipality and uMgungundlovu District Municipality and will reach and provide access to rural communities in Richmond Local Municipality.

The project comprises a 30 km potable water pipeline from the '61 Pipeline to Richmond Reservoirs. During 2014/2015 the pump station and pipeline construction were completed and the project commissioned in June 2015.

(6). Greater Eston BWSS

Serves uMgungundlovu District Municipality and will reach and provide potable water access for 41 240 people in four wards in Mkhambathini Local Municipality and two wards in Richmond Local Municipality, making a significant impact in alleviating water backlogs in these areas.

The 4 Ml/d infrastructure development is in construction and was completed in July 2015.

(7). Mhlabatshane BWSS

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

Commissioning of the BWSS was completed in September 2014.

(8). Maphephethwa WTW Upgrade

Serves the rural areas of Greater Maphephethwa in Inanda area, in the eThekwini Metropolitan Municipality.

The Works upgrade to 5 Ml/d was undertaken and partially commissioned in December 2012. Construction of filter beds is in progress and commissioning is expected by December 2015.

(9). Darvill WWTW Capacity Increase

Serves Msunduzi Local Municipality.

The works capacity is being upgraded from 65 Ml/d to 100 Ml/d. Construction commenced in 2014/2015 and expected completion is January 2017.

(10). UMshwathi Regional BWSS

Serves uMgungundlovu District Municipality and iLembe District Municipality.

Planning and design of the scheme which includes 91 km of pipelines, pump station and 3 bulk storage reservoirs, providing 30 Ml total storage, is complete. The first phase pipeline, reservoir and pump station construction will be completed by December 2015.

(11). Greater Mbizana Regional BWSS

Serves Mbizana Local Municipality within the Alfred Nzo District Municipality in the Eastern Cape area.

The regional bulk water supply scheme includes a dam and bulk treated water system for which construction of Ludeke Dam was completed in April 2014 and construction of the first phase of the Bulk Treated Water Supply System, comprising 28 km of pipelines, 8 bulk storage reservoirs and a pump station, reached practical completion stage in June 2015.

WATER RESOURCES ADEQUACY

Umgeni Water and the Department of Water and Sanitation, working collaboratively, are implementing a mix of water resources developments to ensure supply security for the region. This is paramount for short, medium and long-term sustainable service delivery in the region.

In 2014/2015, progress was made with the following key water resources developments:

- Imvutshane Dam (UW) - construction was completed and will impound during the next rainy season,
- UMkhomazi Water Project (DWS and UW) - feasibility study in progress,
- Hazelmere Dam raising (DWS) - construction phase has commenced,
- Lower Thukela river abstraction (UW) - construction in progress,
- Lower uMkhomazi Bulk Water Supply Scheme (UW) - feasibility study in progress,
- Darvill WWTW Reuse project - feasibility study completed, and
- East Coast Desalination Plants - detailed feasibility study completed in June 2015.

LEADERSHIP AND EMPLOYEE DEVELOPMENT

Umgeni Water continued to implement an extensive range of training and development programmes for its employees and to benefit the sector as a whole. The programmes targeted all levels of employee from management to plant operators.

A summary of these and the employee numbers in the programmes are:

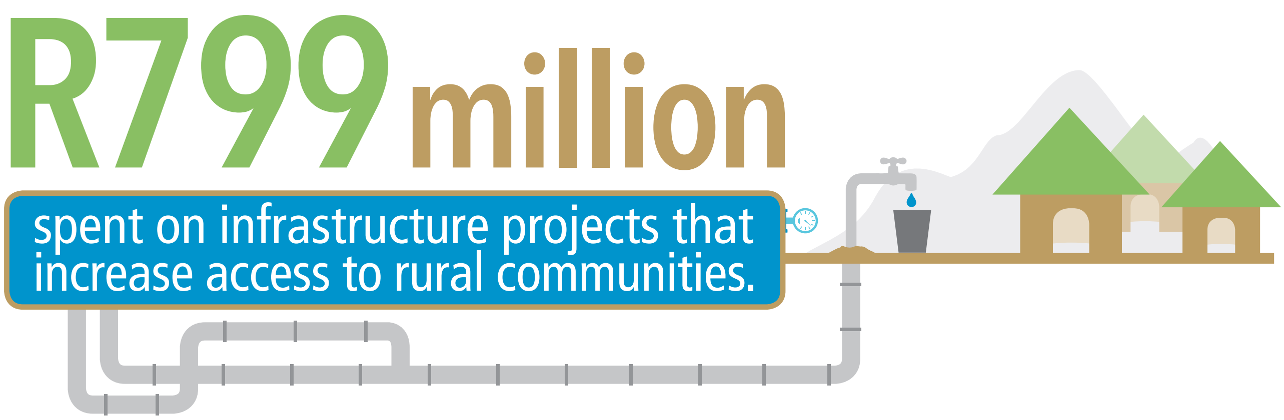
- 103 employees in the Management and Emerging Management Development Programmes (MDP/EMP),
- Thirty-seven (37) Artisan Trainees in Mechanical Engineering, Electrical Engineering and Instrumentation,
- Twelve (12) Apprentices in Electrical, Mechanical and Instrumentation disciplines,
- 187 employees in Process Controller training, including Learnership and various courses in water and wastewater treatment, including N3 Water and Waste Treatment,
- Fourteen (14) bursary students in the fields of Civil Engineering, Mechanical Engineering, Electrical Engineering, Chemistry, Microbiology and Finance,
- Fifty-seven (57) employees on the Assisted Education Programme,
- Nineteen (19) graduates and twenty-two (22) in-service trainees in Science and Engineering fields and a further eleven (11) interns in various other disciplines, and
- Forty-four (44) trainees enrolled as Engineers, Technologists, Process Controllers and Technicians with specific emphasis on meeting the skills shortages in municipalities (A programme in partnership with National Treasury).

OPERATIONAL RESILIENCY

The organisation's strategic risks are clearly aligned to the organisation's strategy. Of a total of ten (10) strategic risks, one (1) strategic risk is outside the entity's risk appetite and tolerance level, namely short-term water resources availability caused by low water levels in coastal dams.

Mitigation for this risk includes continued use of Emergency Schemes, namely uThongathi, Hlimbithwa and Mpambanyoni Schemes, water rationing from the bulk system (Hazelmere Water Treatment Works), which has been agreed with customers, and coordination through Joint Operating Committees in affected areas. For the medium to long-term the planned long-term sustainable options for the region will be pursued.

All other strategic risks have been managed to acceptable levels and are within the organisation's risk tolerance level.



The entity's Laboratory Services has a long established reputation of meeting international standards which has been maintained in this period. The Laboratory is a dynamic centre of excellence comprising four modern ISO/IEC 17025 accredited laboratories in Chemistry, Microbiology, Hydrobiology and Soil Testing.

Water samples straddling the full water value chain - catchment to consumer - are collected by a team of dedicated sampling officers on a daily basis. These are assessed in terms of physical, chemical and microbiological characteristics and used to provide assurance that the water produced complies with standards and safeguards public health.

The laboratory generates an average of 25 000 analyses per month and remains soundly positioned to serve the KwaZulu-Natal region as a whole.

Umgeni Water has an organisation-wide and holistic ICT management approach in place that aligns information and communication technology systems to its business strategies. In the past year, the entity commenced with implementation of the SAP Enterprise Resources Planning (ERP) system. The first stage of the implementation has been successfully completed. Once fully implemented the system will ensure seamless integration of entity-wide information and will better support decision-making from plant to Boardroom.

OPERATIONAL OPTIMISATION

Water is the most significant input material for the bulk business and special strategies and plans, described in this report, are in place to improve supply security and assurance. Careful water balancing is undertaken to ensure precious water resource abstractions are used well and unaccounted for water is maintained below the entity's target of 5%. The average water loss incurred for the reporting period was 3.11%.

Energy resources remain top priority and the entity keeps abreast of national and regional developments in this regard. Specific energy / carbon footprint management initiatives include the Mooi-Mgeni Transfer scheme hydropower project, which is currently in EIA phase and the Darvill Wastewater Treatment Works cogeneration initiative, which is in the final design stages. Once complete, the latter initiative, which will utilise digester methane to produce electricity, is expected to produce approximately 22 MWh electricity per day. Optimal pumping and other strategies are inherent parts of the business psychology from scheme planning, design and construction through to operation.

FINANCIAL VIABILITY

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

- Revenue (Group) of R2.22 billion was generated (R2.20 billion in 2014), and
- Gross surplus (Group) was R1.27 billion (R1.17 billion in 2014) and net surplus was R827 million (R682 million in 2014).

Umgeni Water has continued to strengthen its balance sheet value to R7.6 billion (R6.8 billion in 2014), which allows for delivery of future capital expenditure for growth and expansion.

The earned surplus for the year will be invested in support of the organisation's five-year R7.8 billion capital infrastructure programme, and debt reduction. Umgeni Water's capital commitment as at 30 June 2015 is R3.2 billion.

R3.1 billion (40%) of the five-year capex benefits rural communities. This excludes capital investment for areas outside of the current gazetted supply area, which will be formalised in the coming period. Therefore reinvestment of the surplus generated is fundamental to sustainable business growth.

The entity has maintained its reputation as a financially viable entity, creating significant value for customers and shareholders. The strength of the balance sheet is a significant asset. This and access to other strategic financial resources will in future be leveraged to benefit the KwaZulu-Natal region.

CONCLUSION

2014/2015 has been an extraordinary year for Umgeni Water. Performance has been maintained at a high level and the bar has been raised in many areas. At his point, the entity is in a sound position in all respects, including: financial strength, capable people and resilient and enterprise-wide systems. The foreseeable future presents huge opportunity for leveraging all of these aspects, which, together with strategic regional partnerships, will be used to craft an even greater service delivery model that will benefit the sector and KwaZulu-Natal region as a whole.

MR CYRIL VUYANI GAMEDE
CHIEF EXECUTIVE
16 September 2015

5.0 Corporate Governance

5.1 COMPOSITION AND FUNCTIONING OF THE BOARD

BOARD

Umgeni Water has a unitary Board comprised of 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 are 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 Chairperson of the Board and all other Board members (with the exclusion of the Chief Executive), are independent non-executive directors in the manner described in King III. All Board members execute 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").

The Board has established four (4) standing committees to assist it in discharging its responsibilities, namely:

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

The list of Board and Committee members is shown in **Table 5.1.** 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. The Board will continue to actively engage with the shareholder through various forums during the year.

A Board Charter 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).

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 this Annual Report (Page 133).

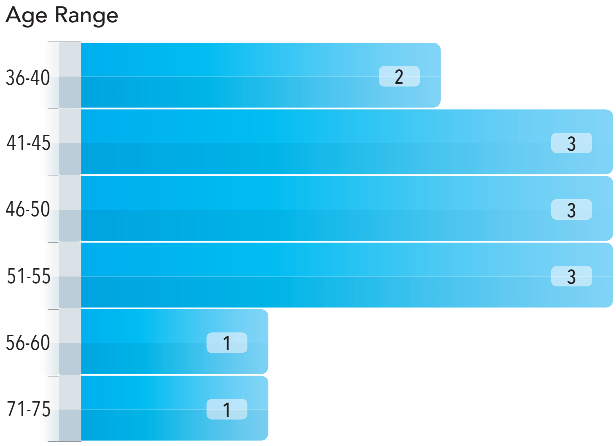
***Table 5.1:** Current Board and Committee Memberships*

Board Member	Gender	Audit	REMCO	Capex	Governance Commitee
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		√	√	

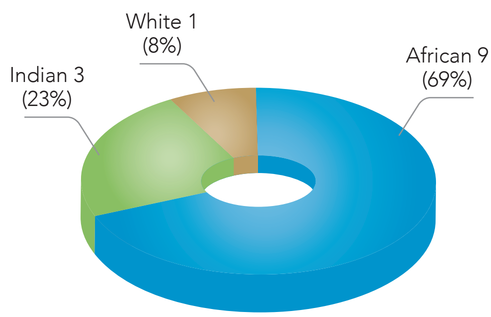
√ Denotes Committee Membership
[1] Chairman
[2] Audit Committee Chairman
[3] Capex, Fixed Assets and Procurement Committee Chairperson
[4] Human Resources and Remuneration Committee Chairperson
[5] Chief Executive

***Figure 5.1:** Board Member (a) Age, (b) Race and (c) Gender Profiles*

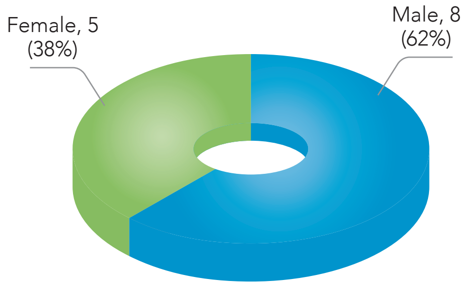
(a) Board Member Age Profile



(b) Board Member Race Profile



(c) Board Member Gender Profile



SUMMARY OF BOARD AND COMMITTEE MEETINGS AND ATTENDANCE IN 2014/2015

Board and Board Committee meetings were held according to the organisational Business Cycle and were well attended.

The average per cent attendance for 2014/2015 is as follows:

- 89% for Board: *Five normal meetings,*
- 80% for Audit Committee: *Five normal meetings,*
- 80% for HR and Remuneration Committee: *Five normal meetings,*
- 82% for Capital Projects, Fixed Assets and Procurement Committee: *Five normal meetings, and*
- 100% for Governance Committee. *Two normal meetings.*

PERFORMANCE MANAGEMENT

The critical issues that were dealt with were the formulation of organisational strategy, oversight of organisational performance and the expectations of the Executive Authority, among others. As recommended by King III the Board evaluates the performance of all divisions including the finance division. This was done 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.

***Table 5.2:** Board Meeting Attendance in 2014/2015*

Board Member	Gender	31-Jul-14	17-Sep-14	25-Nov-14	18-Mar-15	15-Apr-15
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	√	√	√	√	√

√ Attendance
≠ Absence with apology
1 Chairman
2 AUDIT Chairman
3 CAPEX Chairperson
4 REMCO Chairperson
5 Chief Executive

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 enables 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 the written Terms of Reference which are formally approved by the Board.

AUDIT COMMITTEE

The Committee consists of six (6) non-executive Board members and its chairman is Professor Imtiaz Vally.

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 5.3:** Audit Committee Meeting Attendance in 2014/2015*

Members	Committee Meetings				
	03- Sep-14	04-Nov-14	25-Feb-15	25-Mar-15	27-May-15
Prof I Vally[1]	√	√	√	√	√
Ms N Afolayan	≠	≠	≠	√	√
Mr T Nkhahle	√	√	√	≠	√
Ms Z Mathenjwa	√	√	√	√	√
Dr T Dube	≠	√	√	√	√
Mr T Zulu	√	≠	√	√	√

[1] Chairman
√ Attendance
≠ Absence with apology

ETHICS COMMITTEE

King III and the Companies Act No. 71 of 2008, read in conjunction with regulation 43, oblige all state-owned enterprises to establish a Social and Ethics Committee. Umgeni Water established an Ethics Committee in 2012 with a mandate to promote ethical behaviour, which includes preventing incidences of fraud, bribery and other corrupt activities and to monitor the organisation'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 its stakeholders.

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 a Managing Director of Ukukhanya Advisory Services, an Accounting and Auditing company based in Durban. The Ethics Committee reports matters within its scope of mandate to the Board through the Audit Committee which include, environmental, financial as well as social ethics.

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

The Committee's roles and responsibilities are as prescribed by the Companies Act and include monitoring the organisations activities, against legal or best practice requirements relating to:

- Social and economic development, including, EE and BBBEE,
- 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 management.

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.

CORPORATE RISK COMMITTEE

The Corporate Risk Committee, which comprises a member of the Audit Committee, the Chief Executive, the Executive Management, the Company Secretary and the Risk Manager, assists the Audit Committee in discharging its duties relating to implementation of the integrated risk management framework.

INTERNAL CONTROL

The Board is accountable for the systems of internal control. Umgeni Water policies, procedures, structures and delegation of authority framework clearly define and provide appropriate levels of responsibility.

The internal control systems are designed to provide reasonable assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. Principal features of the organisation's internal finance controls are:

- A system of financial planning, budgeting and reporting which allows continuous monitoring of performance,
- A materiality and significance framework,
- Clearly-defined delegations of authority,
- The establishment of a short, medium and long-term funding strategy,
- The tariff model which determines the financial impact of capital expenditure and the bulk water tariff on Umgeni Water's debt curve, and
- Established policies and procedures.

To assist the Board in the discharge of its responsibilities, Internal Audit undertakes an independent assessment of the internal control systems and business risks and reports to the Board through the Audit Committee. The audit plan covers major financial and commercial risks and responds to any changes emanating from Umgeni Water's integrated risk management process.

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 2015 the organisation had seven (7) unresolved internal audit findings.

Four (4) of these will be sustainably addressed in the long-term with implementation of infrastructure projects, notably the upgrade of Darvill WWTW, and the implementation of the SAP Enterprise Resources Planning (ERP) ICT system which will address gaps in HR and Finance related processes, amongst others.

A further three (3) findings relate to Review of Policies and Procedures, Procurement Planning and Disposal management processes.

These are envisaged to be closed with implementation of action plans by target dates within 2015/2016.

COMPLIANCE MANAGEMENT

In the prior year Umgeni Water developed a Compliance Framework and determined its Compliance Universe. During 2014/2015 a formal Compliance Register was developed and will be used as the basis for reporting compliance in a structured manner commencing 2015/2016.

In the reporting period the organisation had seven (7) unresolved litigation matters that are being addressed.

EXTERNAL AUDIT

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

- 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.

REMUNERATION AND HUMAN RESOURCES COMMITTEE

This Committee comprises of six (6) non-executive directors and the Chief Executive. The chairperson is Ms Nompumelelo Chamane.

The Committee reviews and recommends to the Board all matters relating to:

- Human Resources policies, organisational structure and compliance with the Employment Equity Act, (Act 55 of 1998) and other labour legislation,
- Conditions of employment of executive management,
- Appointment of the Chief Executive and members of executive management,
- Remuneration packages for 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 5.4:** Human Resource and Remuneration Committee Meeting attendance in 2014/2015*

Members	Committee Meeting				
	13-Aug-14	29-Oct-14	18-Feb-15	08 -Apr-15	03-Jun-15
Ms N Chamane[1]	√	√	√	√	√
Ms T Shezi	√	√	√	√	√
Mr V Gounden	≠	≠	√	√	≠
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 is chaired by Ms Nombuso Afolayan and comprises eight (8) non-executive Board members and the Chief Executive.

The Committee assists the Board with capital expenditure related/programme related decisions, and recommends Procurement Policies to the Board for approval and approves the release of capital expenditure above executive management's delegated authority but within the Committee's delegated authority. It ensures that the organisation's supply chain policy and procedures are equitable, transparent, competitive and cost effective. It reviews the organisation's infrastructure asset maintenance programme/performance. Contracts which exceed the Committee's Delegation of Authority are referred to the Board for approval. The Committee reviews and recommends amendments to the limits in the delegation of authority, relating to budget approvals for capital projects and procurement, to enable management to expedite the implementation of projects.

***Table 5.5:** Capital Projects, Fixed Assets and Procurement Committee Meeting Attendance in 2014/2015*

Members	Committee Meetings				
	20-Aug-14	15-Oct-14	11-Feb-15	17-Mar-15	10-Jun-15
Ms N Afolayan[1]	√	≠	√	√	√
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]	≠	√	√	√	≠

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

GOVERNANCE COMMITTEE

The Committee is chaired by Mr Andile Mahlalutye and comprises four (4) non-executive Committee Chairs.

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

Table 5.6: *Governance Committee Meeting Attendance in 2014/2015*

Members	Committee Meetings	
	16-Sep-14	14-Apr-15
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 him in this task. The Executive Committee is the highest executive decision-making structure in the organisation 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 organisation'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 and 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 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 129.

BOARD MEMBERS

FROM LEFT TO RIGHT: Mr Sbusiso Madonsela (Company Secretary), Mr Vasu Gounden, Mr Cyril Gamede (Chief Executive), Mr Andile Mahlalutye (Chairman), Mr Graham Atkinson, Mr Thabani Zulu, Prof Imtiaz Vally,

Mr Visvin Reddy, Ms Thokozile Shezi, Ms Ziphozethu (Gabsie) Mathenjwa,
Ms Nombuso Afolayan, Mr Teboho Nkhahle,
Ms Nompumelelo Chamane, Dr Takalani Dube

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.
Non-Executive Chairman of Umgeni Water Board since 2009; 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); Post-Graduate Diploma in Business Management (UKZN); Post-Graduate Diploma in Strategic Management and Corporate Governance (UNISA/ICSA); Certificate in Financial Management and Investment (UNISA).

Appointed for 1st Board term in June 2009.
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.
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.

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.
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.

MR GRAHAM ATKINSON

BSc Civil Engineering (UKZN); Post-Graduate Diploma in Town and Regional Planning (UKZN).

Appointed for 1st Board term in June 2009.
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).

MS NOMBUSO AFOLAYAN

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

Appointed for 2nd Board term in June 2009.
Chairperson of Umgeni Water CAPEX Committee since 2009. 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.

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.

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.

MS NOMPUMELELO CHAMANE

Appointed for 1st Board term in June 2009.

Chairperson of Umgeni Water Board HR and Remuneration Committee since 2009; 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.

MR VASU GOUNDEN

MA Law (LLM) (Georgetown University); Graduate of Harvard / Wits Business School Senior Executive Programme.

Appointed for 3rd Board term in June 2009.

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.

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.

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.

PROF IMTIAZ VALLY

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

Appointed for 1st Board term in June 2009.

Chairman of Umgeni Water Board Audit Committee since 2009; Professor of Management Accounting and Finance at UKZN.

MR THABANI ZULU

Chartered Accountant; B.Comm degree and Post Graduate Diploma in Accounting from UKZN.

Appointed for 1st Board term in December 2011.

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).

MR SBUSISO MADONSELA (Company Secretary)

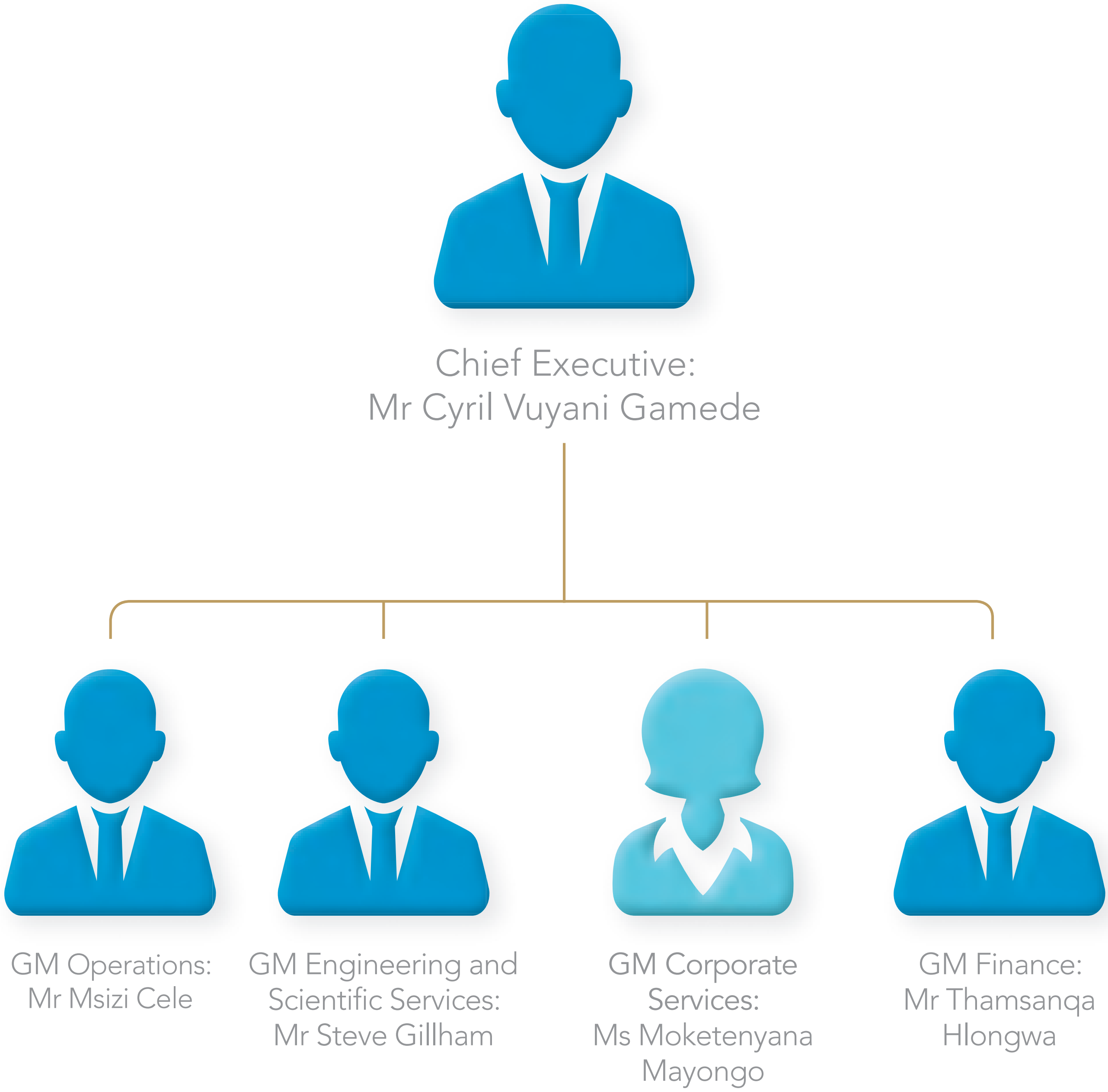
Admitted Attorney of the High Court of South Africa. LLB (UZ); Postgraduate Diploma in Compliance (UJ).

Appointed as Company Secretary on 1 January 2014.

Umgeni Water Legal Services Manager until December 2013; Prior to that he was the Competition Commission's Legal Counsel; Has extensive experience in private legal practice.

5.2 FUNCTIONS AND MANAGEMENT STRUCTURE

Umgeni Water has the following structure that responds to its strategy.



EXCO MEMBERS

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

SEATED: Mr Cyril Gamede , Ms Moketenyana Mayongo

MR CYRIL GAMEDE

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

Appointed as Chief Executive Umgeni Water in August 2012.
Chairperson and Director of Msinsi Holdings SOC Ltd since 2014; 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 MAYONGO

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.

MR MSIZI CELE

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

Appointed as General Manager Operations in November 2014.
Managing Director of uThukela Water since 2007; Executive Director – Engineering at uThukela Water since 2005; 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

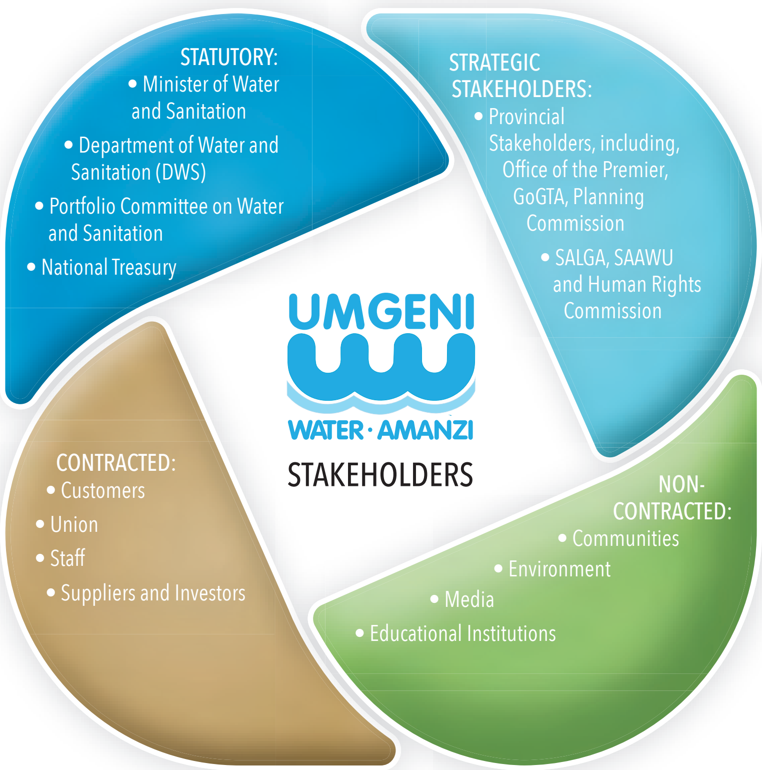
Chartered Accountant (SA); BCom Honours; BCom (Acc).

Appointed as General Manager Finance in July 2013.
Currently serving on the Board of PetroSA; Council Member of DUT; Audit Committee Chairperson for AbaQulusi Local Municipality; 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.

6.0 Stakeholder Understanding and Support

STAKEHOLDER INTERACTION

In the course of execution of its mandate, Umgeni Water interacts with a wide array of stakeholders who are impacted on or have an interest in the business activities of the organisation. These stakeholders have been categorised into four groups: Statutory, Strategic, Contracted and Non-Contracted.




Launch of
UMGENI

Table 6.1: *Umgeni Water Stakeholders and Basis for Engagement*

Statutory Stakeholders
Stakeholders who have a regulatory or oversight function over Umgeni Water and with whom Umgeni Water, as a State-owned entity, is required to interact on a regular basis in order to ensure that statutory requirements are met and there is alignment with Government's objectives.

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

The 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 usage and conservation and water quality management, demonstrating a well-governed and efficiently run entity, ensuring performance with financial and predetermined objectives and plans to deliver long-term sustainability.*

Strategic Stakeholders
Stakeholders to whom Umgeni Water provides information relating to organisational performance, capital infrastructure plans and assistance and expertise to assist vulnerable water boards and municipalities.

- Office of the Premier of KwaZulu-Natal
- KwaZulu-Natal Provincial Government departments and notably Cooperative Governance and Traditional Affairs
- KwaZulu-Natal Planning Commission
- South African Local Government Association (SALGA)
- South African Association of Water Utilities (SAAWU)

The Basis for Engagement: *affordable tariff, growth as a catalyst for economic expansion, delivery on mandate and alignment to policy, partner in service delivery, accelerated service delivery, corporate governance and alignment to Provincial Development Plan.*

Contracted Stakeholders
Stakeholders with whom Umgeni Water has contracted for the provision of products, services and goods, including customers, suppliers and investors and, in the case of employees and organised labour, the provision of employment and accompanying service benefits.

Existing Customers	Potential Customers
• eThekwini Metropolitan Municipality • iLembe District Municipality • Ugu District Municipality • Harry Gwala District Municipality • uMgungundlovu District Municipality • Msunduzi Local Municipality	• Newcastle Local Municipality • Amajuba District Municipality • Umzinyathi District Municipality • uThukela District Municipality

The Basis for Engagement with customers: *Service delivery agreements, assurance of supply, both quality and quantity, care and support, responsive to needs, tariff consultation, partnerships in socio-development initiatives and new products and services.*

- Employees of Umgeni Water
- National Education, Health and Allied Workers' Union (NEHAWU)

The 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, equitable jobs, fair labour practice, good working conditions, enabling work environment and communication, fair-market related compensation and service conditions and sound performance management and recognition system. Umgeni Water, in turn, expects engaged employees, productivity, delivery and return on investment.*

- Suppliers and Service Providers
- Investors and other Financial Institutions

The 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.*

Table 6.1: *Umgeni Water Stakeholders and Basis for Engagement continued*

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 *The Basis for Engagement: Umgeni Water demonstrating conservation and responsible use of resources, providing a clean and safe environment, exercising responsible citizenship, demonstrating transparency in corporate governance, creating jobs, providing information and opportunities. In turn Umgeni Water solicits a social licence to operate, recognition for creating value, respect for property and collaboration in protecting remotely situated water assets.*
Chambers of Business *The Basis for Engagement: Umgeni Water providing assurance of supply, both quality and quantity, information on tariff, demonstrating responsible citizenship. In turn Umgeni Water solicits recognition for creating value, pollution prevention and safe-guarding of water supply resources.*
Media and general public *The Basis for Engagement: access to information, demonstrating accountability, transparency and good governance. In turn Umgeni Water expects responsible reporting and media integrity.*
National Sector Institutions, among them, the Water Research Commission **International Sector Institutions, notably in Africa** *The Basis for Engagement: exchange and expansion of water sector knowledge, partnerships and collaborative water and wastewater research, which in turn will enable organisational learning and growth.*

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. There were occasions on which not-so-favourable responses were received, especially from some Civil Society representatives on the decision to cut back on potable water production at Hazelmere Dam in response to the prevailing drought.

Engagement with the Minister of Water and Sanitation, the Department of Water and Sanitation (DWS), National Treasury and SALGA took place throughout the year, 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.

Umgeni Water had opportunity in the year to engage with the Office of the Premier, KwaZulu-Natal (KZN) Provincial Cabinet and KZN CoGTA, as well as the President of the Republic of South Africa during a Presidential Imbizo in Pietermaritzburg.

The media coverage of the organisation during the year, in print, broadcast and online, was in the form of positive, balanced and neutral 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.

A large number of customer engagements took place in the year, including both strategic and operational engagements.

Engagements with Umgeni Water's six customers focused on performance with bulk supply agreements, service delivery needs, infrastructure plans, bulk water tariff proposals and the application of water restrictions as a result of water shortages caused by the drought. Engagements also took place with customers to explore cost-effective means of mitigating the effects of the drought. In the year, a Branding Conference / Strategic Dialogue on Water Services, targeting customers, potential customers and other stakeholders, took place and was well attended. Similarly a Water Resources Management and Innovation Conference was organised by Umgeni Water as part of its 40th anniversary celebrations and attended by all major stakeholders. Other Umgeni Water 40th anniversary events that were attended by stakeholders were:

- Soccer and Netball tournaments featuring Umgeni Water and its customers,
- A Dam Safety Event held to prevent drowning in dams and rivers,
- A year-end function for Staff and Retirees,
- A banquet for major stakeholders, which included the Executive Authority,
- A Golf Tournament and networking dinner with customers and service providers,
- Community function to celebrate the completion of construction of Imvutshane Dam, and
- Stakeholder function for the commissioning of the Richmond Pipeline.

Umgeni Water is humbly aware of the importance of maintaining a healthy internal pulse and created opportunities during the year for active 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 of new employees and communiqués designed to inform employees of events and organisational and Ministerial announcements. In addition, the Chief Executive ensured employees were kept updated on key water sector developments through From the Desk of the CE.

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

- CSI initiatives, including the Maphephethwa block-making initiative, which will be owned by a community in Inanda, and sponsorship of school refurbishment projects,
- Umgeni Water disseminated water and environmental education to learners and other attendees and interacted 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 of public sector entities and the public, and
- Special day / week events, including water week, environment and women's days, amongst several others, provided great opportunity for community outreach and awareness creation.

Umgeni Water kept abreast of water related knowledge through collaboration and knowledge exchange with water utilities in South Africa (including through SAAWU) and in Africa, including State-owned water provision entities from Tanzania and Lesotho. Exchanges with the Water Research Commission, the Durban University of Technology and the universities of KwaZulu-Natal, Stellenbosch, Pretoria, Cape Town and Western Cape were made in areas of climate change, water infrastructure, water quality and for exchange of knowledge and best practices in water and sanitation.

Through active participation in the SABS Technical Committee on Water, Umgeni Water played a significant role in the development of the updated South African National Standard for Drinking Water, SANS 241: 2015. The objective of the revision was to align the South African standard with the World Health Organisation Guidelines for Drinking-water Quality and also to facilitate the provision of safe drinking water for the protection of public health.

Further opportunity to engage water sector peers was made possible through attendance of the Institute of Municipal Engineers of Southern Africa Conference and Exhibition and the African Ministers' Council on Water-organised Gender Water and Development Conference.

Suppliers, notably small, medium and micro enterprises, were engaged during a forum in the year, where Umgeni Water provided information to current and potential suppliers to help increase future BBBEE opportunities. In addition, Umgeni Water interacted with the Durban Chamber of Business and Commerce, Pietermaritzburg Chamber of Commerce and the National African Federated Chamber of Commerce and Industry and provided an overview of the entity's five-year capital infrastructure programme and tariff setting process.

Barring these, Umgeni Water engaged with stakeholders at its annual report launch where organisational performance was shared with the Executive Authority, customers, civil society and investors.

The relationship Umgeni Water has with its stakeholders is based on transparency, mutual respect and value added. The achievements and positive feedback received on how the entity has performed are testimony to the healthy stakeholder relations enjoyed by Umgeni Water.

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7.0 Performance against Shareholder Compact 2014/2015

Umgeni Water implements its strategy through a balanced scorecard. The 2014/2015 scorecard comprises four (4) *Balanced Perspectives* and four (4) *Strategic Goals*, nine (9) *Strategic Objectives* and nine (9) *Key Performance Indicators* (KPIs). The KPIs are further expounded through sixty-two (62) *Result Indicators* for which *Targets* were approved for 2014/2015. Overall the indicators enable the entity to achieve performance with ten outcomes.

Per cent targets met: 92.52% (93.7% at the end of 2013'2014)
Per cent targets not met: 7.48% (6.3% at the end of 2013'2014)

Umgeni Water has achieved excellent performance for the year. The overall performance with its mission and mandate, which is to provide innovative, sustainable, effective and affordable bulk water and sanitation services, is 92.52%.

For its **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,*

Umgeni Water achieved **97.5%** performance, for which:
SO 1- Increase services and customers achieved 86.5% and
SO 2 - Increase customer and stakeholder value achieved 99.4%.

Key outcomes: *Stakeholder Understanding and Support, Customer Satisfaction, Product Quality, Community and Environmental Sustainability.*

For its **Financial** perspective and **Strategic Goal 2:** *Expand and improve funding collaborations whilst managing key cost drivers,*

Umgeni Water achieved **95.4%** performance, for which,
SO 3 - Increase mobilisation of funds achieved 96%,
SO 4 - Increase financial sustainability 100%, and
SO 5 - Improve financial ratios 90.6%.

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

For its **Process Perspective** and **Strategic Goal 3:** *Remove system constraints and blockages through innovative thinking and improve efficiency of all inputs,*

Umgeni Water achieved **76.1%** for **SO 6** - Improve service delivery systems.

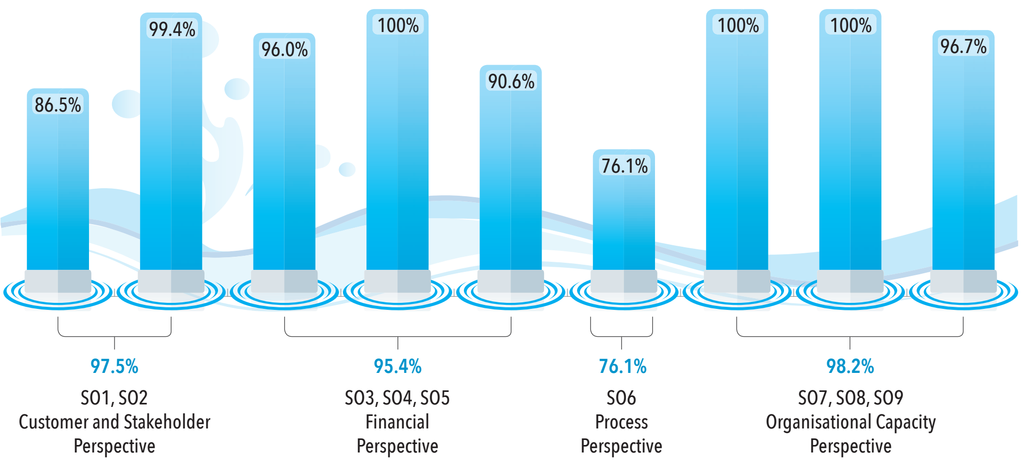
Key outcomes: *Operational Resiliency, Operational Optimisation, Community and Environmental Sustainability.*

For its **Organisational Capacity Perspective** and **Strategic Goal 4:** *Strengthen and develop quality human resources, infrastructure capacity and water resources sustainability to support growth,*

Umgeni Water achieved **98.2%,** for which:
SO 7 - Improve and increase infrastructure assets achieved 100%,
SO 8 - Increase water resources sustainability 100% and
SO 9 - Increase skills and competency 96.7%.

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

Figure 7.1: *Umgeni Water 2014/2015 Performance*



The detailed performance of the organisation against indicators and targets for 2014/2015 follows, with further expansion in each of the annual report chapters.

SCORECARD 2014/2015[i]

#	Result Indicator	Target	Actuals	Variance	Pg#
Balanced Scorecard Perspective: Customer and Stakeholder					
OUTCOMES: Stakeholder Understanding and Support, Community and Environmental Sustainability, Customer Satisfaction					
Strategic Objective 1: Increase services and customers					
KPI 1 : The extent to which UW has grown its services and customers					
1.1	Per cent regional concept plan developed:				70
	Regional Bulk Water / Universal Access plan developed.	100%	45%	55% behind schedule	
	Baseline Sanitation Universal Access Plan developed.	50%	50%	Nil	
1.2	Number of new business growth proposals for existing customers:				68, 70
	Implemented (signed agreements).	1 implemented.	2 implemented.	Nil	
	Developed (proposals)	1 developed	4 developed.	Nil	

i - Umgeni Water Parent

SCORECARD 2014/2015 *continued*

#	Result Indicator	Target	Actuals	Variance	Pg#
Balanced Scorecard Perspective: Customer and Stakeholder					
OUTCOMES: Stakeholder Understanding and Support, Community and Environmental Sustainability, Customer Satisfaction					
Strategic Objective 1: Increase services and customers					
KPI 1 : The extent to which UW has grown its services and customers					
1.3	Number of new business growth proposals for new customers:				68, 70
	Implemented (signed agreement).	1 implemented.	0 implemented. Due Diligence Report submitted.	50% behind schedule	
	Developed (proposals)	1 developed.	> 1 developed.	Nil	
Strategic Objective 2: Increase customer and stakeholder value.					
KPI 2 : The extent to which customer and stakeholder needs have been met.					
OUTCOMES: Product Quality, Stakeholder Understanding and Support, Community and Environmental Sustainability, Customer Satisfaction					
2.1	Number of Umgeni Water branded initiatives implemented.	1 implemented.	> 1 implemented.	Nil	52
2.2	Per cent of customer and stakeholder communication plan implemented.	100% implemented.	100% implemented.	Nil	51
2.3	Per cent of shareholder (Executive Authority & DWS) communication plan implemented.	100% implemented.	100% implemented.	Nil	51
2.4	Per cent signed bulk supply agreements maintained and monitored. (DWS SHC Indicator)	100 % (6 of 6) signed.	100% (6 of 6) signed.	Nil	67
2.5	Per cent submissions in respect of quarterly reports, annual report, tariff, business plan and SHC on time. (DWS SHC Indicator)	100% (8 of 8) submitted on time.	100% (8 of 8) submitted on time.	Nil	51
2.6	Number of WTW compliant with SANS 241 water quality standard and per cent overall compliance per risk category. (DWS SHC Indicator)	14 of 14 WTW, 100% compliant.	14 of 14 WTW, 100% compliant.	Nil	65
2.7	Number of boreholes and small schemes compliant with SANS 241 water quality standard and per cent overall compliance per risk category. (DWS SHC Indicator)	iLembe schemes ≥ 85% compliant.	iLembe schemes ≥ 85% compliant.	Nil	65
2.8	Number of WWTW and per cent water quality compliance with standards. (DWS SHC Indicator)	4 of 4 WWTW ≥ 85% compliant.	4 of 4 WWTW ≥ 85% compliant.	Nil	66
2.9	Per cent supply disrupted > 24 hours (over total supply days). (DWS SHC Indicator)	0%	0%	Nil	67
2.10	Numbers of candidate engineers/professionals developed and certification achieved and Rm (DWS SHC Indicator)	44 developed. 4 certifications. R15.3m spend.	44 developed. 3 certifications. R16m spend.	1 certification.	97
2.11	Number of water education initiatives implemented. (DWS SHC Indicator)	3 implemented.	3 implemented.	Nil	78

SCORECARD 2014/2015 *continued*

#	Result Indicator	Target	Actuals	Variance	Pg#
Balanced Scorecard Perspective: Customer and Stakeholder					
Strategic Objective 2: Increase customer and stakeholder value.					
KPI 2 : The extent to which customer and stakeholder needs have been met.					
OUTCOMES: Product Quality, Stakeholder Understanding and Support, Community and Environmental Sustainability, Customer Satisfaction					
2.12	Numbers of projects and cost, Rm, implemented on behalf of water services authorities. (DWS SHC Indicator)	1 project implemented. 1 new business plan approved	15 projects implemented. 7 projects in progress. All projects agreed with customers	Nil	68
2.13	Number of CSI initiatives implemented. (DWS SHC Indicator)	1 implemented.	> 1 implemented.	Nil	79
2.14	Per cent PSP and contractor order values awarded to BBBEE suppliers.	30% for PSPs; 35% for contractors.	36.2% for PSPs; 35.3% for contractors.	Nil	76
2.15	Per cent BBBEE spend (of total spend). (DWS SHC Indicator)	60% (incl. SOEs). 80% (excl. SOEs).	74.4% incl. SOEs 93.2% excl. SOEs	Nil	76
2.16	Number of new BBBEE entrants. (DWS SHC Indicator)	≥ 10 new entrants.	> 10 15 new entrants 2 awarded work.	Nil	76
2.17	Number of temporary jobs created. (DWS SHC Indicator)	450 jobs (capex programme) 499 jobs (other programmes	1157 jobs (capex programme) 1164 jobs (other programmes)	Nil	77
Balanced Scorecard Perspective: Financial					
OUTCOMES: Financial Viability, Stakeholder Understanding 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	Total RBIG funding received, Rm.	R203m	R171m	R32m below target	154
3.2	Per cent wastewater business model developed and implemented.	100%	100%	Nil	130
3.3	Per cent tariff and pricing plan reviewed and implemented.	100%	100%	Nil	130
3.4	Per cent debt/gearing plan for growth developed and reviewed.	100%	100%	Nil	177
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 surplus (loss) Rm and per cent variance for UW (Bulk Water and Wastewater and s30). (DWS SHC Indicator)	R631m ± 10%	R801m surplus R170m above target	Nil	135
4.2	Total revenue, Rm and per cent variance (DWS SHC Indicator)	R2.11bn ± 10%	R2.21bn R0.1bn above target	Nil	135
4.3	Total expenditure, Rm and per cent variance (DWS SHC Indicator)	R1.49bn ± 10%	R1.44bn R0.05bn below budget	Nil	135

#	Result Indicator	Target	Actuals	Variance	Pg#
Balanced Scorecard Perspective: Customer and Stakeholder					
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.					
4.4	Total s30 revenue, Rm and per cent of turnover (DWS SHC Indicator)	R49m, 2%	R118m, 5%	Nil	152
4.5	Per cent return on assets. (DWS SHC Indicator)	10.28%	11.22%	Nil	122
4.6	Number of debtor days. (DWS SHC Indicator)	≤ 40	40	Nil	122
4.7	Number of breaches in materiality and significance framework. (DWS SHC Indicator)	Nil	Nil	Nil	176
Strategic Objective 5: Improve financial ratios					
KPI 5 : Ratios for financial viability and sustainability met.					
5.1	Debt to Equity %. (DWS SHC Indicator)	≤ 25.1%.	22.6%	Nil	122
5.2	Interest cover ratio.	≥ 5.36	5.76	Nil	122
5.3	Liquidity - operating cash flows, Rm (DWS SHC Indicator)	≥ R802m	R1122m	Nil	138
5.4	Gross profit margin % for primary activity (DWS SHC Indicator)	≥ 60%	60%	Nil	150
5.5	Net profit margin for % primary activity (DWS SHC Indicator)	≥ 30%	37.8%	Nil	150
5.6	Gross profit margin % for secondary activity (DWS SHC Indicator)	≥ 18%	12%	6% below target	152
5.7	Net profit margin % for secondary activity. (DWS SHC Indicator)	≥ 14%	9%	5% below target	152
Balanced Scorecard Perspective: Process					
OUTCOMES: Operational Resiliency and Operational Optimisation					
Strategic Objective 6: Improve service delivery systems.					
KPI 6 : The extent to which business processes, policies and systems are enabling strategy implementation.					
6.1	Number of working days for awarding of capex programme tenders.	≤ 90	79	Nil	74
6.2	Number of working days for issuing of signed contract and/or purchase order.	≤ 24	72	48 days above target	74
6.3	Per cent EPCM process reviewed and aligned to Capex programme.	100%	10%	90% behind schedule	74
6.4	Number of environmental sustainability and R&D initiatives implemented.	7	7 implemented. 4 on schedule	3 behind schedule	85, 102
6.5	Per cent ERP system reviewed and implemented.	50%	40%	10%	103
6.6	Unqualified / qualified external audit report. (DWS SHC Indicator)	Unqualified audit.	Unqualified audit.	Nil	127
6.7	Number of repeat and unresolved findings. (DWS SHC Indicator)	0 repeat, 4 unresolved	0 repeat, 7 unresolved	> 4 unresolved findings	37

SCORECARD 2014/2015 *continued*

#	Result Indicator	Target	Actuals	Variance	Pg#
Balanced Scorecard Perspective: Process					
OUTCOMES: Operational Resiliency					
Strategic Objective 6: Improve service delivery systems.					
KPI 6 : The extent to which business processes, policies and systems are enabling strategy implementation.					
6.8	Number of strategic risks outside tolerance and/or appetite levels with mitigating actions developed and monitored.	≥ 80%	100% (10 of 10) strategic risks have mitigating actions developed and monitored.	Nil	103
6.9	Per cent Board member attendance. (DWS SHC Indicator)	≥ 80%.	Board: 89% (5 of 5) meetings ≥ 80%) Audit: 80% (3 of 5) meetings ≥ 80%; Capex: 82% (3 of 5) meetings ≥ 80% REMCO: 80% (2 of 5) meetings ≥ 80% Governance: 100% (2 of 2) meetings ≥ 80%	Nil 2 meetings < 80% attended 2 meetings < 80% attended 3 meetings < 80% attended Nil	35
6.10	Performance against Code of Ethics and governance charters monitored and reported.	100%	100%	Nil	36
6.11	Number of significant unresolved litigation matters.	≤ 3 unresolved litigation matters.	7 unresolved litigation matters. 6 of 7 processed and are awaiting court dates.	1 matter is still being processed	37
6.12	DIFR ratio.	≤ 1.0.	0.11	Nil	95
6.13	Water utility benchmarking system developed.	100%	100%	Nil	103
Balanced Scorecard Perspective: Organisational Capacity					
OUTCOMES: Infrastructure Stability					
Strategic Objective 7: Improve and increase infrastructure assets.					
KPI 7 : Infrastructure expenditure within target cash flows and completion dates.					
7.1	Total capex implemented Rm, per cent variance. (DWS SHC Indicator)	R1 365m ± 10% (Project Office)	R1 278m (6% variance) (Project Office)	Nil	74
7.2	Per cent variance of capex project milestone dates. (DWS SHC Indicator)	≤ 15% variance	3% variance (97% milestones met).	Nil	74
7.3	Rural capital projects implemented Rm, per cent variance and number of projects implemented. (DWS SHC Indicator)	R689m ± 10%; ≥7 projects implemented	R799m ≥7 projects implemented	Nil	74

#	Result Indicator	Target	Actuals	Variance	Pg#
OUTCOMES: Water Resources Adequacy					
Strategic Objective 8: Increase water resources sustainability.					
KPI 8 : Sustainable water resource options identified for all systems.					
8.1	Per cent integrated water resources plan reviewed/ developed and implemented.	100%	100%	Nil	82
8.2	Per cent water loss. (DWS SHC Indicator)	≤ 5%	3.11%	Nil	69
OUTCOMES: Leadership and Employee Development					
Strategic Objective 9: Increase skills and competency.					
KPI 9 : Effectiveness and efficiency of employee training and development programmes.					
9.1	Per cent organisation's structure and functions reviewed and optimised for RWU: Job Profile review and evaluation project	100%	80%	20% behind schedule.	10
9.2	Per cent operations management and leadership plan developed and implemented for a RWU.	100%	100%	Nil	96
9.3	Number of artisans and apprentices training plans met (DWS SHC Indicator)	44 (20% of new artisans absorbed).	> 44 Total of 49 comprising: 37 Artisans; and 12 Apprentices	Nil No new artisans absorbed as yet.	96
9.4	Number of process controllers training plans met. (DWS SHC Indicator)	56	> 56 187 training plans met.	Nil	96
9.5	Number of graduates/interns and bursars' plans met (DWS SHC Indicator)	28	> 28 Total of 66 comprising: 19 Graduates 11 Interns; 22 In-service trainees; 14 Bursary students	Nil	96
9.6	Per cent staff turnover. (DWS SHC Indicator)	≤ 10%	9.13%	Nil	93

8.0 Creating Value

Umgeni Water views value creation as the intersection between its customer and stakeholder needs and the active application of the entity's skills and competencies to respond to those needs.

8.1 PRODUCT QUALITY

MANAGEMENT APPROACH

The most significant impact of Umgeni Water's business is provision of water that does not impact negatively on consumer health over a lifetime of consumption. Water quality is managed through a rigorous management system which covers the entire operational area and includes carefully planned monitoring programmes, auditing, compliance reporting, water quality risk assessments - conducted using a source-tap-source approach - and the implementation of Water Safety Plans.

Water quality monitoring programmes are reviewed annually for all operational sites and sampling and analysis are undertaken in accordance with Umgeni Water's ISO 9001 certified monitoring programme and SANAS 17025 accredited laboratory methods, respectively. An emergency response protocol which includes various alert level triggers has been developed, is reviewed and updated each year and is in force. Water quality performance data, information and reports are disseminated regularly to all stakeholders.

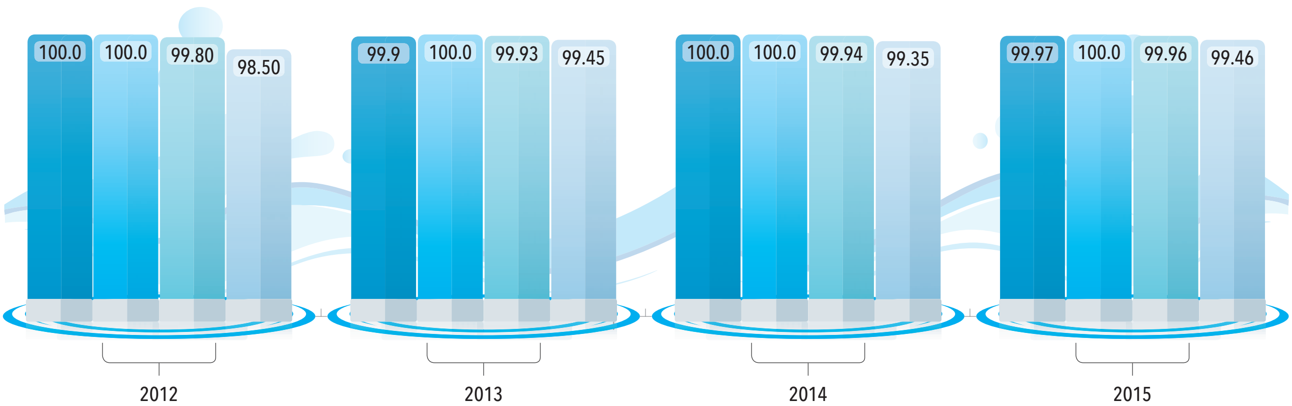
Umgeni Water has remained committed and steadfast in supporting municipalities to ensure that all systems can be progressively improved toward joint Blue and Green Drop Certifications.

POTABLE WATER QUALITY PERFORMANCE

All bulk Water Treatment Works and Rural Schemes are required to comply with South African National Standards SANS 241: 2011 which required quality to be evaluated and reported against four risk categories:

(1) Microbiological Health,
(2) Chemical Health,
(3) Aesthetic, and
(4) Operational.

Figure 8.1: *Bulk Potable Water Quality Compliance (%) with SANS 241:2011*



Overall, for the reporting period, Umgeni Water provided excellent drinking water quality to customers. The detailed potable water quality compliance per water treatment works is shown in **Table 8.1**.

Table 8.1: *2014/2015 Potable Water Quality Compliance (%) with SANS 241:2011 per Water Treatment Works (WTW)*

Water Treatment Works	Design Capacity Ml/d	Volume %	Microbiological Health	Chemical Health	Operational	Aesthetic
Durban Heights	614	41.4%	100%	100%	99.98%	100%
Wiggins	350	23.6%	100%	100%	100%	100%
Midmar	250	16.9%	100%	100%	99.96%	100%
DV Harris	110	7.4%	100%	100%	99.78%	100%
Hazelmere	75	5.1%	99.73%	100%	99.84%	100%
Amanzimtoti	24	1.6%	100%	100%	98.70%	100%
Mvoti	14.5	1.0%	100%	100%	98.08%	99.83%
Mzinto	12	0.8%	100%	100%	99.69%	100%
Mtwalume	7.5	0.5%	100%	100%	100%	100%
Maphumulo	6	0.4%	100%	100%	99.46%	99.95%
Maphephethwa	4	0.3%	100%	100%	99.37%	100%
Ixopo	3.2	0.2%	100%	100%	95.48%	99.12%
Ngcebo	1.2	0.1%	100%	100%	95.26%	100%
Mhlabatshane	4	0.3%	100%	100%	92.69%	100%
iLembe small schemes and boreholes[1]	6	0.4%	98.99%	99.90%	87.08%	96.55%

[1]estimate

Key to classification of the performance of drinking water supply systems according to SANS 241: 2011

	Population up to 100 000 Proportion of samples compliant			Population > 100 000 Proportion of samples compliant		
	Excellent	Good	Unacceptable	Excellent	Good	Unacceptable
Microbiological Health	≥97%	≥95%	<95%	≥99%	≥97%	<97%
Chemical Health	≥95%	≥93%	≥93%	≥97%	≥95%	<95%
Operational	≥93%	≥90%	<90%	≥95%	≥93%	<93%
Aesthetic	≥93%	≥90%	<90%	≥95%	≥93%	<93%

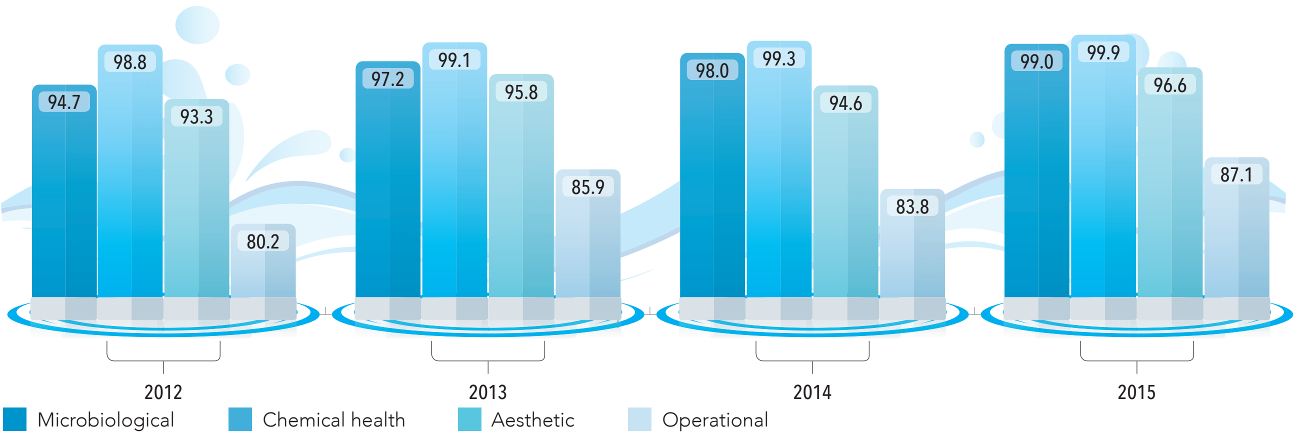
BULK WATER TREATMENT WORKS

All fourteen (14) water treatment works complied with the SANS: 241 standards. Notably, excellent performance was recorded for all water treatment works against the SANS 241:2011 Microbiological category.

THE ILEMBE SMALL SCHEMES AND BOREHOLES

Umgeni Water operates fourteen (14) small water treatment works and ten (10) borehole schemes.

Figure 8.2: *iLembe Small Schemes and Boreholes Compliance (%) with SANS 241:2011*



Overall these schemes were compliant with three of four categories:
Microbiological Health: 98.99%,
Chemical Health: 99.90%, and
Aesthetic: 96.55%.

VARIANCE:

Non-compliant with Operational 87.08%.

REASON AND ACTION PLAN

Non-compliances were due to: poor performance of process units; overdosing of coagulant; failure of disinfection units; poor raw water quality due to catchment activities and inadequate process monitoring as the WTWs are unmanned during the night. Some of the small schemes will be decommissioned and areas served by the Maphumulo Bulk Water Scheme.

WASTEWATER QUALITY PERFORMANCE

The performance of the major wastewater treatment works is assessed against the relevant licence or General Authorisation General Limits prescribed by the Department of Water and Sanitation (DWS).

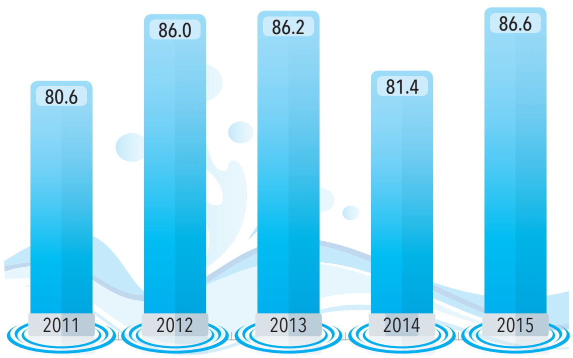
Table 8.2: *Wastewater compliance (%) per treatment works*

WWTW	Volume (Ml/d)	Volume %	2011	2012	2013	2014	2015
Darvill	69	91%	80.5%	86.0%	87.0%	78%	85%
Howick	5.9	8%	83.1%	92.0%	82.7%	87%	87%
Ixopo	0.44	0.6%	95.4%	83.2%	88.1%	95%	96%
Lynnfield Park	0.16	0.2%	-	-	-	66%	87%

For 2014/2015 the overall effluent compliance was 86.6%
Umgeni Water set an achievable target of ≥ 85% compliance for wastewater for 2014/2015.
4 of 4 WWTW ≥ 85% compliant:
Darvill WWTW: 85%,
Howick WWTW: 87%,
Ixopo WWTW: 97%, and
Lynnfield Park WWTW: 87%.

All four WWTW's achieved the target of ≥ 85% that was set for this financial year.

Figure 8.3: *Bulk Wastewater Water Quality Compliance (%)*



8.2 CUSTOMER SATISFACTION

CUSTOMER MARKETS

Umgeni Water serves the following markets for bulk water services (water and wastewater):

1. Umgeni Water's operational area: for water services and other related activities,
2. Rest of KwaZulu-Natal: water services and other related activities,
3. South Africa: water services and other related activities on demand, and
4. Rest of Africa for knowledge management, networking and responding to bi-lateral agreements between South Africa and other countries.

The organisation's bulk supply customers in its operational area are the eThekwini Metropolitan Municipality, iLembe District Municipality, Ugu District Municipality, Harry Gwala District Municipality, uMgungundlovu District Municipality and Msunduzi Local Municipality.

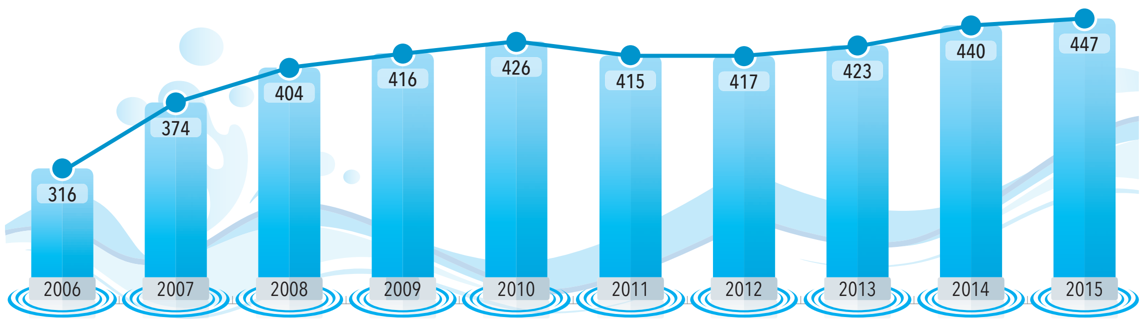
BULK PROVISION AND INFRASTRUCTURE ASSETS

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 potentially impacts on receiving systems and potential for reuse. Umgeni Water's infrastructure assets in support of its primary business comprise: approximately 746 kilometres of pipelines and sixty-six (66) kilometres of tunnels, fourteen (14) dams and fourteen (14) water treatment works. An additional fourteen (14) small water treatment works and ten (10) borehole schemes are managed on behalf of the iLembe District Municipality.

Major infrastructure assets in support of the bulk wastewater business, either owned or operated, comprise the Darvill Wastewater Treatment Works, Howick Wastewater Treatment Works, Ixopo Wastewater Treatment Works and the Lynnfield Park Wastewater Treatment Works.

Figure 8.4: *Customer Volumes Supplied (million m^3)*



A total of 447 million cubic metres of potable water per annum (1224 Ml/d) are currently supplied to customers (**Figure 8.4**) who serve a population of 6 million or 1.64 million households through reticulation networks. Treatment works' capacities and utilisation are shown in **Figure 8.5** (a) and (d) respectively.

In the year there were no unplanned supply interruptions that exceeded 24 hours, in compliance with service level agreements with customers.

The organisation currently treats bulk wastewater totalling 28 million cubic metres per annum (77 Ml/d). Wastewater treatment works' capacities and utilisation are shown in **Figure 8.5** (b) and (c) respectively.

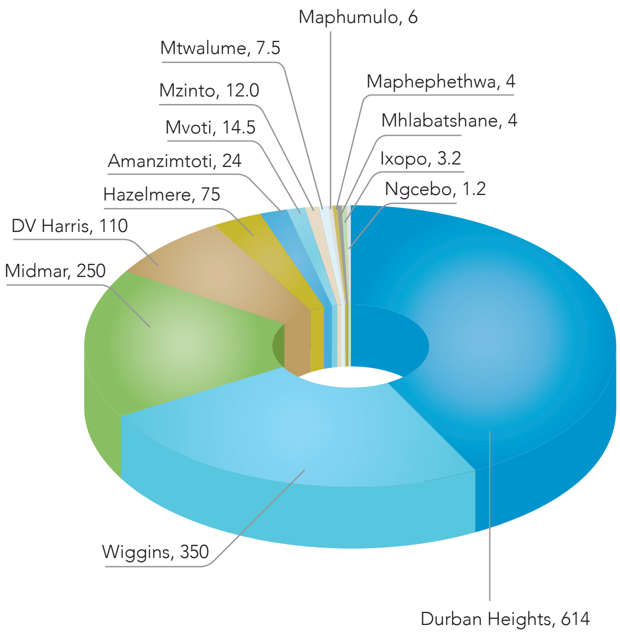
BULK SUPPLY AGREEMENTS

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.

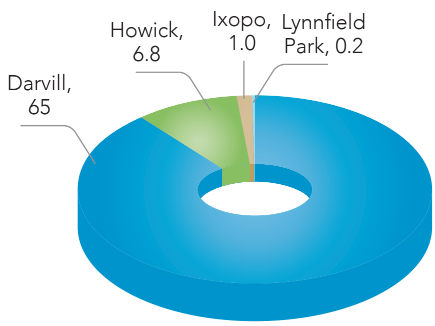
Water demand projections are updated based on trends in historical water sales volumes and customer demand trends. In parallel, analysis of Umgeni Water's bulk infrastructure and water works capacity in relation to demands highlight any infrastructure supply constraints or limitations on future growth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

Figure 8.5 *Water and Wastewater Treatment Works Capacity and Utilisation.*

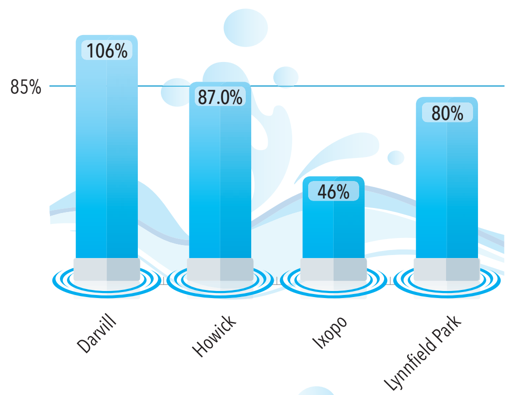
a) WTW Capacity (Ml per day)



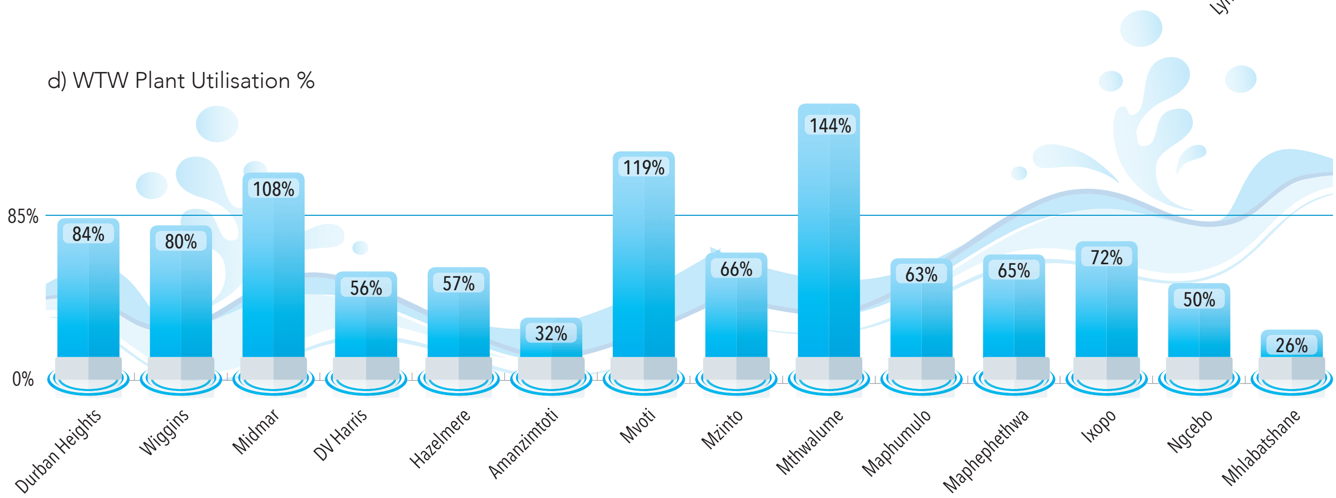
(b) WWTW Design Capacity



c) WWTW Utilisation %



d) WTW Plant Utilisation %



SUPPLY CAPACITY AND CONSTRAINTS

Several works, as shown in **Figure 8.5** are currently operated above their design capacity to meet demands and this also impacts on water quality. Specific interventions are in place to address these including:

- **Midmar WTW:** A works upgrade is planned. The design is complete.
- **Mvoti WTW:** The Lower Thukela BWSS will replace this works by June 2016. As a short-term solution, the refurbishment of the filters was completed and a 2 Ml/d package plant installed.
- **Mthwalume WTW:** Operational and process enhancements will alleviate constraints. The load on the Mthwalume system will be shed to the South Coast Pipeline when the Pennington Link is completed. The long-term solution to address the Mthwalume capacity constraints is the extension of the South Coast Pipeline and related system upgrades.
- **iLembe Schemes:** Water quality and quantity improvements with these small schemes and boreholes will be progressively realised through short, medium and long term sustainable solutions. The Maphumulo WTW has enabled some of the existing small iLembe schemes to be rationalised.
- **Ixopo System:** Umgeni Water provides bulk potable water to the town of Ixopo from a 2.8 Ml/day Water Treatment Plant (WTP), supplemented with a 0.4 Ml/day borehole. The Plant filtration has recently been upgraded to Pressure Filters. Additional source of raw water is being investigated around the area to cater for drought periods.

OPERATIONAL PERFORMANCE AND SERVICE PLANNING

In the year, Umgeni Water met formally with all customers for operational performance and service planning. Customer liaison was significantly enhanced to ensure critical feedback was received regarding service level improvements and upgrades. Umgeni Water successfully met all customer requirements in relation to water volumes, supply pressure and service levels and metering.

Structured consultation was also undertaken with customers, for communication of future demands, infrastructure plans and tariff assumptions, and responses were used to inform the future tariffs and infrastructure plans.

Conceptual plans for growth and expansion of water services have been developed, for existing and new customer areas, notably where there are high water services backlogs. The growth plans will be refined and implemented in line with identified priorities and opportunities that unfold in the coming period. Customer engagement and consultation remains core to Umgeni Water successfully extending access to unserved areas.

SUPPORT TO MUNICIPALITIES

Umgeni Water is providing support to vulnerable customers to implement projects to improve product quality. In the year, fifteen (15) projects were implemented and completed. In addition, seven (7) projects are in progress. A total of R19.7 million has been spent in the reporting period. Customers supported were:

- uMgungundlovu District Municipality: Twelve (12) projects,
- Ugu District Municipality: Nine (9) projects, and
- Harry Gwala District Municipality, One (1) project.

In the reporting period certain areas experienced below-average rainfall resulting in a prolonged drought. Umgeni Water worked tirelessly with customers and communities affected by the water shortages to mitigate this. Mitigation included use of emergency schemes, namely the uThongathi, Hlimbithwa and Mpambanyoni schemes, as well as water rationing from the bulk system (Hazelmere Water Treatment Works). This was in done in collaboration with customers and coordinated through Joint Operating Committees in affected areas. In addition, an extensive communication campaign was rolled out. There are long-term sustainable options planned for the region.

ASSET CONDITION, MAINTENANCE AND MANAGEMENT

Umgeni Water remains highly committed to meeting all obligations of its Bulk Supply Agreements and conducts regular maintenance and inspection of all its assets as an intrinsic part of continued operations management. This comprises planned

Figure 8.6: *(a): Maintenance Spend (Rm)*

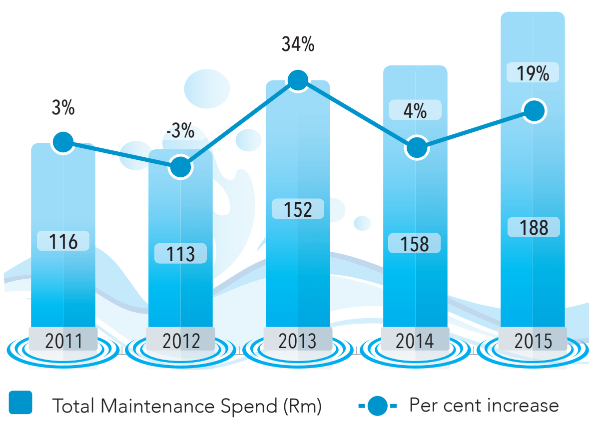
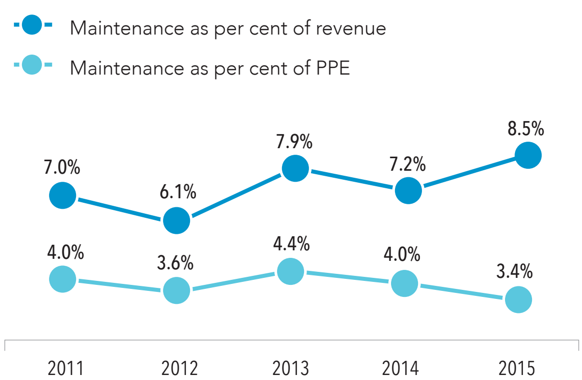


Figure 8.6: *(b): Maintenance Spend (%)*



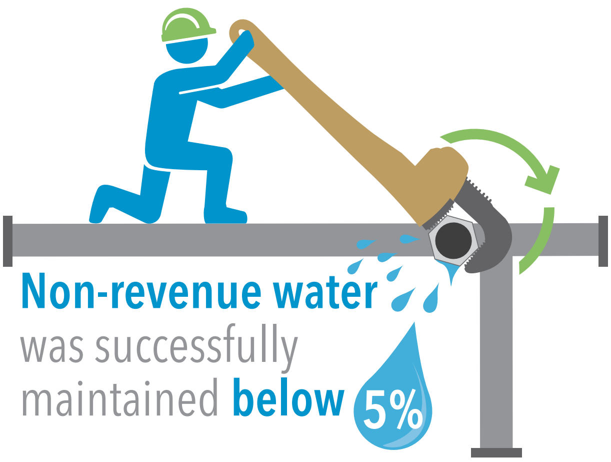
maintenance, which is inclusive of preventative maintenance, repairs, redesign and modifications, which are complemented by on-going unplanned, reactive and corrective maintenance in line with an asset management implementation plan for the year. The asset management strategy further drives the focus of condition assessments of the various components of key strategic and critical infrastructure to its various sub-components i.e. civil, mechanical, electrical, instrumentation and control.

A key output of these assessments is establishment of the condition status of our assets. This status is vital in determining the useful life and future investments required to maintain our level of service to all our customers. The intention is to ensure there are no assets that pose significant risk to supply and there will be no major interruptions to business over the next five years and beyond.

In the year the total asset maintenance spend was R188 million (**Figure 8.6**). Over the years Umgeni Water has continued to maintain its assets and on average invests 7.3% 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.

WATER LOSS MANAGEMENT AND METERING

Non-revenue water is successfully maintained below 5%. This has been a result of a metering strategy which focuses on metering all critical nodes and monitoring of meter accuracy.



This initiative will continue through meters installed by Umgeni Water at various critical points in its systems.

For raw and potable water applications this includes meters at abstraction points, treatment works inflow, treatment works outflow, within the distribution system and at the point of sale. These provide valuable information for abstraction, storage monitoring and adequacy, water balancing purposes, computation of water loss between the various points and water loss management, distribution control sales and billing purposes.

In addition, measurement provides information for on-going operations and efficiency improvements including unit processes management, ensuring correct filter backwashing rates, pump efficiencies, pipeline operation and other information to inform asset management.

Equally for wastewater applications meters at influent and effluent points provide valuable information for assessing plant loading, process control management, storage and treatment, including storm dam, billing and discharge information. On-going operational efficiency improvements will be made including unit processes, pump efficiencies and asset management.

8.3 INFRASTRUCTURE STABILITY

MANAGEMENT APPROACH

Umgeni Water strives to balance continued provision of reliable bulk water supply to existing customers and to support economic growth whilst extending and increasing access to vulnerable municipalities and rural areas to reduce backlogs and improve local development. The entities infrastructure development programme therefore comprises:

- 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 meaningful BBBEE and incorporates Contract Participation Goals (CPGs) in its infrastructure developments, the latter requiring projects to commit a certain percentage of the scope of work and value to targeted enterprises through provision of meaningful economic opportunities, which are independently monitored and audited during implementation.

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, which is independently monitored and audited during implementation.

STATUS OF WATER ACCESS IN SUPPLY AREA

Overall water access status is 84% and 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 8.7** (Census 2011). In addition, components of the served areas that are characterised by small schemes have been found to be unsustainable.

Figure 8.7 *(a): Water Supply Access and Backlog*

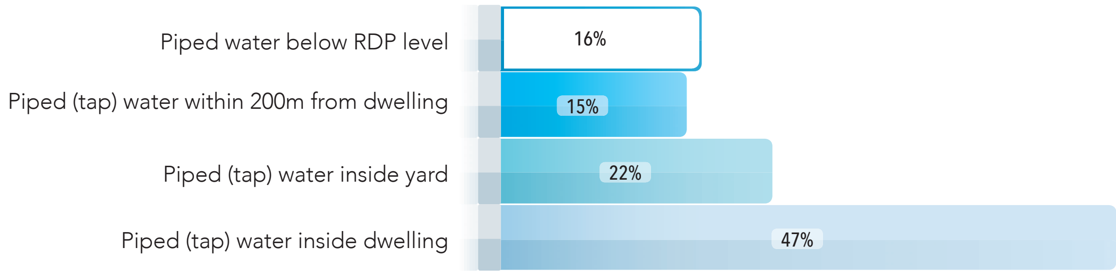
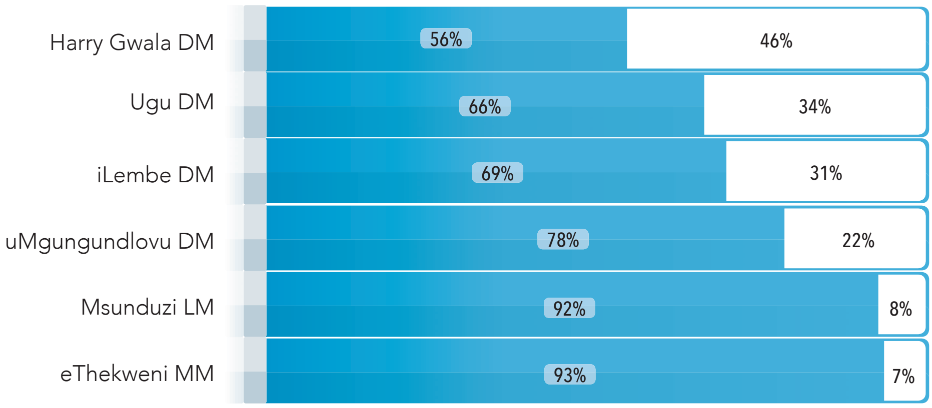


Figure 8.7 *(b): Water Supply Access and Backlog by Customer*



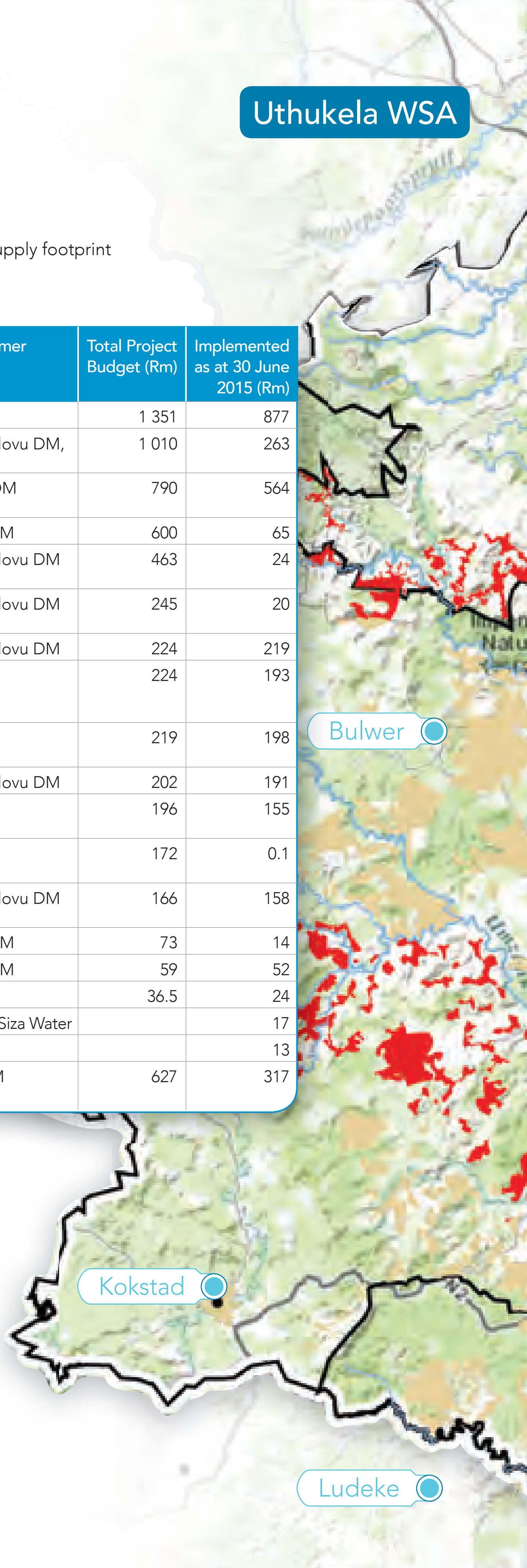
Working closely with national and provincial stakeholders, existing customers and proposed new customers (the latter outside the current gazetted boundary), Umgeni Water is developing and will complete in 2016, a regional bulk potable water supply access plan to sustainable serve all customers and will further commence with development of a bulk sanitation access plan.

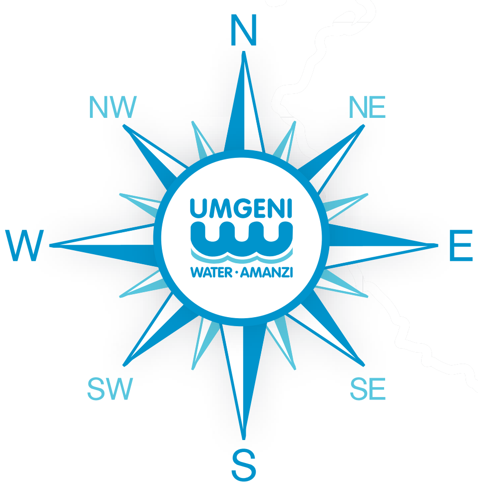
Uthukela WSA

Figure 8.8 and Table 8.3 shows the entity's current bulk infrastructure and supply footprint and the status of bulk infrastructure implemented in the 2014/2015 period.

	Project name	Objective	Major Customer	Total Project Budget (Rm)	Implemented as at 30 June 2015 (Rm)
1	Lower Thukela BWS PH1	Rural Development	iLembe DM	1 351	877
2	uMshwathi Bulk Water Supply Scheme (Wartburg Phases 1 - 3)	Rural Development	uMgungundlovu DM, iLembe DM	1 010	263
3	Greater Mbizana Regional Bulk Water Supply Scheme*	Rural Development	Alfred Nzo DM	790	564
4	Durban Heights WTW - Various Projects	Upgrade	eThekwini MM	600	65
5	Greater Mpofana Bulk Water Supply Scheme Phase 1	Rural Development	uMgungundlovu DM	463	24
6	Midmar WTW Upgrade (250-375Ml/d) and Dam Raw Water Pump Station	Augmentation	uMgungundlovu DM	245	20
7	Richmond Pipeline	Rural Development	uMgungundlovu DM	224	219
8	Maphumulo Bulk Water Supply Scheme Phase 2 (including Hlimbithwa emergency water supply)	Rural Development	iLembe DM	224	193
9	Mhlabatshane Sub- Regional Scheme Phase 1	Rural Development	Ugu DM	219	198
10	Greater Eston Bulk Water Supply Scheme	Rural Development	uMgungundlovu DM	202	191
11	Hazelmere WTW: Upgrade and Pumpstation Upgrade	Augmentation	iLembe DM	196	155
12	South Coast Phase 2b Park Rynie to Pennington	Expansion	Ugu DM	172	0.1
13	Richmond offtake to Umlaas Road (61 Pipeline Augmentation)	Augmentation	uMgungundlovu DM	166	158
14	Wiggins WTW - Various Projects	Upgrade	eThekwini MM	73	14
15	Maphephethwa WTW Upgrade	Augmentation	eThekwini MM	59	52
16	Ellingham Link Pipeline	Augmentation	Ugu DM	36.5	24
17	North Coast Emergency Water Supply	Augmentation	iLembe DM; Siza Water		17
18	South Coast Emergency Water Supply	Augmentation	Ugu DM		13
19	Darvill Wastewater Treatment Works Upgrade (65-100Ml/d)	Upgrade	Msunduzi LM	627	317

**UW appointed as Implementing Agent; Budget separate from Umgeni Water Business Plan Capex Budget*






Umgeni Water strives to create a non-racial, non-sexist and inclusive society through water service delivery
Umzinyathi WSA
uMgungundlovu WSA
iLembe WSA
Msunduzi WSA
eThekwini WSA
Harry Gwala WSA
Ugu WSA
Mooi River
Howick
Wartburg
Maphumulo
Mandeni
uThukela
KwaDukuza
uMvoti
Ndwedwe
Ballito
uThongati
Indian Ocean
uMgeni
Durban
Richmond
uMlazi
Ixopo
uMkhomazi
uMzinto
Pennington
uMthwalume
uMzumbe
Port Shepstone
uMzimkhulu
Mbizana
uMtamvuma
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MAJOR CAPEX PROJECTS STATUS
Feasibilty
Design
Construction
Complete
FUTURE INSTALLATIONS & UPGRADES
Water Treatment Works
Pumpstation
Storage Reservoir
Proposed Pipelines
EXISTING INSTALLATIONS
Water Treatment Works
Pumpstation
Storage Reservoir
Existing Pipelines
Main Rivers
FOOTPRINTS
Footprint areas currently supplied by UW Bulk Infrastructure
Footprint areas supplied/ to be supplied by WSA
Footprint of areas that will be supplied by UW's proposed projects

PERFORMANCE WITH CAPITAL INFRASTRUCTURE PLAN

In 2014/2015, the value of Umgeni Water's five-year capital infrastructure programme was R6.9 billion of which R3.3 billion (48%) targeted rural access. Overall, significant progress with capital infrastructure implementation was achieved for which the key projects implemented in 2014/2015 are shown in **Table 8.3.**

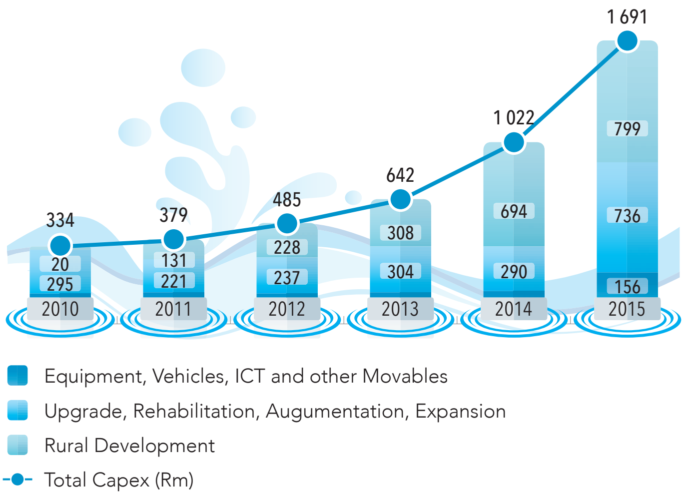
Spend performance for the year was a commendable R1691 million. Of this, R799 million (47%) went towards projects for rural development. Overall, 97% of target water infrastructure project milestones were met.

Rural projects implementation was accelerated, including the Lower Thukela BWSS, Richmond Pipeline, Maphumulo BWSS Phase 2, Greater Eston BWSS and uMshwathi BWSS. Details of infrastructure projects, customers served and milestones achieved are summarised below.

Umgeni Water is continuing to improve processes that will further streamline the capital infrastructure programme. Notably, review and alignment of the Engineering, Procurement and Construction Management (EPCM) process is underway. The EPCM alignment project is behind schedule but target milestones will be delivered in 2015/2016.

In addition, further optimisation of the Supply Chain Management (SCM) process to reduce the turnaround time of capex programme tenders is needed. Umgeni Water is using a Bid Tracker System to manage bottlenecks in the SCM process and will continue to streamline its processes to achieve the desired turnaround.

Figure 8.9: *Capital Infrastructure Implemented (Parent) (Rm)*



CUSTOMERS TARGETED AND PROGRESS WITH KEY BULK INFRASTRUCTURE DEVELOPMENTS

- **'61 Pipeline Augmentation, Richmond Off-take to Umlaas Road**

  Serves uMgungundlovu District Municipality and eThekwini Metropolitan Municipality.

  - A new intake structure at Umlaas Road reservoir will be completed before the end of 2015.
  - Environmental rehabilitation will be completed during the rainy season.

- **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. WTW is upgradable to deliver 110 Ml/d in Phase 2.

  - The weir was completed during 2014/2015.
  - During 2014/2015, construction of Access Roads, the Weir and Abstraction Works, Gravity main, Water Treatment Works, Reservoir, Rising main and power supply were in progress.

- **Hazelmere WTW Upgrade**

  Serves eThekwini Metropolitan Municipality and iLembe District Municipality.

  - The works capacity was upgraded from 45 Ml/d to 75 Ml/d and was commissioned in February 2015.

- **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 2014/2015
  - Completion by January 2017.

- **Maphephethwa WTW Upgrade**

  Serves the rural areas of Greater Maphephethwa in Inanda area, in the eThekwini Metropolitan Municipality.

  Upgrade of reservoir and WTW from 1.4 Ml/d to 5 Ml/d.

  - The Works upgrade to 5 Ml/d was undertaken and partially commissioned in December 2012. Construction of filter beds was in progress during 2014/2015.
  - Commissioning before the end of 2015.

- **Richmond Pipeline**

  Serves the Msunduzi Local Municipality and uMgungundlovu District Municipality and will reach and provide access to rural communities in Richmond Local Municipality.

  Infrastructure comprises a 30km potable water pipeline from the '61 Pipeline to Richmond Reservoirs, a booster pump station and a reservoir.

  - Commissioning was in June 2015.

- **Greater Eston BWSS**

  Serves uMgungundlovu District Municipality and will reach and provide potable water access for 41 240 people in 4 wards in Mkhambathini Local Municipality and 2 wards in Richmond Local Municipality, making a significant impact in alleviating water backlogs in these areas.

  The bulk infrastructure capacity is 4 Ml/d, upgradable to 8 Ml/d. Infrastructure development phases comprise:

  - Phase 1: Bulk Supply, 0.4 Ml Reservoir and Reticulation to uMacalagwala.
  - Phase 2: Bulk Supply, 4 Storage Reservoirs and Reticulation to Ogagwini (Construction completed by uMgungundlovu District Municipality).
  - Phase 3: Bulk Supply to Ukhalo, 3.5 Ml Bulk Reservoir, Pump Station and Trunk Main for supply to Phases 4 and 5.
  - Phase 4: Bulk Supply and Reticulation to Ismont and Dwengu.
  - Phase 5: Bulk Supply to Embuthweni and Inhlazuka
  - *Construction was completed in July 2015.*

- **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 will be completed in December 2015.
  - 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 in May 2017.
  - 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 in June 2017.
  - Phase 3.3: 18 km pipeline from the Fawn Leas to Ozwathini pipeline and 12 Ml Reservoir at Ozwathini. Construction will be completed in August 2017.
  - Phase 3.4: Mechanical, Electrical and Instrumentation of the pump station at Dalton. Installation will be completed in August 2017.

- **Mhlabatshane BWSS**

  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), KwaCele K, Frankland, Qwabe P, Shabeni, and KwaMadladla.

  The bulk infrastructure capacity is 4 Ml/d, upgradable to 8 Ml/d. Infrastructure comprises: 25m high dam, access roads, Raw water pump station and Rising main, 4 Ml/d upgradable to 8 Ml/d WTW, Potable water pump station, 2 Ml upgradable to 4 Ml reservoir, and Potable water gravity main.

  - Commissioning of the BWSS was done in September 2014.

- **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 in progress during 2014/2015 and it was completed in May 2015.

- **Greater Mbizana Regional Bulk Water Supply Scheme**

  Serves the Mbizana Local Municipality within the Alfred Nzo District Municipality in the Eastern Cape area.

  The regional bulk water supply scheme includes a dam and bulk treated water system:

  - Construction of Ludeke Dam, on a tributary of the Mtamvuna River, was completed in April 2014.
  - The raw water pump station and rising main to the Nomlacu Water Treatment Works are complete.
  - Phase 1 of the Nomlacu Water Treatment Works, design capacity of 10 Ml/d, was completed in June 2013.
  - Construction work on the first phase of the Bulk Treated Water Supply System, comprising 28 km of pipelines, 8 bulk storage reservoirs and a pump station, started in March 2012 and reached practical completion stage in June 2015.

8.4 ECONOMIC EMPOWERMENT

MANAGEMENT APPROACH

Umgeni Water recognises the historical disparity of previously disadvantaged communities and commits to promote BBBEE by making procurement accessible to Black Economic Enterprises, through processes which are competitive, fair, transparent, equitable and cost effective. This will be done within the framework of the Constitution of South Africa, the Preferential Procurement Policy Framework Act and Regulations and the Broad-based Black Economic Empowerment Act.

To ensure a focussed approach to empowerment, Umgeni Water treats economic empowerment as a business imperative aimed at the following:

- Facilitate access to the entity's procurement activities by Suppliers who comply with BBBEE Framework,
- Ensure that previously disadvantaged individuals achieve full participation and involvement in businesses that support Umgeni Water in the supply of water services,
- Develop and/or establish new, sustainable business with black entrepreneurs, through the procurement process,
- Encourage the establishment of value adding joint ventures between traditional and emerging BEE suppliers, thus giving the latter access to technology, skills and knowledge, and
- Contribute to skills development and job creation through the employment of targeted labour.

CONTRACT PARTICIPATION GOALS

In the year Umgeni Water revised and enhanced its BBBEE initiatives to expand and improve implementation through the continued implementation of Contract Participation Goals (CPGs). CPGs require tenderers to commit a certain percentage of the tender scope of work and value for which the tenderer will contract targeted enterprises through provision of meaningful economic opportunities.

PERFORMANCE WITH CONTRACT PARTICIPATION GOALS (CPG) TARGETS IN 2014/2015

CPG targets set for 2014/2015 were 35% for construction contracts and 30% for professional services projects.

Fifty-two (52) contracts were awarded as at 30 June 2015. For these an average of 35% CPG was achieved with a total CPG value of R 1381 million being achieved. (R311 million in 2014). The CPG per cent breakdown is listed below:

The average CPG achieved for construction contracts is 35.3% (R981 million).

52 contracts awarded as at 30 June 2015

For these an average of **35% CPG** was achieved with a total CPG value of **R 1381 million** being achieved. (R311 million in 2014).

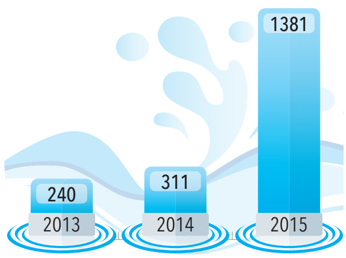
Eleven (11) construction contracts were awarded in the year.

The average CPG achieved for PSPs (professional service providers) is 36.2% (R102 million).
Nineteen (19) Professional Service Provider contracts were awarded in the year.

The average CPG achieved for special materials contracts is 33.4% (R298 million).
A total of twenty-two (22) special materials contracts were awarded in the year.

As a result of this initiative nuances of economic transformation will be visible in the forthcoming period and demonstrate the success of this BBBEE initiative.

Figure 8.10: *Contract Participation Goals (CPGs) Awarded (Rm)*



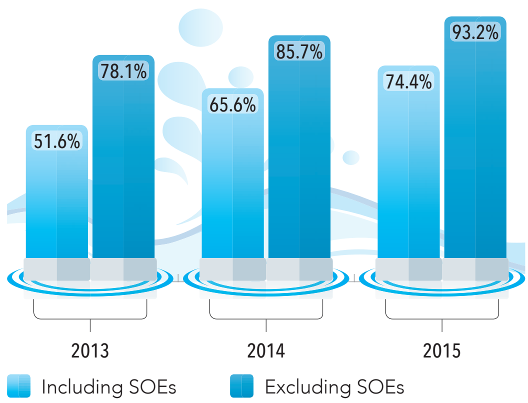
BBBEE SPEND PERFORMANCE

Companies have been classified and registered on a supplier database, according to their progress in achieving broad based black economic empowerment. The spend target for 2014/2015 was 60% BBBEE spend and ten (10) new entrants added to the database.

As at the end of June 2015, the BBBEE spend per cent was **74.4%**. This represents a 9% increase in BBBEE spend over the prior year (65.6% spend in 2014).

The calculation of this percentage is based on the BBBEE levels of the companies that have been awarded work by Umgeni Water which includes other SOEs. If the spend with SOEs or non-discretionary spend is excluded, the BBBEE spend per cent is **93.2%.**

Figure 8.11: *BBBEE Spend (%)*



Fifteen (15) new entrants were added to the database. Of the fifteen (15) new entrants, two (2) have been awarded work.

MONITORING BBBEE / CPG IMPLEMENTATION AT UMGENI WATER

Umgeni Water has appointed two analysts, part of the functions of which is monitoring BBBEE / CPG implementation of awarded contracts to ensure:

a) established enterprises are in fact engaging the targeted enterprises as per contracts,

b) targeted enterprises are in fact performing the scope as per contract, and

c) payments due to targeted enterprises are processed at the correct rates and at agreed timeframes.

SKILLS DEVELOPMENT AND JOB CREATION

The targeting of local communities in construction projects is mostly linked to employment-intensive work and results in a meaningful flow of income to the poorest sectors of communities. The work on infrastructure construction is self-targeting towards the poorest members of society because it does employ unskilled workers. Although the construction jobs created are not permanent, the volume of work available to the poor is high. This kind of work albeit temporary, enables skills to be developed and utilised at a local community level.

In 2014/2015 Umgeni Water created a total of 2321 temporary jobs created, comprising:

- 1157 - from Capex Programme, shown in **Table 8.4**
- 1164 - from other programmes

Table 8.4: *Jobs created through Umgeni Water Capital Infrastructure Programme in 2014/2015*

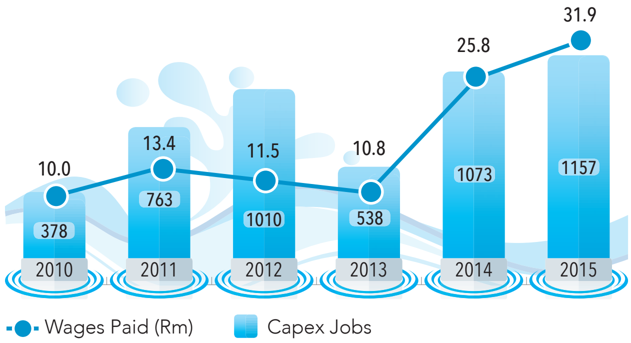
Project	Jobs Created						Wages Paid
	Male	Female	Adult	Youth	Disabled	Total Jobs	
Richmond Off-Take to Umlaas Road	10	0	4	6	0	2	R 39 018
Greater Eston Phase 1	9	9	0	18	0	3	R 64 808
Lower Thukela (29 km Long DN900 Gravity Main)	1016	52	423	645	0	146	R 5 641 102
Maphumulo Phase 2 (Imvutshane Dam)	221	159	156	224	0	65	R 1 722 867
Hazelmere Water Treatment Works Upgrade	37	3	20	20	0	6	R 158 950
Richmond Pipeline	313	12	101	224	0	70	R 1 916 864
Howick Reservoir	19	6	16	9	0	4	R 100 419
Hazelmere Pumpstation	68	6	10	64	0	13	R 349 724
Mhlabatshane BWSS	39	3	16	26	0	7	R 134 080
Ellingham Link	200	17	88	129	0	35	R 1 921 677
Greater Eston Phase 3	71	18	44	45	0	14	R 392 369
Greater Eston Phase 4	194	19	189	124	0	43	R 1 171 964
Greater Eston Phase 5	205	32	85	152	0	34	R 918 931
UMshwathi BWSS	766	106	250	622	0	175	R 3 870 517
Lower Thukela (Weir, Abstraction Works & Access Road)	1023	229	571	681	0	261	R 5 959 583
Richmond Pumpstation	79	2	9	72	0	8	R 253 038
Lower Thukela (Rising Main)	359	68	101	326	0	87	R 2 268 611
Maphephethwa Water Treatment Works Upgrade	109	61	80	90	0	18	R 344 119
Darvill Wastewater Treatment Works	658	15	353	320	0	132	R 3 933 284
Lower Thukela (Abstraction Works)	526	52	210	368	0	34	R 801 510
TOTAL	5922	869	2726	4165	0	1157	R 31 963 435

A total of R31.9m (R25.8 million in 2014) was paid in wages to local labour.

The 1164 jobs created through other programmes, comprise:

- 143 jobs created through the Greater Mbizana Bulk Water Supply Scheme to Alfred Nzo District Municipality,
- 32 jobs created through the Adopt-a-River Programme, and
- 989 jobs created through the Working-for-Water Programme.

Figure 8.12: *Capex Programme Jobs and Wages paid (Rm)*



8.5 COMMUNITY OUTREACH AND CORPORATE SOCIAL INVESTMENT (CSI)

MANAGEMENT APPROACH

Umgeni Water implements education and awareness programmes to instil sound values that will complement and ensure long-term sustainability of the water services that are provided.

Water education and awareness content and themes are regularly reviewed to assess suitability and address current issues facing the region.

Content targeted includes, amongst other topic, the water cycle/ 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.

Umgeni Water's Corporate Social Investment (CSI) projects focus, inter alia, on education and training, job creation, public health, community development, environmental conservation, arts culture and sport.

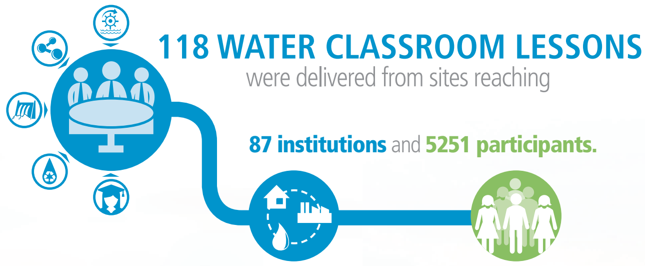
WATER EDUCATION AND COMMUNITY OUTREACH

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
- Schools and Community Outreach Programmes

On site water classrooms Programme: Through this programme, Umgeni Water created learning opportunities for visitors who gained knowledge of the water purification process and environmental issues impacting these processes. Umgeni Water has three accessible water education classroom facilities at its largest water and wastewater treatment works, namely at Durban Heights WTW, Darvill WWTW and Midmar WTW. Water classroom presentations were followed by tours of the water treatment works where learners got to see the practicality of the treatment processes.

118 water classroom lessons were delivered from these sites reaching 87 institutions and 5251 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, roadshows and campaigns undertaken during special day events.

Programmes implemented included commemoration of National Arbour Week events, where more than 112 trees were planted at target sites, water wise campaigns held during water week and wetlands clean up during environmental week.

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

The community programmes responded to incidences such as drowning at dams, spillages into rivers/dams as well as other related incidences. Umgeni Water partnered with uMgungundlovu District municipality and the Department of Health on a campaign to raise awareness and to respond to sewage problems experienced by the residents in Mpophomeni and in areas downstream of Sobantu, Nkanyezini, Mkhambathini and kwaXimba.

Community engagement is also a critical success factor for successful implementation of infrastructure projects and is approached in a manner that ensures community participation in resolution of issues affecting them. Each project presented unique incidents or issues 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 this, a foundation of trust has been built with community stakeholders. The changes in political landscape and servitude encroachments are added factors that require engagement and awareness building. Umgeni Water's experience is that all stakeholders are willing to work together in the interest of providing sustainable water supply access to communities.

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.

ADOPT A RIVER PROJECT

Umgeni Water continued to provide capacity and support as an Implementing Agent for the Department of Water and Sanitation (DWS), for the Adopt a River Project. The project focused on a 2 km section of the Mthinzima Stream flowing through Mpophomeni Township into Midmar Dam. The project employed thirty-two (32) beneficiaries, all of who received training in the following: First Aid Level 1, Health and Safety, Herbicide Application, Invasive Alien Plant Identification, Snake Awareness and Mini SASS.

CORPORATE SOCIAL INVESTMENT (CSI) PROGRAMME

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

- CSI initiative at Maphephethwa, Inanda: Umgeni Water sponsored the construction of a concrete products manufacturing plant for the community. The beneficiaries have been trained in safe operation of the block-making machine.

  Umgeni Water has completed its intervention in terms of assisting the beneficiaries to start an income generating project. Regular site visits are being conducted to monitor progress and measure the project impact.
- Six (6) of the twenty (20) adopted schools were sponsored in the provision of water tanks, fencing for vegetable gardens and revamping of certain school facilities. The total Corporate social investment was R196 000. All twenty (20) adopted schools received trees and sponsorship of 200 vegetable seedlings per school.
- The refurbishment of potable water and sanitation infrastructure at Woodlands Primary School was completed during this period.

9.0 Conserving our Natural Resources

9.1 ENVIRONMENTAL SUSTAINABILITY, INCLUDING WATER RESOURCES ADEQUACY

MANAGEMENT APPROACH

Umgeni Water strives for sustainable growth and will ensure continued provision and extension of sustainable water services to all areas. Mindful of the high reliance on adequate supplies of raw water resources, energy, chemicals and other natural resources to undertake the water business, the entity is committed to protecting, conserving, efficiently using and sustaining these resources.

Environmental management programmes and plans are implanted throughout the project life-cycle, which is during planning, construction, operation and decommissioning. The different environmental management programs and plans are categorised as:

- *Corporate environmental management* focusing on aligning the business activities towards environmental sustainability and promoting a shift towards the state of green economy
- *Operational environmental management* focusing on ensuring compliance of the organisation with applicable governing environmental legislations and regulations and avoiding and or minimising environmental impacts as a result of business activities
- *Integrated environmental management* focusing on the identification, mitigation and implementation of management plans for potential environmental impacts for infrastructure projects.

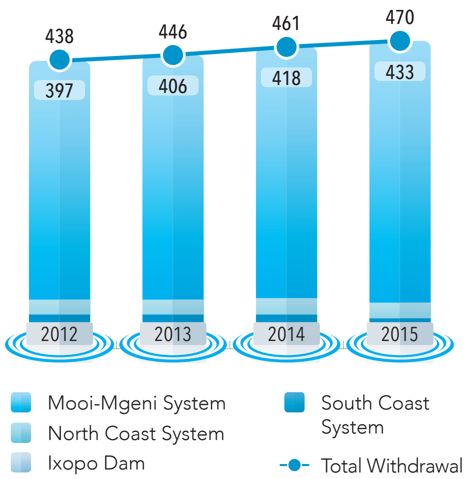
In addition to the mandatory disclosure requirements for a public water services entity in South Africa, Umgeni Water continues to improve alignment of its environmental indicators with the internationally accepted GRI – Global Reporting Initiative – indicator disclosure requirements, in terms of materiality and relevance. Aspects include: materials, including chemicals and water resources, energy efficiency, greenhouse gas emissions and carbon footprint mapping, biodiversity, and waste management, amongst others.

WATER RESOURCES ADEQUACY

The core water board business, which is treatment and supply of bulk potable water, is highly dependent on the availability of sustainable water resources. The reconciliation between water resource availability and water demands is therefore of primary importance and forms an integral part of the infrastructure planning process. Understanding what water resources are available to meet both current and future demand, and what impacts the level of assurance from these resources, is key to achieving the balance between supply and demand and in maintaining the assured level of supply required by customers.

Umgeni Water primarily sources water from ten impoundments on three major water resource systems namely, the Mgeni System (Mooi and Mgeni rivers), the North Coast System (Mdloti River) and the South Coast System (Nungwane, Mzimayi and Mzinto rivers). Total water withdrawal by source is shown in **Table 9.1** and a map of water resources quality and quantity in shown in **Figure 9.2.**

Figure 9.1 *Water Withdrawal by Source (million m³)*



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

1. Imvutshane Dam (UW) commissioning completed and impounding,
2. UMkhomazi Water Project (DWS and UW) feasibility study in progress,
3. Hazelmere Dam raising (DWS) construction commenced,
4. Lower Thukela river abstraction (UW) construction in progress,
5. Lower uMkhomazi Bulk Water Supply Scheme (UW) feasibility study in progress,
6. Darvill WWTW Reuse project feasibility study completed, and
7. East Coast Desalination Plants - detailed feasibility study completed in June 2015.

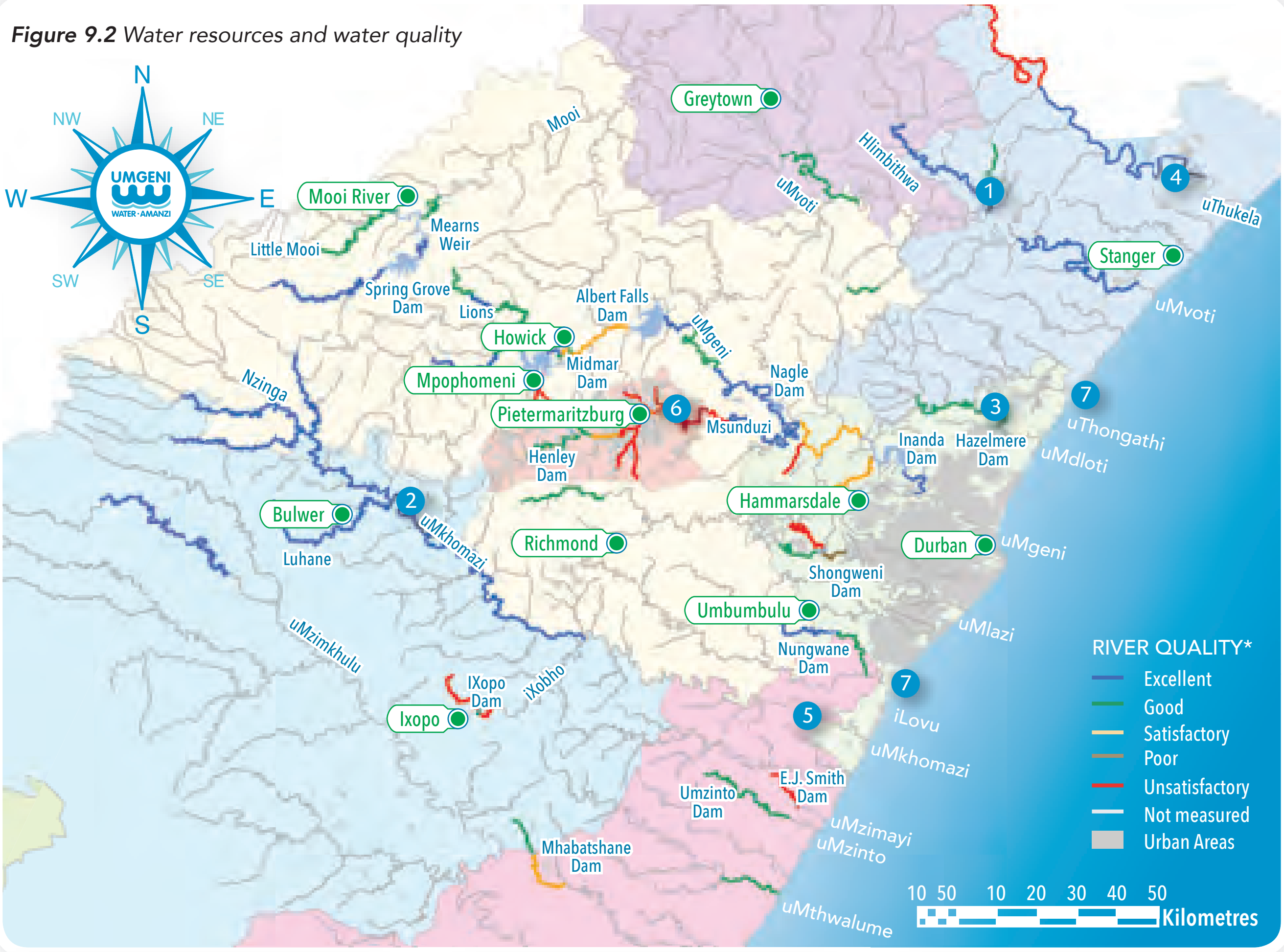
CLIMATE CHANGE AND WATER RESOURCES

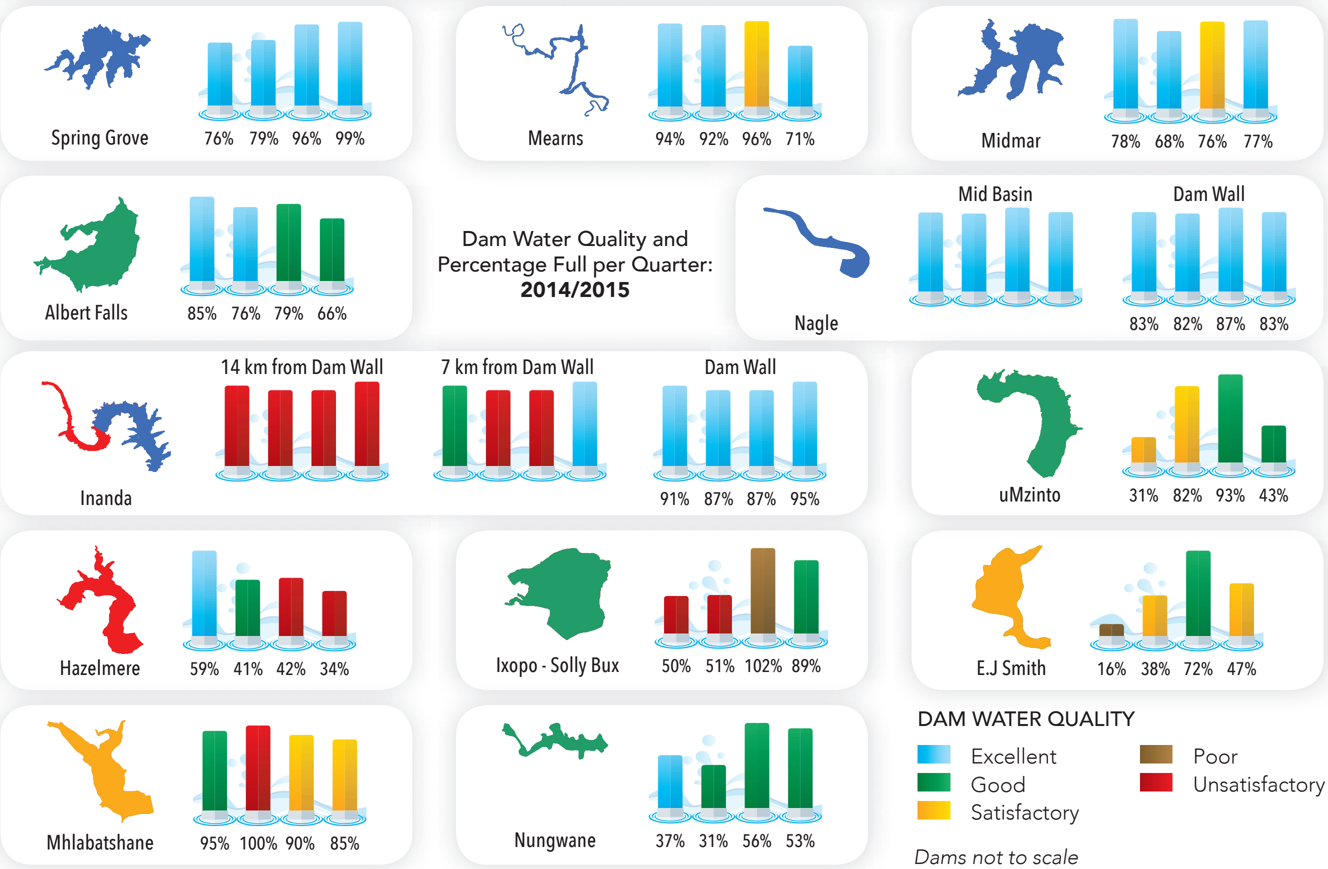
Climate change risks are being considered to make allowances in planning and design, particularly given the significant costs and long planning period required for major infrastructure investments such as dams, pipelines, structures, buildings and transport infrastructure.

Umgeni Water has largely been at the forefront of the consideration of potential climate change impacts and incorporating these into operations planning. There have, however, been a number of developments since the completion of work Umgeni Water first started in 2006, which are providing the basis for future investigations, namely national strategies and plans by Department of Water and Sanitation, National Treasury and the Department of Environmental Affairs.

The majority of models show an increase in runoff in the catchments along the east coast of South Africa. Some models showed very high impacts, likely to be accompanied by significant increases in the risk of flooding. There are, however, still a handful of models that show the potential for drying in these catchments. The results reflect the impacts on catchment runoff and show a general increase in the ability to supply future water demands in KwaZulu-Natal, although there is potential for a reduction in the uThukela catchment.

Figure 9.2 *Water resources and water quality*





RAW WATER QUALITY

The status of raw water quality per supply source/catchment is presented in **Table 9.1** and illustrated in **Figure 9.2.** Water quality risks that are currently associated with water resources are due to the presence of feedlots in some catchment areas, the presence of wastewater treatment works upstream of some impoundments, seasonal changes (rainfall/storm events, impoundment stratification) and sewer problems in some towns. These risks are inclusive of: Algal blooms and aquatic weed problems associated with eutrophication, chemical (including iron and manganese) contamination, elevated turbidity and faecal contamination (and associated pathogen risk) and erosion runoff contamination.

Umgeni Water has set resource quality objectives for abstractions for water treatment that will continue to be used as alert triggers for mitigation against increased public health risks and higher treatment costs. Water quality management plans include:

- Monitoring quality of raw water resources to assess source quality for treatment.
- Assessing risks associated with trends in eutrophication, chemical contaminants, pathogens and suspended solids, and effectiveness of raw water quality objectives.
- Engaging in catchment management activities to influence resource quality and quantity objectives that will balance environmental objectives whilst safeguard consumer health.
- Improving quality of waste discharges from its sites.

The Department of Water and Sanitation (DWS) is kept continuously apprised of the quality and risks associated with the source water trends to continue to ensure the long-term sustainability of South Africa's water resources.

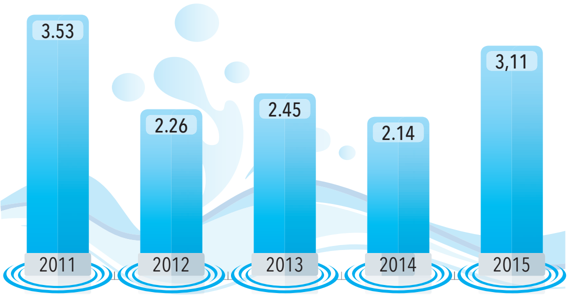
Table 9.1: *Water Quality of Water Resource Dams and Abstractions*

System	River, Impoundment	Gross Capacity (million m^3)	2011	2012	2013	2014	2015
Mgeni	Mooi River, Mearns Weir	5.1	Good	Good	Good	Good	Excellent
Mgeni	Mooi River, Spring Grove Dam	139	N/A	N/A	N/A	Good	Excellent
Mgeni	Mgeni River, Midmar Dam	235	Good	Good	Excellent	Excellent	Excellent
Mgeni	Mgeni River, Albert Falls Dam	290	Good	Good	Good	Excellent	Good
Mgeni	Mgeni River, Nagle Dam	25	Satisfactory	Satisfactory	Good	Excellent	Excellent
Mgeni	Mgeni River, Inanda Dam	252	Satisfactory	Satisfactory	Good	Good	Excellent
North Coast	Mdloti River, Hazelmere Dam	18	Satisfactory	Satisfactory	Satisfactory	Good	Unsatisfactory
North Coast	Mvoti River	7.3	N/A	Satisfactory	Satisfactory	Good	Excellent
North Coast	Thukela River	110	N/A	N/A	Unsatisfactory	Poor	Poor
North Coast	Imvutshane River	7	N/A	N/A	Satisfactory	Good	Good
South Coast	Mtwalume River	4.4	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Good
South Coast	Mzumbe River, Mhlabatshane Dam	2.5	N/A	N/A	N/A	Good	Satisfactory
South Coast	iNungwane River, Nungwane Dam	2.2	Satisfactory	Satisfactory	Good	Excellent	Good
South Coast	Mzimayi River, E J Smith Dam	0.9	Unsatisfactory	Unsatisfactory	Unsatisfactory	Unsatisfactory	Satisfactory
South Coast	Mzinto River, Mzinto Dam	0.4	Poor	Satisfactory	Satisfactory	Good	Good
Ixopo	Xhobo River Ixopo Dam	0.6	Poor	Poor	Poor	Unsatisfactory	Good

WATER LOSS MANAGEMENT

During the year, resources were used assiduously and water balancing and water loss management measures were instituted in treatment systems. The total water loss level has been maintained below the target of 5% with 3.11% (2.14% in 2014) **(Figure 9.3).**

Figure 9.3: *Water Loss (%)*



WATER REUSE

Umgeni Water has investigated the option of treating domestic sewage from its Darvill Wastewater Treatment Works to potable standards. The proposal would have been to return the treated water back into the distribution system at Umlaas Road. The water could then have been used to augment the supply to the Western Aqueduct (due for completion mid 2018) which will serve the high growth areas along the western corridor of the eThekwini Metropolitan Municipality. A full feasibility study of this scheme was completed in 2014. Although the results of the feasibility study indicate that the scheme is not viable at this stage, Umgeni Water has the intention to investigate this reuse from Darvill to supply the industrial area of Msunduzi.

MATERIALS USAGE AND EFFICIENCY

Water is one of the most significant input materials for Umgeni Water and is covered 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.

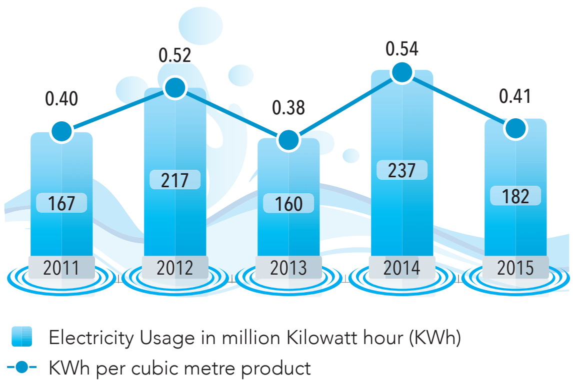
ENERGY USAGE AND EFFICIENCY

Energy is a key input to water and wastewater treatment processes, and in 2014/2015 Umgeni Water utilised a total of 182 million kWh of electricity. **Figure 9.4** shows energy usage and efficiency. The decrease from the previous year (2013/2014: 237 million kWh) can be attributed to significant decrease in raw and potable water pumping in the year which is subject to optimal matching of storage levels with demands from the various systems.

An energy audit for all operational sites was conducted and the plans resulting from this are:

- The Mooi-Mgeni Transfer scheme hydropower project which is currently underway at the EIA phase,
- Darvill WWTW cogeneration initiative - utilising digester methane to produce electricity. The preliminary investigations indicate that there is potential to produce approximately 22 MWh electricity per day. The project is in the final design stages,
- Optimal management of pumping, and
- Implementation of energy efficient lighting measures aligned to national initiatives.

Figure 9.4: *Electricity Usage and Efficiency Trends*



CARBON FOOTPRINT AND EMISSIONS REDUCTION INITIATIVES

Umgeni Water's direct CO_2 emissions arise from fuel usage for transport (vehicles), general waste and from generators and boats, while indirect CO_2 emissions are primarily due to electricity usage, and to a minor extent flights.

The organisation's carbon footprint is primarily due to electricity consumption. The average over the past five years is 189 350 tonnes **Figure 9.5** and **Table 9.2**)

It is anticipated that implementing energy efficient measures will contribute to reducing the carbon footprint over time.

The current initiatives include the development of an electricity co-generation plant at the Darvill Wastewater Treatment Works. The energy generation system will comprise a biogas pre-treatment unit and two generators. The plant will utilise the methane gas generated in the bio-digesters to produce electricity. Preliminary studies indicated that approximately 40% of the total energy requirements of the wastewater treatment works can be generated from this source.

Umgeni Water also implements on-going carbon offsetting initiatives such as

- On-going tree planting initiatives and
- Implementing the Darvill constructed artificial wetland project.

Figure 9.5: *CO_2 Equivalents (tonnes)*

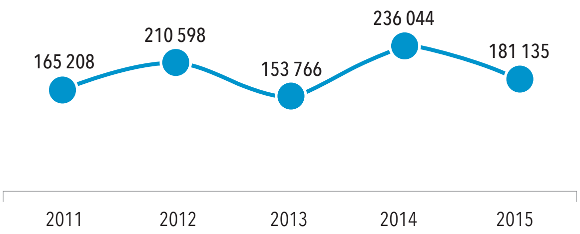


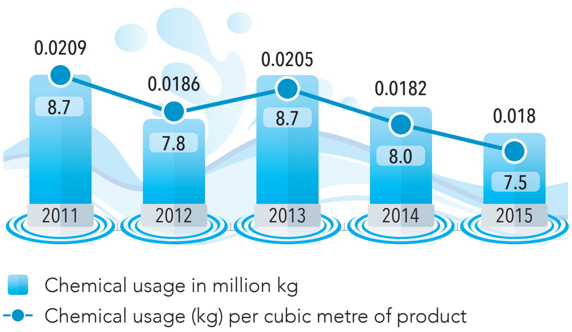
Table 9.2: *CO_2 equivalents (tonnes)*

CO_2 equivalents (tonnes) per activity	2011	2012	2013	2014	2015
Electricity	163392	208071	153280	234575	180117
Travel: Car	1334	2086	137	1035	204
Travel: Air	143	81	71	87	91
Waste	299	262	196	305	684
Other fuel	40	98	82	42	36
Total	**165064**	**210598**	**153766**	**236044**	**181131**

CHEMICALS USAGE AND EFFICIENCY

As part of the global eco-efficiency initiative, Umgeni Water monitors, on a monthly basis, chemical usage at all its sites. The aim of this monitoring is to ensure optimal chemical usage and therefore support transformation towards sustainable development. The monitoring of water treatment chemical usage over time is mandatory as this is a major input into the process. Excessive chemical use not only leads to increased operational costs, but also to the unsustainable use of natural resources. Regular monitoring therefore provides an indication of the trend in chemical consumption per kilolitre of product produced (**Figure 9.6**).

Figure 9.6: *Chemical Usage and Efficiency Trends*



Umgeni Water has implemented a number of initiatives in fulfilment of its commitment to protect and conserve the natural environment and its resources. These include:

- Water treatment process evaluation audits, which identify areas to improve 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 helps shape and influence 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.

BIODIVERSITY MANAGEMENT

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 ecological 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.

Msinsi Holdings SOC continues to be seen as a significant player in the conservation and tourism sector in KwaZulu-Natal. Msinsi Holdings will continue to ensure that the ecosystem services provided by the resources are sustainably managed.

ALIEN PLANT MANAGEMENT

Floating alien invasive aquatic weeds post a challenge to maintaining sustainable water resources. South American weeds, in particular pose the primary threat with Water hyacinth, *Eichhornia crassipes* and Water lettuce, *Pistia stratiotes* being the most significant threat. The Mgeni River system, and its tributary the uMsunduzi River, are infested with both of these weeds.

Control of water hyacinth and water lettuce remains critical due to the exponential growth rate of these weeds. Even when the plants are removed or destroyed, once established, they are extremely difficult to eradicate entirely due to the large seed bank that remains. Umgeni Water has had reasonable success in limiting growth of these plants through deploying a combination of strategies. During 2015, the weed population was maintained at manageable low numbers.

Control methods and initiatives included:

- A combination of biocontrol, herbicide and where appropriate, manual removal, to keep infected areas at manageable low numbers,
- On-going monitoring of the status of the weevil population. Maintenance of adequate numbers of healthy weevil is imperative,
- Establishment of a multi-stakeholder working group, including regulatory institutions, non-governmental organisations and the general public working in collaboration has been essential,
- Monitoring and assessment assisted by the use of social media which has had the benefit of improved response time and reducing the cost of control, and
- Improving education and awareness remains one of the best options for weed management.

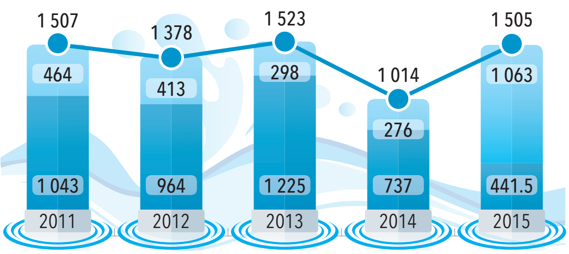
WASTE MANAGEMENT

Umgeni Water continues to track waste generated and recycled from all operational sites. Volumes of general and hazardous waste generated are shown in **Figure 9.7.**

The percentage of total waste recycled is shown in **Figure 9.8** and has increased compared to the previous period. The main reason for this increase is the waste that is disposed by contractors during the refurbishment projects. This was mainly noticed at Darvill WWTW and Durban Heights WTW.

Most of the operational sites have implemented recycling initiatives and waste is separated at source, as a result there has been a significant increase in the recyclable waste: increase from 0.16% to 4.32% in this reporting period.

Figure 9.7: *Waste Produced*

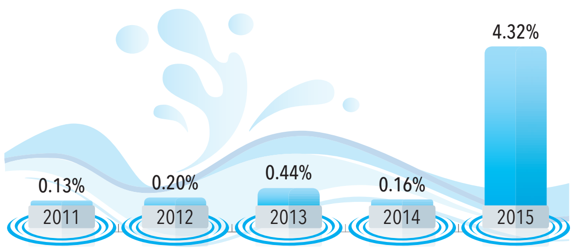


General Waste (kg per mil m³)

Hazardous Waste (kg per mil m³)

Total

Figure 9.8: *Per Cent Waste Recycled*



ENVIRONMENTAL PERFORMANCE OF THE OPERATIONAL SITES

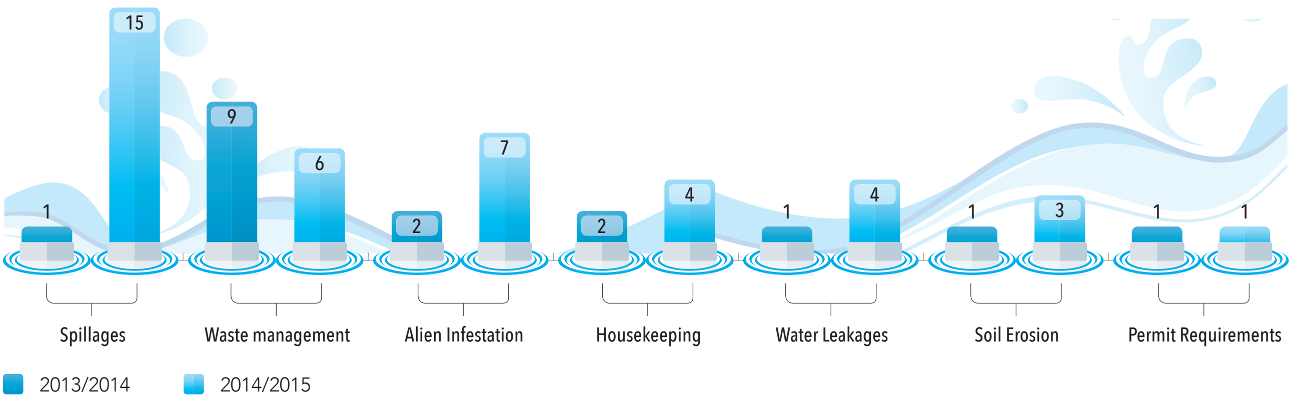
Environmental performance of operational sites continued to be monitored through the annual environmental audits. The main objectives of the audits are to:

- Assess whether the site is complying with all applicable environmental regulations and legislation,
- Assess internal policy and procedural compliance in relational to environmental management,
- Assess the status of energy consumption, waste management and biodiversity management at the site aligned with Umgeni Water's environmental sustainability initiatives, and
- Recommend mitigation measures to address identified non-conformances.

For the reporting period the required environmental audits were undertaken for the operational sites which included water treatment works, waste water treatment works, dams, workshops and regional offices. The main audit findings identified amongst the sites included:

- Inadequate waste management in relation to proposer waste separation, storage and implementation of waste recycling measures,
- Weeds, terrestrial and aquatic alien infestation,
- Soil erosion,
- Poor housekeeping,
- Compliance with permit requirements,
- Wastage of non-renewable resource with identified water leakages,
- Lack of containment for potential hydrocarbon spillages in stationary vehicles, and
- Contamination of the surrounding environment due to concrete and oil spillages that were not cleared.

Figure 9.9: *Environmental Management Findings from Audits*

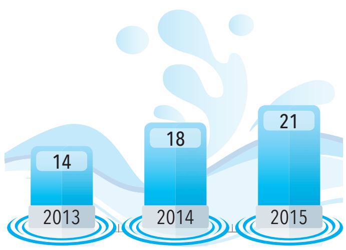


The most prevalent non-conformances observed (**Figure 9.9**) in the reporting period were in relation to hydrocarbon and concrete spillages. There has been an improvement in waste management at the sites since the previous reporting period. Increased proliferation of aquatic and terrestrial alien weeds was observed. On-going management measures have been implemented in collaboration with other stakeholders such as Working for Water (WfW) and Duzi Umngeni Conservation Trust (DUCT).

ENVIRONMENTAL INCIDENTS REPORTED FOR THE 2014/2015 FINANCIAL YEAR

Incident management systems are in place to ensure proper and timeous response to incidents. The number of environmental incidents for the reporting period increased to twenty-one (21) compared to eighteen (18) recorded for 2013/2014 (**Figure 9.10**). The incidents were mainly in relation to sewage spillages from failure of wastewater treatment works pumps, chemical spillages, water leakages and oil spillages.

Figure 9.10: Environmental Incidents at Operational Sites



INTEGRATED ENVIRONMENTAL MANAGEMENT

The entity has twelve (12) projects in the planning, design or procurement phase which are being managed through the Integrated Environmental Management system. In compliance with the provisions of the Environmental Impact Assessment regulations of the National Environmental Management Act, some projects required a basic assessment or a scoping and full environmental impact assessment study to be conducted. The status of pertinent environmental authorisations for key Bulk Infrastructure projects is shown in **Table 9.3.**

***Table 9.3:** Bulk Infrastructure Projects status in terms of Environmental Authorisation:*

Project name	EA status requirements
UMshwathi BWSS	Amended EA obtained
UMkhomazi Water Project Phase 1	EIA application in progress
East Coast Desalination (Tongaat and Lovu)	EIA application in progress
Nungwane Raw Water Aqueducts	EA obtained
Southern Ndwedwe BWSS	EIA application in progress
Lower uMkhomazi BWSS	EIA application in progress
Bruynshill Pipeline and Pumpstation	EIA application in progress
Ngcebo WTW Upgarde	EA obtained
Greater Mpofana Regional Scheme	Amended EA obtained

Where project developments are not listed activities as defined in the Act, environmental screening is undertaken and project specific Environmental Management Plans developed. This addresses any potential environmental impacts and ensures there are mitigation measures for implementation. In the reporting period, no fines were issued by the authority for contravention of environmental requirements.

Twenty (20) projects are currently in construction and are monitored for compliance against the Environmental Management Plans, conditions of the Environmental Authorisations, contractors' contractual obligations and international best practises by independent external Environmental Control Officers, internal Environmental Site Officers and Environmental Scientists. Two penalties (related to inadequate provision of sanitation facilities and solid waste receptacles) were issued to the contactor due to failure to comply with some of the conditions of the internal project specific Environmental Management Plans.

Overall, environmental performance has been satisfactory with the following minor challenges in the areas of feasibility/ design, construction and rehabilitation phases of the projects:

- Frequent environmental authorisation amendment applications with potential for project delays, from the pertinent environmental regulators,
- Hydrocarbon (diesel and oil) and concrete spillages during construction activities, and
- Encroachment and adequate management of alien weeds on the stockpiled excavated top soil material.

Despite the environmental challenges, good environmental practise will continue to be strived for and all activities conducted in an environmental sustainable manner.

10.0 Enabling our People

10.1 LEADERSHIP AND EMPLOYEE DEVELOPMENT

MANAGEMENT APPROACH

Umgeni Water has developed and communicated a Code of Ethics which establishes a set of principles to promote and encourage ethical behaviour and decision-making by all employees, board members and stakeholders. In terms of this code, the ethics committee monitored the following activities of Umgeni Water during the reporting period, details of which are contained in earlier chapters of this annual report and in the sections that follow:

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 Company 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 to development of the communities in which Umgeni Water's activities are predominantly conducted or within which its products or services are predominantly marketed, and
- just record of sponsorship, donations and charitable giving.

The environment, health and public safety *including:*
- impact of Umgeni Water's activities and of its products or services.

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

Labour and employment matters *including:*
- Human capital and workforce matters: recruitment and selection, succession and coaching, health and safety, HIV awareness, wellness programmes, training and development.


UMGENI
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SAVEWATER

LABOUR PRACTICES AND DECENT WORK

Umgeni Water embraces the principle that its organisational goals and human resources needs are mutual, compatible and strongly inter-dependent. The entity's Human Resources policies therefore seek to ensure a competent, motivated and engaged workforce.

EMPLOYMENT

Umgeni Water seeks to maintain a workforce that will enable it to deliver quality services to all stakeholders. **Table 10.1** and **Figure 10.1** show the entity's 2014/2015 workforce profile, for which there were 805 permanent employees in the parent company, 906 permanent employees in the group and 90 fixed term contracts providing a total staff complement of 996 in the group.

All Umgeni Water's employees are based in KwaZulu-Natal. All full time and fixed term contract employees are provided with the following benefits: provident fund or retirement fund, housing allowance and medical aid. All 252 female employees were entitled to maternity leave, of which twenty-six (26) took maternity leave and 99% returned to work after their leave.

SUCCESSION, MENTORING AND COACHING

Umgeni Water has in place a Succession, Mentoring and Coaching Action Plan to enable the entity to create a pool of competences to meet its future needs. The implementation approach includes:

- Identifying Scarce, Core and Critical positions, including positions critical for retention of institutional memory,
- Profiling 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 to be utilised to identify successors.

Table 10.1 *2014/2015 workforce by employment type/category, and race and gender is shown for the permanent establishment for (a) parent company and (b) wholly-owned subsidiary.*

(a) Umgeni Water (permanent establishment as at 30 June 2015)

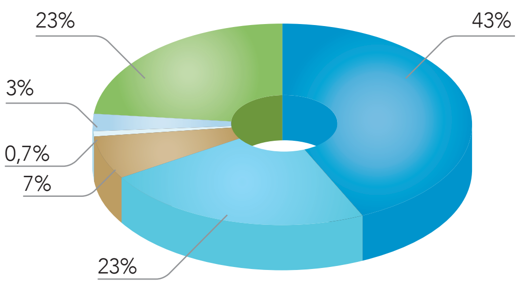
Occupational Category	Total	Male				Female			
		A	C	I	W	A	C	I	W
Top Management (Grade 2-3)	5	3	0	0	1	1	0	0	0
Senior management (Grade 4-5)	28	7	2	8	3	4	0	3	1
Professionally qualified and experienced specialists and mid-management (Grade 6-8)	203	62	4	32	25	53	3	18	6
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents (Grade 9-12)	367	157	7	43	14	112	4	26	4
Semi-skilled and discretionary decision-making (Grade 13-15)	170	159	1	0	0	6	0	4	0
Unskilled and defined decision-making (Grade 16)	32	25	0	0	0	7	0	0	0
Total	**805**	**413**	**14**	**83**	**43**	**183**	**7**	**51**	**11**

(b) Msinsi Holdings SOC Ltd (permanent establishment)

Occupational Category	Total	Male				Female			
		A	C	I	W	A	C	I	W
Top management	0	0	0	0	0	0	0	0	0
Senior management	1	1	0	0	0	0	0	0	0
Professionally qualified and experienced specialists and mid-management	5	1	0	0	1	2	0	1	0
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	21	7	0	0	0	13	0	0	1
Semi-skilled and discretionary decision making	38	36	0	0	0	2	0	0	0
Unskilled and defined decision making	36	18	0	0	0	18	0	0	0
Total	**101**	**63**	**0**	**1**	**1**	**35**	**0**	**1**	**1**

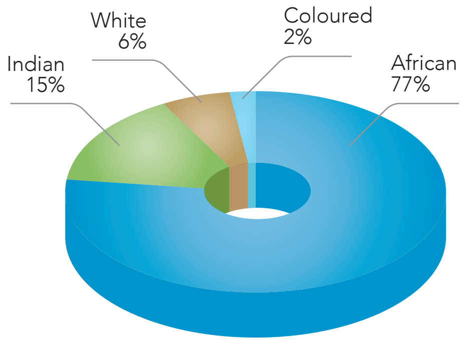
Figure 10.1: *Employment (Group) in 2014/2015 – showing (a) category, (b) race and (c) gender*

(a) Employment status (Group) by Category



- Top Management (Grade 2-3)
- Senior Management (Grade 4-5)
- Professionally qualified and experienced specialists and mid-management (Grade 6-8)
- Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents (Grade 9-12)
- Semi-skilled and discretionary decision-making (Grade 13-15)
- Unskilled and defined decision-making (Grade 16)

(b) Employment status (Group) by race



(c) Employment status (Group) by gender

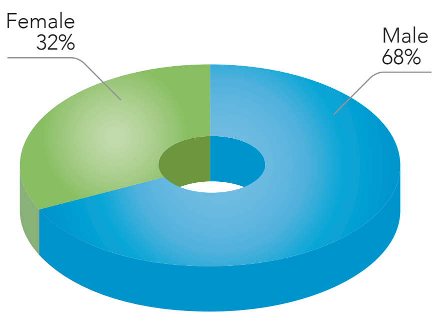


Table 10.2 *Summary of staff numbers as at 30 June 2015*

Staff Numbers	Total
Parent permanent	805
Msinsi permanent	101
Group permanent	**906**
Group fixed term contracts	90
Group Total	**996**

RECRUITMENT AND TURNOVER

Recruitment and turnover numbers for 2014/2015 are shown in **Figure 10.2 (a), (b) and (c)**.

In 2014/2015 there were one hundred and nineteen (119) new recruits, comprising of:
- Thirty-six (36) permanent employees
- Thirty-three (33) contract employees
- Fifty (50) graduates, apprentices, interns and in-service trainees

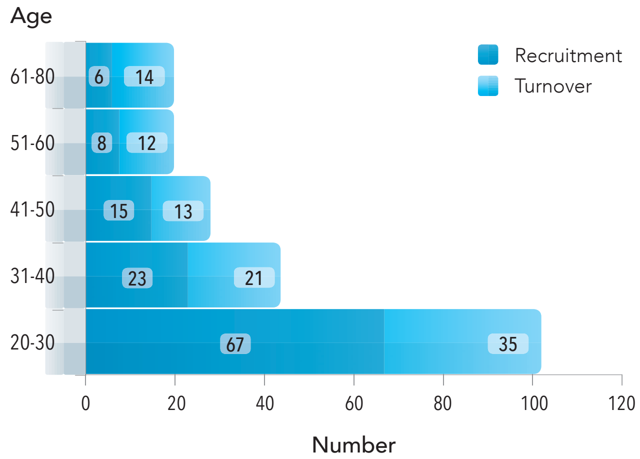
76% of the new engagements were in the age range of 20-40 years, of African race and there were slightly more males than females engaged.

In 2014/2015 the turnover was ninety-five (95) including:
- Thirty-one (31) resignations
- Thirty-seven (37) completion of employment contracts
- Five (5) from natural deaths
- Six (6) early retirees
- Eight (8) normal retirees
- Six (6) dismissals; and
- Two (2) from medically boarding due to ill health.

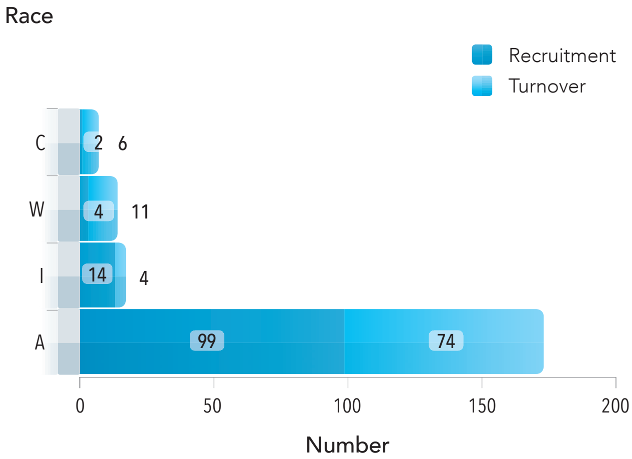
The entities turnover percentage, calculated using the total count of employees who worked in the entity in the year, is 9.13% and is below the industry benchmark of 10%.

Figure 10.2: Recruitment and Turnover in 2014/2015 – by (a) age, (b) race and (c) gender.

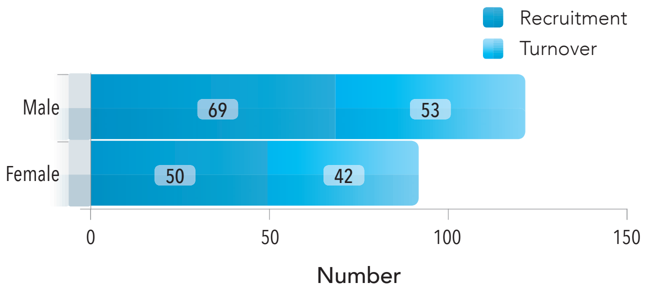
(a) Recruitment and Turnover - Age Profile



(b) Recruitment and Turnover - Race Profile



(c) Recruitment and Turnover - Gender Profile

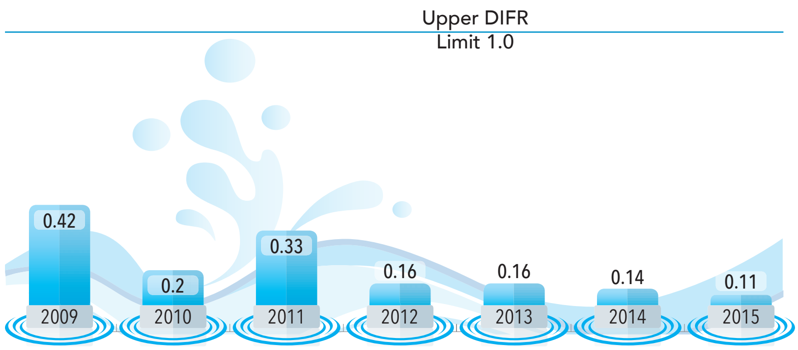


LABOUR/MANAGEMENT RELATIONS

Umgeni Water has aligned all its policies to ensure these are, at minimum, compliant with all relevant legislation, such that the rights and well-being of its employees can be safe-guarded and protected.

Umgeni Water has a Collective Agreement with its union, NEHAWU, and fifty-seven per cent (57%) of the total workforce are members of the union of which fifty-two per cent (52%) are within the collective bargaining unit. Umgeni Water and the union met at least quarterly in 2014/2015, excluding special meetings that were needed. Notwithstanding a collective agreement, Umgeni Water is committed to information sharing and to always giving reasonable notification to organised labour regarding any significant operational changes that may affect employees directly or indirectly. During the year, management actively engaged labour regarding concerns raised and sought to achieve resolution of issues without any stand-offs.

Figure 10.3: *Disabling Injury Frequency Rate (DIFR)*



OCCUPATIONAL HEALTH AND SAFETY (PARENT)

The following definition has been used for the calculation of disabling incident frequency rate (DIFR): 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.

Disabling Injury Frequency Rate target for 2014/2015 was below 1.0, which is equivalent to a 5* rating. The organisation achieved DIFR rating of 0.11.This achievement was realised through the collection, analyses and assessment of key statistics relating to occupational diseases, vehicle accidents, and absenteeism, amongst others. **Figure 10.3** shows the disabling injury frequency rate trend to date. A total of eleven disabling incidents were recorded in the 2014 /2015 financial year. Sadly one of these incidents was a fatality. Measures have since been put in place through infrastructure redesign and strengthening initiatives to minimise impact of vandalism to infrastructure and safe guard employees and surrounding communities. The overall low DIFR can be attributed to joint management-worker health and safety committees, the collaboration between fleet management and SHEQ department as well as close monitoring and management of specific trends by senior management to continuously manage the DIFR figure and reduce identified high risks. Setting of clear targets and detailed management programmes forms the foundation for teams as well as contractors to work towards a safer working environment.

The occupational health programmes, which are aligned to the Occupational Health and Safety Act and standards, assist employees in the following areas:

- 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.

SKILLS DEVELOPMENT (PARENT)

Skills development remains essential at Umgeni Water to enable employees to excel in their individual and organisational roles and functions and deliver on the organisation's strategy. Umgeni Water annually compiles and submits a Workplace Skills Plan to EWSETA, which identifies the skills needs of the organisation. Skills training and development is effectively being achieved through the following avenues, amongst others:

- Training and development,
- Learnership and apprenticeship,
- Bursary programme,
- Graduate trainee programme,
- Assisted education, and
- Internships.

TRAINING AND DEVELOPMENT

Table 10.3 and **Figure 10.4** show the hours of training by gender and by employee category.

- All categories of employees were exposed to training.
- In 2014/2015, 23591 hours were spent in training and development for 1383 employees.

Figure 10.4: *Training Hours*

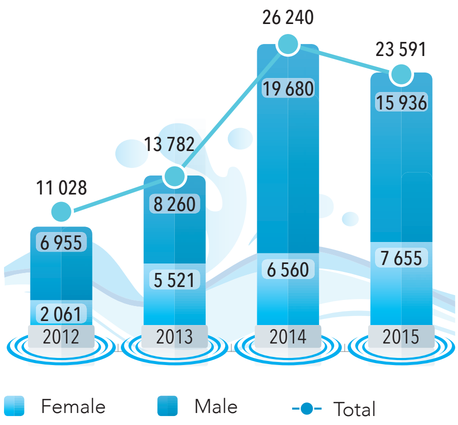


Table 10.3: *Training Hours by occupational level, gender and per employee in 2014/2015*

Occupational Levels	Total Employees Trained	Total Female	Training Hours Female	Total Male	Training Hours Male	Total Hour per category
Top Management.	5	3	56	2	56	112
Senior Management	38	11	235	27	444	679
Professionally Qualified and Experienced Specialists and Mid-Management.	368	136	2301	232	3686	5987
Skilled Technical and Academically Qualified Workers, Junior Management, Supervisors, Foreman and Superintendents.	529	156	2693	373	6400	9093
Semi-Skilled and Discretionary Decision Making.	214	8	1120	206	3587	4707
Unskilled and Defined Decision Making.	42	13	136	29	288	424
Non-Permanent.	187	78	1114	109	1475	2589
Total	**1383**	**405**	**7655**	**978**	**15936**	**23591**

LEADERSHIP, LEARNERSHIP AND APPRENTICESHIPS

Umgeni Water partnered with the University of KwaZulu-Natal as part of the initiative to equip its leaders with the necessary skills and competencies to drive the implementation of the organisational strategy. Two key programmes were development and implemented in 2014/2015: Management Development Programme (MDP) and Emerging Management Programme (EMP). A total of 103 employees participated in and successfully completed these programmes.

Umgeni Water has grown its pool of Learnerships and Apprenticeships and in the year provided training, development and exposure to both internal and external candidates. Thirty-seven (37) Artisan Trainees completed and passed their trade test and were employed within the entity over a two-year period as Artisan Trainees in Mechanical Engineering, Electrical Engineering and Instrumentation.

There are currently twelve (12) Apprentices of which three (3) are in Electrical Engineering, three (3) in Instrumentation, three (3) in Boilermaking, two in (2) Mechanical Fitting and one in (1) Motor Mechanic. All Apprentices completed Phase 3 of their programmes and are waiting for trade test dates from MERSETA and EWSETA.

A total of 187 Process Controllers were enrolled in either the Learnership Programme or in N3 Water and Waste Treatment and various courses in water and wastewater treatment. The internal positions include Superintendent, Process and Quality Technicians, Senior Operator, Operator and Process Controller positions for which Umgeni Water assessed the skills and competency levels against requirements of Regulation 17 of the Water Services Act for Blue Drop and Green Drop certification and is addressing the skills and competency gap.

ASSISTED EDUCATION

Sixty-seven (67) employees are on the Umgeni Water Assisted Education Programme of which 33% are enrolled in programmes that are directly targeting critical and scarce skills for the organisation.

BURSAR, GRADUATE AND IN-SERVICE TRAINEE PROGRAMMES

Nineteen (19) graduates are enrolled in engineering, science and other required professional fields in the organisation. Umgeni Water's graduate trainee programme is a two-year mentorship programme aligned to guidelines provided by professional registration bodies, such as, South African Council for Natural Scientific Professions in the case of scientists. At the end of the 2014/2015 period three (3) were professionally registered.

Twenty-two (22) students from the Institute of Higher Learning were recruited into the Work Integrated Learning Programme, which is a two-year mentorship programme that provides continuous integrated theoretical and practical learning experience. The students are exposed to learning in Laboratory / Analytical methods and Process Control. Students trained by Umgeni Water are generally successful in gaining employment within Umgeni Water or elsewhere in the sector after completing their development programmes.

A further eleven (11) interns are contracted for a year and working in multi-disciplinary fields across the organisation.

Umgeni Water is funding fourteen (14) 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 controllers and technicians with specific emphasis on meeting the skills shortages in the municipalities in KwaZulu-Natal and OR Tambo District Municipality in Eastern Cape. As part of this programme, forty-four (44) trainees are enrolled and in training for a period of five years.

In the prior period, Umgeni Water entered into a five-year collaborative agreement with Mangosuthu University of Technology to provide students with work integrated learning. Twenty-five (25) in-service trainees were enrolled in the programme and are being provided with mentorship and an integrated theoretical and practical learning experience.

PRE-RETIREMENT TRAINING

During the course of the year information is regularly provided to employees regarding retirement planning. In addition to other communication, pre-retirement training is conducted annually, aligned to the expected number of retirees in the age group fifty-five (55) to sixty-five (65), and assists employees with sustainable management of their retirement benefits.

KEY MEMBERSHIPS AND ASSOCIATIONS

Organisational and employee memberships are shown in **Table 10.4.** These straddle governance and risk, water, science and engineering, natural resources and social impact management, business, finance and accounting, standards, occupational health and safety, amongst others. These help ensure the organisation keeps abreast in its core fields, participates in sector knowledge sharing and retains and enhances its core and distinctive competencies.

Table 10.4: *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)
Financial and Business	South African Institute of Chartered Accountants (SAICA) Association of Corporate Treasurers of Southern Africa (ACTSA) National Business Initiative (NBI) Durban Chamber of Commerce and Industry Pietermaritzburg Chamber of Business (PCB) Chartered Institute of Purchasing (CIPS)
Product Quality, Infrastructure Stability, Research, Innovation, Science and Technology	Water Institute of Southern Africa (WISA) South African Association of Water Utilities (SAAWU) International Desalinisation Association South African Institute of Agricultural Engineers South African Institute of Mechanical Engineers International Association of Hydrological Sciences American Water Works Association (AWWA) International Water Association (IWA) Engineering Council of South Africa (ECSA) South African Institute of Civil Engineers (SAICE) construction industry development board (cidb) South African Institute of Chemical Engineers (SAIChE) Project Management Institute South African Council for Planners South African Planning Institute South African National Committee on Large Dams (SANCOLD) The Association of SA Quantity Surveyors Concrete Society of Southern Africa NPC South African Council for the Project and Construction Management Professions (SACPCMP) The Southern African Institute of Mining and Metallurgy (SAIMM) SA Geomatics Institute

Table 10.4: *Key Membership and Associations continued*

Category	Memberships
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 Council for Professional and Technical Surveyors (PLATO) 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)

PERFORMANCE, ALIGNMENT TO STRATEGY AND REMUNERATION

Umgeni Water, implements a three-component performance management system which ensures that all employees have conceptual knowledge and understanding of the role and purpose of their jobs in relation to the organisation's strategy, whilst having an explicit understanding of their own performance objectives and targets.

In this regard, each year following review of the organisational strategy and key performance indicators and targets, all divisions and departments of Umgeni Water develop plans, indicators and targets, which are further cascaded to individuals, who develop individual performance agreements with line management.

The Board of Umgeni Water and Executive Management, respectively, assess organisational and divisional performances against targets on a quarterly basis, whilst formal corporate-wide employee performance assessments are undertaken twice a year. The performance management process at Umgeni Water is development orientated, which is intended to cultivate effective human resources management and career development. As a result, appraisals are used to provide feedback and coaching to individual employees concerning their job performance.

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

The organisation's balanced scorecard targets have been substantially met as set out in the shareholder's compact.

The divisional balance scorecard targets have been met as per divisional business plans.

The individual performance targets have been met as per individual performance contracts, and

The organisation can afford to pay the performance bonuses.

Through this structured performance management process, Umgeni Water ensures implementation of its strategic goals through skilled, competent, motivated and committed 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 10.1** and **Figures 10.1.** 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. **Table 10.5** shows salary package ratios, which vary over the years, with an average ratio of 1.0 (equal women to men remuneration).

In addition, the entity strives to pay employees competitive market related salaries through regular comparison against industry salary survey reports. Top Management is on average remunerated nine (9) times higher (10 in 2014) than the lowest category Semi-Skilled and Discretionary Decision Making. Over the years the entity has actively worked on bridging the gap between the highest and lowest paid employee categories.

Table 10.5: *Ratio of Remuneration of Women to Men by Occupational Category*

Occupational Levels	2011	2012	2013	2014	2015	Average
1. Top Management.	0.7	1.3	1.1	0.8	0.8	0.9
2. Senior Management	0.9	1.0	1.0	1.0	1.0	1.0
3. Professionally Qualified and Experienced Specialists and Mid-Management.	0.9	1.0	1.4	0.9	0.9	1.0
4. Skilled Technical and Academically Qualified Workers, Junior Management, Supervisors, Foreman and Superintendents.	0.9	0.9	1.2	0.8	0.9	0.9
5. Semi-Skilled and Discretionary Decision Making.	1.2	0.9	0.8	1.0	0.8	0.9

HUMAN RIGHTS

Investment and procurement practices

Umgeni Water has 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. Furthermore the organisation strives to ensure it facilitates an efficient and cost effective system of management of goods and services for its water business throughout the elements of Demand, Acquisition, Logistics and Disposal.

In the year under review, the organisation had improved its procurement systems by continuing to improve its supplier database, reducing the number of expired contracts which posed a risk to the organisation and by developing procurement and disposal plans aligned to legislation and the strategic objectives of the organisation. Umgeni Water's tender screening processes have sufficient rigour that will screen out unsuitable suppliers, e.g. suppliers who have been blacklisted due to corrupt or other unethical behaviour. Awareness continues to be built amongst the organisation's employees through requesting mandatory disclosures of interests in support of fair, equitable, transparent and competitive procurement practices.

Umgeni Water continued in 2014/2015 to implement its Contract Participation Goals (CPGs) initiative that was introduced in the prior year. CPGs require tenderers to commit a certain percentage of the tender scope of work and value for which the tenderer will contract targeted enterprises through provision of meaningful economic opportunities. There was wide acceptance and commitment to the approach by stakeholders both internally and externally. Performance with contract participation goals in the year is shown in an earlier section of this annual report.

In the year the entity maintained its supplier development programme in line with its commitment to empower small, medium and micro enterprises through providing information on planned projects and project opportunities that will be available to SMMEs and facilitating work for them.

Umgeni Water appointed two analysts, whose function it is to monitor BBBEE / CPG implementation of awarded contracts and advise whether the established enterprises are engaging the targeted enterprises as per contracts, whether targeted enterprises are performing the scope as per contract and whether payments due to targeted enterprises are processed at the correct rates and at agreed timeframes.

As a result of these initiatives Umgeni Water remains confident the entity 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 organisation's Human Resources Policies comply and are in line with the Labour Relations Act (Act No. 66 of 1995), Basic Conditions of Employment Act (Act No. 75 of 1997) and their relevant Codes of Good Practice. Umgeni Water recognises that its employees are the organisation's most valuable asset and continues to be a socially responsible organisation which does not practise child and forced labour.

Non-Discrimination

During the year zero incidents of discrimination were reported.

Indigenous rights

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

Human Rights Remediation

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

11.0 Improving Resiliency

11.1 OPERATIONAL OPTIMISATION

ISO 17025 ACCREDITED LABORATORY SERVICES ASSURING WATER QUALITY

Umgeni Water's Laboratory Services is a dynamic centre of excellence comprising four modern ISO/IEC 17025 accredited laboratories in Chemistry, Microbiology, Hydrobiology, and soil testing with a long established reputation of meeting international standards. Modern analytical techniques used a team of fifty-seven highly skilled and dedicated scientists, technicians, and laboratory support staff, enables Umgeni Water facility to provide a world-class service 365 days a year. In its last recertification audit (2014), the laboratory was recommended for continued accreditation status.

The key objectives of the laboratory in support of Umgeni Water's primary business:

- Providing assurance that the organisation produces potable water that complies with drinking water standards, assuring that treated effluent complies with wastewater and effluent discharge limits, thereby assuring public health protection from water-borne diseases and water related health impacts,
- Undertaking research and development, generation of scientific data for new infrastructure development, and supporting/auditing water treatment for process selection and optimisation, and
- In addition, catchment and river health monitoring is undertaken 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 its new 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 that 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.

The laboratory has a moderate facility for undertaking research and development in the fields of analytical chemistry, microbiology, hydrobiology and soil sciences. Despite its limited size, it has produced high powered innovative work. Of note is the expansion of the scope of laboratory testing services to include analysis of soils and sludge that has become a requirement in terms of the sludge disposal legislation. Other products emerging from the research programme include three publications in international journals.

RESEARCH AND INNOVATION

Umgeni Water's Innovation policy serves to provide a favourable corporate environment to ensure that innovation underlies the entity's strategy.

In addition the utilisation of new technology and processes to improve efficiencies and increase effectiveness is key to better deliver services in KwaZulu-Natal. A large portion of the knowledge gained in new technology and processes is through the innovation, research and development (IRD) projects that are undertaken in partnership with Academia, notably the University of KwaZulu-Natal (UKZN) through the Umgeni Water – University of KwaZulu-Natal Chair of Water Resource Management. Umgeni Water also plays a role in contributing to research and development that benefit the sector as a whole through active participation various Water Research Commission (WRC) projects.

Major projects and progress made in 2014/2015 are shown in **Table 11.1**

Table 11.1: *Major research projects and progress made in 2014/2015.*

Research Project	Objectives	Progress 2014/2015
1. Evaluation of Ultrafiltration as an Alternative to Conventional Potable Water Treatment.	To test the applicability of Ultrafiltration technology for treatment of low turbidity waters.	All planned pilot trials were successfully completed. Ultrafiltration is a viable alternative to conventional water treatment processes in the treatment of low turbidity water. A 10 Ml/day Ultrafiltration membrane plant is to be constructed at the Wiggins Water Treatment Works to evaluate this technology on full scale.
2. Determination of Residual Polymeric Coagulants in Potable Water.	To develop an analytical method to quantify the residual polymer in final drinking water.	An analytical method using colloidal gold particles has been successfully developed. A preliminary scan of samples from selected water treatment works was completed. The analytical method is being optimised for possible quantification of residual polymers in drinking water.
3. Long-term Effects of Coagulants on Filter Performance.	To determine the impact of coagulants (inorganic and organic) on the long-term performance of rapid gravity filters.	All planned pilot trials assessing the impact of coagulants on long-term filter performance were successfully completed. The investigation indicates that the use of organic coagulants to treat low turbidity raw water requires a greater degree of process control and coagulant optimization in order to minimize possible negative impacts on long term performance of rapid gravity sand filters.
4. Rural Disinfection Dosing System with Real Time Telemetry Feedback	To test an innovative design that will allow for improved final water quality in terms of residual chlorine and timeous operator intervention at remote rural locations.	The design was completed. This included process selection of an appropriate disinfectant taking into consideration remoteness of the area, safety and chemical costs. The design included a real time telemetry feedback system that incorporates GSM technology linked to operator cell phones. The project is currently being implemented in Maphumulo as a pilot case.

Umgeni Water continued with its research programme in modern analytical techniques including:

- **Radioactive screening:** Tests for uranium, and alpha-beta radioactivity
- **Endocrine Disrupting Compounds:** The levels of Endocrine Disrupting Compounds (EDCs) at Darvill Wastewater Treatment Works,
- **Polymers for water treatment:** A test method using gold nanoparticles is being currently being assessed,
- **Soil testing:** New methods for thirty-six (36) different analyses are being currently implemented for routine application.
- **Real Time Polymerase Chain Reaction (PCR):** Work is progressing steadily with a particular focus on testing for enteric viruses.

ASSURANCE THROUGH ROBUST INFORMATION AND COMMUNICATIONS TECHNOLOGY SYSTEMS

Umgeni Water has an organisation-wide and holistic ICT management approach in place that aligns information and communication technology systems to its business strategies and thereby supports information requirements and decision-making capabilities of the organisation.

Umgeni Water uses the Government-Wide Enterprise Architecture (GWEA) framework, adopted and customised for South Africa by the national Government Information Technology Officers' Council (GITOC) for its enterprise architecture.

In order to achieve integration, automation and innovation the organisation has reviewed and updated its ICT Strategy from a "best of breed" to a consolidated Enterprise Resource Planning (ERP) computing environment. The implementation of the SAP ERP system will be a key priority over the next 24 months.

Umgeni Water identified the need for and is leading an initiative to develop a neutral (i.e. non-Umgeni Water branded) Water Forum Web Page for the supply region. This water page will provide credible information through a graphical interface in a way that will enable customers and stakeholders to understand the water value chain and the regional water concept, as well as, interact on key water related topics via the page. The basis for the core information will be the Infrastructure Master Plan and outputs of the Universal Access Plan (UAP).

As an affiliate of SAAWU (South African Association of Water Utilities), Umgeni Water developed a water utility Benchmarking system to facilitate data and information capture, storage, validation, extraction and analysis for key decision-making purposes. The Benchmarking system illustrates the value provided to key decision-makers in the sector, using tariff benchmarking (straddling raw, bulk and retail value-chain elements), production costs and non-revenue water, amongst other key parameters in the system.

In the year under review progress was made with the implementation of the entity's ICT capital investment programme which has ensured resilient systems are in place to deliver the sector mandate.

Programmes completed in the reporting period include:

- Extension of the Wireless Network for additional operational areas, which has ensured a stable communication platform;
- Secondary computer room to enhance business continuity (POD Implementation);
- Performance Management Information System;
- Project preparation phase of the ERP implementation;
- Benchmarking System;
- Web Water forum;
- Phase 1 of the GIS Ortho photography and Aerial LiDAR project.

Plans to be implemented within the next 12-month period include:

- Innovation / Idea Management System;
- Information and Content Management System;
- Upgrade of the Intranet, Internet & Extranet;
- Unified Communications;
- Respond to the POPI Act as per the reviewed "roadmap";
- Complete the implementation of the short term initiatives of the ERP project.

11.2 RISK MANAGEMENT

Umgeni Water defines risk as any exposure to the consequences of uncertainty that could affect the entity's ability to meet its strategic objectives. Risk management 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 organisation. The risk appetite and tolerance framework is reviewed and approved on an annual basis.

The entity's strategic risks are shown in **Table 11.2** and show the link to strategic perspectives, objectives and outcomes as well as how the risks have been treated / mitigated.

Of a total of ten (10) strategic risks, 90% have been managed to a level equal to or above 50% (reasonable) overall control strength and 80% of risks to a level equal or above 70% (good) overall control strength. One strategic risk is outside the entity's risk appetite and tolerance level.

Table 11.2: *Strategic Risks as at 30 June 2015*

Risk #	Risk Name, Score and Status	Cause, Context and Treatment	Main Strategic, Perspective, Objectives and Outcomes Impacted
1	**Short-term water resources availability.** • Overall Control Strength: Poor 40% • Severity: Catastrophic: 400 • Probability: 91% Virtually certain and/or already occurred Risk Owner: GM Engineering and Scientific Services SCORE 364 High **Risk Appetite and Tolerance** • Outside Appetite • Outside Tolerance	Cause and Context: Coastal dam levels being so low that there is a threat of non-supply if mitigation measures are not put in place. *Treatment Approach: On-going water resources and demand management initiatives (short-term). Continued use of the uThongathi, Hlimbithwa and Mpambanyoni Emergency schemes. Imposition of water rationing from Hazelmere Water Treatment Works as agreed to by all stakeholders. Facilitation of Joint Operating Committees in affected areas to co-ordinate efforts. Investigation of a seawater desalination package plant at Elysium as an option in the longer term.*	<u>Customer and Stakeholder Perspective:</u> SO1: Increase services and customers. SO2: Increase customer and stakeholder value. <u>Organisational Capacity Perspective:</u> SO8: Increase water resources sustainability **Outcomes:** Water Resources Adequacy Customer Satisfaction Stakeholder Understanding and Support Community and Environmental Sustainability.
2	**Performance of bulk wastewater infrastructure assets.** • Overall Control Strength: Good 75% • Severity: Moderate-Low: 15 • Probability: 72% Likely and/or could occur within 1 year • Risk Owner: GM Operations SCORE 10.8 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. *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.*	<u>Customer and Stakeholder Perspective:</u> SO2: Increase customer and stakeholder value. <u>Organisational Capacity Perspective:</u> SO7: Improve and increase infrastructure assets. **Outcomes** Infrastructure Stability Product Quality Customer Satisfaction Stakeholder Understanding and Support Community and Environmental Sustainability.
3	**Infrastructure investment to meet service delivery mandate and growth plans.** • Overall Control Strength: Good 78% • Severity: Moderate: 19 • Probability: 50% Fairly poor and /or could possibly occur within 2 years • Risk Owner: GM Engineering and Scientific Services SCORE 9.5 Low **Risk Appetite and Tolerance** • Outside Appetite • Within Tolerance	Cause and Context: Alignment and prioritisation of the infrastructure plan and budget to increase capacity to meet demand, improve service levels and for growth. Inaccurate demand estimates obtained leading to inefficiency in infrastructure project planning and design. *Treatment Approach: Critical supply infrastructure is annually identified, aligned, prioritised, funded and implemented as part of the entity's capital infrastructure programme linked to strategy.*	<u>Customer and Stakeholder Perspective:</u> SO1: Increase services and customers. SO2: Increase customer and stakeholder value. <u>Organisational Capacity Perspective:</u> SO7: Improve and increase infrastructure assets. **Outcomes** Infrastructure Stability Product Quality Customer Satisfaction Stakeholder Understanding and Support Community and Environmental Sustainability.

Table 11.2: *Strategic Risks as at 30 June 2015 continued*

Risk #	Risk Name, Score and Status	Cause, Context and Treatment	Main Strategic, Perspective, Objectives and Outcomes Impacted
4	**Breach of materiality and significance framework.** • Overall Control Strength: Reasonable 60% • Severity: Minor: 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 expenditure as a result of lack of understanding and adherence to Supply Chain Management policies, procedures and processes relating to emergency, variation and low-value orders. *Treatment Approach: Supply Chain Management policies and procedures reviewed, simplified and linked to legislation. Assurance of compliance through on-going assessment of control effectiveness.*	Process Perspective: SO6: Improve service delivery systems. **Outcomes:** Operational optimisation Operational resiliency
5	**Sustainable Tariff** • Overall Control Strength: Good 70% • Severity: Minor-High: 7 • Probability: 51% Even probability and/or could occur within 1- 2 years • Risk Owner: GM Finance SCORE 3.6 Low **Risk Appetite and Tolerance** • Within Appetite • Within Tolerance	Cause and Context: Constraints on ability to charge a tariff that will ensure financial viability and protection of operating cash flows against operating risk including volatile sales volumes, above inflation input costs (major cost drivers) and high energy costs. Impacted by changes in operating rules, significant capital investments with low returns and high impairment costs. Uncertainty around tariff approval process. *Treatment Approach: Tariff policy ensures transparency and formal tariff process. Scenario analysis on the impact of operational risk factors on financial viability. On-going optimisation of funding mix from tariff, grants and borrowing for capital programme. Enhanced stakeholder engagement to secure grant funding for developmental projects.*	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.
6	**Ability to deliver projects on time and within budget.** • Overall Control Strength: Good 70% • Severity: Minor: 5 • Probability: 51% Even probability and/or could occur within 1- 2 years • Risk Owner: GM Engineering and Scientific Services SCORE 2.5 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. *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.

Table 11.2: *Strategic Risks as at 30 June 2015 continued*

Risk #	Risk Name, Score and Status	Cause, Context and Treatment	Main Strategic, Perspective, Objectives and Outcomes Impacted
7	**Protection and safeguarding of assets.** • Overall Control Strength: Good 75% • Severity: Minor: 4 • Probability: 58 % Even probability and/or could occur within 1- 2 years • Risk Owner: GM Corporate Services SCORE 2.3 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. Increase in theft of ICT related assets. *Treatment Approach: Implementation of servitude management procedure. Safety and security measures to protect staff and public. Innovative solutions implemented for strengthening 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.
8	**Ability to secure funding to meet developmental goals.** • Overall Control Strength: Good 80% • Severity: Minor: 5 • Probability: 40 % Fairly poor and/or could possibly occur within 2 years • Risk Owner: GM Finance SCORE 2 Low **Risk Appetite and Tolerance** • Within Appetite • Within Tolerance	Cause and Context: Inability to secure required project grant funding. Delayed receipt of funding resulting in projects not being delivered on time. Budgetary pressure, rising cost of capital and cost cutting due to macro-economic pressures. *Treatment Approach: Enhanced stakeholder engagement to secure grant funding for developmental projects. On-going optimisation of funding mix from tariff, grants and borrowing.*	Customer and Stakeholder Perspective: SO1: Increase services and customers SO2: Increase customer and stakeholder value Financial Perspective: SO3: Increase mobilisation of funds Organisational Capacity Perspective: SO7: Improve and increase infrastructure assets **Outcomes** Infrastructure Stability Customer Satisfaction Stakeholder Understanding and Support Community and Environmental Sustainability Financial Viability.
9	**Long-term water resources availability.** • Overall Control Strength: Good 70% • Severity: Minor: 4 • Probability: 37 % Fairly poor and/or could possibly occur within 2 years • Risk Owner: GM Engineering & Scientific Services SCORE 1.5 Low **Risk Appetite and Tolerance** • Outside Appetite • Within Tolerance	Cause and Context: Mgeni, Hazelemere, South Coast and Ixopo systems have insufficient capacity to meet projected demand. *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: Mkhomazi Water Project* *- North Coast system: Lower Thukela Bulk Water Supply Scheme* *- South Coast system: Lower uMkhomazi BWSS detailed feasibility; East Coast Desalination Project and Ixopo area alternate water resources feasibility.*	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.

***Table 11.2:** Strategic Risks as at 30 June 2015 continued*

Risk #	Risk Name, Score and Status	Cause, Context and Treatment	Main Strategic, Perspective, Objectives and Outcomes Impacted
10	**Performance of bulk potable water infrastructure assets.** • Overall Control Strength: Excellent 95% • Severity: Minor-Low: 3 • 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. **Outcomes:** 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. The following strategic risks are mitigated:

- Liquidity risk: existing controls are sufficient to mitigate this risk. There is an approved short-medium-long term funding strategy in place which meets the on-going cash requirements of the business in line with the five-year financial business plan. In addition Umgeni Water has an adequate liquidity buffer and is currently operating within the borrowing limits approved by National Treasury.
- Fraud risks: controls are in place to mitigate this risk and there is constant monitoring by the Ethics and Audit committees.

EMERGING RISKS

In line with regular revisions of the strategy and as required by the governance structures the organisation regularly reviews the internal and external landscapes that affect Umgeni Water's risk profile with a view to identifying emerging risks.

- Climate change remains on the radar as an emerging risk.

12.0 Financial Review

1. INTRODUCTION

Umgeni Water has maintained sound financial performance which has enabled the group to deliver sustainable value to its stakeholders, whilst positioning itself well to deliver on the capital expenditure programme and growth strategy in support of our service delivery mandate. The financial focus has continued to be debt and liquidity management as well as improving operational efficiencies and managing controllable costs during a capital intensive period as the organisation rolls out major capital projects in line with its strategy.

Gross profit margins are up by 4% driven primarily by section 30 activities, whilst margins on the primary activities relating to potable bulk water and wastewater remained constant at 60%. Overall net profit for the year grew by 21% due mainly to lower impairments and increased net finance income.

Umgeni Water measures its financial performance in terms of its achievement against financial indicators which are aligned to the organisation's strategic objectives and are included in the Performance against shareholders compact 2014/2015 section of the annual report, pages 54 - 61.

2. OPERATING PERFORMANCE

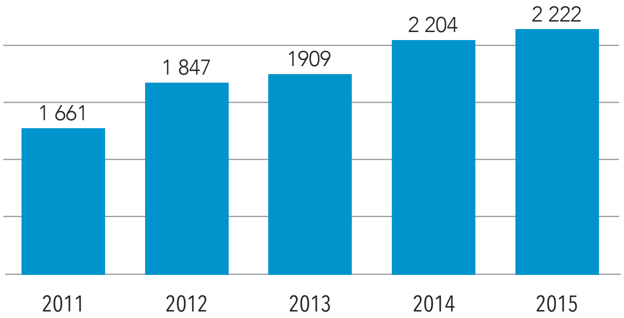
2.1. OVERVIEW OF OPERATING PERFORMANCE

2.1.1. YEAR ON YEAR CHANGES OF GROUP OPERATING PERFORMANCE

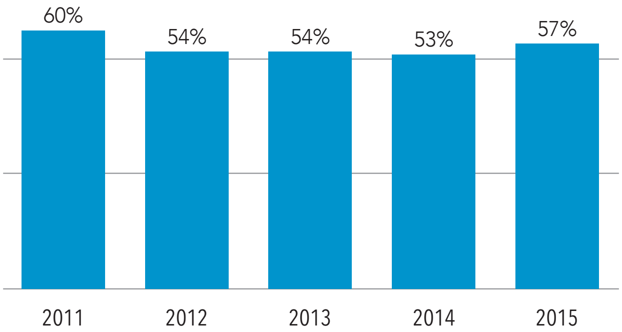
Operating profits grew by 14% within a difficult operating environment due to the drought experienced in the northern region of KZN towards the latter half of the year. Bulk water revenue grew by 10% whilst the direct operating costs increased by 12%. The increase in other operating and administrative expenses remains within inflation at 4% due to reduced impairments on property, plant and equipment. Net finance income has increased by 75% due to lower finance costs as a result of the capitalisation of borrowing costs on qualifying assets driven by the major capital projects under construction and higher interest income earned on investments and by the subsidiaries.

	Group		
	2015	% change	2014
	R'm		R'm
Revenue	**2 222**	**1**	**2 204**
Water	2 021	10	1 830
Wastewater	68	13	60
Section 30	133	(58)	314
Cost of sales	**(950)**	**(8)**	**(1 035)**
Water	(794)	12	(708)
Wastewater	(52)	13	(46)
Section 30	(104)	(63)	(281)
Gross profit	**1 272**	**8**	**1 169**
GP%	57%	4%	53%
Other income	34	21	28
Other operating and administration expenses	(619)	(4)	(596)
Profit from operations	**687**	**14**	**601**
Net finance income	135	75	77
Share of profit from associate	5	25	4
Profit for the year	**827**	**21**	**682**

Revenue (R'm)



Gross profit %

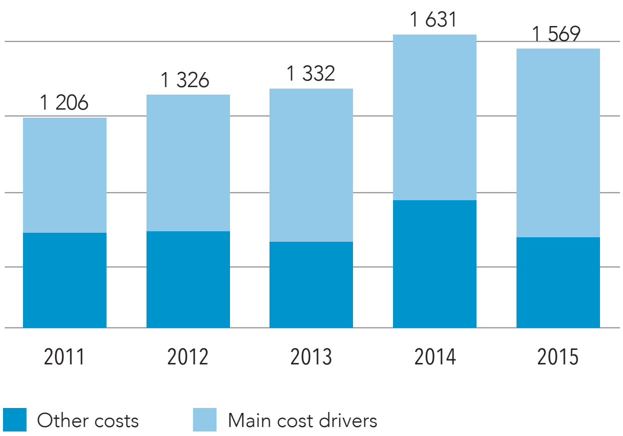


2. OPERATING PERFORMANCE continued...

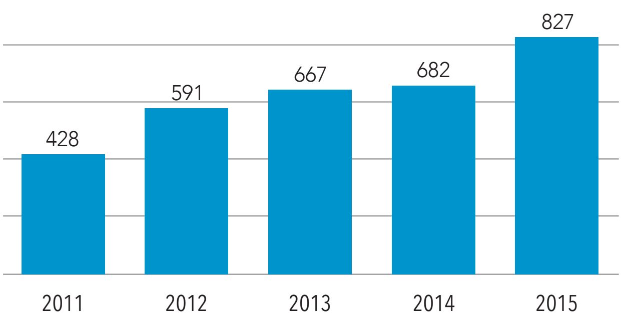
2.1. OVERVIEW OF OPERATING PERFORMANCE continued...

2.1.1. YEAR ON YEAR CHANGES OF GROUP OPERATING PERFORMANCE continued...

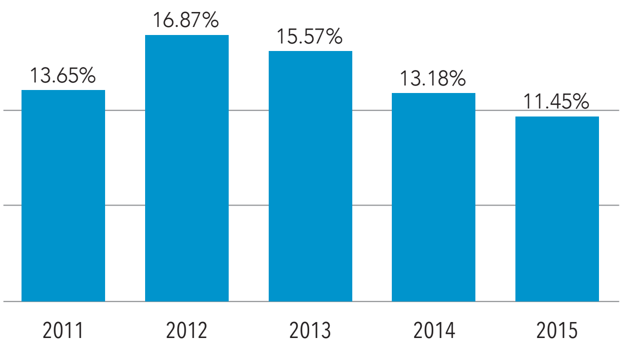
Total costs (excluding finance costs) (R'm)



Profit for the year (R'm)



Return on assets %



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 75% (2014: 63%) of cost of sales. Cost of sales decreased by 8% year on year driven primarily by a reduction in S30 activities and raw water costs.

Section 30 activities costs have decreased by 63% due to the near completion of the Greater Mbizana project as well as the change in the recognition of the costs relating to the operating and maintenance of the Department of Water and Sanitation (DWS) owned Dams. Previously these costs were included in section 30 and recovered from DWS, while DWS recovered these via the raw water tariff. In the current year these costs were carried by Umgeni Water and the raw water tariff charged by DWS reduced accordingly to take this into account in terms of the revised contract. As a result raw water costs have decreased by 13%, while this has also contributed in part to the higher energy, maintenance and staff costs.

The increase in energy costs of 25% was due primarily to an average tariff increase of 8% combined with increased pumping requirements relating to existing infrastructure as well as new schemes and emergency schemes that came online in the current year to assist with alleviating the drought.

Maintenance costs increased by 21% due to recognition of O&M Dams under maintenance costs rather than raw water costs as was done last year. This spending was in line with the implementation of the revised operations and maintenance strategy to allow assets to operate in accordance with their original standard of performance.

Staff costs increased by 20% due mainly to the average annual salary increase of 9% and higher performance of the organisation resulting in higher performance incentives being provided in line with the revised performance management policy.

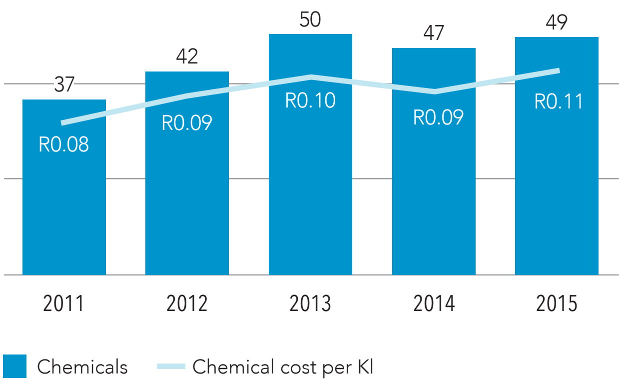
Chemicals increased by 4% due to average price increases of 9% offset by lower usage due to the optimisation in chemical dosages.

2. OPERATING PERFORMANCE continued...

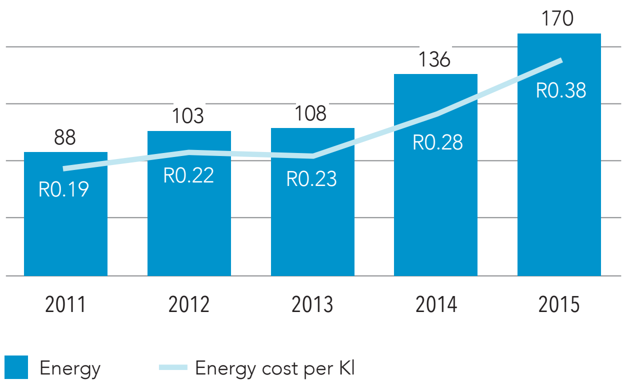
2.1. OVERVIEW OF OPERATING PERFORMANCE continued...

2.1.2. MAIN COST DRIVERS INCLUDED IN COST OF SALES continued...

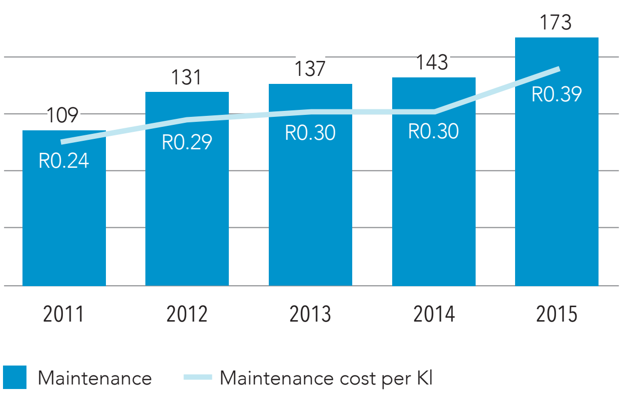
Chemicals (R'm)



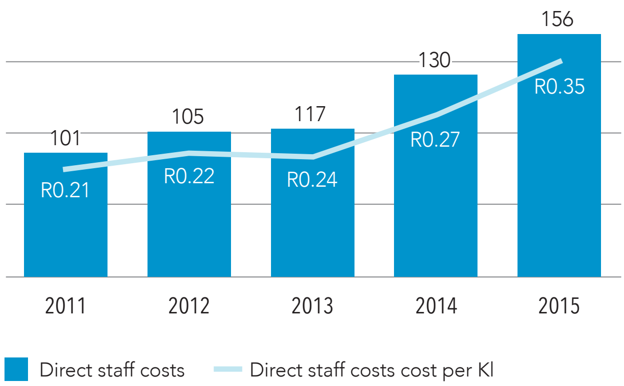
Energy (R'm)



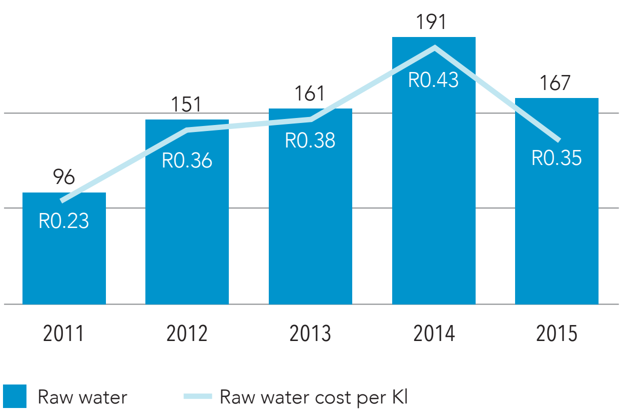
Maintenance (R'm)



Direct Staff costs (R'm)



Raw water (R'm)



2. OPERATING PERFORMANCE continued...

2.1. OVERVIEW OF OPERATING PERFORMANCE continued...

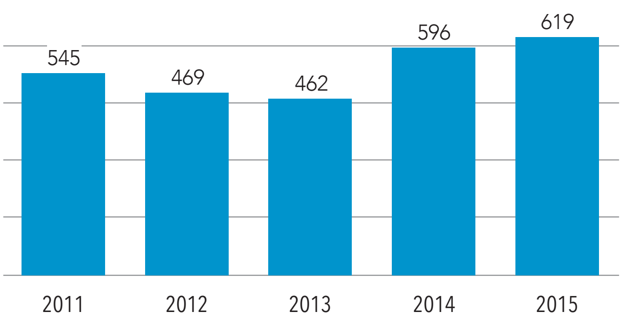
2.1.3. OTHER OPERATING AND ADMINISTRATION EXPENSES AND NET FINANCE INCOME

The group other operating and administration costs increased by 4% to R619m, mainly due to higher staff costs which were offset by the reduced impairments on property, plant and equipment which totalled R90m in 2015 (2014: R184m). Refer to section 5 for further detail.

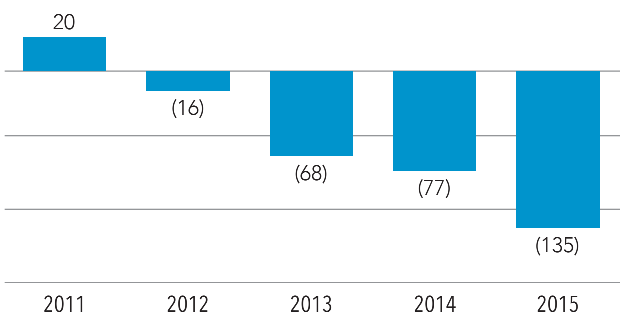
Umgeni Water has impaired its investment in Msinsi Holdings SOC Limited by R24m in the current year based on the projected cash flows to be derived from this investment.

Net finance income has increased by 75% due to lower finance costs as a result of the capitalisation of borrowing costs on qualifying assets driven by the major capital projects under construction and higher interest income earned on investments and by the subsidiaries.

Other operating amd administration expenses (R'm)



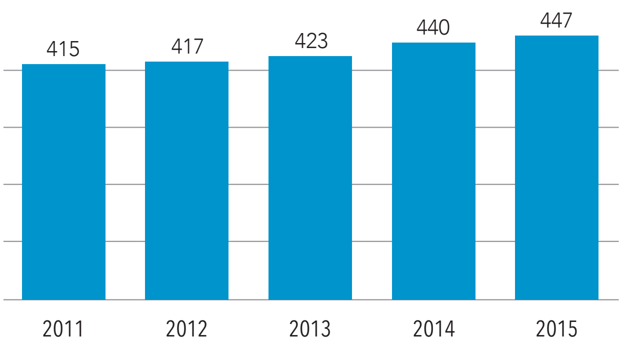
Net finance costs (income) (R'm)



2.2. BULK WATER VOLUME SALES ANALYSIS

There has been a marginal volume growth of 1.6% in the current year of which 1.3% is from the group's major customer, eThekwini Metropolitan Municipality. The drought experienced towards the latter half of the year in the northern areas of Umgeni Water's area of operation has contributed to the negative growth experienced with iLembe and Siza Water.

Water sold (Kl'm)



2. OPERATING PERFORMANCE continued...

2.2. BULK WATER VOLUME SALES ANALYSIS continued...

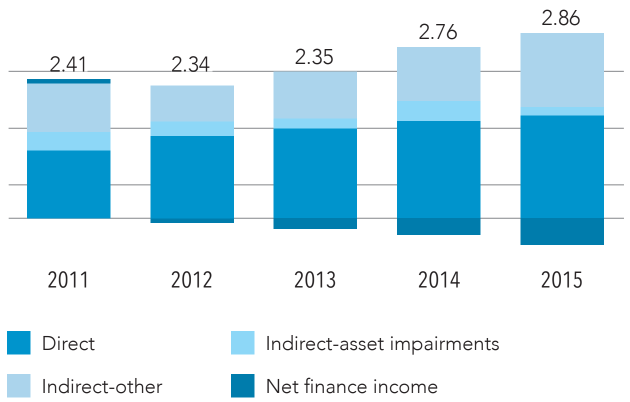
Volume - by customer and % change

	2011		2012		2013		2014		2015	
	Kl'000	%	Kl'000	%	Kl'000	%	Kl'000	%	Kl'000	%
eThekwini	310 994	(5.3%)	311 434	0.1%	315 669	1.4%	327 011	3.6%	331 347	1.3%
Other customers	103 882	7.3%	105 561	1.6%	107 122	1.5%	112 533	5.1%	115 201	2.4%
Msunduzi	63 938	9.3%	64 909	1.5%	64 668	(0.4%)	66 991	3.6%	70 362	5.0%
Umgungundlovu	11 112	(1.0%)	11 195	0.8%	14 772	31.9%	15 052	1.9%	15 041	(0.1%)
Siza	4 476	7.3%	4 488	0.3%	4 352	(3%)	4 767	9.5%	4 438	(6.9%)
Ugu	7 923	0.7%	8 203	3.5%	9 012	9.9%	9 890	9.7%	10 317	4.3%
iLembe	11 569	(1.1%)	12 514	8.2%	13 244	5.8%	14 810	11.8%	14 060	(5.1%)
Sisonke	921	2.2%	929	0.9%	936	0.7%	862	(7.9%)	837	(2.9%)
Other	3 943	57.7%	3 323	(15.7%)	138	(95.9%)	161	18.4%	146	(9.5%)
Total	**414 876**	**(2.5%)**	**416 995**	**0.5%**	**422 791**	**1.4%**	**439 544**	**4.0%**	**446 548**	**1.6%**

2.3. BULK WATER COST PER KILOLITRE (kl)

Due to lower impairments in the current year, the average cost of bulk water per Kl only increased by 4% despite the average 12% increase in main cost drivers.

Cost per kl of bulk water (R.c)

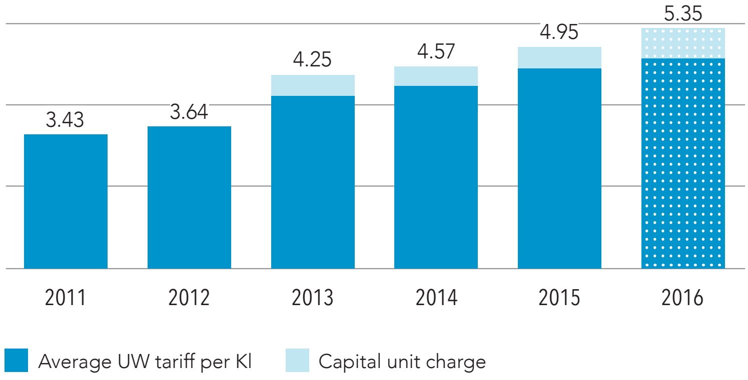


3. BULK WATER TARIFF

The average tariff increase for 2014/2015 was 8.3% which includes the capital unit charge on the Spring Grove Dam. The average tariff increase for the next financial year, effective 1 July 2015, has been approved at 8.1% which includes the capital unit charge.

3. BULK WATER TARIFF continued...

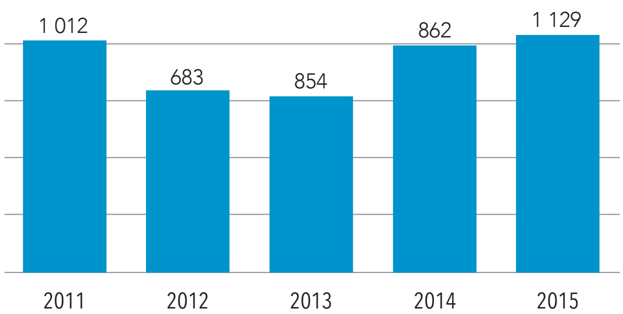
Average tariff per Kl (R.c)



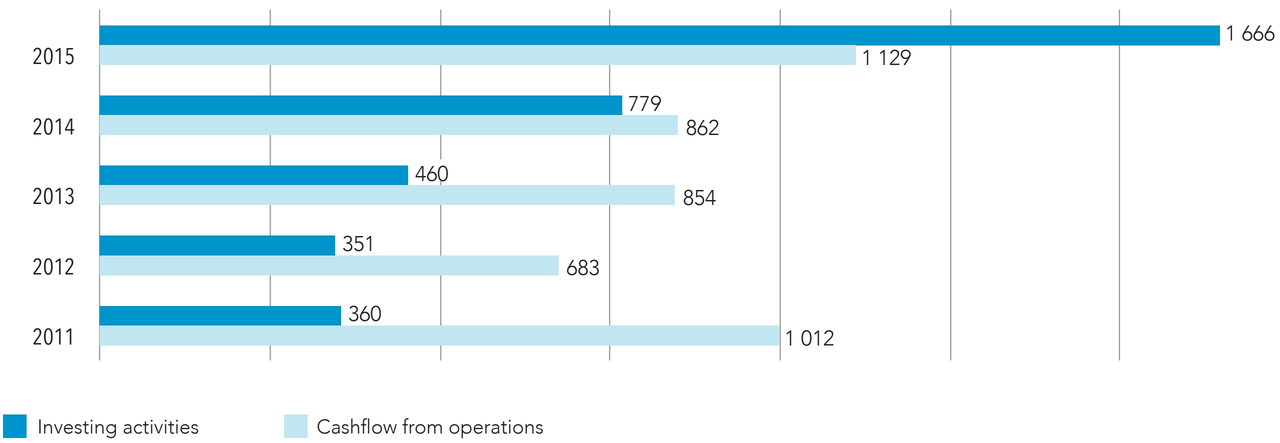
4. CASH FLOW ANALYSIS

Despite maintaining strong operating cash flows at R1 129m (2014: R862m), operating cash flows generated were not sufficient to meet the investing activities cash requirements of R1 666m (2014: R779m) which was driven by the increased capital expenditure this year. The shortfall was funded by financing activities which totalled R543m (2014: R58m cash utilised) through the utilisation of R615m of investments, while R78m was spent on loan repayments and R5m net interest received.

Cashflow from operations (R'm)



Cashflow from operations vs cash used in investing activities (R'm)



5. CAPITAL PROJECTS

The capital expenditure programme is based on Umgeni Water's infrastructure master plan which is aligned to the KZN bulk water supply strategy and is estimated at R5 996 million for the next 5 years as per Corporate Business Plan for 2016. Details of the projects included in work in progress and commissioned during the year can be found in notes 9.1 and 9.2 of the financial statements.

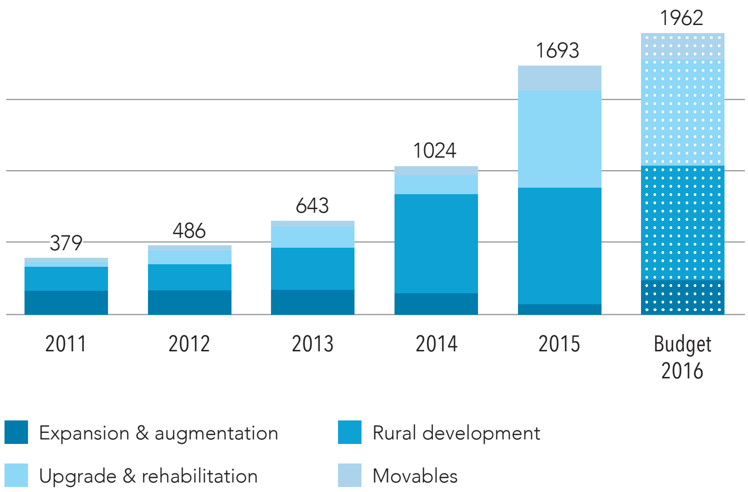
The capital expenditure commitments for the next five years will be funded through a combination of available cash investments and operating cash flows, R938 million from regional bulk infrastructure grants and new debt to be raised in 2016 and 2017.

For further details on the funding requirements, refer to section 7.

5.1. CAPITAL EXPENDITURE

During the year capital expenditure totalled R1 693m (2014: R1 024m) against a target of R1 755m (2014: R902m).

Capital expenditure - Group (R'm)



5.2. DEVELOPMENT PROJECTS

In response to customer water demands and the need to eliminate water service delivery backlogs, a capital expenditure programme of about R5 996 million has been planned, with a specific allocation of R2 220 million for development projects for the period 2016 to 2020, representing 37% of Umgeni Water's planned capital expenditure for the same period.

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.

5. CAPITAL PROJECTS continued...

5.2. DEVELOPMENT PROJECTS continued...

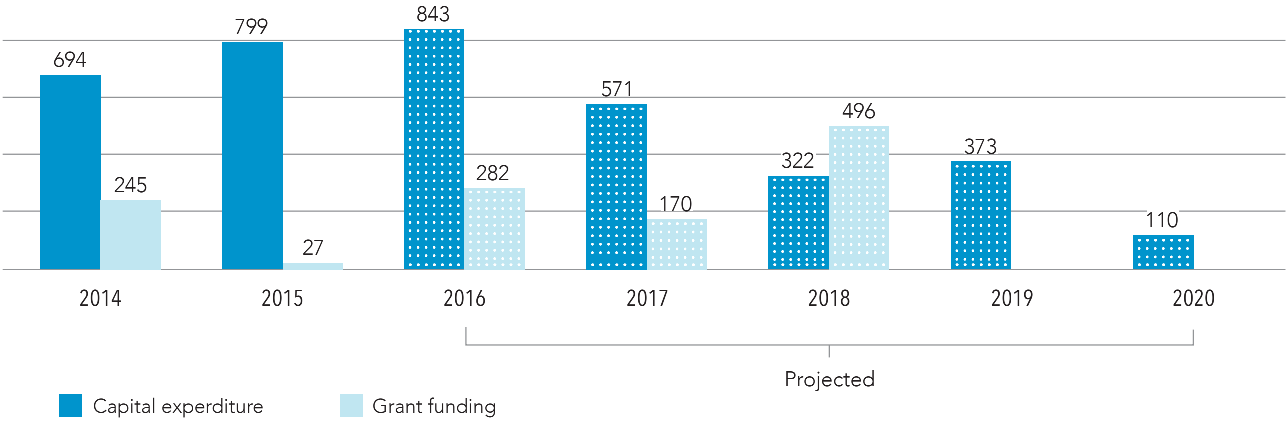
DEVELOPMENTAL PROJECTS FUNDING & IMPAIRMENTS JUNE 2015

Project	System	Total Project value*	Recoverable Amount	Funding Split: Regional bulk infrastructure grant funding	Funding Split: UW funding	2015 Impairment
		R'000	R'000	R'000	R'000	R'000
Greater Eston	Upper Umgeni	210 413	41 116	171 487 82%	38 926 18%	(1 850)
Richmond	Upper Umgeni	242 754	158 674	38 194 16%	204 560 84%	13 117
Greater Mpofana Phase 1	Mooi	897 867	229 939	- 0%	897 867 100%	14 468
Lower Thukela Bulk Water Supply Phase 1	Lower Thukela	1 698 593	984 289	870 770 51%	827 823 49%	-
Maphumulo Bulk Water Supply (Phase 1 and 2), including Hlimbithwa	Upper Mvoti	404 961	170 499	- 0%	404 961 100%	28 824
Mhlabathane Bulk Water Supply Scheme Phase 1	South Coast	213 818	13 984	108 955 51%	104 864 49%	(18 095)
uMshwathi Bulk Water Supply Scheme (Wartburg Phase 1 - 3)	Wartburg	1 464 045	635 385	656 000 45%	808 045 55%	34 338
Total		**5 132 451**	**2 233 886**	**1 845 406** 36%	**3 287 046** 64%	**70 802**

*Total project value includes interest and escalation

The accumulated cost of capital work in progress for development projects was R1 440m (2014: R1 250m) and the current year impairment losses totalled R90m (2014: R184m). During the current year regional bulk infrastructure grants of R27m were obtained (2014: R245m). Further details can be found in note 9.1 of the annual financial statements.

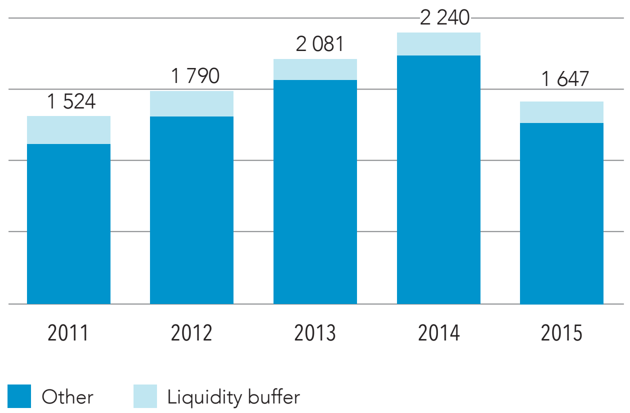
Capital expenditure on developement projects and grant funding (R'm)



6. INVESTMENTS

Total financial investments decreased by R593m in the current year to R1 647m, as investments were utilised to fund the operating cash shortfall on capital expenditure. It is anticipated that the investments will continue to decrease in the medium-term to fund the organisations capital expenditure programme, refer to section 5.

Investments (R'm)



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 22% from 0.28 in 2014 to 0.22 as a result of the increase in equity by R823m arising mainly from profits for the year. The interest rate structure at the end of the reporting period was 68% fixed and 32% variable (2014: 65% fixed and 35% variable).

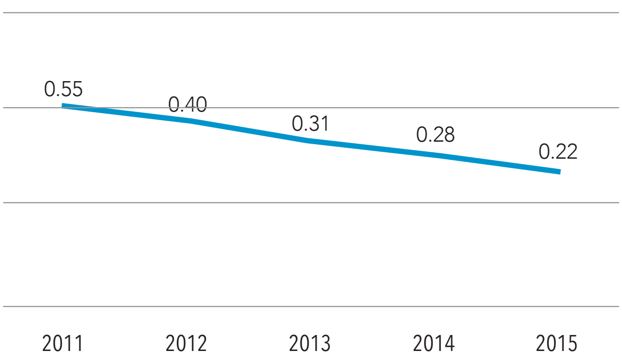
The gross weighted average cost of capital increased to 9.46% (2014: 9.19%) due to scheduled repayments of lower interest rate borrowing. The UG21 bond has a bullet payment profile and is currently the highest rated debt outstanding.

During the year R78m collectively were repaid towards the DBSA and EIB loans.

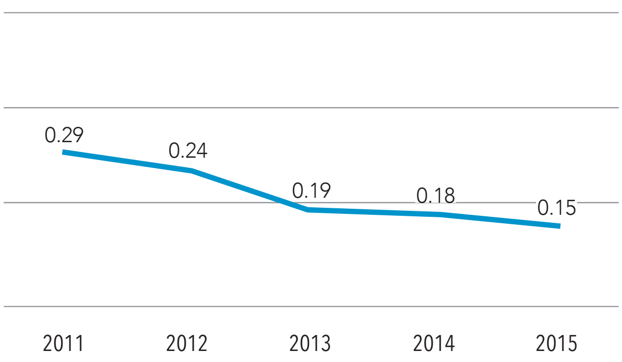
	2015 R'm	2014 R'm
Debt		
Long-term	1 094	1 172
Short-term	78	78
Total Debt	**1 172**	**1 250**
(Decrease) Increase in debt	(78)	115

7. DEBT MANAGEMENT continued...

Debt: equity (ratio)



Debt: assets (ratio)



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:
  - 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 2016 cash flow forecasts have been prepared for the next five years, taking into account the group's R5 996m planned capital expenditure (unescalated) and is detailed in the table that follows.

	Short term		Medium-term		Long-term
Financial year	**2016**	**2017**	**2018**	**2019**	**2020**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**
Operational cash flows	847	1 002	1 078	1 260	1 370
Capex (escalated)	(2 134)	(2 081)	(1 143)	(1 023)	(808)
Net operating (shortfall) cash after capex	**(1 287)**	**(1 079)**	**(65)**	**237**	**562**
Capex-grants: confirmed	282	170	486	-	-
Net financing actvities	656	611	(337)	(333)	(267)
Annual funding requirements	**(349)**	**(298)**	**84**	**(96)**	**295**
Net (funding) investing requirements					
Opening balance call investments	707	358	60	144	48
Cumulative funding requirements	**358**	**60**	**144**	**48**	**343**

The funding requirements in the short to medium term (2016-2019) will be funded primarily through the existing R1 647m of financial investments and in the medium to long term the entity will have to consider a debt issuance of R1 710m to supplement its funding. Even at higher projected debt levels Umgeni Water anticipates to remain within its target debt:equity ratio of 0.67 times. Further details of the various sources of funding available to Umgeni Water can be found in note 30 of the financial statements.

7. DEBT MANAGEMENT continued...

7.2. BORROWING LIMITS

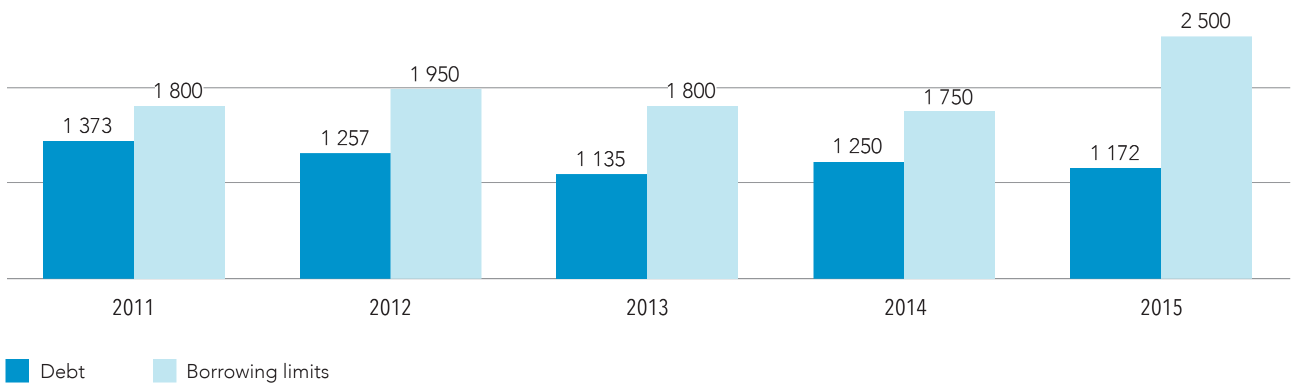
The borrowing limits for the period 2015 to 2019 have been approved by the Minister of Water and Sanitation with the concurrence of the Minister of Finance on the 30 April 2014. The borrowing limit is applicable to the value of gross borrowings, collateral & guarantees exposure and may not exceed the approved limits. The conditional limits may be availed by motivation to National Treasury.

	Unconditional	Conditional	Total borrowing limit
	R'm	R'm	R'm
2014	1 750	-	1 750
2015	2 200	300	2 500
2016	2 100	300	2 400
2017	2 050	300	2 350
2018	1 950	300	2 250
2019	1 900	300	2 200

Utilisation of the borrowing limit as at 30 June 2015 was as follows:

Actual gross borrowings	R1 171m
Collateral and guarantees	R0.001m
Total actual borrowings	R1 172m
Borrowing limit (unconditional)	R2 200m
Underutilisation	**R1 028m**

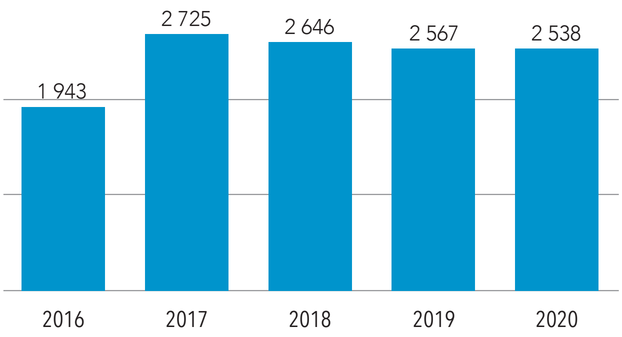
Debt & borrowing limits (R'm)



7. DEBT MANAGEMENT continued...

7.3. PROJECTED BORROWING LEVEL

Projected borrowing level (R'm)



The Corporate Business Plan for 2016 has indicated a need to motivate to the Department of Water and Sanitation and National Treasury to increase the borrowing limits from 2017 to 2019. This is as a result of the higher capital expenditure costs projected for the next five years.

7.4. CREDIT RATINGS

Umgeni Water's national credit ratings as issued by Fitch ratings Agency are reflected at AA+ (long term) and F1+ (short term) on 21 January 2015. The key rating drivers were outlined to include:

- strong support from the government;
- comfortable borrowing position and
- strong liquidity.

For 2016, Umgeni Water will be embarking on obtaining credit ratings from other reputable rating agencies for comparative purposes.

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 R161m (2014: R134m) and in terms of the approved accounting policy the full amounts have 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 R341m (2014: R316m).

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 financial risk management, of the financial statements and the Risk Management Section on pages 104 -107 of the annual report.

10. FUTURE PROSPECTS

Looking ahead the group will partner with its shareholder (Department of Water and Sanitation) to maintain and preserve financial sustainability while implementing the growth strategy envisioned by the shareholder for the entire KwaZulu-Natal province. The financial plan will be geared to derive operational efficiencies through efficient allocation of resources, continuous improvement in systems, managing controllable costs and working capital. The strong balance sheet will allow the group to deliver on its service delivery mandate.

GROUP FIVE-YEAR KEY PERFORMANCE INDICATORS

	2015	2014	2013	2012	2011	2014-2015 Movement
Performance criteria/indicators						
Total revenue (R'm)	2 223	2 204	1 909	1 847	1 661	0,86%
Profit from operations/revenue	0.31	0.27	0.31	0.31	0.27	14.81%
Total expenditure/revenue	0.65	0.71	0.66	0.71	0.74	(8.45%)
Cost of sales/revenue	0.43	0.47	0.46	0.46	0.40	(8.51%)
Net finance costs/revenue	(0.06)	(0.03)	(0.04)	(0.01)	0.01	100%
Capex spend (R'm) (including intangibles)	1 693	1 024	643	486	379	65.33%
Bulk water business segment						
Treated water volume sold (Kl'000)	446 548	439 542	422 791	416 995	414 876	1.59%
Raw water volume sold (Kl'000)	574	574	595	787	550	-
Total water sold (Kl'000)	447 122	440 116	423 386	417 782	415 426	1.59%
Bulk water tariff 1 (Rc/Kl) (including capital unit charge)	5.019	4.633	4.309	3.694	3.482	8.33%
Bulk water tariff 2 (Rc/Kl) (including capital unit charge)	4.928	4.550	4.233	3.622	3.414	8.31%
WRC levy (Rc/Kl)	0.054	0.049	0.046	0.043	0.041	10.20%
Total bulk cost/volume sold (Rc/Kl)(1)	2.86	2.76	2.35	2.34	2.41	3.62%
Kl'000 sold per employee(1)	448	431	433	448	455	3.94%
Operating risk indicators						
Working ratio Operating costs (excl depreciation and amortisation) divided by revenue	0.64	0.69	0.65	0.66	0.62	(7.25%)
Rate of return on assets Profit from operations divided by assets (excl investments)	11.45%	13.18%	15.57%	16.87%	13.65%	(13.13%)
Gross profit margin ratio Gross profit divided by revenue	57.25%	53.05%	54.43%	53.61%	60.15%	7.92%
Debtors collection period after provision for doubtful debts (days) Trade and other receivables (grant funding and advance invoicing) divided by revenue (including VAT) x 365	41	39	35	30	41	5.13%
Financial risk indicators						
Current ratio Current assets divided by current liabilities	2.48	3.55	3.21	3.28	2.37	(30.14%)
Interest cover before interest capitalised Profit from operations divided by finance costs before interest capitalised	5.93	5.12	5.26	4.53	3.10	15.82%
Debt : equity ratio Total interest-bearing debt divided by capital and reserves	0.22	0.28	0.31	0.40	0.55	(21.43%)
Debt : asset ratio Total interest-bearing debt divided by total assets	0.15	0.18	0.19	0.24	0.29	(16.67%)

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

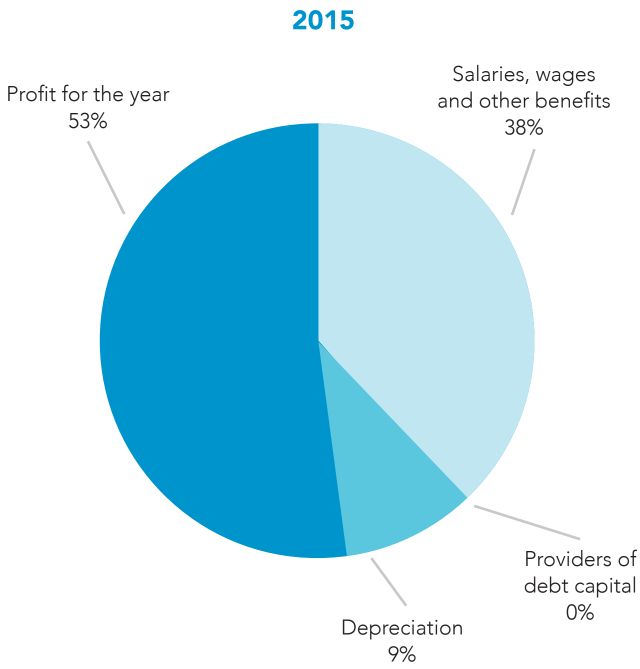
(2) Net debt is total interest bearing debt less investments. The ratio is nil as the group was in a net asset position from 2011.

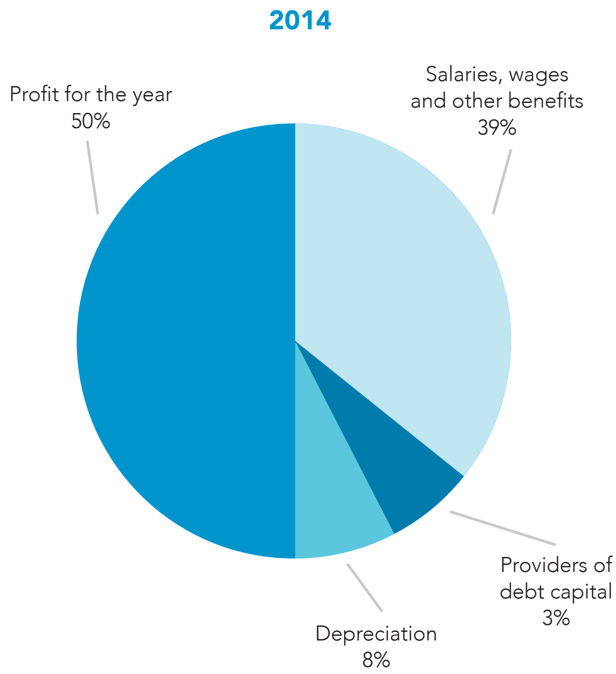
GROUP FIVE-YEAR KEY PERFORMANCE INDICATORS continued...

	2015 R'000	2014 R'000	2013 R'000	2012 R'000	2011 R'000
FINANCIAL POSITION					
Capital and reserves	5 239 108	4 416 184	3 613 872	3 107 777	2 516 445
Net debt	(474 916)	(990 325)	(945 624)	(533 193)	(151 269)
Assets excluding investments	5 999 900	4 565 172	3 826 892	3 398 317	3 260 658
Total interest-bearing debt	1 171 764	1 250 029	1 135 381	1 257 137	1 372 793
Total investments	1 646 680	2 240 354	2 081 005	1 790 330	1 524 062
Total assets	7 646 580	6 805 526	5 907 897	5 188 647	4 784 720
FINANCIAL PERFORMANCE					
Revenue	2 222 565	2 204 140	1 908 834	1 847 151	1 660 912
Cost of sales	(950 054)	(1 034 890)	(869 910)	(856 808)	(661 843)
Gross profit	**1 272 511**	**1 169 250**	**1 038 924**	**990 343**	**999 069**
Other income (expenses)	33 871	28 778	18 814	52 109	(9 366)
Other operating and administration expenses	(619 147)	(596 217)	(461 925)	(469 197)	(544 639)
Profit from operations	**687 235**	**601 811**	**595 813**	**573 255**	**445 064**
Net finance income (costs)	135 152	76 991	67 519	15 546	(19 923)
Share of profit from associate	4 602	3 627	3 482	2 531	3 300
Profit before taxation	**826 989**	**682 429**	**666 814**	**591 332**	**428 441**
Taxation	-	-	-	-	-
Profit for the year	**826 989**	**682 429**	**666 814**	**591 332**	**428 441**
CASH FLOW					
Net cash from operating activities	1 128 715	861 767	854 426	683 230	1 012 358
Net cash used in investing activities	(1 666 383)	(778 880)	(459 932)	(350 889)	(360 368)
Net cash (utilised) generated	**(537 668)**	**82 887**	**394 494**	**332 341**	**651 990**
Net cash from (used in) financing activities	542 908	(57 805)	(398 461)	(422 854)	(534 168)
Net decrease (increase) for the year	(5 240)	(25 082)	3 967	90 513	(117 822)
Net cash generated (utilised)	**537 668**	**(82 887)**	**(394 494)**	**(332 341)**	**(651 990)**

VALUE ADDED STATEMENT

	2015 R'000	2014 R'000	2013 R'000	2012 R'000	2011 R'000
Gross revenue	2 222 565	2 204 140	1 908 834	1 847 151	1 660 912
Paid to suppliers for materials and services	(794 708)	(964 126)	(762 494)	(724 643)	(777 106)
Value added	**1 427 857**	**1 240 014**	**1 146 340**	**1 122 508**	**883 806**
Income from investments	137 857	122 546	134 026	100 135	94 267
Total wealth created	**1 565 714**	**1 362 560**	**1 280 366**	**1 222 643**	**978 073**
Salaries, wages and other benefits	597 270	525 240	454 190	453 241	348 352
Providers of debt capital	2 705	45 555	66 507	84 589	114 190
Depreciation	138 750	109 336	92 855	93 481	87 090
Profit for the year	826 989	682 429	666 814	591 332	428 441
Total wealth distributed	**1 565 714**	**1 362 560**	**1 280 366**	**1 222 643**	**978 073**





EMPLOYEE STATISTICS

	2015	2014	2013	2012	2011	2014-2015 Movement
Number of employees as at year-end	996	1 020	976	931	912	4.83%
Gross revenue per employee (R'000)	2 231	2 161	1 956	1 984	1 821	10.48%
Value added per employee (R'000)	1 434	1 216	1 175	1 206	969	3.49%
Wealth created per employee (R'000)	1 572	1 336	1 312	1 313	1 072	1.83%

STATEMENT OF DIRECTORS' RESPONSIBILITIES AND APPROVAL OF THE FINANCIAL STATEMENTS

The directors are responsible for the integrity, preparation and fair presentation of the annual financial statements of Umgeni Water and its subsidiaries (the group). The directors are required by the Public Finance Management Act 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 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 General Manager Finance, Thamsanqa Hlongwa CA (SA).

The directors are also responsible for the oversight of the group's system of internal controls. To enable the directors to meet their responsibilities, the Board sets standards and management 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, Public Finance Management Act and the Companies Act No. 71 of 2008. The entity's external auditor, Auditor-General of South Africa, has audited the financial statements after having been provided unrestricted access to all financial records and related data. The directors believe that all representations made to the external auditor during the audit were valid, appropriate and complete.

Nothing significant has come to the attention of the directors to indicate that any material breakdown in the functioning of controls, procedures and systems has occurred during the year under review. The directors are of the opinion, based on the information and explanations given by management, the internal auditors and the external auditors, that the systems of internal control provides 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 their approval to the Board. The Audit Committee's approval is set out on page 126.

The directors have reviewed the group's forecast financial performance for the year to 30 June 2016 as well as the longer term business plans and, in light of this review and the current financial position, they are satisfied that the group has access to adequate resources to continue as a going concern for the foreseeable future.

In the opinion of the directors, based on the information available to date, the financial statements fairly present the financial position of Umgeni Water and the group as at 30 June 2015 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 129 to 185 were approved by the Board of directors on 16 September 2015, and signed on their behalf by:

MR ANDILE MAHLALUTYE
Chairman of the Board

CYRIL GAMEDE
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;
  - 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 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 2015 and, based on the information provided to the Audit Committee, considers that they comply, in all material respects, with the requirements of the Public Finance Management Act No. 1 of 1999, as amended, and International Financial Reporting Standards. The Audit Committee concurs with the Board of directors 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 2 September 2015, the adoption of the financial statements by the Board of directors.

PROFESSOR I VALLY
Audit Committee Chair
2 September 2015

REPORT OF THE AUDITOR-GENERAL TO THE LEGISLATURE ON UMGENI WATER

REPORT ON THE FINANCIAL STATEMENTS

INTRODUCTION

1. I have audited the consolidated financial statements of the Umgeni Water and its subsidiaries set out on pages 132 to 185, which comprise the consolidated and separate statement of financial position as at 30 June 2015, the consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

ACCOUNTING AUTHORITY'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

2. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act), and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR-GENERAL'S RESPONSIBILITY

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

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

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

OPINION

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Umgeni Water as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with IFRS and the requirements of the PFMA and Companies Act.

ADDITIONAL MATTER

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

OTHER REPORTS REQUIRED BY THE COMPANIES ACT

8. As part of our audit of the financial statements for the year ended 30 June 2015, I have read the Directors' Report and the Audit Committee's Report for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports I have not identified material inconsistencies between the reports and the audited financial statements. I have not audited the reports and accordingly do not express an opinion on them.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

9. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

REPORT OF THE AUDITOR-GENERAL TO THE LEGISLATURE ON UMGENI WATER continued...

PREDETERMINED OBJECTIVES

10. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the Umgeni Water for the year ended 30 June 2015:
    - Objective 2: increase customer and stakeholder value, on pages 57 to 58
    - Objective 4: increase financial sustainability, on pages 58 to 59
    - Objective 5: improve financial ratios, on pages 59
    - Objective 6: improve service delivery systems, on pages 59 to 60
    - Objective 7: improve and increase infrastructure assets, on pages 60
    - Objective 8: increase water resources sustainability, on pages 61

11. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

12. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

13. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

14. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected objectives.

ADDITIONAL MATTER

15. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected objectives, I draw attention to the following matter:

ACHIEVEMENT OF PLANNED TARGETS

16. Refer to the annual performance report on pages 54 to 61 for information on the achievement of the planned targets for the year.

COMPLIANCE WITH LEGISLATION

17. I performed procedures to obtain evidence that the entity had complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice of the PAA.

INTERNAL CONTROL

18. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. I did not identify any significant deficiencies in internal control.

Auditor-General

Pietermaritzburg
16 September 2015

DIRECTORS' REPORT

In terms of the Public Finance Management Act No. 1 of 1999, as amended, the Board of Umgeni Water is the accounting authority and the directors have pleasure in presenting their report for the year ended 30 June 2015.

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 are:
(a) to treat raw water and distribute the treated water via its infrastructure and
(b) the treatment and disposal of bulk wastewater.

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 acts as an implementing agent for any sphere of government for projects related to water service delivery.

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, 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.

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 32 to 47 and risk management on pages 104 to 107.

SHARE CAPITAL AND DIRECTORS' INTERESTS

The entity has no share capital and therefore no director has any equity interest in the organisation.

DIRECTORATE

The Board as it is currently constituted is set out on pages 40 and 43 of the annual report.

Members of the Board and Executive Committee's emoluments are disclosed in the remuneration report on pages 133 to 134 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 were as follows:

Business address	Postal address
310 Burger street	P O Box 9
Pietermaritzburg	Pietermaritzburg
3201	3200

DIRECTORS' REPORT continued...

AUDITORS

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

TARIFF 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 tariff 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 tariff 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 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.

The tariff increase for 2015/2016 effective 1 July 2015 has been approved at 7.8% for all Water Service Authorities. The directors, after full analysis of its projected cash flows, are of the opinion that the tariff for 2015/2016 is appropriate and will not adversely affect Umgeni Water's gearing levels or its financial sustainability.

Price per kilolitre	2014	2015	2016
Bulk Tariff 1			
Base tariff	R3.901	R4.225	R4.593
Tariff increase	R0.324	R0.368	R0.358
Sub-total	**R4.225**	**R4.593**	**R4.951**
Capital unit charge Spring Grove Dam	R0.408	R0.426	R0.458
New Tariff	**R4.633**	**R5.019**	**R5.409**
% increase	7.5%	8.3%	7.8%
Bulk Tariff 2-eThekwini Metropolitan Municipality			
Base tariff	R3.825	R4.142	R4.502
Tariff increase	R0.317	R0.360	R0.351
Sub-total	**R4.142**	**R4.502**	**R4.853**
Capital unit charge Spring Grove Dam	R0.408	R0.426	R0.458
New Tariff	**R4.550**	**R4.928**	**R5.311**
% increase	7.5%	8.3%	7.8%
Bulk Tariff 3 – Siza Water			
Base tariff	R3.935	R4.262	R4.633
Tariff increase	R0.327	R0.371	R1.885
Sub-total	**R4.262**	**R4.633**	**R6.518**
Capital unit charge Spring Grove Dam	R0.408	R0.426	R0.458
New Tariff	**R4.670**	**R5.059**	**R6.976**
% increase	7.5%	8.3%	37.9%

DIRECTORS' REPORT continued...

FINANCIAL PERFORMANCE

The group recorded a profit for the year of R827m (2014: R682m) which represents a 21% increase from the prior year. This is largely attributable to the bulk water revenue growth of 10.4%, lower asset impairments and a higher net finance income.

Bulk water revenue growth was driven by the 8.3% tariff increase combined with a 1.6% volume growth which was impacted by the drought in the Northern regions of Umgeni Water's area of operation.

Impairments to property, plant and equipment totalled R90m (2014: R184m). Impairments to existing assets included in buildings and infrastructure was R37m (2014: R55m) and impairments to work in progress was R53m (2014: R129m). The impairments during the current year related primarily to development infrastructure and reflects the social component carried by Umgeni Water. Refer to note 9 of the financial statements for further details on impairments.

In the current year Umgeni Water has also impaired its investment in it's subsidiary Msinsi Holding SOC Limited by R24m.

Operating cashflows were R1 129m (2014: R861m), an increase of 31% year on year. However, this was not sufficient to fund the increased capital expenditure in the current year and as a result the shortfall was funded by net financing activities of R543m through the utilisation of investments.

Capital expenditure on property, plant and equipment totalled to R1 662m in the current year, a 64% increase from R1 013m in the prior year, and R31m (2014: R11m) for intangible assets (software). 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 116.

Loan covenants remain un-breached at financial year end and Umgeni Water remained within its approved borrowing limits of R2 500m.

Full details of the financial results of the group and company are set out in the financial statements and sumarised in the financial review on pages 108 to 121.

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 and this process is envisaged to amalgamate the work that is currently being conducted by Umgeni Water and Mhlathuze Water during the course of 2016/2017 financial year. 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 directors have no reason to believe that this process will negatively affect the going concern position of the entity during the 2015/2016 financial year, albeit that it will create growth opportunities for the merged entity from the 2016/2017 financial year with a clear mandate from the executive authority.

DIRECTORS' REPORT continued...

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 R11m (2014: R11m). Management also apply a qualitative aspect to all errors found.

FRUITLESS AND WASTEFUL EXPENDITURE

There were no significant items of fruitless and wasteful expenditure for the year. Further details are set out in note 29 of the financial statements.

IRREGULAR EXPENDITURE

Irregular expenditure totalling R2.4m (2014: R7.3m) 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 & FINANCIAL MISCONDUCT

There were instances of fraud and financial misconduct in the current financial year which were not material in value.

Disciplinary proceedings were instituted, employees were disciplined, where applicable. Internal controls continue to be reviewed and improved.

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 pages 56 to 61 of the annual report.

REMUNERATION REPORT

REMUNERATION COMMITTEE

The Human Resources and Remuneration Committee assists the Board 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).

					2015	2014
	R'000	R'000	R'000	R'000	R'000	R'000
	Fees for services/ salary	Allowances and Bonuses	Expense allowances	Retirement contributions	Total	Total
Non-Executive Board Members						
Ms N Afolayan	300	-	6	-	306	177
Mr GDJ Atkinson	363	-	13	-	376	241
Ms NB Chamane	391	-	9	-	400	351
Ms TMV Dube	305	-	5	-	310	290
Mr VG Gounden	255	-	4	-	259	145
Mr A Mahlalutye (Chairman)	555	-	6	-	561	453
Ms ZB Mathenjwa	381	-	5	-	386	333
Mr T Nkhahle	376	-	11	-	387	341
Mr S Nxedlana[N5]	-	-	-	-	-	125
Mr VG Reddy	351	-	9	-	360	318
Ms TC Shezi	368	-	9	-	377	305
Mr IAS Vally	376	-	10	-	386	364
Mr T Zulu	354	-	8	-	362	117
Total Non Executive Board Members	**4 375**	**-**	**95**	**-**	**4 470**	**3 560**
Executive Board Member						
Mr C Gamede (CE)	2 233	443	243	-	2 919	2 726
Total Parent	**6 608**	**443**	**338**	**-**	**7 389**	**6 286**
Msinsi Holdings (SOC) Ltd						
Non-Executive Board Members	43	-	-	-	43	73
Total Subsidiaries	43	-	-	-	43	73
Total Group	**6 651**	**443**	**338**	**-**	**7 432**	**6 359**
Exco Members						
Mr M Cele[N1]	853	-	100		953	-
Ms M Gevers[N2]	-	-	-	-	-	1 226
Mr S Gillham	1 209	184	197	266	1 856	1 732
Ms P Gwala [N3]	-	-	-	-	-	1 086
Mr T Hlongwa	1 508	240	220	-	1 968	1 492
Ms M Mayongo	1 348	83	133	-	1 564	692
Mr ESM Msweli [N4]	-	-	-	-	-	1 651
Total Exco	**4 918**	**507**	**650**	**266**	**6 341**	**7 879**

N1: Appointed on 3 November 2014
N2: Contracted ended 30 September 2013
N3: Contract ended 1 December 2013
N4: Resigned on 18 February 2014
N5: Deceased on 17 December 2013

REMUNERATION REPORT continued...

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	19 August 2017
Mr M Cele	GM Operations	03 November 2014	n/a	02 November 2019
Ms M Gevers	GM Finance	01 March 2003	01 March 2011	Contract ended 30 September 2013
Mr S Gillham	GM Engineering and Scientific Services	01 February 2012	n/a	01 February 2017
Ms P Gwala	GM Corporate Service	01 December 2008	n/a	Contract ended 1 December 2013
Mr T Hlongwa	GM Finance	01 July 2013	n/a	01 July 2018
Ms M Mayongo	GM Corporate Service	01 January 2014	n/a	01 January 2019
Mr ESM Msweli	GM Operations	01 October 2011	n/a	Resigned 18 February 2014

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	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[N6]	✓	✓
Ms M Mayongo	Non Executive Director	16 April 2014	X	✓

N6: 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 2015

		Group		Parent	
	Note	2015	2014	2015	2014
		R'000	R'000	R'000	R'000
Revenue	4	2 222 565	2 204 140	2 207 704	2 187 886
Cost of sales		(950 054)	(1 034 890)	(950 054)	(1 034 890)
Changes in water inventory	15,2	70	(246)	70	(246)
Chemicals		(48 786)	(47 181)	(48 786)	(47 181)
Depreciation		(106 992)	(92 897)	(106 992)	(92 897)
Energy		(169 940)	(136 074)	(169 940)	(136 074)
Maintenance		(173 481)	(143 313)	(173 481)	(143 313)
Raw water		(167 230)	(190 540)	(167 230)	(190 540)
Section 30 activities		(93 647)	(271 560)	(93 647)	(271 560)
Staff costs		(155 676)	(130 305)	(155 676)	(130 305)
Other direct operating expenses		(34 372)	(22 774)	(34 372)	(22 774)
Gross profit		**1 272 511**	**1 169 250**	**1 257 650**	**1 152 996**
Other income	5	33 871	28 778	32 153	28 486
Other operating and administration expenses		(619 147)	(596 217)	(622 160)	(584 561)
Profit from operations	6	**687 235**	**601 811**	**667 643**	**596 921**
Net finance income		135 152	76 991	133 286	77 048
Interest income	7	137 857	122 546	135 958	122 558
Finance costs	8	(2 705)	(45 555)	(2 672)	(45 510)
Share of profit from associate		4 602	3 627	-	-
Profit for the year		**826 989**	**682 429**	**800 929**	**673 969**
Profit attributable to:					
Equity holders of the parent		**826 989**	**682 429**	**800 929**	**673 969**

STATEMENTS OF OTHER COMPREHENSIVE INCOME
for the year ended 30 June 2015

	Group		Parent	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
Profit for the year	826 989	682 429	800 929	673 969
Other comprehensive Income:				
Items that will not be reclassified to profit and loss:				
Remeasurement of gains and losses -post retirement benefit plans	(4 065)	119 883	(4 065)	119 883
Total Other Comprehensive Income for the year	**822 924**	**802 312**	**796 864**	**793 852**
Total other comprehensive income attributable to:				
Equity holders of the parent	822 924	802 312	796 864	793 852

STATEMENTS OF FINANCIAL POSITION
for the year ended 30 June 2015

	Note	Group 2015 R'000	Group 2014 R'000	Parent 2015 R'000	Parent 2014 R'000
ASSETS					
Non-current assets		**5 648 197**	**4 111 452**	**5 641 767**	**4 131 361**
Property, plant and equipment	9	5 506 937	3 988 282	5 502 792	3 984 471
Intangible assets	10	44 517	18 104	44 190	18 104
Biological assets	11	4 733	4 242	-	-
Subsidiaries and associates	12	6 005	6 005	8 780	33 967
Investments	13	77 097	83 561	77 097	83 561
Other financial assets	14	8 908	11 258	8 908	11 258
Current assets		**1 998 383**	**2 694 074**	**1 956 906**	**2 658 958**
Investments	13	1 569 583	2 156 793	1 569 583	2 156 793
Inventories	15	12 068	11 456	12 068	11 456
Trade and other receivables	16	345 048	452 410	340 042	448 047
Interest receivable	17	33 751	40 722	33 751	40 722
Bank and cash	18.1	37 933	32 693	1 462	1 940
Total assets		**7 646 580**	**6 805 526**	**7 598 673**	**6 790 319**
EQUITY AND LIABILITIES					
Capital and reserves		**5 239 108**	**4 416 184**	**5 192 473**	**4 395 609**
Capital	19	442 847	442 847	442 847	442 847
OCI Reserve		(68 282)	(64 217)	(68 282)	(64 217)
Accumulated profit		4 864 543	4 037 554	4 817 908	4 016 979
Non-current liabilities		**1 601 006**	**1 630 540**	**1 601 006**	**1 630 540**
Long-term debt	20	1 093 331	1 171 766	1 093 331	1 171 766
Other non-current liabilities	21	5 935	8 391	5 935	8 391
Post-retirement benefit obligations	26	501 740	450 383	501 740	450 383
Current liabilities		**806 466**	**758 802**	**805 194**	**764 170**
Short-term debt	20	78 433	78 263	78 433	78 263
Provisions	22	94 727	50 445	93 028	49 053
Accounts payable	23	606 470	602 688	606 897	609 448
Interest payable		26 836	27 406	26 836	27 406
Total equity and liabilities		**7 646 580**	**6 805 526**	**7 598 673**	**6 790 319**

STATEMENTS OF CHANGES IN EQUITY
for the year ended 30 June 2015

	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 2013	**442 847**	**(184 100)**	**3 355 125**	**3 613 872**
Movement for the year				
Total comprehensive income	-	119 883	682 429	802 312
Profit for the year	-	-	682 429	682 429
Other comprehensive income	-	119 883	-	119 883
Balance as at 30 June 2014	**442 847**	**(64 217)**	**4 037 554**	**4 416 184**
Movement for the year				
Total comprehensive income	-	(4 065)	826 989	822 924
Profit for the year	-	-	826 989	826 989
Other comprehensive income	-	(4 065)	-	(4 065)
Balance as at 30 June 2015	**442 847**	**(68 282)**	**4 864 543**	**5 239 108**

	Parent			
	Capital	OCI Reserve	Accumulated profit	Total
	R'000	R'000	R'000	R'000
Balance as at 30 June 2013	**442 847**	**(184 100)**	**3 343 010**	**3 601 757**
Movement for the year				
Total comprehensive income	-	119 883	673 969	793 852
Profit for the year	-	-	673 969	673 969
Other comprehensive income	-	119 883	-	119 883
Balance as at 30 June 2014	**442 847**	**(64 217)**	**4 016 979**	**4 395 609**
Movement for the year				
Total comprehensive income	-	(4 065)	800 929	796 864
Profit for the year	-	-	800 929	800 929
Other comprehensive income	-	(4 065)	-	(4 065)
Balance as at 30 June 2015	**442 847**	**(68 282)**	**4 817 908**	**5 192 473**

STATEMENTS OF CASH FLOWS
for the year ended 30 June 2015

		Group		Parent	
	Note	2015	2014	2015	2014
		R'000	R'000	R'000	R'000
OPERATING ACTIVITIES					
Cash receipts from customers		2 399 311	2 082 157	2 344 411	2 082 157
Cash paid to suppliers and employees		(1 270 596)	(1 220 390)	(1 222 109)	(1 222 140)
Net cash from operating activities	18.2	**1 128 715**	**861 767**	**1 122 302**	**860 017**
INVESTING ACTIVITIES					
Grant funding	9	26 517	245 343	26 517	245 343
Additions to property, plant and equipment	9	(1 662 201)	(1 013 194)	(1 660 528)	(1 010 602)
Additions to intangible assets	10	(30 845)	(11 150)	(30 506)	(11 150)
Proceeds on disposal of biological assets		146	121	-	-
Increase of inter-company borrowings		-	-	695	(29 052)
Net cash used in investing activities		**(1 666 383)**	**(778 880)**	**(1 663 822)**	**(805 461)**
FINANCING ACTIVITIES					
Long-term borrowings raised		-	385 000	-	385 000
Long-term borrowings repaid	20	(78 265)	(270 352)	(78 265)	(270 352)
Proceeds on disposal of investments (Increase in investments)		615 321	(159 349)	615 321	(159 349)
Interest received		122 397	108 606	120 395	108 502
Finance costs paid		(116 545)	(121 710)	(116 409)	(121 434)
Net cash from (used in) financing activities		**542 908**	**(57 805)**	**541 042**	**(57 633)**
CASH AND CASH EQUIVALENTS					
Net increase for the year		5 240	25 082	(478)	(3 077)
At beginning of year		32 693	7 611	1 940	5 017
At end of year	**18.1**	**37 933**	**32 693**	**1 462**	**1 940**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2015

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 2015.

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.

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.

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

2.1. BASIS OF PREPARATION AND MEASUREMENT continued...

KEY SOURCES OF ESTIMATION UNCERTAINTY continued...

Value-in-use calculations for impairment of property, plant and equipment continued...

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 2015. 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 15 revenue from contracts with customers effective date 1 January 2018

IFRS 15 Revenue from Contracts with Customers replaces IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers. It applies to all entities that enter into contracts to provide goods or services to their customers, unless the contracts are in the scope of other IFRSs, such as IAS 17 Leases. The standard also provides a model for the measurement and recognition of gains and losses on the sale of certain non-financial assets, such as property or equipment. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The group is still determining the impact of the standard on the financial statements.

IFRS 9 financial instruments - classification and measurement effective 1 January 2018

IFRS 9 addresses the initial measurement and classification of financial assets and financial liabilities, and replaces the relevant sections of IAS 39 Financial instruments: Recognition and measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Under IFRS 9, the classification and measurement requirements for financial liabilities are the same as per IAS 39, except for two aspects. The first aspect relates to fair value changes for financial liabilities (other than financial guarantees and loan commitments) designated at fair value through profit or loss, that are attributable to the changes in the credit risk of the liability. The second aspect relates to derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured. The group is still determining the impact of the standard on the financial statements.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

2.1. BASIS OF PREPARATION AND MEASUREMENT continued...

ADOPTION OF NEW AND REVISED STANDARDS

IAS 32 Offsetting Financial Assets and Financial liabilities - Amendments to IAS 32 (Effective 1 January 2014)

The amendments to IAS32 were issued to address inconsistencies in current practice when applying the offsetting criteria in IAS32 Financial instruments: presentation. The amendments clarify the meaning of currently has a legally enforceable right to set-off; and that some gross settlement systems may be considered equivalent to net settlement. The amendments will not have a significant impact on the group.

There were no other significant revisions to existing standards or new interpretations and amendments to accounting standards which are relevant to Umgeni Water.

IMPROVEMENTS TO IFRS's

A number of standards have been amended as part of the IASB annual improvement project. The group is in the process of considering the relevant amendments to the standards and determining the financial impact on the group.

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION OF FINANCIAL RESULTS

The consolidated financial statements reflect the financial results of the group. All financial results are consolidated with similar items on a line by line basis except for investments in associates, which are included in the group's results as set out 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 joint ventures and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued...

BUSINESS COMBINATIONS continued...

When there is a change in the interest in a subsidiary after control is obtained, that does not result in a loss in control, the difference between the fair value of the consideration transferred and the amount by which the non-controlling interest is adjusted is recognised directly in the statement of changes in equity.

When the group loses control of a subsidiary it derecognises the assets and liabilities and related equity components of the former subsidiary. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The profit or loss realised on disposal or termination of an entity is calculated after taking into account the carrying value of any related goodwill.

SUBSIDIARIES

Subsidiaries are defined as those companies in which the group, either directly or indirectly, has:

- More than one half of the voting rights;
- the right to appoint more than half of the Board of directors; or
- otherwise has the power to control the financial and operating activities of the entity.

The 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 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 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 2015

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 SEGEMENT 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. 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 capitalised if it is probable that the future economic benefits associated with the expenditure will flow to the group.

The carrying amount of property plant and equipment will be derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of profit and loss.

Property, plant and equipment are depreciated to its estimated residual values on a straight line basis over its expected useful life. The depreciation methods, estimated remaining useful lives and residual values are reviewed at least annually and adjusted prospectively if appropriate

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued...

PROPERTY, PLANT & EQUIPMENT continued...

ASSET CATEGORY	ESTIMATED USEFUL LIFE (YEARS)	ESTIMATED RESIDUAL VALUE
Buildings and infrastructure		
Buildings	40	2%
Dams and weirs	45	90%
Pipelines	30-45	2%
Pump stations	10-30	2%-60%
Reservoirs and intake works	45	2%
Tunnels	45	90%
Water treatment works	10-45	2%-70%
Wastewater 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%

OPERATING LEASE IN THE CAPACITY OF LESSOR

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.

SOFTWARE

Software is carried at cost less accumulated amortisation and impairment. Internally developed and packaged software and the direct costs associated with the development and installation thereof are capitalised and recognised as intangible assets.

Software is amortised in full on a straight-line basis as follows:
- Customised software 5 years; and
- shelf software 2 years.

Costs associated with research and development of computer software programs are recognised as an expense as they are incurred. Development costs are capitalised if it meets the criteria for capitalising development expenditure. Costs relating to the acquisition of licenses are treated as an expense in the period in which the license is acquired.

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 asset 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued... for the year ended 30 June 2015

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued...

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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued...

EMPLOYEE BENEFITS continued...

Retirement benefit costs - pension fund continued...

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. Acturial 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.

ONEROUS CONTRACTS

Provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting the obligations under the contract.

FINANCIAL GUARANTEE CONTRACTS

Financial guarantee contracts are accounted for and consequently are measured in accordance with IAS 37 - Provisions, contingent liabilities and contingent assets.

FINANCIAL ASSETS

The group classifies its financial assets into the following categories:

- Held-to-maturity financial assets;
- loans and receivables; and
- available-for-sale financial assets.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued...

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.

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued...

REVENUE

The group recognises revenue when the amount of revenue can be reliably measured and it is probable that economic benefits will flow to the entity. Revenue is measured at the fair value of the consideration received or receivable net of discounts and value added taxation. Revenue is recognised as follows:

Sale of goods

Revenue from the sale of goods is recognised when significant risks and rewards of ownership have passed and the collectability of the related receivable is reasonably assured. Sale of goods consists of potable bulk water sales to customers and treatment of wastewater.

Potable bulk water revenue is recognised at the point of metering to the customer.

Rendering of services

Revenue from services is recognised in the period in which these are rendered. Revenue from services consist of other services that complement bulk water service provision such as laboratory services, water quality monitoring, operating and maintenance contracts and acting as an implementing agent for any sphere of government for projects related to water service delivery.

Rendering of services from acting as an implementing agent is recognised by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. This revenue includes the initial amount agreed in the contract plus any variations in contract work to the extent that they will result in revenue and can be measured reliably. As soon as the outcome of a contract can be estimated reliably, revenue and costs are recognised in profit or loss by reference to the stage of completion of the contract. When an outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

Other revenue

Other revenue is recognised when the significant risks and rewards of ownership are transferred to the purchaser and the amount of revenue can be measured reliably.

COST OF SALES

Cost of sales includes the costs of raw water and all other direct operating costs associated with the production processes. The costs directly attributable to sales for other activities, as defined in Section 30 of the Water Services Act (Act 108 0f 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued...

TAXATION continued...

Deferred tax continued...

accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. No deferred tax is recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the entity intends to settle its current tax assets and liabilities on a net basis.

INTEREST INCOME

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

FINANCE COSTS

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost eligible for capitalisation to those assets.

All other borrowing costs are reflected in the statement of profit and loss in the period in which they are incurred.

3. OPERATING SEGMENTS AND SEGEMENT REPORTING

Umgeni Water has two reportable segments:

(i) The primary segment as defined by section 29 of the Water Services Act No. 108 of 1997 which is made up of bulk water and wastewater treatment; and

(ii) 0ther 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.

(iii) Additional information on the major customers per segment are included in notes 16, 27 and 30.

Segment results that are reported include items directly attributable to the segment as well as those that can be allocated on a reasonable basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

3. OPERATING SEGMENTS AND SEGEMENT REPORTING continued...

	Group			
	Primary Activities			
For the year ended 30 June 2015	Bulk water	Waste water	Other activities	Total
	Kl'000	Kl'000	Kl'000	Kl'000
Treated water volume sold	446 548	151	-	446 699
Raw water volume sold	574	-	-	574
	R'000	R'000	R'000	R'000
Revenue	2 021 558	68 057	132 950	2 222 565
Cost of sales	(794 250)	(51 553)	(104 251)	(950 054)
Changes in water inventory	70	-	-	70
Chemicals	(44 933)	(3 569)	(284)	(48 786)
Depreciation	(104 124)	(2 868)	-	(106 992)
Energy	(154 139)	(12 938)	(2 863)	(169 940)
Maintenance	(154 216)	(15 822)	(3 443)	(173 481)
Raw water	(167 230)	-	-	(167 230)
Section 30 activities	-	-	(93 647)	(93 647)
Staff costs	(141 656)	(10 468)	(3 552)	(155 676)
Other direct operating expenses	(28 022)	(5 888)	(462)	(34 372)
Gross profit	**1 227 308**	**16 504**	**28 699**	**1 272 511**
Other income	28 521	3 624	1 726	33 871
Other operating and administration expenses	(561 164)	(7 399)	(50 584)	(619 147)
Profit from operations	**694 665**	**12 729**	**(20 159)**	**687 235**
Interest income	135 958	-	1 899	137 857
Finance costs	(1 575)	(1 097)	(33)	(2 705)
Share of profit from associate	-	-	4 602	4 602
Profit for the year	**829 048**	**11 632**	**(13 691)**	**826 989**
Capital expenditure	**1 367 429**	**325 617**	**-**	**1 693 046**
Segment assets	5 299 899	442 308	154 296	5 896 503
Interest in associate	-	-	6 005	6 005
Investments	1 525 416	-	121 264	1 646 680
Unallocated				97 392
Consolidated total assets				**7 646 580**
Segment liabilities	1 154 429	16 065	128 480	1 298 974
Unallocated				1 108 498
Consolidated total liabilities				**2 407 472**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

3. OPERATING SEGMENTS AND SEGEMENT 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 2014				
Treated water volume sold	439 542	178	-	439 720
Raw water volume sold	574	-	-	574
	R'000	R'000	R'000	R'000
Revenue	1 830 552	59 766	313 822	2 204 140
Cost of sales	(707 827)	(45 966)	(281 097)	(1 034 890)
Changes in water inventory	(246)	-	-	(246)
Chemicals	(41 393)	(5 391)	(397)	(47 181)
Depreciation	(90 576)	(2 321)	-	(92 897)
Energy	(121 871)	(11 510)	(2 693)	(136 074)
Maintenance	(127 500)	(12 848)	(2 965)	(143 313)
Raw water	(190 540)	-	-	(190 540)
Section 30 activities	-	-	(271 560)	(271 560)
Staff costs	(117 533)	(9 577)	(3 195)	(130 305)
Other direct operating expenses	(18 168)	(4 319)	(287)	(22 774)
Gross profit	**1 122 725**	**13 800**	**32 726**	**1 169 250**
Other income	16 889	3 871	8 018	28 778
Other operating and administration expenses	(587 259)	(8 095)	(863)	(596 217)
Profit from operations	**552 355**	**9 576**	**39 880**	**601 811**
Interest income	122 558	-	(12)	122 546
Finance costs	(41 009)	(4 501)	(45)	(45 555)
Share of profit from associate	-	-	3 627	3 627
Profit for the year	**633 904**	**5 075**	**43 450**	**682 429**
Capital expenditure	**1 008 786**	**15 558**	**-**	**1 024 344**
Segment assets	4 086 067	95 531	277 200	4 458 798
Interest in associate	-	-	6 005	6 005
Investments	2 108 994	-	131 360	2 240 354
Unallocated				100 369
Consolidated total assets				**6 805 526**
Segment liabilities	1 228 781	21 249	142 116	1 392 146
Unallocated				997 196
Consolidated total liabilities				**2 389 342**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

4. REVENUE

	Group		Parent	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
Sale of goods	**2 089 615**	**1 890 318**	**2 089 615**	**1 890 318**
Water sales	2 021 558	1 830 552	2 021 558	1 830 552
Wastewater	68 057	59 766	68 057	59 766
Rendering of services - Other activities	**132 950**	**313 822**	**118 089**	**297 568**
Water Infrastructure	47 859	184 158	47 859	184 158
Scientific and environmental	39 556	45 237	39 556	45 237
Operating and Maintenance:				
- Department of Water and Sanitation*	-	43 041	-	43 041
- Other	14 607	9 098	14 608	9 098
National Treasury Internship Graduate Programme and other	30 928	32 288	16 066	16 034
Included in revenues arising from water sales are revenues of approximately R1 492m (2014: R1 355m) from sales to the group' s largest customer. (Refer to note 27)				
Total revenue	**2 222 565**	**2 204 140**	**2 207 704**	**2 187 886**

*The revised operating and maintenance contract with Department of Water and Sanitation (DWS) no longer requires these costs to be invoiced by Umgeni Water. DWS has incorporated this work done by Umgeni Water for them into the raw water tarriff in the current year, which has resulted in a reduction in the respective component of the raw water tariff.

5. OTHER INCOME

	Group 2015	Group 2014	Parent 2015	Parent 2014
Sundry income	31 554	26 252	29 836	26 015
Rental income	2 317	2 526	2 317	2 471
Total other income	**33 871**	**28 778**	**32 153**	**28 486**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

6. PROFIT FROM OPERATIONS

	Group		Parent	
	2015	2014	2015	2014
	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	90 058	183 976	90 058	183 976
- Buildings & infrastructure impairments (refer to note 9)	36 787	54 775	36 787	54 775
-Capital work-in-progress impairments (refer to note 9)	53 271	129 105	53 271	129 105
- Other asset impairments and write-offs (reversals)	-	96	-	96
Amortisation	7 574	5 239	7 563	5 239
- Right of use agreement (refer to note 14)	3 239	2 819	3 239	2 819
- Intangible assets (refer to note 10)	4 335	2 420	4 324	2 420
Auditors remuneration	2 293	2 389	1 970	2 094
- Audit fees - current year	2 293	2 389	1 970	2 094
Board members' emoluments (refer pg 133)	4 513	3 633	4 470	3 560
Depreciation	138 750	109 022	137 411	108 191
- Buildings and infrastructure (refer to note 9)	112 064	96 597	112 064	96 597
- Equipment and vehicles (refer to note 9)	26 686	12 425	25 347	11 594
Doubtful debts provision	408	(16 818)	408	(16 818)
Fair value adjustment of biological assets (refer to note 11)	(668)	(475)	-	-
Impairment in subsidiary	-	-	24 491	-
Legal fees	(2 078)	-	(2 078)	-
Maintenance	197 529	160 187	188 019	158 401
- Direct costs	173 481	143 313	173 481	143 313
- Indirect costs	24 048	16 874	14 538	15 088
Operating lease payments	1 467	1 272	394	333
Loss on disposal of property, plant and equipment	1 391	2 442	1 391	2 430
Loss on disposal of intangible assets	96	-	96	-
Loss on disposal of biological assets	-	205	-	
Retirement benefits	89 287	93 719	89 287	93 719
- Post retirement medical aid (refer to note 26.3)	39 875	38 444	39 875	38 444
- Pension - defined benefit (refer to note 26.2)	49 412	55 275	49 412	55 275
Salaries and other staff costs	507 982	431 521	483 522	409 210
- Direct	155 676	130 305	155 676	130 305
- Indirect	272 202	223 615	247 742	201 304
- Maintenance	80 104	70 516	80 104	70 516
- Operating and Maintenance: Dams	-	7 085	-	7 085

	No.	No.	No.	No.
Number of employees at 30 June				
Permanent	906	923	805	817
Fixed term contracts	90	97	90	97
Total number of employees	**996**	**1 020**	**895**	**914**

	R'000	R'000	R'000	R'000
7. INTEREST INCOME				
Interest received - investments	131 144	120 769	131 144	120 769
Interest received - other financial assets (refer to note 14)	889	937	889	937
Interest received - other	5 824	840	3 925	852
Total interest income	**137 857**	**122 546**	**135 958**	**122 558**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

8. FINANCE COSTS

	Group		Parent	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
Bank overdrafts and other	1 872	2 382	1 872	2 382
Bonds	64 200	64 200	64 200	64 200
Loans	49 803	50 909	49 770	50 864
Less: borrowing costs capitalised (refer to note 9)	(113 170)	(71 936)	(113 170)	(71 936)
Interest was capitalised to work-in-progress at the gross weighted average cost of capital of 9.46 %.(2014: 9.19%)				
Total finance costs	**2 705**	**45 555**	**2 672**	**45 510**

9. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and infrastructure	Equipment and vehicles	Capital work in progress	Total parent	Subsidiaries	Group
Year ended 30 June 2015	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Carrying amount 1 July 2014	3 543	2 963 505	65 331	952 092	3 984 471	3 811	3 988 282
Cost	3 543	4 019 536	139 579	1 777 237	5 939 895	13 032	5 952 927
Accumulated impairments	-	(182 040)	-	(271 689)	(453 729)	-	(453 729)
Accumulated grant funding	-	-	-	(553 456)	(553 456)	-	(553 456)
Accumulated depreciation	-	(873 991)	(74 248)	-	(948 239)	(9 221)	(957 460)
Additions	-	-	49 156	1 611 372	1 660 528	1 673	1 662 201
Grant funding	-	-	-	(26 517)	(26 517)	-	(26 517)
Borrowing costs capitalised	-	-	-	113 170	113 170	-	113 170
Disposals/Asset write-offs	-	-	(1 391)	-	(1 391)	-	(1 391)
Cost	-	-	(1 897)	-	(1 897)	-	(1 897)
Accumulated depreciation	-	-	506	-	506	-	506
Depreciation charge	-	(112 064)	(25 347)	-	(137 411)	(1 339)	(138 750)
							-
Impairment		(36 787)	-	(53 271)	(90 058)	-	(90 058)
Commissioning	-	775 114	-	(775 114)	-	-	-
Cost	-	1 156 101	-	(1 156 101)	-	-	-
Accummulated grant funding	-	(147 148)	-	147 148	-	-	-
Accumulated impairment	-	(233 839)	-	233 839	-	-	-
Total property, plant and equipment	**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)
Total property, plant and equipment	**3 543**	**3 589 768**	**87 749**	**1 821 732**	**5 502 792**	**4 145**	**5 506 937**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

9. PROPERTY, PLANT AND EQUIPMENT continued...

Year ended 30 June 2014	Land R'000	Buildings and infrastructure R'000	Equipment and vehicles R'000	Capital work in progress R'000	Total parent R'000	Subsidiaries R'000	Group R'000
Carrying amount 1 July 2013	3 543	2 857 481	46 534	534 314	3 441 872	2 063	3 443 935
Cost	3 543	3 762 138	111 240	985 011	4 861 932	9 973	4 871 905
Accumulated impairments	-	(127 169)	-	(142 584)	(269 753)	-	(269 753)
Accumulated grant funding	-	-	-	(308 113)	(308 113)	-	(308 113)
Accumulated depreciation	-	(777 488)	(64 706)	-	(842 194)	(7 910)	(850 104)
Additions	-	-	32 032	978 570	1 010 602	2 592	1 013 194
Grant funding	-	-	-	(245 343)	(245 343)	-	(245 343)
Borrowing costs capitalised	-	-	-	71 936	71 936	-	71 936
Disposals/Asset write-offs	-	(788)	(1 641)	-	(2 429)	(13)	(2 442)
Cost	-	(882)	(3 693)	-	(4 575)	(73)	(4 648)
Accumulated depreciation	-	94	2 052	-	2 146	60	2 206
Depreciation charge	-	(96 597)	(11 594)	-	(108 191)	(831)	(109 022)
Impairment	-	(54 871)	-	(129 105)	(183 976)	-	(183 976)
Commissioning	-	258 280	-	(258 250)	-	-	-
Total property, plant and equipment	**3 543**	**2 963 505**	**65 331**	**952 092**	**3 984 471**	**3 811**	**3 988 282**
Cost	3 543	4 019 536	139 579	1 777 237	5 939 895	13 032	5 952 927
Accumulated impairments	-	(182 040)	-	(271 689)	(453 729)	-	(453 729)
Accumulated grant funding	-	-	-	(553 456)	(553 456)	-	(553 456)
Accumulated depreciation	-	(873 991)	(74 248)	-	(948 239)	(9 221)	(957 460)
Total property, plant and equipment	**3 543**	**2 963 505**	**65 331**	**952 092**	**3 984 471**	**3 811**	**3 988 282**

Infrastructure consists of: pipelines, dams, weirs, reservoirs, tunnels, pump stations, sludge plants, wastewater treatment works and waterworks.

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 an option for the customer to acquire the pump station at the end of its useful life of 14 years. The pump station has a carrying amount of R93m 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 9.46% (2014: 9.19%). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

9. PROPERTY, PLANT AND EQUIPMENT continued...

	Accumulated Impairment 2014	Impairment transferred from WIP	Impairment 30 June 2015	Impairment charge to statement of profit and loss	Accumulated Impairment 30 June 2015
	R'000	R'000	R'000	R'000	R'000
Buildings & infrastructure					
Ngcebo Bulk water supply scheme (Phase 1)	38 775	-	-	-	38 775
Maphumulo Bulk water supply scheme (Phase 1)	140 817	-	(34 350)	(34 350)	106 467
Maphumulo Bulk water supply scheme (Phase 2)	-	92 096	27 646	119 742	119 742
Mhlabatshane Bulk water supply scheme	-	108 974	(18 095)	90 879	90 879
Richmond	-	32 769	13 117	45 886	45 886
Hlimbithwa pumpstation	-	-	1 178	1 178	1 178
Mpambanyoni	-	-	14 068	14 068	14 068
Hazelmere package plant	-	-	14 508	14 508	14 508
Tongaat pipeline	-	-	18 664	18 664	18 664
Other assets	2 448	-	51	51	2 499
Sub-total buildings and infrastructure	**182 040**	**233 839**	**36 787**	**270 626**	**452 666**

	Progressive Impairment 2014	Progressive Impairment 2015	Accumulated Impairment 2014	Impairment transferred to WIP	Impairment 30 June 2015	Impairment charge to statement of profit and loss	Accumulated Impairment 30 June 2015
	%	%	R'000	R'000	R'000	R'000	R'000
Work in progress							
Greater Eston**	19.00%	15.00%	31 775	-	(1 850)	(1 850)	29 925
Greater Mphofana (Phase 1)	56.00%	74.00%	5 814	-	14 468	14 468	20 282
Maphumulo (Phase 2)	72.00%	* N/A	92 096	(92 096)	-	(92 096)	-
Mhlabatshane Dam	72.00%	* N/A	108 974	(108 974)	-	(108 974)	-
Ngcebo BWS (Phase 1) Upgrade of Water Treatment Plant	100.00%	100.00%	261	-	(261)	(261)	-
Richmond Pipeline**	19.00%	* N/A	32 769	(32 769)	-	(32 769)	-
uMshwathi Bulk water supply (Phase 1)	-	12.00%	-	-	34 338	34 338	34 338
Mpambanyoni	-	100.00%	-	-	6 576	6 576	6 576
Lower Thukela Bulk water supply - Phase 1	-	-	-	-	-	-	-
Sub-total work in progress			**271 689**	**(233 839)**	**53 271**	**(180 568)**	**91 121**
Total		**-**	**453 729**	**-**	**90 058**	**90 058**	**543 787**

* assets have been capitalised
** impairment percentage is based on the combined evaluation of Greater Eston and Richmond

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

9. PROPERTY, PLANT AND EQUIPMENT continued...

9.1. CAPITAL WORK IN PROGRESS

		Group - 2015			
		Cost	Accumulated grant funding	Accumulated impairment losses	Total
		R'000	R'000	R'000	R'000
Major projects:	System				
251/51 New RW p/l (Dam - RW P/S)	Upper Umgeni	29 452	-	-	29 452
East Coast Desalination Plants	South Coast	18 960	-	-	18 960
Hazelmere WW: Upgrade	North Coast	131 478	-	-	131 478
Mapaphetwa WW: Upgrade Plant	Lower Umgeni	67 748	-	-	67 748
Midmar WW Upgrade Ph 2 and Midmar Dam RWPS	Upper Umgeni	21 019	-	-	21 019
Mkomazi Bulk Water Supply	Upper Umgeni	5 475	-	-	5 475
Lower Mkomazi Bulk Water Supply	Upper Umgeni	1 483	-	-	1 483
Lion Park Pipeline	Upper Umgeni	3 153	-	-	3 153
Other Projects	Various	149	-	-	149
Sub-total augmentation		**278 917**	**-**	**-**	**278 917**
Lower Thukela Bulk Water Supply Scheme	North Coast	920 313	(294 420)	-	625 893
Greater Eston	Upper Umgeni	199 496	(138 405)	(29 925)	31 166
Greater Mpofana Regional Scheme	Upper Umgeni	27 408	-	(20 282)	7 126
uMshwathi Bulk Water Supply Scheme	Upper Umgeni	286 150	-	(34 338)	251 812
Other Projects	Various	6 620	-	-	6 620
Sub-total development		**1 439 987**	**(432 825)**	**(84 545)**	**922 617**
Head Office Infrastructure		20 963	-	-	20 963
Hazelmere System		54 868	-	-	54 868
Ixopo System		888	-	-	888
Darvill WWW		350 634	-	-	350 634
South Coast System		6 844	-	(6 576)	268
Upper Umgeni System		84 967	-	-	84 967
Other projects		433		-	433
Sub-total upgrade		**519 597**	**-**	**(6 576)**	**513 021**
Nungwane Raw Water Aquaduct	South Coast	4 913	-	-	4 913
51 Pipeline Rehabilitation	Upper Umgeni	40 484	-	-	40 484
Other Projects	Various	252	-	-	252
Sub-total rehabilitation		**45 649**	**-**	**-**	**45 649**
South Coast Ph. 2b	South Coast	506	-	-	506
Mpophomeni WW	Upper Umgeni	119	-	-	119
Camperdown WW	Upper Umgeni	89	-	-	89
Sub-total expansion		**714**	**-**	**-**	**714**
Sub-total major projects		**2 284 864**	**(432 825)**	**(91 121)**	**1 760 918**
Other projects - Movables		60 814	-	-	60 814
Total costs including capitalised interest		**2 345 678**	**(432 825)**	**(91 121)**	**1 821 732**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

9. PROPERTY, PLANT AND EQUIPMENT continued...

9.1. CAPITAL WORK IN PROGRESS continued...

		Group - 2014			
		Cost	Accumulated grant funding	Accumulated impairment losses	Total
		R'000	R'000	R'000	R'000
Major projects:	System				
Hazelmere WW Upgrade	Hazelmere	82 289	-	-	82 289
Hazelmere WW: Raw Water Pipeline	Hazelmere	-	-	-	-
61 p/l: extension (Richmond Offtake to Umlaas Road)	Upper Umgeni	175 644	-	-	175 644
East Coast Desalination Plants	Lower Umgeni	14 953	-	-	14 953
Mapaphetwa WW: Upgrade Plant	Lower Umgeni	57 655	-	-	57 655
Howick Reservoir Upgrade	Upper Umgeni	17 359	-	-	17 359
Ellingham Link Pipeline	South Coast	15 259	-	-	15 259
Other Projects	Various	11 978	-	-	11 978
Sub-total augmentation		**375 137**	**-**	**-**	**375 137**
Lower Thukela Bulk Water Supply Scheme	North Coast	414 087	(276 535)	-	137 552
Greater Eston	Upper Umgeni	167 234	(129 773)	(31 775)	5 686
Richmond P/L-30km's	Upper Umgeni	172 469	(38 194)	(32 769)	101 506
Mhlabatshane Sub-Regional Scheme	South Coast	213 675	(108 954)	(108 974)	(4 253)
Greater Mpofana Regional Scheme	Mooi	10 381	-	(5 814)	4 567
Maphumulo Bulk Water Supply Scheme Phase 2	Upper Mvoti	127 910	-	(92 096)	35 814
uMshwathi Bulk Water Supply Scheme	Upper Mvoti	143 139	-	-	143 139
Other Projects	Various	1 163	-	(261)	902
Sub-total development		**1 250 058**	**(553 456)**	**(271 689)**	**424 913**
Head Office Infrastructure		1 101			1 101
Hazelmere System		32 763	-	-	32 763
Ixopo System		509	-	-	509
Lower Umgeni System		23 993	-	-	23 993
South Coast System		17 265	-	-	17 265
Upper Umgeni System		53 340	-	-	53 340
			-	-	-
Sub-total upgrade		**128 971**	**-**	**-**	**128 971**
Nagle Aqueducts 2 Joint Refurbish	Lower Umgeni	15 909	-	-	15 909
Nungwane Raw Water Aquaduct	South Coast	3 134	-	-	3 134
Other Projects	Various	214	-	-	214
Sub-total rehabilitation		**19 257**	**-**	**-**	**19 257**
Other Projects		84			84
Sub-total expansion		**84**	**-**	**-**	**84**
Sub-total major projects		**1 773 507**	**(553 456)**	**(271 689)**	**948 362**
Other projects - Movables		3 730	-	-	3 730
Total costs including capitalised interest		**1 777 237**	**(553 456)**	**(271 689)**	**952 092**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

9. PROPERTY, PLANT AND EQUIPMENT continued...

9.2. PROPERTY, PLANT & EQUIPMENT CAPITALISED

		Group - 2015			
		Cost	Accumulated grant funding	Accumulated impairment losses	Carrying value
		R'000	R'000	R'000	R'000
Summary of major projects capitalised by system, including interest are as follows:	System				
Ellingham Link Pipeline	South Coast	26 341	-	-	26 341
Howick Reservoir Upgrade	Upper Umgeni	21 218	-	-	21 218
61 p/l: extension (Richmond Offtake to Umlaas Road)	Upper Umgeni	181 808	-	-	181 808
Other Projects	Various	4 274	-	-	4 274
Sub-total augmentation		**233 641**	**-**	**-**	**233 641**
Mhlabatshane Sub-Regional Scheme	South Coast	213 818	(108 955)	(90 879)	13 984
Maphumulo Bulk Water Supply Phase 1	Upper Mvoti	491	-	34 350	34 841
Maphumulo Bulk Water Supply Phase 2	Upper Mvoti	208 890	-	(119 742)	89 148
Richmond P/L-30kms	Upper Umgeni	242 754	(38 193)	(45 886)	158 675
				-	
Sub-total development		**665 953**	**(147 148)**	**(222 157)**	**296 648**
Nagle Aqueduct 2 - Joint Refurbishment	Lower Umgeni	127 905	-	-	127 905
Other Projects	Various	1 249	-	-	1 249
Sub-total rehabilitation		**129 154**	**-**	**-**	**129 154**
Maphumulo System*		-		(1 178)	(1 178)
Hazelmere System*		18 741	-	(33 172)	(14 431)
Head Office Infrastructure		5 846	-	-	5 846
Ixopo System		400	-	-	400
Lower Umgeni System		66 953	-	-	66 953
South Coast System		14 274	-	(14 068)	206
Upper Umgeni System		21 139	-	(51)	21 088
Sub-total upgrade		**127 353**	**-**	**(48 469)**	**78 884**
Total property, plant and equipment capitalised		**1 156 101**	**(147 148)**	**(270 626)**	**738 327**

*impairment on previously capitalised assets

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued... for the year ended 30 June 2015

9. PROPERTY, PLANT AND EQUIPMENT continued...

9.2. PROPERTY, PLANT & EQUIPMENT CAPITALISED continued...

		2014 Group			
		Cost	Accumulated grant funding	Accumulated impairment losses	Carrying Value
		R'000	R'000	R'000	R'000
Summary of major projects capitalised by system, including interest are as follows:	System				
Honolulu to Mvoti Balancing Reservoir Pipeline (800dia x 7km)	Hazelmere	96 875	-	-	96 875
Hazelmere WW: Raw Water Pipeline	Hazelmere	19 597	-	-	19 597
Other Projects	Various	13 716			13 716
Sub-total augmentation		**130 188**	**-**	**-**	**130 188**
Mhlabatshane - Package Plant	South Coast	10 406	-	-	10 406
Other Projects	Various	3 579	-	-	3 579
Sub-total development		**13 985**	**-**	**-**	**13 985**
Nagle Aqueduct 3 & 4 - Refurbish	Lower Umgeni	73 434	-	-	73 434
Other Projects	Various	2 812	-	-	2 812
Sub-total rehabilitation		**76 246**	**-**	**-**	**76 246**
Hazelmere system		6 017	-	-	6 017
Head Office Infrastructure		486	-	-	486
Ixopo System		5	-	-	5
Lower Umgeni System		20 078	-	-	20 078
Upper Umgeni System		11 275	-	-	11 275
Sub-total upgrade		**37 861**	**-**	**-**	**37 861**
Total property, plant and equipment capitalised		**258 280**	**-**	**-**	**258 280**

	Group		Parent	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
9.3. CAPITAL COMMITMENTS				
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	1 367 065	1 449 476	1 367 065	1 449 476
- authorised but not contracted for	1 807 386	1 750 526	1 807 386	1 750 526
Total capital commitments	**3 174 451**	**3 200 002**	**3 174 451**	**3 200 002**
Estimated capital expenditure to be incurred as follows:				
- Within one year	923 064	625 022	923 064	625 022
- Two to five years	1 716 627	2 114 746	1 716 627	2 114 746
- More than five years	534 760	460 234	534 760	460 234
	3 174 451	**3 200 002**	**3 174 451**	**3 200 002**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

10. INTANGIBLE ASSETS

	Group		Parent	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
SOFTWARE				
Carrying amount 1 July	**18 104**	**9 374**	**18 104**	**9 374**
Cost	42 537	31 387	42 537	31 387
Accumulated amortisation	(24 433)	(22 013)	(24 433)	(22 013)
Additions	2 296	11 150	1 958	11 150
Work in progress	28 548		28 548	
Disposals	(96)	-	(96)	-
Cost	(957)	-	(957)	-
Accumulated amortisation	861	-	861	-
Amortisation	(4 335)	(2 420)	(4 324)	(2 420)
Total intangible assets	**44 517**	**18 104**	**44 190**	**18 104**
Cost	72 424	42 537	72 086	42 537
Accumulated amortisation	(27 907)	(24 433)	(27 896)	(24 433)
Total intangible assets	**44 517**	**18 104**	**44 190**	**18 104**

11. BIOLOGICAL ASSETS

	Group		Parent	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
11.1 GAME	**4 733**	**4 242**	**-**	**-**
Opening carrying amount	4 242	4 090	-	-
Disposals	(177)	(323)	-	-
Fair value adjustment	668	475	-	-
The carrying amount was based on an estimated 474 (2014: 458) game, the most significant categories being Buffalo, White Rhino and Zebra.				
The fair values of game are based on market related prices and is therfore 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	**4 733**	**4 242**	**-**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

12. SUBSIDIARIES AND ASSOCIATES

	Group		Parent	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
12.1. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES	**6 005**	**6 005**	**5 509**	**30 000**
Cost	2 590	2 590	30 000	30 000
Accumulated impairment	-		(24 491)	
Share of post-acquisition reserves	3 415	3 415	-	-
12.2. LOANS TO SUBSIDIARIES AND ASSOCIATES	**-**	**-**	**3 271**	**3 967**
Msinsi Holdings SOC Ltd	-	-	1 588	2 284
Umgeni Water Services SOC Ltd	-	-	1 683	1 683
The loan with Umgeni Water Services has no set date for repayment and bears no interest. Umgeni Water does not intend on calling up the loan in the next 12 months. The loan with Msinsi Holdings SOC Limited is unsecured and bears interest at 5.25% per annum. The loan is expected to be paid by 2017.				
Total subsidiaries and associates	**6 005**	**6 005**	**8 780**	**33 967**

			Proportion of ownership interest		Proportion of voting power held	
Subsidiary	**Principal activity**	**Place of incorporation**	**2015**	**2014**	**2015**	**2014**
			%	%	%	%
Investments in Subsidiaries						
Umgeni Water Services SOC Ltd	Water services	RSA	100	100	100	100
Msinsi Holdings SOC Ltd	Land and environmental management	RSA	100	100	100	100

The above entities remained subsidiaries throughout the year.

Umgeni Water Services SOC Ltd has an estimated assessed loss of R6.4m (2014: R6.6m) which is available to be carried forward and set off against future taxable income. A deferred tax asset has not been recognised as it is not probable that taxable profits will be available in the future against which the tax loss can be utilised. During the year the subsidiary was assessed for impairment. While the subsidiary itself is no longer trading, its investment in Durban Water Recycling (Pty) Ltd allows for the company to remain profitable in the current and future years and hence no impairment is necessary.

During the year Umgeni Water has impaired its investment in Msinsi SOC Limited as the carrying value exceeded the recoverable amount. The recoverable amount was based on value- in- use calculations using the projected oprating cashflows of Msinsi and the weighted average cost of capital as at 30 June 2015 of 9.46%.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

12. SUBSIDIARIES AND ASSOCIATES continued...

Associate	Principal activity	Place of incorporation	Proportion of ownership interest 2015 %	Proportion of ownership interest 2014 %	Proportion of voting power held 2015 %	Proportion of voting power held 2014 %
Investments in associate of Umgeni Water Services SOC Ltd						
Durban Water Recycling (Pty) Ltd	Water recycling	RSA	18.5	18.5	18.5	18.5

Umgeni Water Services SOC Ltd has significant influence over Durban Water Recycling (Pty) Ltd 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) Ltd'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 R24.8m declared by the Board of Durban Water Recycling on 22 May 2015.

	Carrying amount 2015 R'000	Carrying amount 2014 R'000	Directors' valuation 2015 R'000	Directors' valuation 2014 R'000
Investments in associate of Umgeni Water Services SOC Ltd				
Durban Water Recycling (Pty) Ltd	6 005	6 005	6 005	6 005
Investments held by Msinsi Holdings SOC Ltd				
Powaprops 31 (Pty) Ltd	-	-	-	-
Net Investment	**6 005**	**6 005**	**6 005**	**6 005**

	2015 R'000	2014 R'000
Summarised financial information of associates:		
Total non-current assets of associates	34 750	39 790
Total non-current liabilities of associates	15 833	18 945
Total current assets of associates	52 370	43 873
Total current liabilities of associates	13 954	12 652
Total capital and reserves	57 334	52 066
Total revenue of associates	71 402	66 652
Share of profit for the year of associates	4 602	3 627

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

13. INVESTMENTS

	Group		Parent	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
13.1. LONG TERM INVESTMENTS	**77 097**	**83 561**	**77 097**	**83 561**
Held-to-maturity	77 097	83 561	77 097	83 561
Held-to-maturity investments represents redemption assets for the UG21 (2014 - redemption asset for UG21 and money market investments). Refer to note 30 financial risk management and financial instruments for maturity profile and fair value of the long term investments.				
13.2. SHORT TERM INVESTMENTS	**1 569 583**	**2 156 793**	**1 569 583**	**2 156 793**
Loans and receivables	1 569 583	2 156 793	1 569 583	2 156 793
Loans and receivables represent money market funded investments.				
Refer to note 30 financial risk management and financial instruments for interest rates and maturity profile of investments. The carrying amount of investments approximates its fair value.				
Total investments	**1 646 680**	**2 240 354**	**1 646 680**	**2 240 354**
13.1.1. ANALYSIS OF HELD-TO-MATURITY FINANCIAL ASSETS				
Opening Balance	83 561	5 179	83 561	5 179
Receipt of capital and interest	66 536	78 382	66 536	78 382
Reallocation to short term investments	(73 000)	-	(73 000)	-
Closing Balance	**77 097**	**83 561**	**77 097**	**83 561**
14. OTHER FINANCIAL ASSETS				
Other financial assets are classified as loans and receivables, the carrying amount approximates its fair value.				
14.1. RIGHT OF USE AGREEMENT	**8 908**	**11 258**	**8 908**	**11 258**
Opening balance	11 258	13 140	11 258	13 140
Amortisation	(3 239)	(2 819)	(3 239)	(2 819)
Interest income	889	937	889	937
The Right of use agreement is with a customer for the 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	**8 908**	**11 258**	**8 908**	**11 258**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

15. INVENTORIES

	Group		Parent	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
15.1. STORES	**10 266**	**9 725**	**10 266**	**9 725**
Pipe inventories	584	634	584	634
Maintenance spares	1 465	1 044	1 465	1 044
Chemicals	4 575	4 085	4 575	4 085
Miscellaneous	3 642	3 962	3 642	3 962
15.2. WATER INVENTORY				
Water inventory consists of closing inventory of raw and treated water.	1 802	1 731	1 802	1 731
Total inventories	**12 068**	**11 456**	**12 068**	**11 456**
16. TRADE AND OTHER RECEIVABLES				
Trade receivables	278 020	274 650	278 020	274 650
Less: provision for doubtful debts	(22 964)	(16 602)	(22 964)	(16 602)
Opening Balance	(16 602)	(5 651)	(16 602)	(5 651)
Written off during the year	39	520	39	520
Provided for during the year	(6 401)	(11 471)	(6 401)	(11 471)
Sub-total trade receivables	255 056	258 048	255 056	258 048
Grant funding	-	164 623	-	164 623
Less: provision for doubtful debts	-	-	-	-
Opening Balance	-	(13 665)	-	(13 665)
Reversed during the year	-	13 665	-	13 665
Sub-total grant funding		164 623		164 623
Sundry debtors	89 992	29 739	84 986	25 376
Less: provision for doubtful debts	-	-	-	-
Opening Balance	-	(11 982)	-	(11 982)
Written off during the year	-	-	-	-
Reversed during the year	-	11 982	-	11 982
Sub-total sundry debtors	89 992	29 739	84 986	25 376
Total trade and other receivables	**345 048**	**452 410**	**340 042**	**448 047**

Trade debtors comprise bulk water and waste water sales to municipalities of which eThekwini Metrolitan Municipality and Msunduzi Local Municipality comprise a significant proportion - 89,8% (2014: 89,5%) of sales.

Trade debtors are granted credit terms of 30 days from date of invoice to settle outstanding debts. The average credit period, at financial year-end, is 41 days (2014: 39 days).

Sundry debtors include prepayments of R57m, relating primarily to capital expenditure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

16. TRADE AND OTHER RECEIVABLES continued...

	Amount due	Provision	Total 2015	Total 2014
	R'000	R'000	R'000	R'000
Customer				
eThekwini Metropolitan Municipality	157 059	-	157 059	144 612
Ilembe District Municipality	29 817	(8 556)	21 261	13 118
Msunduzi Local Municipality	39 915	-	39 915	36 059
Ugu District Municipality	5 303	-	5 303	7 114
uMgungundlovu District Municipality	7 600	-	7 600	6 616
Harry Gwala District Municipality	1 570	-	1 570	1 015
Siza Water	3 983	-	3 983	4 309
Other bulk customers	171	(53)	118	151
Trade receivables - primary activities	245 418	(8 609)	236 809	212 994
Trade receivables - secondary activities	32 602	(14 355)	18 247	45 054
Total trade receivables	**278 020**	**(22 964)**	**255 056**	**258 048**

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.

	Group		Parent	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
17. INTEREST RECEIVABLE				
Interest and premiums have been accrued for where investments have earned interest, but have not been received at year-end.	33 751	40 722	33 751	40 722
Interest and premium receivable relating to investments are classified as loans and receivables, the carrying amount approximates fair value.				
Total interest receivable	**33 751**	**40 722**	**33 751**	**40 722**
18.1. BANK AND CASH				
Cash and cash equivalents consist of:				
Bank and cash on hand	37 933	32 693	1 462	1 940
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	**37 933**	**32 693**	**1 462**	**1 940**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

18.2. RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH GENERATED FROM OPERATING ACTIVITIES

	Group		Parent	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
Profit for the year	826 989	682 429	800 929	673 969
		-		
Interest income	(137 858)	(122 546)	(135 958)	(122 558)
Finance costs	2 704	45 555	2 672	45 510
Adjusted for non-cash items:				
Fair value adjustment of biological assets	(668)	(475)	-	-
Loss on disposal of biological assets	33	204	-	-
Impairment in subsidairy	-	-	24 491	-
Asset impairments and write-offs	90 058	183 976	90 058	183 976
Amortisation - financial assets	3 239	2 819	3 239	2 819
Amortisation - amount owing to customer	(3 572)	(3 572)	(3 572)	(3 572)
Amortisation - intangible asset	4 335	2 420	4 324	2 420
Depreciation	138 749	109 022	137 411	108 191
Loss on disposal of property, plant and equipment	1 487	2 442	1 487	2 430
Increase in provisions and non-current liabilities	92 686	74 074	92 380	73 802
Increase (Decrease) in doubtful debts provision	408	(16 818)	408	(16 818)
Profit from associate	(4 602)	(3 627)	-	-
Operating surplus before working capital changes	**1 013 988**	**955 903**	**1 017 869**	**950 169**
Working capital changes	**114 727**	**(94 136)**	**104 433**	**(90 152)**
Decrease (Increase) in accounts receivable	111 555	(143 240)	107 595	(131 782)
Increase in inventory	(612)	(426)	(612)	(426)
Increase (Decrease) in accounts payable	3 784	49 530	(2 550)	42 056
		-		
Net cash from operating activities	**1 128 715**	**861 767**	**1 122 302**	**860 017**
19. CAPITAL				
Capital consists primarily of contributions made by the Department of Water and Sanitation	442 847	442 847	442 847	442 847
Total capital	**442 847**	**442 847**	**442 847**	**442 847**
20. DEBT				
Long-term	1 093 331	1 171 766	1 093 331	1 171 766
Short-term	78 433	78 263	78 433	78 263
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	**1 171 764**	**1 250 029**	**1 171 764**	**1 250 029**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

20. DEBT continued...

			Group		Parent	
			2015	2014	2015	2014
			R'000	R'000	R'000	R'000
20.1. ANALYSIS OF DEBT HELD AT AMORTISED COST						
	Terms of repayment	**Weighted average interest rate as at 30 June 2015**				
Bank loans			224 506	277 932	224 506	277 932
Fixed rate	semi annual	5,00%	24 506	27 932	24 506	27 932
Variable	semi annual	8,51%	200 000	250 000	200 000	250 000
Bonds						
Fixed rate	coupon	10,70%	600 000	600 000	600 000	600 000
Foreign loans			347 258	372 097	347 258	372 097
Fixed rate	semi annual	9,08%	173 064	185 000	173 064	185 000
Variable	semi annual	7,35%	174 194	187 097	174 194	187 097
Total debt			**1 171 764**	**1 250 029**	**1 171 764**	**1 250 029**
Refer to note 30 financial risk management and financial instruments for maturity profile and fair value of debt.						
Reconciliation of movement in debt for the year						
Balance at the beginning of the year			1 250 029	1 135 381	1 250 029	1 135 381
Loans repaid			(78 265)	(270 352)	(78 265)	(270 352)
Loans raised			-	385 000	-	385 000
Balance at the end of the year			**1 171 764**	**1 250 029**	**1 171 764**	**1 250 029**

Umgeni Water had a financial structure underlying loan 56 and in terms of the final settlement thereof, it had made a deposit with and ceded it in favour of Rand Merchant Bank, for future settlement and with right of set-off against an equal liability. This structure unwound in September 2014.

	Group 2015 R'000	Group 2014 R'000	Parent 2015 R'000	Parent 2014 R'000
21. OTHER NON-CURRENT LIABILITIES				
Amounts owing to customer	5 935	8 391	5 935	8 391
Amounts owing to a customer in terms of a settlement agreement, held at amortised cost which approximates fair value.				
The fair values are based on discounted cash flows and is therefore classified as a level 3 fair value in terms of the fair value hierachy of IFRS 13				
Total other non-current liabilities	**5 935**	**8 391**	**5 935**	**8 391**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

22. PROVISIONS

	Leave pay	Legal claims	Bonus	Total 2015	Total 2014
	R'000	R'000	R'000	R'000	R'000
Group					
Opening balance	22 115	9 925	18 405	50 445	45 381
Provided during the year	6 749	1 843	64 052	72 644	31 485
Utilised during the year	(3 783)	(6 221)	(18 358)	(28 362)	(26 421)
Closing balance	**25 081**	**5 547**	**64 099**	**94 727**	**50 445**
Parent					
Opening balance	20 723	9 925	18 405	49 053	44 263
Provided during the year	5 835	1 843	64 052	71 730	30 754
Utilised during the year	(3 176)	(6 221)	(18 358)	(27 755)	(25 964)
Closing balance	**23 382**	**5 547**	**64 099**	**93 028**	**49 053**

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.

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

	Group		Parent	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
23. ACCOUNTS PAYABLE				
Trade accounts payable	302 674	251 670	299 175	247 043
Accruals	111 449	75 845	111 052	74 756
Amounts due to related parties:				
Water purchases accrual - DWS	16 913	79 823	16 913	79 823
Sundry creditors	19 129	22 292	23 452	39 010
Section 30 customer advances	127 208	142 116	127 208	142 116
Current portion of non current liabilties	2 456	2 167	2 456	2 167
SARS - VAT	26 641	28 775	26 641	24 533
Trade accounts payable and accruals comprise amounts outstanding for trade purchases.				
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.				
Total accounts payable	**606 470**	**602 688**	**606 897**	**609 448**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

24. OPERATING LEASE ARRANGEMENTS

	Group		Parent	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
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 R2.3m (2014: R2.5m) was earned. Rentals are to staff or tele-communications companies.				
At the reporting date, the group had contracted with tenants for the following future minimum lease payments.	1 475	2 811	1 475	2 811
0 - 1 year	1 162	1 459	1 162	1 459
1 - 5 years	313	1 352	313	1 352
> 5 years	-	-	-	-
Total operating lease arrangements	**1 475**	**2 811**	**1 475**	**2 811**

25. CONTINGENT LIABILITIES

	Group 2015 R'000	Group 2014 R'000	Parent 2015 R'000	Parent 2014 R'000
Guarantees				
Guarantees have been given by certain financial institutions in respect of payments to utility service providers.	822	822	822	822
Total contingent liabilities	**822**	**822**	**822**	**822**

	Group & Parent	
	2015	2014
	R'000	R'000

26. POST-RETIREMENT BENEFIT OBLIGATIONS

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.

	Group & Parent 2015 R'000	Group & Parent 2014 R'000
Summary of net liabilities for post-retirement benefit obligations:		
Defined benefit plan (refer note 26.2.)	160 590	134 004
Post-retirement healthcare benefits (refer note 26.3.)	341 150	316 379
Total post-retirement benefit obligations	**501 740**	**450 383**

	Group		Parent	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
26.1. DEFINED BENEFIT CONTRIBUTION				
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.	37 052	18 250	35 232	16 412

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

26. POST-RETIREMENT BENEFIT OBLIGATIONS continued...

	Group & Parent		
	2015	2014	2013
26.2. DEFINED BENEFIT PLAN			
The Umgeni Water Retirement Fund was established on 1 December 1985 and was closed to new members with effect from 6 February 2007.			
The scheme is funded and actuarially valued every year. The effective date of the most recent valuation is 30 June 2015. 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	9,40%	9,40%	8,20%
Expected return on plan assets	7,00%	9,40%	8,20%
Expected rate of salary increases	8,00%	7,90%	7,00%
Future pension increase	4,67%	4,60%	4,00%
	R'000	R'000	R'000
Amounts recognised in profit/loss in respect of the defined benefit plan are as follows:			
Current service cost	35 152	36 071	29 592
Interest on obligation	76 207	65 603	50 207
Expected return on plan assets	(61 947)	(46 399)	(36 966)
Past service cost	-	-	3 385
Total included in staff costs in statement of profit and loss	**49 412**	**55 275**	**46 218**
Amounts recognised in other comprehensive income in respect of the defined benefit plan are as follows:			
IAS 19R Remeasurements -recognition of unrecognised gains and losses	-	-	-
Net actuarial loss (gain)	12 406	(108 879)	40 276
Total included in statement of other comprehensive income	**12 406**	**(108 879)**	**40 276**
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	897 740	793 345	776 267
Fair value of plan assets	(737 150)	(659 341)	(568 267)
Net liability in statement of financial position	**160 590**	**134 004**	**208 000**
Movement in the net liability recognised in the statement of financial position is as follows:			
Net liability at start of year	134 004	208 000	162 007
Net expense recognised in the statement of profit and loss	49 412	55 275	46 218
Net expense (income)recognised in the statement of other comprehensive income	12 406	(108 879)	40 276
Company contributions	(35 232)	(20 392)	(40 501)
Net liability at end of year	**160 590**	**134 004**	**208 000**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

26. POST-RETIREMENT BENEFIT OBLIGATIONS continued...

26.2. DEFINED BENEFIT PLAN continued...

	Group & Parent		
	2015	2014	2013
	R'000	R'000	R'000
Movements in the defined benefit obligation for the year:			
Defined benefit obligation at beginning of year	793 345	776 267	620 993
Current service cost	35 152	36 071	29 592
Member contributions	7 740	7 604	8 485
Interest cost	76 207	65 603	50 207
Actuarial loss (gain)	28 926	(59 352)	76 600
Benefits paid	(36 202)	(25 893)	(6 156)
Risk premiums	(6 151)	(5 828)	(5 880)
Past service cost	-	-	3 385
Expenses	(1 277)	(1 127)	(959)
Defined benefit obligation at end of year	**897 740**	**793 345**	**776 267**
Movements in the present value of plan assets in the current period were as follows:			
Fair value of plan assets at beginning of year	659 341	568 267	458 986
Expected return on plan assets	61 947	46 399	36 966
Member contributions	7 740	7 604	8 485
Employer contributions	35 232	20 392	40 501
Actuarial gain	16 520	49 527	36 324
Benefits paid	(36 202)	(25 893)	(6 156)
Risk premiums	(6 151)	(5 828)	(5 880)
Expenses	(1 277)	(1 127)	(959)
Fair value of plan assets at end of year	**737 150**	**659 341**	**568 267**
Actual Return on Assets	78 467	95 926	73 290
	%	%	%
The major category of plan assets, and the expected rate of return at the end of the reporting period for each category, are as follows:			
Cash	15,24%	15,10%	9,48%
Equity	38,01%	45,26%	45,20%
Bonds	14,44%	11,96%	13,87%
Property	6,82%	3,44%	5,86%
International	23,97%	23,19%	23,94%
Other	1,52%	1,05%	1,65%
Total	**100,00%**	**100,00%**	**100,00%**

Percentages reflected in 2015 are based on June 2015 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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

26. POST-RETIREMENT BENEFIT OBLIGATIONS continued...

26.2 DEFINED BENEFIT PLAN continued...

		Accrued Liability			
Sensitivity Factor	Central Assumption	Increase		Decrease	
		%	R'000	%	R'000
1% change in discount rate	9,40%	(15,60%)	(139 817)	19,8%	177 614
1% change in inflation rates	7,00%	16,50%	148 490	(13,60%)	(122 366)
1% change in salary increase rate	8,00%	10,50%	94 403	(9,10%)	(82 128)

	Group & Parent		
	2015	2014	2013
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 2015. Employees who joined Umgeni Water after 28 February 2002 cannot elect to join this scheme.			
Key assumptions used in the actuarial valuation, were as follows:			
Discount rate	9,40%	9,90%	8,50%
Expected rate of increase in medical indices	9,00%	9,50%	8,20%
	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	8 941	8 750	7 944
Interest on obligation	30 934	24 763	21 082
Past service cost	-	4 931	-
Total included in staff costs in statement of profit and loss	**39 875**	**38 444**	**29 026**
Amounts recognised in other comprehensive income in respect of the post-retirement healthcare costs are as follows:			
Actuarial (gain) loss	(8 341)	(11 004)	12 226
Total included in statement of other comprehensive income	**(8 341)**	**(11 004)**	**12 226**
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	316 379	294 661	258 506
Net expense recognised in the statement of profit and loss	39 875	38 444	29 026
Company contributions	(6 763)	(5 722)	(5 097)
Net (income) expense recognised in the statement of other comprehensive income	(8 341)	(11 004)	12 226
Liability at end of year	**341 150**	**316 379**	**294 661**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

26. POST-RETIREMENT BENEFIT OBLIGATIONS continued...

26.3 POST-RETIREMENT HEALTHCARE BENEFITS continued...

	Group & Parent		
	2015	2014	2013
	R'000	R'000	R'000
Movements in the post-retirement healthcare obligation in the current period were as follows:			
Projected benefit obligation at beginning of year	316 379	294 661	258 506
Current service cost	8 941	8 750	7 944
Interest cost	30 934	24 763	21 082
Actuarial (gain) loss	(8 341)	(11 004)	12 226
Employer contributions	(6 763)	(5 722)	(5 097)
Past service cost	-	4 931	-
Projected benefit obligation at end of year	**341 150**	**316 379**	**294 661**

The group expects to make a contribution of R8.5m to the post retirement medical aid during the next financial year.

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

		Accrued Liability			
Sensitivity Factor	Central Assumption	Increase		Decrease	
		%	R'000	%	R'000
1% change in medical aid inflation rates	9,00%	19,80%	67 509	(15,60%)	(53 065)
1 year change in expected retirement age	60 years	(3,80%)	(12 883)	3,9%	13 338
1% change in discount rate	9,40%	(15,30%)	(52 343)	19,9%	67 750

The information presented above is as per the latest actuarial valuation, as at 30 June 2015.

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-employement 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 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).Disclosure of related party transactions with key management personnel is included in the Remuneration Report on page 133 - 134.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

27. RELATED PARTIES continued...

	Group		Parent	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
All related party transactions are carried within normal trade conditions. The following transactions were carried out with related parties.				
Revenue: Sale of goods and services				
Bulk water and waste water				
Local government (includes municipalities)*	2 082 839	1 868 310	2 082 839	1 868 310
Revenue: Section 30				
Local government (includes municipalities)	23 043	46 039	23 043	46 039
National Department	77 025	249 058	77 025	249 058
Cost of sales				
Raw water purchases				
National Department	167 230	190 540	167 230	190 540
Cost of Sales: Section 30				
Local government (includes municipalities)	21 471	45 318	21 471	45 318
National Department	70 123	236 245	70 123	236 245
Other operating and administration expenses				
Subsidiaries and associates	-	-	26 404	23 807
Finance Income				
Subsidiaries and associates	-	-	103	117
Work-in-progress: Grant funding for rural development projects				
National Department	26 517	245 343	26 517	245 343
Loans to (from) entities:				
Subsidiaries and associates	-	-	3 271	3 967
Investments in subsidiaries				
Subsidiaries and associates	6 005	6 005	5 509	30 000
Other payables				
Subsidiaries and associates	-	-	5 504	17 736
Revenue in advance: Local government and muncipalities	2 456	2 167	2 456	2 167
Raw water purchases accural	16 913	79 823	16 913	79 823
Right of use agreement				
Local government (includes municipalities)	8 908	11 258	8 908	11 258
Revenue in advance				
Local government (includes municipalities)	5 935	8 391	5 935	8 391

* Included in local government is sales to the group's largest customer of R1 492m (2014: R1 355m)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

28. IRREGULAR EXPENDITURE

	Group		Parent	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
Opening balance 1 July	-	-	-	-
Add: irregular expenditure relating to current year	2 356	7 293	2 356	7 293
Less: amounts recovered	(1 393)	-	(1 393)	-
Less: amounts condoned by appropriate authority	(963)	(7 293)	(963)	(7 293)
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		Parent	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
Opening balance 1 July	-	-	-	-
Fruitless and wasteful expenditure relating to current year	11	7	11	7
Less: amounts condoned by appropriate authority	(9)	(6)	(9)	(6)
Less: amounts transferred to receivable	(2)	(1)	(2)	(1)
Less: amounts awaiting condonement	-	-	-	-
Closing balance 30 June	-	-	-	-
Analysis of fruitless and wasteful expenditure				
Fines and penalties	7	1	7	1
Interest paid	4	6	4	6
Total fruitless and wasteful expenditure	11	7	11	7

Fines and Penalties
No disciplinary steps required. Fines are recoverable from employees.

Interest paid
No disciplinary steps taken as interest has been recovered from suppliers and employees. Internal controls systems are being reviewed and stepped up and interest will not be paid unless it is validated in terms of supporting the business requirements which were unavoidable.

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

30.1. CAPITAL RISK MANAGEMENT

Umgeni Water's objective for managing capital is to enhance shareholder (The Executive Authority) value by providing efficient and reliable water services to customers at the lowest economic cost while reducing debt, remaining financially self sufficient and generating sufficient surplus to meet the required capital expenditure programme and thus sustaining future development of the business and its ability to continue as a going concern. This objective has remained consistent with the prior years.

As a government business enterprise, Umgeni Water strives towards a target optimal capital structure, which is made up of a combination of financial liabilities (refer note 20) and capital and reserves as disclosed in the Statement of Changes in Equity on page 137. This structure is agreed annually between Umgeni Water and its Executive Authority (The Department of Water and Sanitation) in the shareholders compact and is managed in terms of the targeted debt to equity ratio and Umgeni Water's pricing policy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued...

30.1. CAPITAL RISK MANAGEMENT continued...

30.1.1. CAPITAL MANAGEMENT

	Group		Parent	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
Capital and reserves is consistent with the prior year and consists of:				
Capital	442 847	442 847	442 847	442 847
Accumulated profit	4 864 543	4 037 554	4 817 908	4 016 979
Other comprehensive income	(68 282)	(64 217)	(68 282)	(64 217)
Total	**5 239 108**	**4 416 184**	**5 192 473**	**4 395 609**
Total interest bearing debt	1 171 764	1 250 029	1 171 764	1 250 029

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	
	2015	2014
	R'000	R'000
Gross debt (Refer note 20)	1 171 764	1 250 029
Interest Rate Structure		
Fixed	68%	65%
Floating	32%	35%

	Group		Parent	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
Gearing Ratio	0.22	0.28	0.23	0.28

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued...

30.1.CAPITAL RISK MANAGEMENT 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 financial 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:
- 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 2015 to 2019 was approved on 31 May 2014 by the Minister of Water and Sanitation with the concurrence of the Finance Minister as follows:

	2019	2018	2017	2016	2015	2014
	R'000	R'000	R'000	R'000	R'000	R'000
Borrowing Limit						
Unconditional	1 900 000	1 950 000	2 050 000	2 100 000	2 200 000	1 750 000
Conditional	300 000	300 000	300 000	300 000	300 000	-
Total	**2 200 000**	**2 250 000**	**2 350 000**	**2 400 000**	**2 500 000**	**1 750 000**

National Treasury's approval must be obtained for the utilisation of the conditional amounts in any one year, over the five year period.

Managing debt within the approved borrowing limits involves monitoring of existing debt against the limits and continous evaluation of future cash flows and funding requirements.

	Group	
	2015	2014
	R'000	R'000
Utilisation of borrowing limits		
Borrowing limit	2 500 000	1 750 000
Gross borrowings (refer to note 20)	(1 171 764)	(1 250 029)
Collateral and guarantees (refer to note 25)	(822)	(822)
Unutilised borrowing limits	**1 327 414**	**499 149**

(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, as issued by Fitch ratings Agency on 21 January 2015, are reflected at AA+ (long term) and F1+ (short term).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

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	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
a) Investments	1 646 680	2 240 354	1 646 680	2 240 354
b) Trade and other receivables (excluding provision for bad debts)	368 012	469 012	363 006	464 649
c) Cash and cash equivalents (excluding petty cash)	37 882	32 641	1 436	1 913

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 that follows 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 2015

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued...

30.2. FINANCIAL RISK MANAGEMENT continued...

30.2.1. CREDIT RISK continued...

a) Investments continued...

Maximum credit risk exposure to Umgeni Water continued...

			Group & Parent	
Counterparty	Fitch Rating	Credit Limit	2015	2014
		R'000	R'000	R'000
Held-to-maturity			**77 097**	**83 561**
Nedbank Limited	AA/F1+	1 000 000	77 097	10 561
ABSA Bank Limited	AAA+/F1+	1 000 000	-	73 000
Loans and receivables			**1 569 583**	**2 156 793**
ABSA Bank Limited	AAA+/F1+	1 000 000	406 500	400 000
First Rand Bank Limited	AA/F1+	1 000 000	245 500	524 000
Standard Bank of South Africa Limited	AA/F1+	1 000 000	100 500	280 000
Nedbank Limited	AA/F1+	1 000 000	723 686	863 075
Investec Limited	A+/F1+	300 000	50 000	-
Corporation for Public Deposits	Government Guarantee	3 000 000	43 397	89 718
Total			**1 646 680**	**2 240 354**

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 General Manager Finance 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:

	Group		Parent	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
Gross Amounts (excluding provision for bad debts)				
Bulk	238 590	210 064	238 590	210 064
Waste water	6 828	5 696	6 828	5 696
Other activities	122 594	253 252	117 588	248 889
Total amounts (excluding provision for bad debts)	**368 012**	**469 012**	**363 006**	**464 649**

The group's most significant customer accounts for R157m of the trade receivables carrying amount at 30 June 2015. (2014:R145m)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued...

30.2. FINANCIAL RISK MANAGEMENT continued...

30.2.1. CREDIT RISK continued...

b) Trade and other receivables continued...

Monitoring exposure continued...

	Group & Parent	
	2015	2014
	R'000	R'000
Impairment Losses		
Refer to note 16 for impairment of trade and other receivables.		
There were no financial assets past due or impaired and whose terms have been renegotiated.	-	-
Analysis of the ageing of financial assets (trade receivables) which are past due but have not been impaired:	20 733	41 606
30 days	12 930	32 210
60 days	5 927	6 597
90 days	1 175	614
120+ days	701	2 185

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 R38m at 30 June 2015 (2014: R33m). The following represents the maximum credit exposure on these assets.

		Group		Parent	
Counterparty	Rating	2015	2014	2015	2014
		R'000	R'000	R'000	R'000
Cash		**37 882**	**32 640**	**1 436**	**1 913**
First Rand Bank Limited	AA/F1+	36 446	30 727	-	-
ABSA Bank Limited	AAA+/F1+	1 436	1 913	1 436	1 913
Total		**37 882**	**32 640**	**1 436**	**1 913**

The remaining balance of 51 (2014: 52) for the group and 25 (2014: 26) for the parent represents petty cash in Rands per thousand for which there is no credt risk attached.

Guarantees
At 30 June 2015 the group had R0.8m (2014:R0.8m) of guarantees outstanding and this represents the maximum exposure to the group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued...

30.2. FINANCIAL RISK MANAGEMENT continued...

30.2.2. LIQUIDITY RISK
Liquidity risk is the risk that the group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

Mitigation approach
To mitigate liquidity risk, Umgeni Water:
- Monitors the level of expected cash inflows on trade and other receivables together with the expected cash outflows on trade and other payables;
- has short-term funding facilities to meet on-going cash requirements for which facility options are in place with four banks (FNB, Standard, ABSA, Nedbank);
- has established a Domestic Medium Term Note (DMTN) Programme, 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 any delay in payments by 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 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 group anticipates that the cash flow will occur in a different period.

	Group						
	Weighted average effective interest rate	< 1 month	1-3 months	3 months - 1 year	1-5 years	>5 years	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Financial Assets							
2015							
Fixed interest rate instruments*	9,21%	(5 241)	(10 483)	(47 172)	(251 587)	558 069	243 586
Variable interest rate instruments	6,66%	587 455	399 450	381 641	251 587	76 110	1 696 243
Trade and other Receivables	n/a	-	299 672	45 376	-	-	345 048
Total		**582 214**	**688 639**	**379 845**	**-**	**634 179**	**2 284 877**

* Negative up to 5 years due to the reverse annuity which matures in 2021 to meet the redemption requirements for the UG21 Bond.

	Weighted average effective interest rate	< 1 month	1-3 months	3 months - 1 year	1-5 years	>5 years	Total
2014							
Fixed interest rate instruments	9,21%	-	-	-	-	600 000	600 000
Variable interest rate instruments	6,14%	761 328	385 654	722 652	82 169	36 009	1 987 812
Trade and other Receivables	n/a	-	448 046	4 364	-	-	452 410
Total		**761 328**	**833 700**	**727 016**	**82 169**	**636 009**	**3 040 222**

The group and parent figures remain the same with the exception of parent trade and other receivables maturity of 1-3 months of R294 667 (2014: R130 058) in Rands per thousand.

The following tables summarises the group'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 the group 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 2015

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							
2015							
Fixed interest rate instruments	10,17%	-	34 753	61 606	374 612	833 859	1 304 830
Variable interest rate instruments	7,97%	-	33 531	58 853	263 822	141 273	497 479
Trade and other payables	n/a	-	155 583	167 919	-	-	323 502
Total		-	223 867	288 378	638 434	975 132	2 125 811
2014							
Fixed interest rate instruments	10,14%	-	34 578	62 000	379 434	925 502	1 401 514
Variable interest rate instruments	7,63%	-	35 225	60 611	351 232	185 117	632 185
Trade and other payables	n/a	-	146 071	130 058	-	-	276 129
Total		-	215 874	252 669	730 666	1 110 619	2 309 828

The group and parent figures remain the same with the exception of parent trade and other payables maturity of 3 months - 1 year of R297 394 (2014: R142 148) 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 R3 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 under the DMTN Programme on 02 March 2010 at a fixed rate of 10.70%. The unutilised portion of the programme as at the 30 June 2015 is R2 400m.

(b) General banking facilities

Umgeni Water has the following committed and uncommitted bank facilities available:

	Group & Parent	
	Committed	Uncommitted
	R'000	R'000
Type of facility		
Working capital	20 000	-
General Banking	50 020	99 980

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued... for the year ended 30 June 2015

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...

(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.

		Group & Parent	
	Recommended Ratio	2015	2014
Ratio of fixed to floating interest rate			
Fixed	70%	68%	65%
Floating	30%	32%	35%

	Group & Parent	
	2015	2014
	R'000	R'000
At reporting date the interest rate profile of the group's interest bearing financial instruments was as follows:		
Fixed rate instruments		
Financial assets	77 097	364 636
Financial liabilities	(797 571)	(812 932)
Net position	**(720 474)**	**(448 296)**
Variable rate instruments		
Financial assets	1 569 583	1 875 718
Financial liabilities	(374 194)	(437 097)
Net Position	**1 195 389**	**1 438 621**

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 2015 would decrease/increase by R1.1m (2014: R1.8m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued...
for the year ended 30 June 2015

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued...

30.4. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

The following tables show the carrying values and the fair value of financial assets and liabilities, including the fair value hierarchy. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of the fair value.

	Group		Parent	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
CARRYING VALUES				
CATEGORIES OF FINANCIAL INSTRUMENTS				
Financial assets				
Held-to-maturity	77 097	83 561	77 097	83 561
Loans and receivables	1 995 223	2 693 876	1 953 746	2 658 760
Other investments	1 569 583	2 156 793	1 569 583	2 156 793
Other financial assets	8 908	11 258	8 908	11 258
Trade and other receivables	345 048	452 410	340 042	448 047
Interest and premium receivable	33 751	40 722	33 751	40 722
Cash and cash equivalents	37 933	32 693	1 462	1 940
Financial liabilities				
Held at amortised cost	1 811 005	1 888 514	1 811 432	1 895 274
Long and short-term debt	1 171 764	1 250 029	1 171 764	1 250 029
Other non-current liabilities	5 935	8 391	5 935	8 391
Accounts payable	606 470	602 688	606 897	609 448
Interest payable	26 836	27 406	26 836	27 406

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.

		Group		Parent	
		2015	2014	2015	2014
	Fair Value Hierachy Level	R'000	R'000	R'000	R'000
FAIR VALUES					
CATEGORIES OF FINANCIAL INSTRUMENTS					
Held to maturity financial assets	Level 2	82 175	86 807	82 175	86 807
Long and short-term debt	Level 2	1 144 761	1 235 000	1 144 761	1 235 000
Other non-current liabilities	Level 3	5 935	8 391	5 935	8 391

Financial instruments not measured at fair value

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
Other non-current liabilities	Discounted cashflow analysis using prices from unobservable market conditions.	N/a

13.0 GRI Content Index

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