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

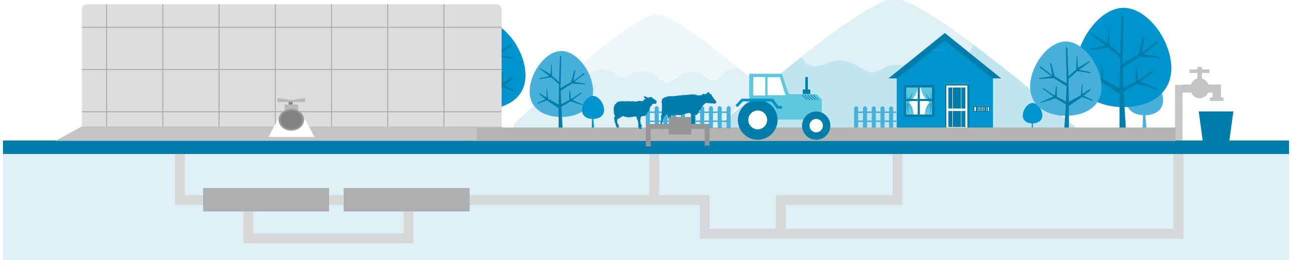
UMGENI WATER · AMANZI

ANNUAL REPORT

2015/2016

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

R2 019m total **Capex Spend (Parent)**, of which **R967 million** went towards **projects** for **rural development.**



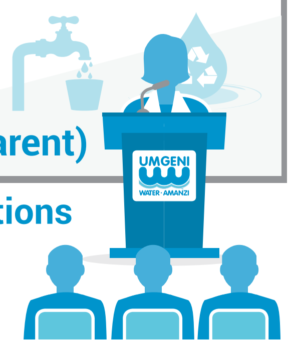
1514 **Capex Programme Jobs (Parent)** and **R39.7m in wages** paid to local labour

R169m spent (Parent) on **asset maintenance**

Over **R2 BILLION** worth of **contracts awarded** to **Black Owned Enterprises** since the start of the **Contract Participation Goals** (CPG) initiative in 2013

25 862 hours spent on **employee training (Parent)** in 2015/2016

9538 participants (Parent) from **174 institutions** reached through our **Water Education and Community outreach Programmes**



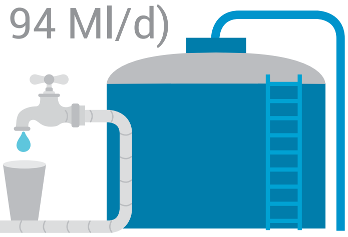
Cover: New Darvill Wastewater Treatment Works Egg-Shaped Digester under Construction

31 million

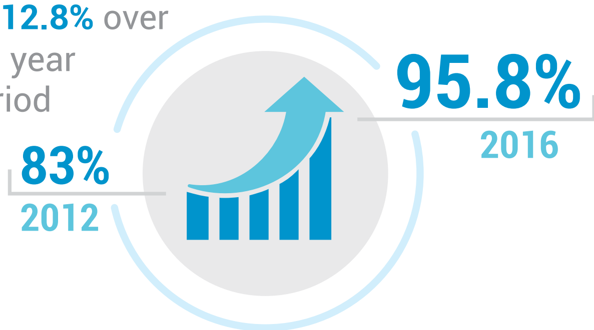
cubic metres **(86 Ml/d)** of **wastewater treated** in 2015/2016

436 million

cubic metres (1194 Ml/d) of **Bulk Potable Water provided** to 6 customers



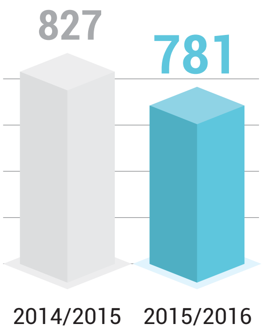
Umgeni Water **performance has improved** by **12.8%** over a 5 year period



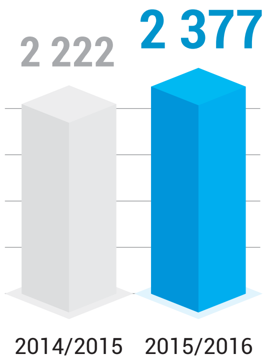
1134 Umgeni Water

Group employees

Group Surplus (Rm)



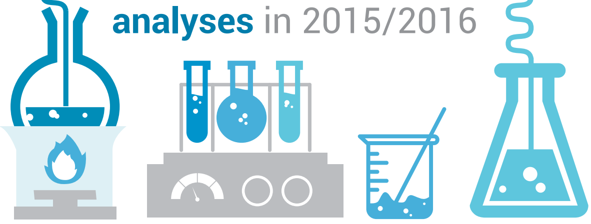
Group Revenue (Rm)



The **laboratory generated**

300 000

analyses in 2015/2016



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.

Contents

1.0

Report Profile

Umgeni Water has prepared annual reports every year since its establishment in 1974. This report covers the twelve-month period 1 July 2015 to 30 June 2016. This report also includes information on Umgeni Water subsidiaries.

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

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

The performance content of this annual report shows Umgeni Water's progress with meeting predetermined objectives and performance indicators as per its approved Corporate Plan and Shareholder Compact, and contains an audited performance scorecard for 2015/2016. The financial content of the annual report further contains the audited financial statements for 2015/2016. Over the years, Umgeni Water developed and embedded in-house processes for identifying, collecting, collating, validating and storing information used in managing its performance and continues to enhance these.

The assurance of the annual report for both financial and performance information is provided by Internal Audit and the Audit Committee of the Board. In addition, as a state-owned entity Umgeni Water is audited by the Auditor-General of South Africa for both financial and performance information.

Albert Falls Dam

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

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

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

2.0

Organisational Profile

2.1 LEGISLATIVE MANDATE

Umgeni Water is a State-Owned Entity (SOE) established in 1974 to provide water services - water supply and sanitation services - to other water services institutions in its service area. The organisation operates in accordance with the Public Finance Management Act (Act 1 of 1999) and the Water Services Act (Act 108 of 1997), amongst other legislation. 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 negatively impact the entity's ability to perform its primary activity. These include:

- Providing management services, training and other support services to other water services institutions, in order to promote co-operation in the provision of water services,
- Supplying untreated or non-potable water to end-users who do not use the water for household purposes,
- Providing catchment management services to or on behalf of the responsible authority,
- With the approval of the water services authority having jurisdiction in the area, supplying water directly for industrial use, accepting industrial effluent and acting as a water services provider to consumers,
- Providing water services in joint venture with water services authorities, and
- Performing water conservation functions.


Mhlabatshane Dam

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

2.3 SUPPLY AREA AND CUSTOMERS (MAP ON PAGE 17)

The Executive Authority has initiated a process that will culminate in the establishment of a single water board for KwaZulu-Natal anticipated to be in place within the next three years. 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, 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 and provide support functions to municipalities as a secondary activity. The RWU will take on more responsibility for regional water resources infrastructure to achieve greater integration with bulk systems.

1514 JOBS

created (Parent) through the implementation of **capital infrastructure projects**

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. Traditionally, Umgeni Water has focused service delivery to six customers, as indicated below. Umgeni Water will progressively expand its customers and services to municipalities in KwaZulu-Natal. Umgeni Water has its head office in Pietermaritzburg and is supported by two Regional Offices, one inland and one coastal.

At the moment the entity derives the bulk of its revenue from the sale of bulk potable water to a core customer base comprising:

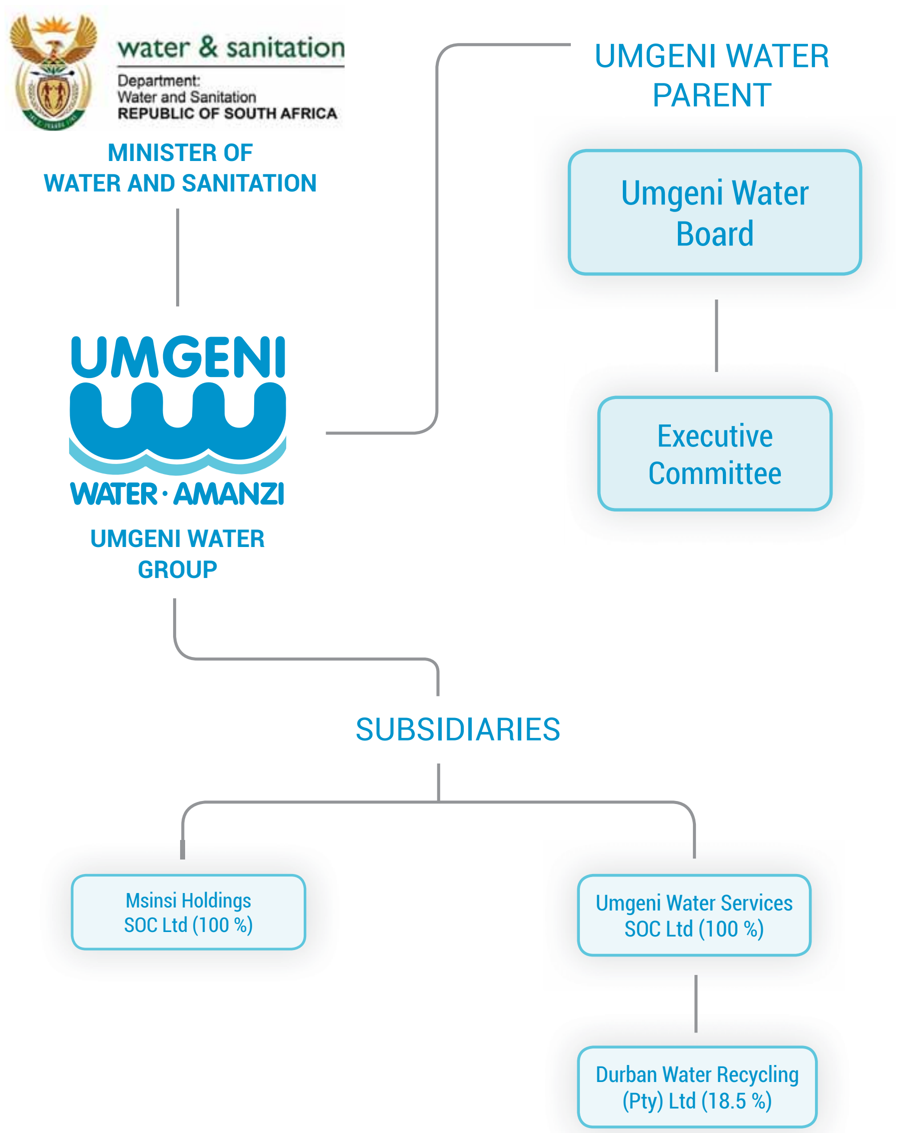
- eThekwini Metropolitan Municipality
- iLembe District Municipality
- Ugu District Municipality
- Harry Gwala District Municipality
- uMgungundlovu District Municipality
- Msunduzi Local Municipality.

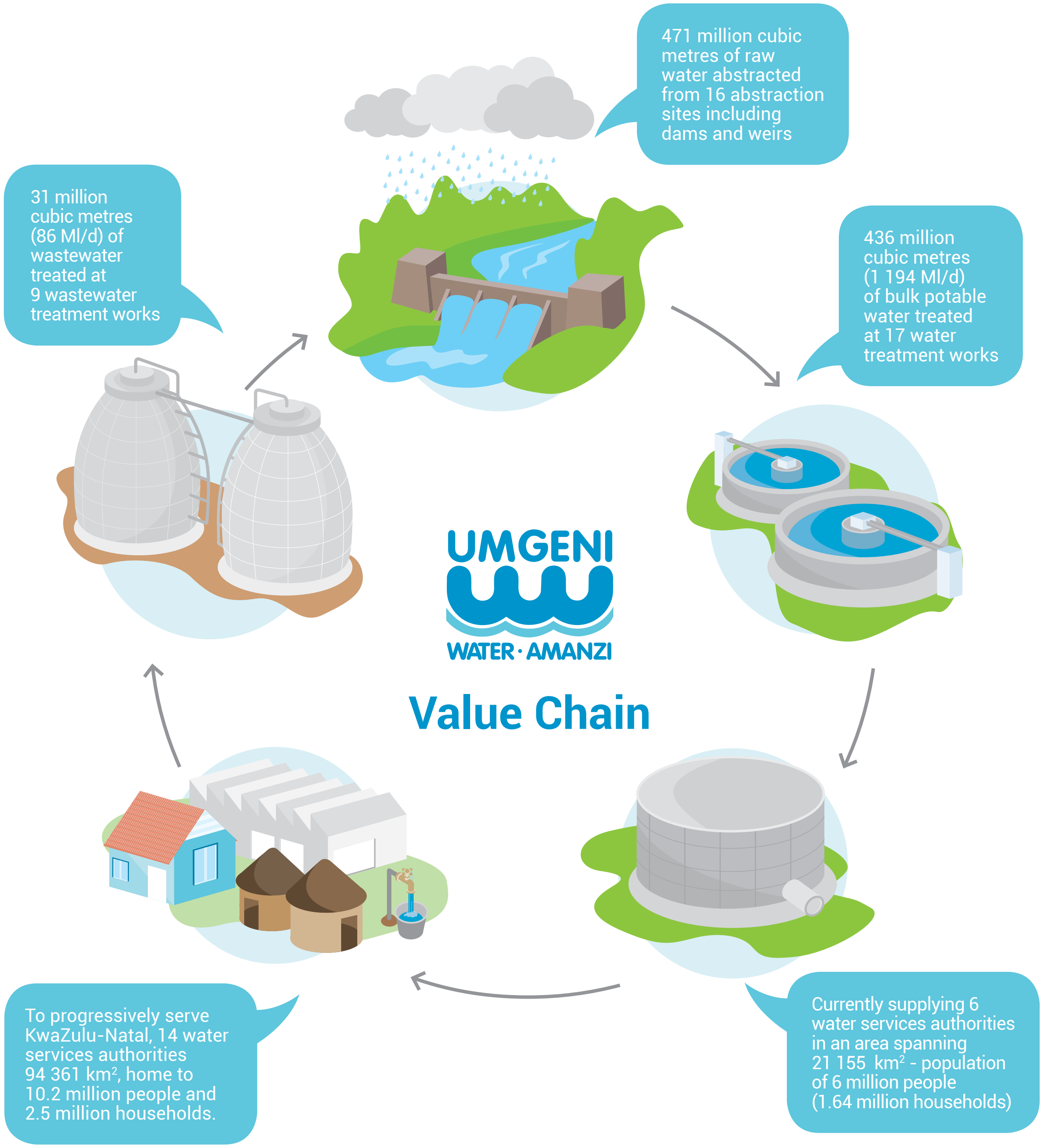
A total of 436 million cubic metres of potable water per annum (1 194 Ml/d) are supplied to these customers. In addition, the entity treats bulk wastewater totalling 31 million cubic metres per annum (86 Ml/d).

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

- Approximately 1260 kilometres of pipelines and sixty-seven (67) kilometres of tunnels,
- Fourteen (14) impoundments,
- Seventeen (17) water treatment works and
- Nine (9) wastewater treatment works.

2.4 STRUCTURE OF UMGENI WATER




471 million cubic metres of raw water abstracted from 16 abstraction sites including dams and weirs
436 million cubic metres (1 194 Ml/d) of bulk potable water treated at 17 water treatment works
Currently supplying 6 water services authorities in an area spanning 21 155 km² - population of 6 million people (1.64 million households)
To progressively serve KwaZulu-Natal, 14 water services authorities 94 361 km², home to 10.2 million people and 2.5 million households.
31 million cubic metres (86 Ml/d) of wastewater treated at 9 wastewater treatment works
Value Chain

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 1134 employees (990 permanent and 144 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 2015/2016, Umgeni Water Group income was R2.38 billion and the net surplus generated was R781 million. Umgeni Water has a total balance-sheet asset value of R9.56 billion of which reserves total R5.98 billion.

2.5 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.

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

Deliver on our mandate

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

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

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

4 BALANCED PERSPECTIVES	9 STRATEGIC OBJECTIVES		
CUSTOMER AND STAKEHOLDER PERSPECTIVE Co-create value with our customers and stakeholders	**SO1:** Increase services and customers	**SO2:** Increase customer and stakeholder value	
FINANCIAL PERSPECTIVE Maintain and leverage our solid financial assets	**SO3:** Increase mobilisation of funds	**SO4:** Increase financial sustainability	**SO5:** Improve financial ratios
PROCESS PERSPECTIVE Create effective and resilient enterprise architecture - our processes, systems and technologies	**SO6:** Improve service delivery systems		
ORGANISATIONAL CAPACITY PERSPECTIVE We will enable our people, secure water resources and ensure infrastructure capacity	**SO7:** Improve and increase infrastructure assets	**SO8:** Increase water resources sustainability	**SO9:** Increase skills and competency

2.6 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 and 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.

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 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.

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.

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.

2.7 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.

Umgeni Water Operational Area

3.0

"Umgeni Water is to be complimented on the manner in which it manages its business and overall keeps customer debt to within manageable levels at all times."

NOMVULA MOKONYANE
MINISTER OF WATER AND SANITATION

Minister's Foreword

The Department of Water and Sanitation has a mandate to ensure that there is equitable and sustainable water and sanitation access to support socio-economic growth and ensure sustainable development of current and future generations. Water sector policy frameworks, legislation and regulations are therefore reviewed at regular intervals to ensure this. The National Development Plan, the Medium Term Strategic Framework, and the National Water Resources Strategy objectives, have all guided the Department's policy and plan development, as well as, Umgeni Water's strategy and implementation plans during this reporting period.

Pertinent water sector policy and legislative review in the reporting period have included: commencement of the review of the National Water Act, Water Services Act and the National Water Resource Strategy, revision of the Water Pricing Strategy and finalisation and implementation of the Institutional Reform and Realignment programme, with the latter impacting water board's areas of operation.

Regarding the latter, the National Development Plan as our policy cornerstone directs that we create alignment in institutions and in the structure of the state, in order to respond efficiently to the needs of our country and its people. The Department initiated the institutional reform and realignment project with the aim of enhancing institutional readiness to fast-track service delivery and handle water challenges as well as ensure there is management of water resources, for the present and to sustain us into the future.

In KwaZulu-Natal, specifically, the water board rationalisation will increase efficiency and effectiveness of Umgeni Water, including through enabling differential service delivery levels and tariff modelling across the entire KwaZulu-Natal Province, increasing access to un-serviced rural areas, enabling rationalisation of systems to achieve better economies of scale, enhance ability to raise capital from the market for infrastructure projects for KwaZulu-Natal as a whole, better leverage cross subsidisation and overall maintain regional viability. The ministry see the Department of Water


Imvutshane Dam

and Sanitation and Water Board collective as 'a repositioning' to deliver services as a capable state, whilst providing opportunity for transformation and business unusual.

The review of the Water Pricing Strategy seeks to improve the financial viability of the country's bulk raw water resource supplies to ensure that this scarce resource is valued by all citizens. Currently annual price increases have been capped and hence prices are below full cost for most agricultural water schemes and some schemes dedicated to industrial and domestic supply. Management of debt remains a worry with some water boards not adequately recovering raw water infrastructure costs. Umgeni Water is not immune to this, and faces difficulty with some customers unwilling to pay for raw water infrastructure developments. Notwithstanding this, Umgeni Water is to be complimented on the manner in which it manages its business and overall keeps customer debt to within manageable levels at all times.

The National Water Act, which provides a legal framework for the progressive realisation of the right to access to sufficient water, is under review to ensure that there is equity in the allocation of water, to improve water resources management and to streamline regulatory processes. The Water Services Act on the other hand is being reviewed to improve the provisions of water services to ensure alignment with the provisions of the Municipal Systems Act and the Municipal Finance Management Act. Umgeni Water was established in terms of the Water Services Act to provide bulk water services to municipalities in its supply area. Regional Water Utilities will however be established in terms of the proposed new National Water Act. The Department is also reviewing the first edition of the National Water Resource Strategy. This review provides an opportunity to ensure that water is at the centre of planning and that it supports the broad national economic and social development goals without compromising the long-term sustainability of water resources.

These policy review developments are all timely as South Africa strives to recover from several years of low growth and enters a new era of service delivery challenges and opportunities.

Umgeni Water is well positioned to respond and over the past several years has had tremendous success in implementing bulk water capital infrastructure programmes. In the reporting period at least five of the bulk water infrastructure projects being implemented will increase access to rural areas. These include the Lower Thukela Bulk Water Supply Project (Phase 1), the Mshwathi Regional Water Pipeline, the Greater Mpofana Bulk Water Supply Project (Phase 1), the Impendle Bulk Water Supply Project and the Maphumulo Bulk Water Supply Project (Phase 3).

KwaZulu-Natal, like many parts of the country experienced serious drought conditions during this period, the harsh impacts of which are still being felt by all. Water scarcity in the province propelled development of strategic partnerships, notably the multi-stakeholder partnerships between the Department of Water and Sanitation, Umgeni Water and the affected Municipality to effectively mitigate the challenge. The demand for water on the KwaZulu-Natal North Coast, and in particular the coastal areas of the iLembe District Municipality, coupled with the requirement for potable water supply to rural backlog areas along the coastal belt, created a dire need for a new potable bulk water supply scheme with a source on the uThukela River and supply to the iLembe District Municipality. Hence the development of the Lower Thukela Bulk Water Supply Project, of which Phase 1 is at a significantly advanced stage. The total number of people estimated to benefit from this scheme is 585,900 within the area bounded in the north by the Thukela River, in the South with the boundary of eThekwini Metro just south of Ballito, on the east by the Indian Ocean and on the west by the areas of uMshinathi, uMvoti, Nkandla and Umlazi. Local municipalities within iLembe DM to benefit from the scheme are KwaDukuza and Mandeni. Of the population to be served, 209 859 are indigent people.

The Department of Water and Sanitation also funded and had the pleasure of launching the Greater Eston Regional Water Supply project serving the Mkhambathini Local Municipality which Umgeni Water successfully completed earlier in this reporting period. This Bulk Water Supply project covers four (4) wards in the Mkhambathini Local Municipality and two (2) wards in the Richmond Local Municipality, supplying potable water to 41 240 people, thereby making a huge impact in alleviating the water supply backlog within the rural areas of uMgungundlovu District Municipality.

Water supply security is critical and the Department of Water and Sanitation is complementing Umgeni Water's bulk supply projects through national water resource developments, whilst ensuring the availability of water for agriculture, the environment, and local economic use and development. Key projects, of relevance to Umgeni Water, include the raising of the Hazelmere Dam and the Mkhomazi Water Project. Major water resource developments are multi-year projects and although none were commissioned during this reporting year, work is at an advanced stage regarding the Hazelmere Dam with commitment to complete the project in the coming period.

Notwithstanding its key bulk potable water supply function, Umgeni Water treats bulk wastewater as part of a multi-pronged strategy to ensure there is sustainable bulk sanitation, environmental integrity and sustainability of the water value chain as a whole. During this reporting period, Umgeni Water made significant inroads into the upgrade of the Darvill Wastewater Treatment Works, which serves the Msunduzi Water Services Authority. Coupled with this is the planned construction of a project that will enable reuse of energy and lower green-house gas emissions.

Through its successful capital infrastructure development programme, amongst other programmes, Umgeni Water has contributed to job creation and transformation during this reporting period. Umgeni Water also has multiple programmes developing youth and women employees. This commitment to skills development is contributing significantly to the future sustainability of the water sector.

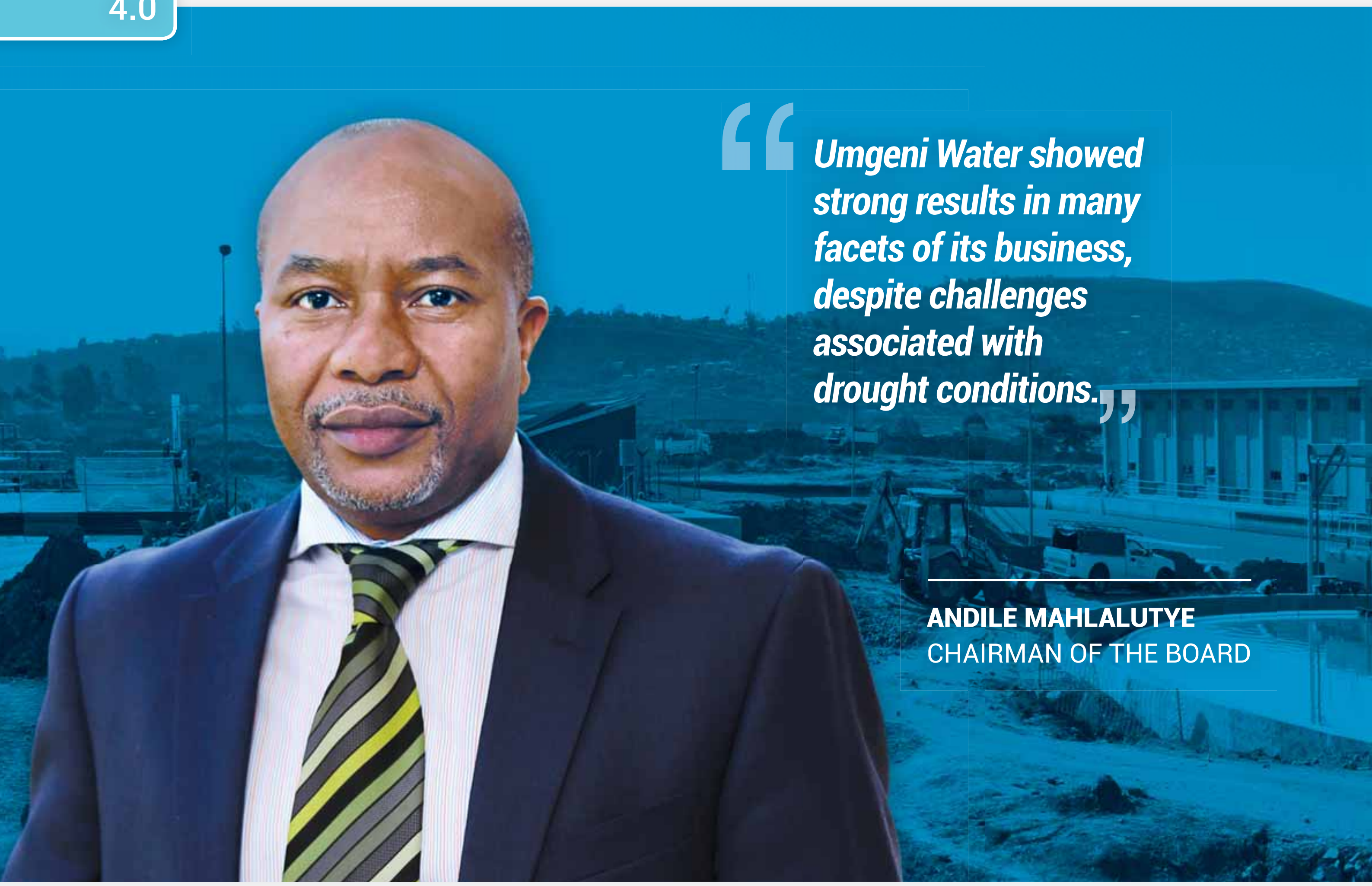
With the unique positioning of State-owned Entities, the Department saw fit during the reporting year, to introduce more rigour into the Corporate Governance Frameworks of Water Boards to encompass principles of ethical leadership, transformation, service delivery, viability and sustainability and principles of collaboration amongst the water family. Umgeni Water is responding well, having early on embraced the Developmental State agenda. The Board contracted with the Water and Sanitation Ministry, through an annually approved Shareholder Compact. Umgeni Water has significantly met both its performance and financial targets for the year. This is due to the sterling job done by the Accounting Authority (the Board) in guiding the entity and a capable Accounting Officer (the Chief Executive) together with the Executive Management in implementing the organisation's strategy. Notwithstanding this, Umgeni Water's performance would not have been achieved without the competent and dedicated personnel that the entity employs, values, grows and develops.

Umgeni Water is to be congratulated on its performance for the year and has set the bar for future service delivery and performance in KwaZulu-Natal. I look forward to realising the promise of water for all in KwaZulu-Natal through Umgeni Water and water sector collaborators in KwaZulu-Natal.

Nomvula Mokonyane
Minister of Water and Sanitation
21 September 2016

Maphephethwa WTW

4.0



"Umgeni Water showed strong results in many facets of its business, despite challenges associated with drought conditions."

ANDILE MAHLALUTYE
CHAIRMAN OF THE BOARD

Chairperson's Report

OVERVIEW

Warm greetings from the Board of Umgeni Water. Another financial year has come to a close, and it has unquestionably been both a testing and an enriching one. This Chairperson's Report is herewith presented for the period 1 July 2015 to 30 June 2016 and it deals with key performance outcomes of Umgeni Water from a strategic perspective. The review period was characterised by some positive results, but conversely it was also impacted by challenging times as the drought, in its second consecutive year, tightened its grip. The unfortunate reality is that at the end of the 2015/2016 financial year, KwaZulu-Natal remained firmly in a drought emergency phase.

The Annual Report 2015/2016 provides a synopsis of Umgeni Water's performance, consistent with the objectives and targets contained in its Five-Year Corporate Plan and Shareholder Compact, which was signed with the Minister of Water and Sanitation. The theme *Improving Quality of Life and Enhancing Sustainable Economic Development* has been adopted to illustrate the additional value the organisation provides. This theme also gives impetus to the Mission and Strategic Intent of Umgeni Water, and is closely aligned to key strategic plans and programmes of the Government of South Africa.

In respect of performance, Umgeni Water showed strong results in many facets of its business, despite difficult conditions that were the consequence of water shortages and reduced water sales. Of concern at this stage is reducing levels of major dams and concomitant drop in revenue as a result of below-normal water sales. While the Board is confident the situation will at some stage revert to what it had been pre-drought, it is difficult to predict with a high degree of accuracy when the rains are likely to materialise as the experts are not unanimous about when the dry spell will end. The drought's continuation into 2016/2017 will obviously produce accompanying negative impacts - from economic, financial, food production and humanitarian perspectives - not just for Umgeni Water but the entire country and Southern African region. The

Darvill WWTW

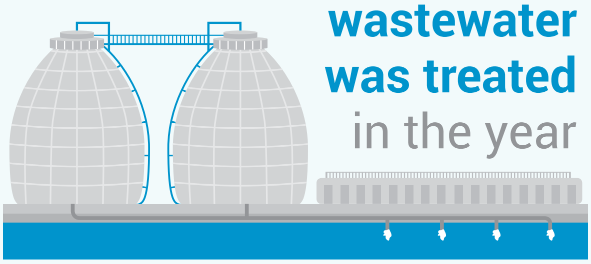
Five-Year Capex Programme of Umgeni Water was reviewed in 2015/2016 and some projects were reprioritised in order to cushion the financial impact of reduced sales.

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, to a large extent, of an uninterrupted supply of South African National Standards 241-compliant bulk potable water. This mandate was also supported by the implementation and commissioning of infrastructure that will make it possible for customers to extend and enhance assurance of water supply.

31 million

cubic metres **(86 Ml/d)** of **wastewater was treated** in the year



While the organisation was fêted for some of its achievements, it was also mindful of the effects of water shortages. Umgeni Water employees stood every step of the way with the Minister of Water and Sanitation, Nomvula Mokonyane, the KwaZulu-Natal Regional Office of the Department of Water and Sanitation, Provincial Government of KwaZulu-Natal, customers and communities that were, and still are, affected by water restrictions in the supply areas of Hazelmere Water Treatment Works, Ixopo Water Treatment Works and Mgeni system (Midmar Water Treatment Works, DV Harris Water Treatment Works and Durban Heights Water Treatment Works).

Umgeni Water staff and management worked around the clock in implementing mitigation measures that have brought relief, albeit small, from the devastating effects of the drought. These measures included emergency transfer schemes to support Hazelmere Dam, Ixopo Dam, EJ Smith Dam and Maphumulo Water Treatment Works. Implementation of these emergency schemes was simultaneously supported by an intensive communication campaign aimed at creating heightened awareness of the imperative need to apply water rationing as a strategy to prevent failure of dams. The support provided by the Minister of Water and Sanitation during her visit to KwaZulu-Natal and her expression of solidarity with consumers was welcomed as an example of strong leadership.

Before I deal with key aspects of performance, I want to mention briefly two events that were the highlights of the year under review. These events were the joint launch of National Water Week and part commissioning of Lower Thukela Bulk Water Supply Scheme. Joint launch of National Water Week brought together water sector partners in an event that was held in drought-affected Richards Bay. The underlying messages that emerged were: we need to stand and work together if we are to manage the effects of the drought. The Lower Thukela Bulk Water Supply Scheme, which was part commissioned by the Minister of Water and Sanitation, illustrates Umgeni Water's determination to extend and enhance assurance of water supply. This scheme has become a flag ship project and, when fully functional, will also alleviate the effects of the drought in both eThekwini and iLembe supply areas.

I will return now to key performance outcomes: Umgeni Water illustrated again its strong financial status which, in the reporting year, resulted, among others, in Group revenue growth totalling R2.38 billion and a net surplus of R781 million. The surplus achieved is crucial to implementation of infrastructure that is required by customers to improve service delivery and extend water provision. This surplus will also be used to repay debt and ensure that Umgeni Water is able to maintain its bulk potable water tariffs at affordable levels.

As the reporting year drew to a close, plans for the disestablishment of Umgeni Water and Mhlathuze Water were still an issue. A road-map towards achieving this has been developed with key milestones that need to be achieved prior to finalising the decision-making process. In this regard, the Minister of Water and Sanitation addressed staff of Umgeni Water and explained what the process entailed and also provided an assurance that there would be no job losses. The intention is to establish one regional entity for the entire Province of KwaZulu-Natal and, in this way, provide adequate coverage and also achieve economies of scale. Many parts of KwaZulu-Natal, specifically rural areas, are not served by water boards which has resulted in no or a poor state of infrastructure and, consequently, difficult or no access to safe drinking water.

Progress to date has included the scoping of a due diligence exercise still to be undertaken and the formation of a transitional committee to oversee the project. The Chairperson of the Board of Umgeni Water and the Chairperson of the Board of Mhlathuze Water have both been appointed to this transitional committee. Further details and updates will be provided when the Chairperson of Umgeni Water reports at the end of the next financial year 2016/2017.

Minister Mokonyane has achieved much in consolidating the water sector under a common vision and fostering like-mindedness that will go a long way towards positioning water and sanitation as the catalyst for socio-economic development in South Africa. Entities can now proudly proclaim they speak a common language in executing their functions under the Water Services Act and in terms of customer service agreements.

STAKEHOLDER ENGAGEMENTS

Umgeni Water places 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, Media and Organised Business Fraternity. The organisation fully understands the expectations of its Executive Authority and other stakeholders, as articulated in Government priorities and in the development strategies of its customers. In this regard, therefore, Umgeni Water has ensured:

- Adequate water resources are secured for the future,
- Bulk infrastructure is developed, is adequate and well maintained, and
- An affordable and sustainable bulk tariff is levied

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, Strategic, Contracted and Non-Contracted Stakeholders on numerous occasions. These interactions were with, among others, the Executive Authority and customers of Umgeni Water. Discussions also took place with Water Services Authorities that are outside of Umgeni Water's traditional service area and which are potentially future customers of Umgeni Water.

Discussions with stakeholders covered almost the entire spectrum of Umgeni Water's business and were at times accompanied by presentations on organisational performance. Discussions also centred on how Umgeni Water can assist WSAs that are struggling with water quality and water services delivery-related problems.

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 that will reduce backlogs.

Engagements took place with some Civil Society representatives, comprising Mayors, Ward Councillors and Amakhosi, to prevent construction of informal dwellings within or close to servitudes that put infrastructure and communities at risk. Two functions were held, one with communities to celebrate the completion of an infrastructure project, and the other to launch Umgeni Water's Annual Report that captures the entity's annual performance. The community function was held in Mandeni to partly commission Lower Thukela Bulk Water Supply Scheme. It was attended by the Minister of Water and Sanitation and MEC for Co-operative Governance and Traditional Affairs Nomusa Ncube-Dube, along with the leadership of iLembe District Municipality, Mandeni Local Municipality and KwaDukuza Local Municipality. The Annual Report launch was attended by the Media, customers of Umgeni Water, officials of the Department of Water and Sanitation, academia and representatives of Civil Society. Presentations on Umgeni Water's annual performance were greeted with positive response that reflected the favourable manner in which the organisation is held.

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 on occasions hosted a water sector group from Dar-es-Salaam, Tanzania, another from Lilongwe, Malawi, and the third from Burkina Faso. The purpose of the visits by these groups was to learn about Umgeni Water's growth strategy, asset management strategy, infrastructure development programme and the regulatory environment in which it operates. These engagements allowed Umgeni Water to learn about the water sector environments in Tanzania, Malawi and Burkina Faso. At home, Umgeni Water actively participated in the biennial conference of the Water Institute of Southern Africa, held in Durban, and the Johannesburg conference of the International Commission on Large Dams.

Representatives of Umgeni Water also attended World Water Week in Stockholm, Sweden. 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.

EMPOWERMENT OF SMALL BUSINESSES

Umgeni Water has pledged to communicate and provide information on a regular basis to small, medium and micro enterprises in order 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 (CPG) in its tenders, as a means to promote and sustain Broad-Based Black Economic Empowerment. CPG requires 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. At this forum various issues were raised by emerging businesses, including ambiguity of their roles and that of large construction companies and lack of opportunities to grow. The response from Umgeni Water was to encourage large companies to assist SMMEs grow so that they will also be able to enter the mainstream of construction.

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 2015/2016 financial year R967 million (48%) of the capital expenditure implemented was spent on key rural development projects which included:

- Greater Eston Bulk Water Supply Scheme,
- 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 strives to ensure positive socio-economic impacts in all its initiatives. In this regard, 1514 jobs were created through implementation of capital infrastructure projects and R39.7 million paid in salaries and wages. Construction opportunities are used to impart skills and expertise that will hold workers in good stead to compete for other construction work opportunities in future.

CORPORATE SOCIAL RESPONSIBILITY

Umgeni Water adopts a structured approach to Corporate Social Responsibility, decisions relating to which are informed by the organisation's Corporate Social Responsibility Policy. Initiatives that were supported in the year under review took into consideration value adds to communities at large. The organisation endeavours to empower, enhance, as well as create opportunities for communities as its contribution to sustainable socio-economic development.

In the year under review initiatives that were supported included provision of school uniforms to indigent children; upgrades of classrooms; provision of a library; Mandela Day projects; skills development projects for youth; training in home-based health care and furnishing for a community hall.

WATER EDUCATION

Umgeni Water continued to provide environmental education and awareness as a platform for lifelong learning. Water education was provided to various audiences, including schools, tertiary institutions and public. A total of 116 classes that reached 4 200 participants were taught at Durban Heights and Midmar water treatment works and at Howick wastewater treatment works. As part of its community outreach programme, Umgeni Water conducted a community capacity building workshop in Hlathikulu to assist members of the community to start a community garden. Water scarcity was emphasised at various public environmental awareness campaigns, specifically during Umgeni Water's participation in the Royal Show and during commemoration of National Environment Week.

Dam safety awareness was conducted for Mhlabatshane schools in the Ugu District Municipality and a river clean-up campaign was undertaken in partnership with the youth of Sobantu, Pietermaritzburg, to clean up the Baynespruit.

CORPORATE GOVERNANCE

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 were: 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 2015/2016 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. The organisation also received the Impumelelo Top Organisation Award for its commitment and contribution to transformation, and Long-Service Award (35 years) from NCT Forestry Co-operative.

THE ROAD AHEAD: RISKS, CHALLENGES AND OPPORTUNITIES

Strategic priorities in the year ahead include:

- Managing and mitigating the effects of the drought and/or its aftermath,
- Co-operating and assisting in the process leading to the formation of one regional water utility,
- Pursuing growth and expansion opportunities,
- Strengthening relationships and working closer with customers and communities, and
- Increasing support to municipalities and the Provincial Government of KwaZulu-Natal.

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 disestablish Umgeni Water and Mhlathuze Water and form one regional entity is not isolated from other Government initiatives that seek to improve sustainability of water supply in KwaZulu-Natal. This will create future growth opportunities for the new entity.

Acquisition of new customers outside the traditional supply area 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 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.

Finally, the Board is able to state unequivocally that Umgeni Water has made a vital contribution to the Province of KwaZulu-Natal, its people and to socio-economic development.

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 on Water and Sanitation for oversight and direction,
- The Department of Water and Sanitation for support, oversight and direction,
- Umgeni Water's customers, notably, 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 Executives 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 results.

A. Mahlalutye

Andile Mahlalutye
Chairman of the Board
21 September 2016

Darvill WWTW

5.0

"The entity's performance during this reporting period demonstrates its ability to support the socio-economic transformation and water infrastructure investment agenda, whilst ensuring future sustainability."

MR CYRIL VUYANI GAMEDE
CHIEF EXECUTIVE

Chief Executive's Report

Umgeni Water's performance during this reporting period - 1 July 2015 to 30 June 2016 - demonstrates the entity's ability to support an agenda of socio-economic transformation and water infrastructure investment, whilst delivering financial performance that will ensure water services can be sustained into the future. The successes during this reporting period were achieved due to focused implementation of the entity's strategy through targeting plans, projects, programmes and initiatives to realise the organisational performance outcomes and hence the needs and priorities of government, customers and end-users.

PRODUCT QUALITY

Once again excellent drinking water quality was provided to customers and communities, with water quality meeting the SANS 241 standard at all treatment works. Umgeni Water successfully treated water at seventeen (17) water treatment works, having acquired a further four (4) small water treatment works during the reporting period.

Wastewater is treated at nine (9) treatment works, the most significant of which is the Darvill Wastewater Treatment Works (WWTW). The Darvill WWTW capacity upgrade is a flagship project of Umgeni Water for which construction significantly advanced during this reporting period. The upgrade will be completed in 2017 and will significantly improve the quality of wastewater discharged.

Consistent investment in maintenance of water and wastewater treatment assets continued with a total of R169 million spent on asset maintenance in the past year. Over the past five years, R780 million has been spent on maintenance, excluding capitalised refurbishments, which is an average of 7.3% of revenue or 3.5% of Property, Plant and Equipment.

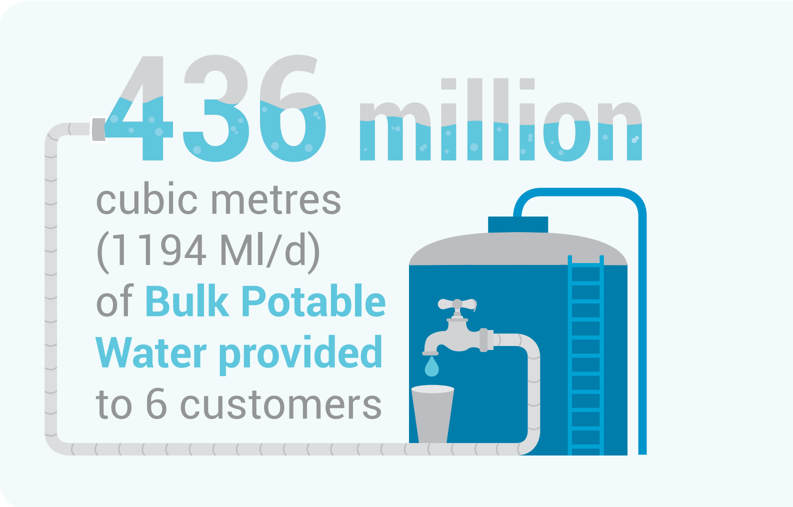
CUSTOMER SATISFACTION

This reporting year fell during a significant drought period that seriously impacted supply security to customers and end users. Umgeni Water responded in a resilient manner to meet the range of customer needs

including enhancing education and communication drives, planning and implementing multiple emergency water transfer schemes and imposing supply restrictions. In addition, targeted support initiatives were planned and implemented in areas outside the traditional supply zone to help indigent areas meet basic needs during this extreme weather period. Notwithstanding the climate challenges, there were no unplanned service disruptions that exceeded 24 hours in the reporting period, thus continuing to assure customer satisfaction.

Bulk water supplied totalled 436 million cubic metres of potable water for the 12-month period (1 194 Ml/d), which is a 2.5% *decrease* from the prior year (447 million cubic meters in 2015), largely attributed to the water restrictions associated with the extreme drought period.

Bulk wastewater treated, increased slightly to 31 million cubic metres per annum (86 Ml/d), due to acquisition of five (5) small wastewater treatment works.



STAKEHOLDER UNDERSTANDING AND SUPPORT

Umgeni Water remains closely aligned to the agenda of government and in the coming year will work even closer with the Minister, Department of Water and Sanitation and other key partners to deliver the optimal institutional arrangement that will deliver water services to communities in the KwaZulu-Natal province.

All stakeholder engagement plans were successfully met in the year and straddled the full spectrum of statutory, strategic, contractual and non-contractual stakeholders.

In addition, collaboration was further enhanced during this period through facilitation of drought-related joint operating committee sessions. These were specifically facilitated for the North Coast and Mgeni systems, and included: iLembe District Municipality, Sembcorp Siza Water, Msunduzi Local Municipality, uMgungundlovu District Municipality, Ugu District Municipality, eThekwini Metro, Department of Water and Sanitation and CoGTA. Initiatives implemented through these sessions included:

- Management of water resources to extend the duration of available supplies,
- Planning and implementation of Water Savings Plans,
- Daily dissemination of water treatment production data and water savings targets to all stakeholders, and
- Media and communication campaigns targeting the general public.

COMMUNITY AND ENVIRONMENTAL SUSTAINABILITY

Umgeni Water continues to make procurement accessible to Black Economic Enterprises through leveraging off its Capital Infrastructure Investment Programme and other opportunities. Most contracts straddle multiple years with the benefits of economic transformation being realised over several years. The Contract Participation Goal target set, of ≥ 35%, for construction contracts and professional services for the reporting year were well met, bringing the total award since the initiative started in 2013 to more than R2 billion.

The introduction of the programme has changed the procurement culture both within the entity and in the supplier domain and will continue to enable meaningful economic participation.

In undertaking its business in the year, Umgeni Water (Parent) created a total of 1514 temporary jobs (1157 in 2015) from its Capex Programme and a total of R39.7 million was paid in wages to local labour (R31.9 million in 2015). The trend in job creation has been progressively increasing over the years.

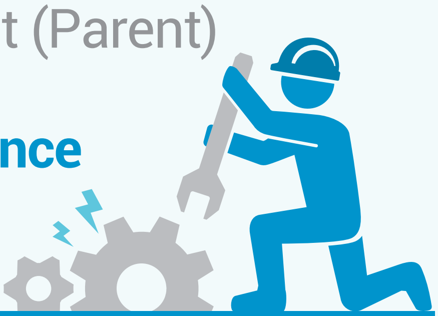
INFRASTRUCTURE STABILITY

Significant progress with capital infrastructure implementation was made during the reporting period for both new bulk water supply scheme construction and critical refurbishments and upgrades of major treatment works. Spend performance (Parent) for the year was just over R2 billion (R1.69 billion in 2015). Of this, R967 million (48%) was spent on projects furthering rural development. Overall, a commendable 93% of target water infrastructure project milestones were met.

The capital expenditure comprised implementation of eight (8) major capital infrastructure projects in the year, amongst others, for which customers targeted and progress in the reporting period were as follows:

R169 million

was spent (Parent) on **asset maintenance** in the past year



CUSTOMERS TARGETED AND PROGRESS WITH KEY BULK INFRASTRUCTURE DEVELOPMENTS DURING 2015/2016 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, weir (on the Thukela River), water treatment works and potable water pipelines to deliver 55 Ml/d in Phase 1. In Phase 2, the works will be upgraded to deliver 110 Ml/d. Construction of access roads, the weir, abstraction works, gravity main, water treatment works, reservoir, rising main and power supply were completed in 2015/2016. Mechanical, Electrical and Instrumental works are to be completed in 2016/2017.

(2). Maphumulo BWSS, Phase 2 Imvutshane Dam

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.

The construction of Imvutshane Dam was completed in 2014/2015. Detailed planning for the upgrade of the raw water and booster pump stations and relocation of a package plant from Hazelmere WTW to Maphumulo WTW were completed during 2015/2016. Design of the upgrade of the Water Treatment Works from 6 Ml/d to 12 Ml/d is underway and the detailed feasibility investigation, for the inter-basin transfer from the Hlimbithwa River into Imvutshane Dam, has commenced.

(3). '61 Pipeline Augmentation, Richmond Off-take to Umlaas Road

Serves uMgungundlovu District Municipality and eThekwini Metropolitan Municipality.

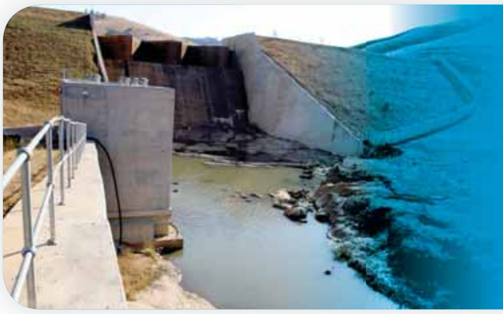
This infrastructure development includes a Bulk Potable Water Pipeline from Richmond Off-take to Umlaas Road. A new intake structure at Umlaas Road reservoir was completed in 2015/2016. The Environmental rehabilitation component of the project will be completed during the next rainy season.

(4). 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 4 Ml/d bulk infrastructure development was completed early in 2015/2016.

(5). Mhlabatshane BWSS



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

The scheme will comprise an abstraction works on the Mzimkhulu River, pump station and pipeline to deliver water to the Mhlabatshane Water Treatment Works and upgrade of the Water Treatment Works from 4 Ml/day to 8 Ml/day. Phase 1, the commissioning of the Bulk Water Supply Scheme, was completed in 2014/2015. Planning of Phase 2 is in progress.

(6). 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 2012/2013. Construction of filter beds was completed during 2015/2016.

(7). Darvill WWTW Capacity Increase

Serves Msunduzi Local Municipality.

The works capacity is being upgraded from 65 Ml/d to 100 Ml/d. Construction is in progress and include a new inlet works, primary and secondary settling tanks, pumps and pump station, reactor, chlorination house and anaerobic digesters, amongst other components. Completion is scheduled for the end of 2016/2017.

(8). uMshwathi Regional BWSS

Serves uMgungundlovu District Municipality and iLembe District Municipality.

Design of the scheme, which includes 91 km of pipelines and a total of 30 Ml of reservoir storage, is complete. The first phase pipeline (27 km from Claridge to Wartburg) was completed mid-2015/2016. Construction of phase 2 and phase 3 pipelines will be completed in 2017/2018.

WATER RESOURCES ADEQUACY

The core business function of Umgeni Water - to treat and supply bulk potable water - is crucially dependent on the availability and sustainability of water resources. Understanding what water resources are available, both in the short term and for the long term, and factors affecting the level of assurance from these resources, is key to achieving the balance between supply and demand and maintaining customer supply assurance levels. Umgeni Water works collaboratively with the Department of Water and Sanitation to plan and implement water resources infrastructure. In the year, progress was made with the following water resource infrastructure developments:

- Imvutshane Dam (UW) has been commissioned although impoundment has not been successful as a result of the drought. Impoundment is expected during the next rainfall season,
- uMkhomazi Water Project (DWS and UW) feasibility study which commenced in the prior period is complete,
- Hazelmere Dam raising (DWS) construction phase has commenced,
- Lower Thukela Project (UW) construction is almost complete and commissioning will start in mid-2016/2017,
- Lower uMkhomazi Bulk Water Supply Scheme (UW) feasibility study is now complete and a detailed design will be undertaken once a decision is made on whether this augmentation option would be more appropriate than desalination, and
- East Coast Desalination Plants detailed feasibility study is complete.

LEADERSHIP AND EMPLOYEE DEVELOPMENT

The entity's goals and human resources needs are mutual, compatible and strongly inter-dependent and Human Resources policies seek to ensure a competent, motivated and engaged workforce. Skills development remains essential and enables employees to excel in their individual capacity and to deliver on the entity's strategy. Progress with skills development programmes during the reporting period included: employee training and development, assisted education, learnerships and apprenticeships, graduate trainee and Internships and bursary programmes.

In the prior year Umgeni Water partnered with the University of KwaZulu-Natal to develop and implement programmes for leadership and management development. Implementation of two key programmes, the Management Development Programme (MDP) and the Emerging Management Programme (EMP) were implemented with a total of 103 employees successfully completing these programmes. During the reporting period, efforts focused on finalising the next level programme, the Senior Management Development Programme (SMDP), which will be implemented in 2017.

Learnerships and apprenticeships programmes provided both internal and external candidates with training, development and exposure during the year. Fifty-seven (57) apprentices were recruited in trades including: mechanical engineering, electrical engineering and instrumentation fields. These registered apprentices completed the first phase in April 2016 and are currently receiving workplace training at Umgeni Water workshops.

Umgeni Water's graduate trainee programme is aligned to guidelines provided by professional registration bodies. In the reporting period, the entity had a total of thirty-nine (39) graduates enrolled in engineering, science and other required professional fields and thirty-one (31) in-service trainees receiving experiential training. The entity also has a one-year internship programme to provide work experience to unemployed graduates and contracted thirteen (13) interns during the reporting year to work in multi-disciplinary fields across the organisation.

Umgeni Water is funding thirteen (13) bursary students through the Umgeni Bursary Scheme with students enrolled at various universities in disciplines of civil, mechanical and electrical engineering, chemistry, microbiology and finance.

In partnership with National Treasury the entity continued to implement the graduate development programme for engineers, technologists, process support and technicians with emphasis on meeting the skills shortages in municipalities in the service area. As part of this programme, forty (40) trainees are enrolled and in training for a period of five years.

OPERATIONAL RESILIENCY

The entity's strategic risks are well aligned to its strategy. Of a total of ten (10) strategic risks, nine (9) have been managed to reasonable / good control strength levels. One strategic risk is outside the entity's risk appetite and tolerance level, namely short-term water resources availability caused by low water levels in dams. This risk has been mitigated in the short-term through emergency water transfer schemes and implementation of water rationing. The emergency schemes implemented by Umgeni Water comprise:

- A transfer scheme from the Hlimbithwa River to supply the Maphumulo Bulk Water Supply Scheme,
- A transfer scheme from the uThongathi River to supplement Hazelmere Dam,
- A transfer scheme from the Mpambanyoni River to the South Coast EJ Smith Dam,
- A transfer scheme from St Isidore Dam to Ixopo Dam, and
- A transfer system from a borehole to the Hospital Water Treatment Works at Applesbosch.

Daily water rationing was imposed for three systems, namely, the Hazelmere System, the Mgeni System (Durban Heights, Midmar, DV Harris WTWs') at 15% below agreed baseline levels, and the Ixopo System (50% reduction in overall demand).

This extreme event, which has been widespread, will positively change mindsets regarding water use and conservation. For Umgeni Water specifically, the event has added to institutional knowledge and will be used to inform operational planning and long-range planning, to enhance future event response. For the medium to long-term, the entity will continue to advance plans that it has in place to ensure long-term sustainability for the region.

Umgeni Water boasts four modern ISO/IEC 17025 accredited laboratories in chemistry, microbiology, hydrobiology and soil testing, all with long established reputations of meeting international standards. Utilising modern analytical techniques, highly skilled and dedicated scientists, technicians and laboratory support staff, enable this facility to provide a world-class service 365 days a year.

A large portion of the knowledge gained in new technology and processes is through the innovation, research and development projects that are undertaken in partnership with academia, notably 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 benefits the sector as a whole through active participation in Water Research Commission projects.

The implementation of the SAP Enterprise Resource Planning (ERP) system has been a significant entity-wide focus during the reporting period. This implementation will enable automation and integration of the core business processes within the entity and is intended to drive huge improvements in our operational efficiency and effectiveness. The implementation is a major undertaking for Umgeni Water and is among the most sophisticated enterprise intervention undertaken in its history. Its successful implementation, targeted for 2017 will ensure the entity is well positioned for its current water board business and future business success as a regional water entity.

OPERATIONAL OPTIMISATION

The extreme drought during the reporting period created an even greater need to ensure assiduous use and water loss management practices. Careful water balancing ensured unaccounted for water was maintained below the entity's target level of 5%, with a total of 3.85% recorded for the year.

Energy is a crucial resource for water and wastewater treatment processes and several initiatives are underway to manage the usage. The Darvill Wastewater Treatment Works cogeneration initiative, which is in design stage, is the main initiative being implemented to reduce energy consumption. Once complete, the project will use digester methane to produce electricity to supplement needs. Optimal pumping and other strategies remain inherent parts of the business psychology, straddling all parts of the project cycle - from 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 R2.38 billion was generated (R2.22 billion in 2015),
- Gross surplus (Group) was R1.33 billion (R1.27 billion in 2015) and net surplus R781 million (R827 million in 2015), and
- Balance sheet reserves were strengthened to R5.98 billion (R5.24 billion in 2015).

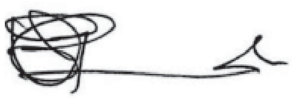
The earned surplus for the year will be invested in support of the entity's five-year R5.8 billion (not escalated) capital infrastructure programme and used in debt reduction. Capital commitments as at 30 June 2016 were R3.2 billion.

R2.2 billion (37%) of the five-year capex benefits rural communities. This excludes capital investment for areas outside the traditional supply area. Thus, 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 and access to other strategic financial resources will be vital for delivering services in KwaZulu-Natal.

CONCLUSION

The past year has been challenging for the water sector due to the pervasive drought experienced in KwaZulu-Natal and many parts of South Africa as a whole. Umgeni Water has demonstrated resilience as an entity through steadfastly maintaining performance at a high level during this period and continuing to serve customers well. Enterprise-wide systems have been significantly enhanced and place the entity in a position of strength for future growth. The maintenance of a sound balance sheet during this period provides a stable base that can be leveraged for the future growth and service delivery planning for KwaZulu-Natal.



Mr Cyril Vuyani Gamede
Chief Executive
21 September 2016

Lower Thukela BWSS

6.0

Corporate Governance

6.1 COMPOSITION AND FUNCTIONING OF THE BOARD

BOARD

Umgeni Water has a unitary Board comprising 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 Chairman 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 (as of May 2014) ("the Minister").

The Board is assisted with discharging its responsibilities through the following four (4) committees:

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

Darvill WWTW Upgrade

Umgeni Water Board and Committee memberships are shown in **Table 6.1.**

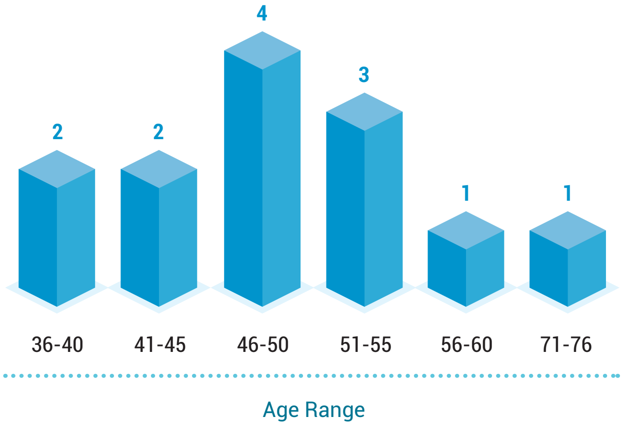
Table 6.1: *Current Board and Committee Memberships*

Board Member	Gender	Audit	REMCO	Capex	Governance
1. Mr A Mahlalutye[1]	M				√
2. Prof I Vally[2]	M	√			√
3. Mr V Gounden	M		√		
4. Ms T Shezi	F		√	√	
5. Ms N Afolayan[3]	F	√		√	√
6. Ms Z Mathenjwa	F	√	√		
7. Dr T Dube	F	√		√	
8. Ms N Chamane[4]	F		√	√	√
9. Mr V Reddy	M		√	√	
10. Mr G Atkinson	M		√	√	
11. Mr T Nkhahle	M	√		√	
12. Mr T Zulu	M	√		√	
13. Mr C Gamede[5]	M		√	√	

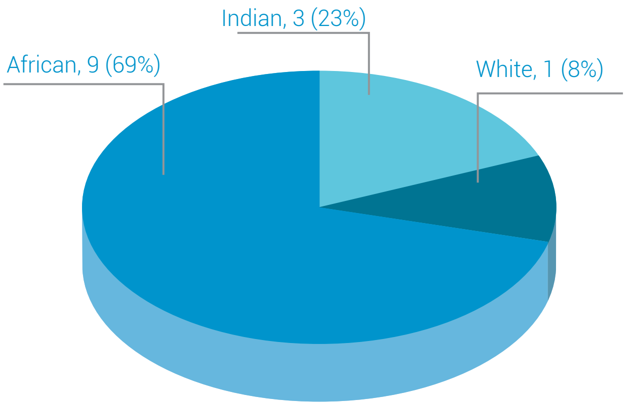
√ Denotes Committee Member
[1] Chairman
[2] Audit Committee Chairman
[3] Capex, Fixed Assets and Procurement Committee Chairperson
[4] Human Resources and Remuneration Committee Chairperson
[5] Chief Executive

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

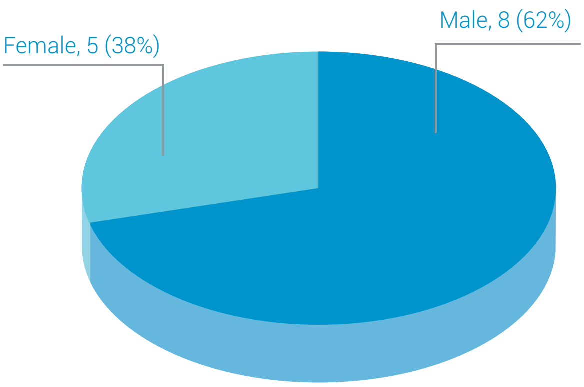
(a) Board Member Age Profile



(b) Board Member Race Profile



(c) Board Member Gender Profile



A Board Charter (reviewed in 2016) provides a framework for fiduciary duties, responsibilities and overall functioning of the Board. The Board Charter is read in conjunction with:

- The Public Finance Management Act (Act 1 of 1999), as amended by the Public Finance Management Amendment Act (Act 29 of 1999), hereinafter referred to as the PFMA,
- Treasury Regulations (GG 27338) as amended from time to time,
- The Water Services Act (Act 108 of 1997), as amended, and
- The King Code of Governance Principles, 2009 (King III).

The Board is accountable for the leadership and control of Umgeni Water. Its responsibilities include the development, review and monitoring of strategic objectives, the approval of major capital expenditure, risk management and monitoring of operational and financial performance.

The government of the Republic of South Africa, represented by the Minister and the Department of Water and Sanitation, is the sole shareholder of Umgeni Water. The Board contracts with the Executive Authority, the Minister, through an annually approved shareholder compact and actively engages with the shareholder through various forums during the year.

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

Non-executive Board members receive remunerative benefits and fees as determined by the Minister on an annual basis and in line with their terms of appointment. Therefore no Board member is involved in determining his/her own remuneration. Board Members' remuneration is fully disclosed in Umgeni Water's Annual Report. (Page 140).

SUMMARY OF BOARD AND COMMITTEE MEETINGS AND ATTENDANCE IN 2015/2016

Attendance is as follow:

- 89% for Board: Five (5) normal meetings.
- 90% for Audit Committee: Five (5) normal meetings.
- 77% for HR and Remuneration Committee: Five (5) normal meetings.
- 84% for Procurement, Fixed Assets and Capital Projects Committee: Five (5) normal meetings.
- 100% for Governance Committee. Two (2) meetings.

Table 6.2: *Board Meeting Attendance in 2015/2016*

Board Member	Gender	22-Jul-15	17-Sep-15	25-Nov-15	16-Mar-16	21-Apr-16
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] BOARD 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 a written Terms of Reference which is 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 6.3:** Audit Committee Meeting Attendance 2015/2016*

Members	Committee Meetings				
	02-Sep-15	09-Nov-15	02-Mar-16	13-Apr-16	01-Jun-16
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. The committee was mandated to promote ethical behaviour, which includes preventing incidences of fraud, bribery and other corrupt activities and to monitor the entity's compliance with relevant social, ethical and legal requirements and best practice codes. The establishment of the committee shows a deepened commitment by Umgeni Water as a responsible corporate citizen to all it stakeholders.

The Ethics Committee has an Independent Chairman - who is neither a member of management nor a member of the Board. The Chairman, Mr S Shabalala, is a qualified Chartered Accountant and has extensive public and private sector experience in Financial Management and Corporate Governance matters. He is currently the Managing Director of Ukukhanya Advisory Services, a Durban-based Accounting and Auditing company.

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

The Ethics Committee met four times during the year to execute its role and responsibility as prescribed by applicable legislation and included monitoring the entity's activities against legal or best practice requirements relating to:

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

The Ethics Committee, in conjunction with the Audit and Risk committees deliberates on Umgeni Water's compliance with the Code of Ethics and reports all matters within its scope of mandate to the Board through the Audit Committee. This includes environmental, financial and social ethics. The committee is satisfied that it has fulfilled all its statutory duties and duties assigned to it by the Board, through the Audit Committee, during the reporting period.

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

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 entity'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, Umgeni Water had a total of seven (7) unresolved High-Medium Internal Audit Findings:

- One (1) - categorised as a High finding – is due to wastewater quality compliance. Umgeni Water is currently upgrading the capacity of the Darvill Wastewater Treatment Works to address this, with completion scheduled for June 2017.
- Six (6) findings have been categorised as Medium risk (significant) in nature. All findings have been allocated to responsible and accountable personnel for resolution and management is closely monitoring progress to ensure closure of these in 2017.

COMPLIANCE WITH LAWS AND REGULATIONS

Umgeni Water continues to enhance its compliance management system. The organisation developed a Legal Compliance register in 2015 that has been used as a basis for monitoring and reporting Legal Compliance in 2016. During the year a total of twenty-three (23) assessments were done. Ten (10) areas were flagged of which nine (9) were successfully addressed during the year. An overall compliance of 99.5% has been achieved. One (1) outstanding matter, relating to safety (fire-breaks) will be addressed early in 2017.

EXTERNAL AUDIT

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

HUMAN RESOURCES AND REMUNERATION COMMITTEE

This Committee comprises of six (6) non-executive directors and the Chief Executive and its chairperson is Ms Nompumelelo Chamane. The Committee reviews and recommends to the Board all matters relating to:

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

Table 6.4: *Human Resource and Remuneration Committee Meeting attendance 2015/2016*

Members	Committee Meetings				
	19-Aug-15	11-Nov-15	17-Feb-16	06-Apr-16	29-Jun-16
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 recommends procurement policies to the Board for approval, assists the Board with capital expenditure programme related decisions, including approving the release of capital expenditure above executive management's delegated authority and within the Committee's delegated authority.

The Committee ensures that the entity's supplychain policies and procedures are equitable, transparent, competitive and cost effective. It reviews the organisation's infrastructure asset maintenance programme/performance. Contracts that exceed the Committee's Delegation of Authority are referred to the Board for approval. The Committee reviews and recommends amendments to the limits in the delegation of authority, relating to budget approvals for capital projects and procurement, to enable management to expedite the implementation of projects.

Table 6.5: *Capital Projects, Fixed Assets and Procurement Committee Meeting Attendance 2015/2016*

Members	Committee Meetings				
	12-Aug-15	09-Nov-15	17-Feb-16	30-Mar-16	22-Jun-16
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 Governance Committee meets on an ad-hoc basis. The Committee is chaired by the Chairman of the Board, Mr Andile Mahlalutye, and comprises the four (4) non-executive Committee Chairs.

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

Table 6.6: *Governance Committee Meeting Attendance 2015/2016*

Members	Committee Meetings	
	16-Sep-15	19-Apr-16
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, as well as, individual Non-Executive Directors and members of the Executive have access to the Company Secretary who is enjoined to provide guidance on how members should discharge their duties and responsibilities in the best interests of the entity. The Company Secretary continues to oversee the preparation and coordination of the induction and on-going training of Board members and assists the Board and its Committees in formulating annual plans, agendas, minutes, and terms of reference as warranted.

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

The Company Secretary provides company secretary services to Umgeni Water and its subsidiary firms, is not a Director of the Company or any of its subsidiaries and accordingly maintains an independent and arm's length relationship with the Board and the Executives. Contact details of the Company Secretary appear on page 136.

BOARD MEMBERS

STANDING FROM LEFT TO RIGHT:
Ms Thokozile Shezi, Prof Imtiaz Vally, Mr Vasu Gounden, Mr Visvin Reddy, Mr Sbusiso Madonsela (Company Secretary)
Mr Graham Atkinson, Mr Thabani Zulu, Mr Teboho Nkhahle

SITTING FROM LEFT TO RIGHT:
Ms Nompumelelo Chamane, Dr Takalani Dube, Mr Andile Mahlalutye (Chairman), Ms Ziphozethu (Gabsie) Mathenjwa, Mr Cyril Gamede (Chief Executive), Ms Nombuso Afolayan

The Board members' profiles include current and former engagements outside Umgeni Water.

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; Former Non-Executive Board member of the Gauteng Gambling Board from2011 to 2013; Former member of North West Provincial Audit Committee from2009 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

A Paul Harris Fellow, awarded by Rotary international for Humanitarian Community Work. Medical Practitioner, MBChB (UKZN); Diploma in Anaesthesia; 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.
Director of Integrated Rural Development and the Climate Change Champion in the Department of Agriculture and Rural Development in KwaZulu-Natal Province; Head of Secretariat for Climate Change in the Office of the Premier; Experienced professional with both South African and international experience in the field of development and in both public and private sectors; Appointed for a 2nd term to the Board of Umgeni Water in June 2009; Previously a Board Member 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. Appointed to the Board of Umgeni Water in 2001 (including having served as the Vice Chairman between 2005-2009); 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; Appointed to serve on the SADC Mediation Group in 2014.

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; Board Member KZN Growth Fund and Ushaka Marine World.

MR THABANI ZULU

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

Appointed for 1st Board term in December 2011.

Managing Partner of Thabani Zulu & Co Chartered Accountants and Business Advisors; 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); holds qualifications in Construction Contracts and Construction Adjudication from the University of Pretoria.

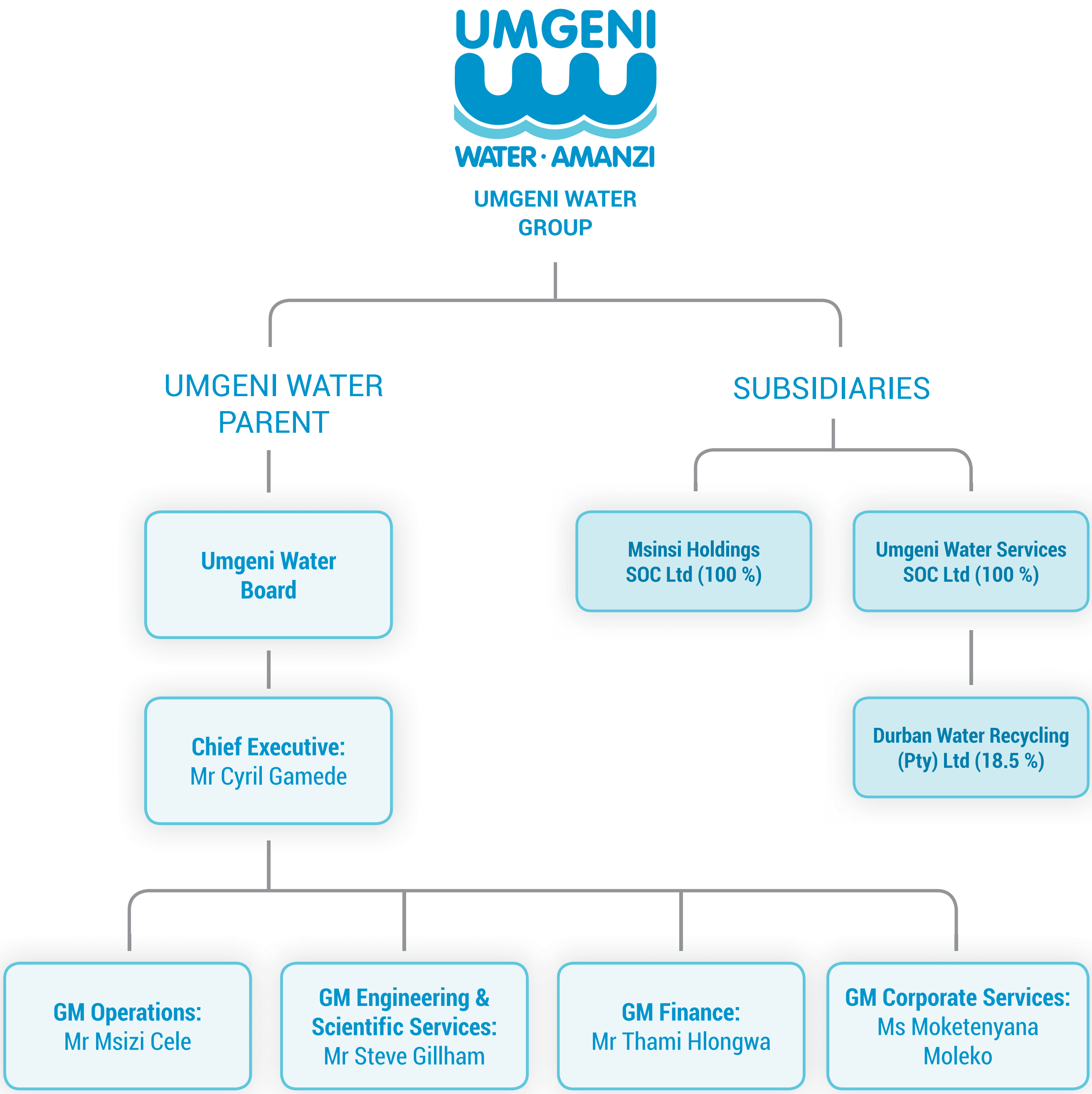
Appointed as Company Secretary in January 2014.

Private Legal Practice Practitioner from 2003 – 2007. Upon leaving Private Legal Practice in 2007, he joined the Competition Commission and occupied various portfolios, the last being the Commission's Legal Counsel. In 2011 he joined Umgeni Water as Legal Services Manager, a position he held until March 2014.

He has also served as a Trustee of the Umgeni Water Provident Fund and is now the current Fund Principal Officer.

6.2 FUNCTIONS AND MANAGEMENT STRUCTURE

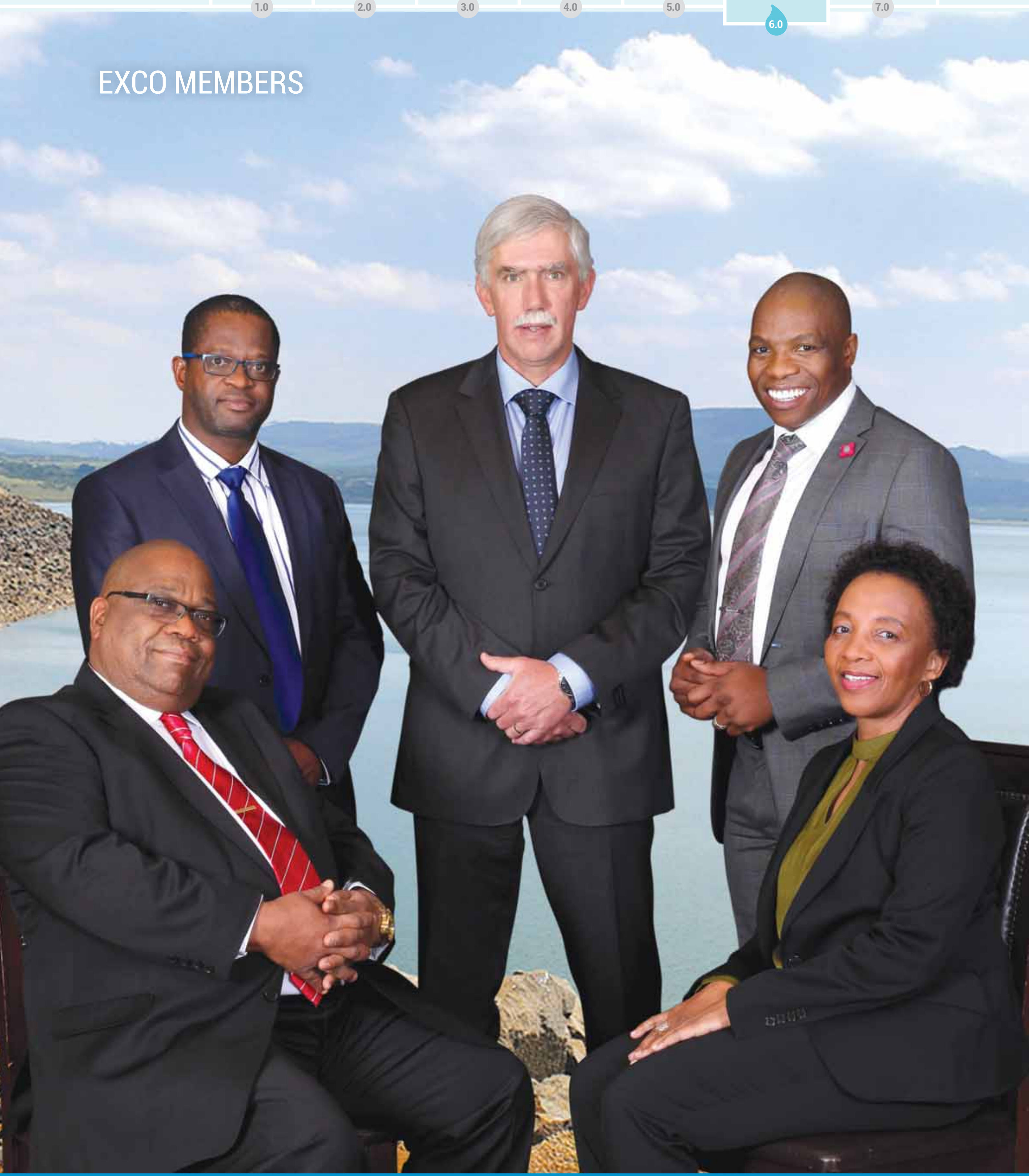
Umgeni Water (Group) has the following structure that responds to its strategy.



Some of the executive directors in the holding company (Umgeni Water) sit on the boards of the subsidiaries as non-executive directors in order to ensure alignment of business processes and culture within the group (Refer to Executive's profiles on page 51). Their executive positions in the holding company do not curtail their fiduciary responsibility, as non-executive directors, in the respective subsidiary entities. The group company secretariat enables all three boards to maintain their distinct fiduciary responsibilities whilst enhancing the group's collective values.

Midmar WTW Upgrade

EXCO MEMBERS



FROM LEFT TO RIGHT:
Mr Cyril Gamede (Chief Executive), Mr Msizi Cele, Mr Steve Gillham, Mr Thamsanqa Hlongwa, Ms Moketenyana Moleko

MR CYRIL GAMEDE

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

Appointed as Chief Executive Umgeni Water in August 2012.
Chairman and Director of Msinsi Holdings SOC Ltd since 2014; President of ECSA since 2012; Chairman of the Council of the University of Zululand since 2012; Managing Director of K2S Consulting from 2010 to 2012; Director AEL Mining Services from 2002 to 2010; Director of Operations, Umgeni Water, from 1996 to 2002.

MS MOKETENYANA MOLEKO

BCom; Management Development Certificate; International Management and Marketing Programme Certificate; Post Graduate Diploma in Business Management.

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 – Machinery.

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.

MR THAMSANQA HLONGWA

Chartered Accountant (SA); BCom Honours.

Appointed as General Manager Finance in July 2013.
Director of Msinsi Holdings SOC Ltd since 2014; Chief Financial Officer KZN CoGTA from March 2007 to June 2013; Completed articles with Deloitte from 2002 to 2004; Audit Senior in Deloitte New York Office from 2004 to 2005; Senior Manager at Siyaya Management Services from 2005 to 2007; Served in sub-committees of SAICA and ABASA.

7.0

Stakeholder Understanding and Support

STAKEHOLDER INTERACTION

In keeping with the execution of its mandate, Umgeni Water interacts with 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.

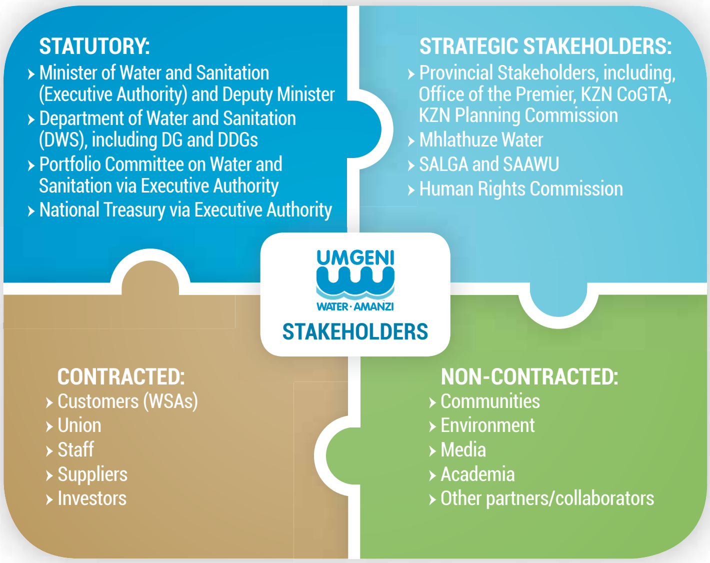


Table 7.1: *Umgeni Water Stakeholders and Basis for Engagement*

Statutory Stakeholders ***Stakeholders who have a regulatory or oversight function over Umgeni Water, among them the Minister of Water and Sanitation, the Department of Water and Sanitation, the Portfolio Committee on Water and Sanitation and National Treasury. As a state-owned entity, Umgeni Water is required to interact with these stakeholders on a formal and regular basis in order to ensure that statutory requirements are met and there is alignment with Government's objectives, strategies and plans.***
› Minister of Water and Sanitation › Deputy 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, a partner that shows alignment with water sector communication strategy and plans, and a leader that contributes to establishing synergies in the value change and water sector.* ***Umgeni Water and National Government both desire:*** *A high performing, well governed State-owned enterprise that mobilises resources in an equitable and cost-effective manner to advance key national objectives.*

Table 7.1: *Umgeni Water Stakeholders and Basis for Engagement ...continued*

Strategic Stakeholders
Provincial and some National Stakeholders to whom Umgeni Water provides information relating to organisation performance, capital infrastructure plans, solutions to prolonged bulk water supply interruptions and expertise available to assist vulnerable water boards and municipalities.

- Provincial Planning Commission
- KwaZulu-Natal Provincial Government departments and notably Co-operative Governance and Traditional Affairs
- Mhlathuze Water
- uThukela Water Company
- South African Local Government Association (SALGA)
- South African Association of Water Utilities (SAAWU)
- South African Human Rights Commission

The basis for engagement: *Structured implementation plan to enhance assurance of supply and extend water services to previously un-served communities, affordable tariff, growth as a catalyst for economic expansion, delivery on mandate and alignment to policy and National and Provincial Development Plans, partner in service delivery, accelerated service delivery, corporate governance, benchmarking and strategic information exchanges, collaboration for major events and celebrations, and proactive measures to mitigate the effects of long periods of water shortages and supply interruptions.*

Umgeni Water, KZN Province and other Strategic Stakeholders desire: *Sound water services delivery partnerships, providing affordable services, contributing to regional economic growth and development and exchanging strategic information.*

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.

Water Service Authorities in KwaZulu-Natal comprise:

- eThekwini Metropolitan Municipality
- iLembe District Municipality
- Ugu District Municipality
- Harry Gwala District Municipality
- uMgungundlovu District Municipality
- Msunduzi Local Municipality
- uMkhanyakude District Municipality
- Amajuba District Municipality
- Newcastle Local Municipality
- uMzinyathi District Municipality
- uThungulu District Municipality
- uThukela District Municipality
- uMhlathuze Local Municipality
- Zululand District Municipality

The basis for engagement with customers: service agreements, assurance of supply, quality and quantity, care and support, responsive to needs, tariff consultation, partnerships in socio-development initiatives, partnerships in CSI initiatives.

Umgeni Water and WSA Customers both desire: *a high performing, efficient, effective and responsive Water Services Provider.*

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

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, regular information sharing and feedback on entity events planned and held, regular feedback regarding progress towards the dis-establishment of Umgeni Water and Mhlathuze Water and establishment of one regional entity equitable jobs, fair labour practice, good working conditions, enabling work environment and communication, fair market-related compensation and service conditions, sound performance management and recognition system, and engaged employees, productivity, delivery and return on investment.*

Umgeni Water Management, Union and Staff all desire: *An equitable company, whose policies, practices, systems and feedback create motivated, engaged and aligned employees.*

- 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 B-BBEE and capacity building towards more inclusive economic participation and Corporate Social Investment (CSI), environmental management and supplier footprint reduction – water, energy and materials.*

Umgeni Water and Suppliers both desire: *An equitable company, whose policies, practices, systems and feedback create responsive and high performing suppliers delivering against contractual agreements.*

Table 7.1: *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's demonstration of conservation and responsible use of resources, provision of a clean and safe environment, exercising of responsible citizenship, demonstration of transparency in corporate governance, job creation and provision of 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.* ***Umgeni Water and Communities / Civil Society desire:*** *A sustainable entity that adds value to society through a sound balance of economic growth, social development and environmental sustainability.*
› Chambers of Business ***The basis for engagement:*** Umgeni Water's provision of assurance of supply, quality and quantity, information on tariff, demonstration of responsible citizenship and information sharing on infrastructure development projects. In turn, Umgeni Water solicits recognition for creating value, pollution prevention and safe guarding of water supply resources. ***Umgeni Water and Business both desire:*** A sustainable entity that adds value to society through a sound balance of economic growth social development and environmental sustainability.
› Media and general public ***The basis for engagement:*** *access to information, demonstrating accountability, transparency and good governance. In turn, Umgeni Water expects accurate reporting and media integrity.* ***Umgeni Water and Media / Public desire:*** *A sustainable entity that adds value to society.*
› National Sector Institutions, among them, the Water Research Commission › International Sector Institutions, notably in Africa ***The basis for engagement:*** *Information exchange and knowledge management, Collaboration in water research and development, Support to water centres of excellence. Student internships and experiential training and exposure, Study tours and site visits, Collaboration in major events, such as National Water Week and participation in international exhibitions, and Specifically in Africa: knowledge management, networking and responding to bi-lateral agreements between South Africa and other African countries and Water Utilities in partnership with national and provincial government.* ***Umgeni Water and water sector - related institutions desire:*** *A partner and sector collaborator that contributes to knowledge and skills development for the country, province and region.*

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 Water Treatment Works and at Water Treatment Works within the Mgeni system in response to the prevailing drought.

Engagement with the Minister of Water and Sanitation, the Director-General of Department of Water and Sanitation (DWS), National Treasury and SALGA took place on numerous occasions, including for formal appraisal of strategy, business plan implementation and performance indicators as per Shareholder Compact, as well as during regular Minister and DG forums and strategy sessions hosted by DWS. All statutory documents were timely submitted for the year and were of high quality. Engagements with the Minister of Water and Sanitation also took place on the subjects of drought relief and drought mitigation measures and during commissioning of Lower Thukela Bulk Water Supply Scheme.

Umgeni Water had opportunity to engage with the Office of the Premier, KwaZulu-Natal Provincial Cabinet and CoGTA.

Media coverage of the organisation, 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, including both strategic and operational engagements. Engagements with Umgeni Water's 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 and other stakeholders, took place and was well attended. Similarly, Umgeni Water participated in the Water Institute of Southern Africa's biennial conference and in the conference of International Commission on Large Dams. Other events that were either hosted by Umgeni Water or in which the entity participated were:

- Joint launch of the National Water Week (KZN), with the Department of Water and Sanitation and Mhlathuze Water,
- Community function communicating progress with construction of the Lower Thukela Bulk Water Supply Scheme,
- A Dam Safety Event held to prevent drowning in dams and rivers,
- Hosting of a Supplier Forum,
- Hosting of visiting water sector delegations from Dar-es-Salaam, Tanzania, and Lilongwe, Malawi
- Hosting of the Minister of Water and Sanitation during an address of Umgeni Water staff on impending changes in the KwaZulu-Natal water sector,
- Hosting of Portfolio Committee on Water and Sanitation for a site visit at Hazelmere Dam, and
- Launch of Umgeni Water's annual performance report, held for the media and other stakeholders.

Umgeni Water is aware of the importance of maintaining a healthy internal pulse and created opportunities during the year for engagement with employees and employee union (NEHAWU). This included regular staff information sessions and meetings with employee union, executive site visits, annual staff awards session, commemoration of special days in the year, sport fun days, induction of new employees and communiqués designed to inform employees of events and Ministerial announcements. In addition, the Chief Executive ensured employees were kept updated on key water sector developments through a monthly CE Blog.

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

- Corporate Social Responsibility initiatives,
- Dissemination of water and environmental education to learners and other attendees and interaction directly with the public at the annual Royal Agricultural Show. Awareness of the role, functions, competencies, products and services of a water utility was created,
- The Umgeni Water Marathon further provided socialised interactions between employees 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 and in Africa, including State-owned water provision entities from Tanzania, Burkina Faso and Malawi.

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 conference of International Commission on Large Dams.

Suppliers, notably small, medium and micro enterprises, were engaged during a forum, where Umgeni Water provided information to current and potential suppliers to help increase future B-BBEE opportunities. In addition, Umgeni Water interacted with the Durban Chamber of Commerce, Pietermaritzburg Chamber of Business and the South African National Civic Organisation and provided an overview of the entity's five-year capital infrastructure programme and progress with the disestablishment of Umgeni Water and Mhlathuze Water and the formation of one entity for KwaZulu-Natal.

In addition to these engagements, Umgeni Water interacted with stakeholders at its annual report launch where organisational performance was shared with the Executive Authority, customers, civil society, investors and the media.

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

SAP ON TAP Project Seminar

8.0

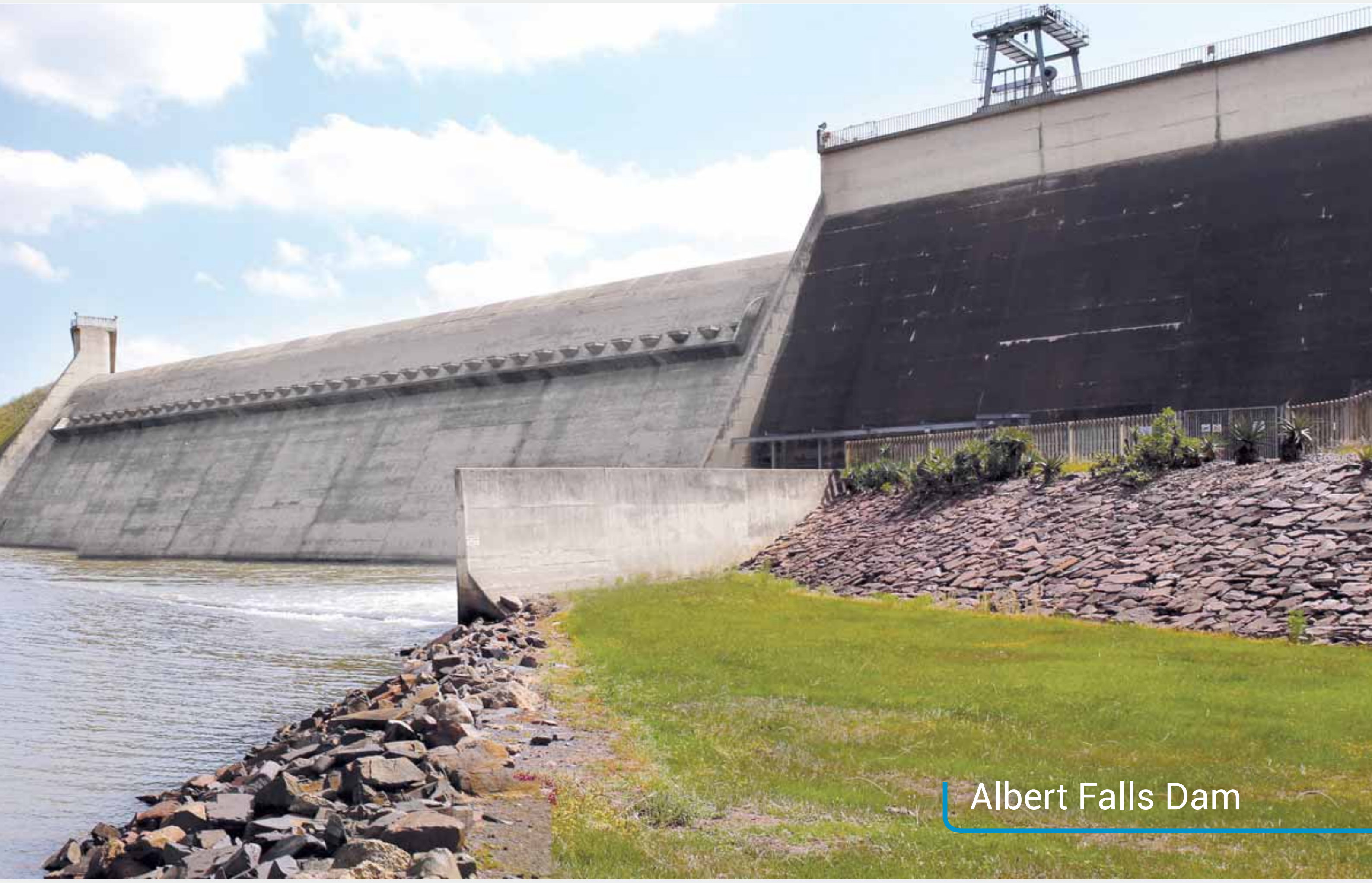
Performance against Umgeni Water Strategy and Shareholder Compact Indicators 2015/2016

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

The KPIs are further made up of seventy-one (71) total annual measurable Result Indicators, for which responsibilities and accountabilities are agreed and targets approved within the entity.

These Result Indicators include all statutory indicators specifically targeted by the Executive Authority.

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



For the period 1 July 2015 to 30 June 2016, the planned initiatives were implemented and progress assessed by the entity. The detailed scorecard follows. Performance against the strategy is also illustrated graphically in **Figures 8.1 to 8.4.**

Figure 8.1: *2015/2016 Performance*

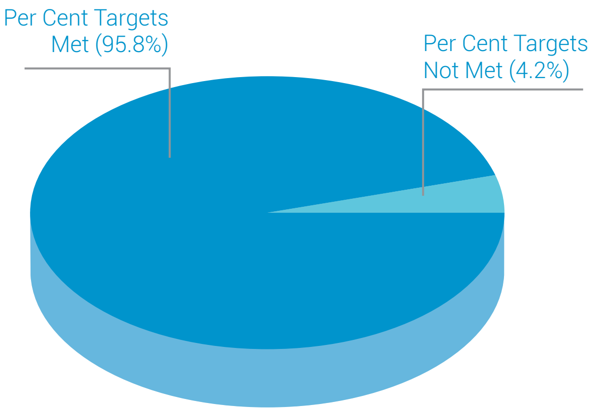
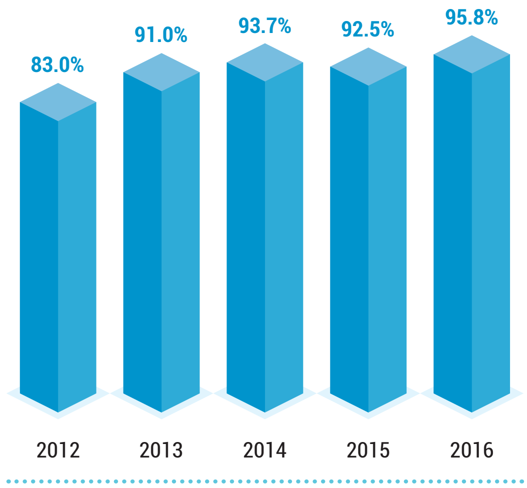


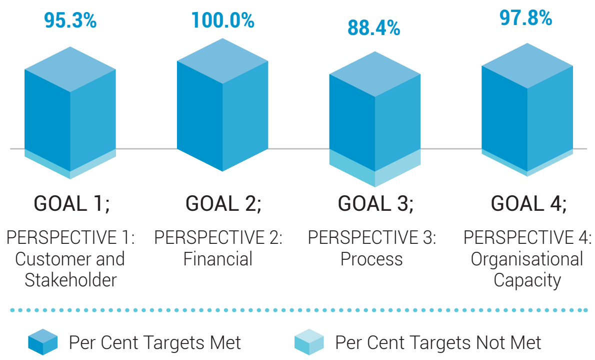
Figure 8.2: *Performance Trend*



Per cent targets met: 95.77%
Per cent targets not met: 4.23%

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

Figure 8.3: *Performance against Strategic Goals*



For the **Customer and Stakeholder** perspective and **Strategic Goal 1:** *Develop strategic partnerships, increase support to customers, improve visibility and be a regional leader in the provision of bulk water and sanitation services,* ***95.3%*** performance was achieved, for which:

SO 1- Increase services and customers achieved 100% and
SO 2 - Increase customer and stakeholder value achieved 95%.

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

For the **Financial** perspective and **Strategic Goal 2:** *Expand and improve funding collaborations whilst managing key cost drivers,* ***100%*** *performance was achieved, for which,*
SO 3 - *Increase mobilisation of funds achieved 100%,*
SO 4 - *Increase financial sustainability 100%, and*
SO 5 - *Improve financial ratios 100%.*

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

For the **Process Perspective** and **Strategic Goal 3:** *Remove system constraints and blockages through innovative thinking and improve efficiency of all inputs,* ***88.4%*** *performance was achieved.*

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

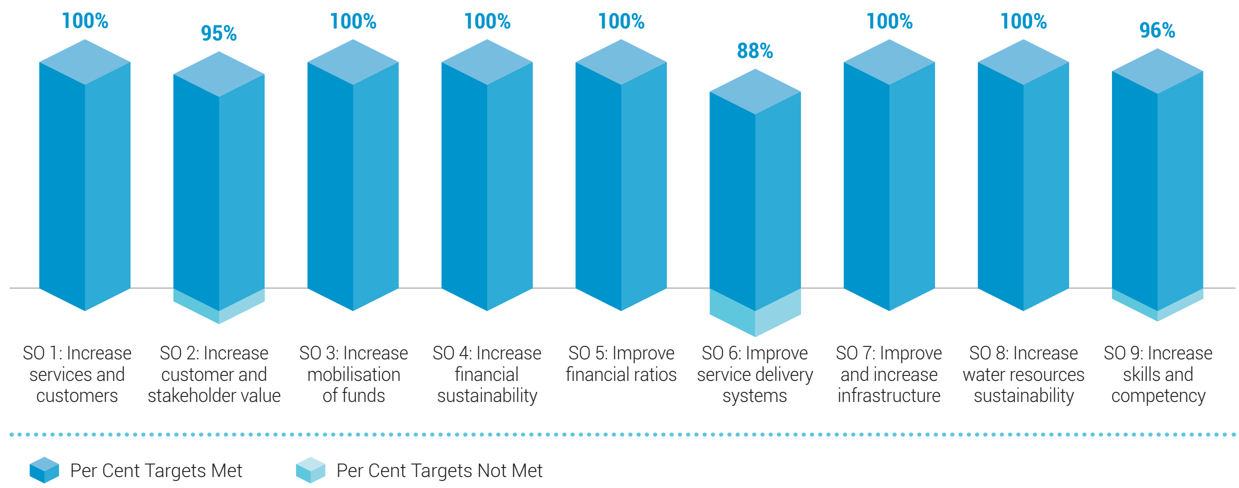
Key outcomes: *Operational Resiliency, Operational Optimisation, Community and Environmental Sustainability.*

For the **Organisational Capacity Perspective** *and* **Strategic Goal 4:** *Strengthen and develop quality human resources, infrastructure capacity and water resources sustainability to support growth,* ***97.8%*** *performance was achieved, 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%.*

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

Figure 8.4: *Umgeni Water Performance by Strategic Objective*



The detailed performance of the organisation against indicators and targets for 2015/2016 follows, with further expansion in each of the annual report chapters.

SCORECARD 2015/2016[i]

#	Result Indicator	Target	Actuals	Variance	Pg#
Balanced Scorecard Perspective: Customer and Stakeholder					
OUTCOMES: Stakeholder Understanding and Support, Community and Environmental Sustainability, Customer Satisfaction, Product Quality					
Strategic Objective 1: Increase services and customers					
KPI 1: The extent to which UW has grown its services and customers					
1.1	KZN regional bulk water universal access detailed reconnaissance level plan developed.	100% complete	100% complete	Nil	76
1.2	Number of signed contracts for implementing new schemes.	≥ 2 new schemes	10 new schemes	Nil	69
1.3	Umgeni Water contributions to KZN due diligence report developed, including information for uThukela area customers.	100% complete	100% complete	Nil	24
Strategic Objective 2: Increase customer and stakeholder value					
KPI 2: The extent to which customer and stakeholder needs have been met					
2.1	Redesigned and fully functional corporate communications function.	100% complete	75% complete	25% Resourcing in 2017	24, 52
2.2	Targeted marketing and branding strategy and plan developed.	100% complete	100% complete	Nil	53
2.3	Structured corporate communications strategy and plan developed.	100% complete	100% complete	Nil	53
2.4	Number of engagements with Minister, Department of Water and Sanitation (DWS), Portfolio Committee and National Treasury.	≥ 4 engagements	> 7 engagements	Nil	55
2.5	Per cent directives implemented in accordance with plan. **(DWS SHC Indicator)**	≥ 80% complete	100% complete	Nil	73
2.6	Number of engagements with customers.	≥ 3 engagements	> 6 engagements	Nil	56
2.7	Customers engaged regarding tariff affordability and sustainability.	100% customer consultations complete	100% customer consultations complete	Nil	25
2.8	Webpage water forum for regional water utility concept developed.	100% developed, tested and communicated	75% developed, tested and communicated	25%. Communication deferred to 2017	76
2.9	Number of supplier / investor forums held.	≥ 2 engagements	2 engagements	Nil	56
2.10	Number of engagements with strategic stakeholders: KZN Province, SAAWU, SALGA and African Water Boards.	≥ 4 engagements	> 4 engagements	Nil	56
2.11	Number of staff and union engagements.	≥ 3 engagements	> 3 engagements	Nil	56
2.12	Number of engagements with media.	≥ 3 engagements	> 4 engagements	Nil	55
2.13	Number of community engagements.	≥ 1 engagement	> 2 engagements	Nil	83
2.14	Number of engagements with other civil society groups, namely, business chambers, environmental lobby groups and academia.	≥ 3 collaborations	≥ 3 collaborations	Nil	56
2.15	Number of signed contracts (bulk supply agreements) in place as a % of total customers. **(DWS SHC Indicator)**	100% 6 customers/ signed contracts	100% 6 customers/ signed contracts	Nil	71
2.16	Number of signed contracts/MOUs with rural Municipalities for provision of support. **(DWS SHC Indicator)**	≥ 3 signed contracts/MOUs	6 signed contracts/ MOUs	Nil	73

i - Umgeni Water Parent

SCORECARD 2015/2016 *...continued*

#	Result Indicator	Target	Actuals	Variance	Pg#
Balanced Scorecard Perspective: Customer and Stakeholder *...continued*					
OUTCOMES: Stakeholder Understanding and Support, Community and Environmental Sustainability, Customer Satisfaction, Product Quality *...continued*					
Strategic Objective 2: Increase customer and stakeholder value *...continued*					
KPI 2: The extent to which customer and stakeholder needs have been met *...continued*					
2.17	Per cent submissions in respect of Quarterly Reports, Annual Report, Tariff, Business Plan and SHC on time. **(DWS SHC Indicator)**	100% 13 of 13 submissions: 4 Quarterly Reports, Annual Report, Tariff, Corporate Plan, SHC and 5 Monthly Reports required.	100% 13 of 13 submissions: 4 Quarterly Reports, Annual Report, Tariff, Corporate Plan, SHC and 5 Monthly Reports required.	Nil	55
2.18	Per cent compliance of WTW systems with SANS 241 water quality standard per risk category. **(DWS SHC Indicator)**	Fourteen (14) WTW systems 100% compliant	Fourteen (14) WTW systems 100% compliant	Nil	68
2.19	Per cent compliance of four (4) WWTW systems with Discharge Licence or General Authorisation requirements. **(DWS SHC Indicator)**	Four (4) WWTW systems ≥ 85% compliant	Four (4) WWTW systems 84.65% compliant	0.35%	69
2.20	Number of water education initiatives for schools / communities implemented.	≥ 3 initiatives implemented	3 initiatives implemented	Nil	83
2.21	Number of CSI initiatives implemented. **(DWS SHC Indicator)**	≥ 4 initiatives implemented	1 initiative implemented and 2 initiatives partly implemented.	Planned initiatives still in progress.	84
2.22	Per cent PSP and contractor order values (CPGs) awarded to B-BBEE suppliers, including ≥ 5% for women.	≥ 35%	36% (R89m of R247m)	Nil	82
	Per cent PSP and contractor order values (CPGs) awarded to B-BBEE suppliers that are women.	≥ 5%	15% (R36m of R247m)		
2.23	Actual B-BBEE spend as a % of total discretionary expenditure.	≥ 80% spend	>100% spend	Nil	82
	Number of new B-BBEE entrants awarded work. **(DWS SHC Indicator)**	≥ 2 new entrants	8 new entrants		
Balanced Scorecard Perspective: Financial					
OUTCOMES: Financial Viability, Stakeholder Understanding, Customer Satisfaction and Support, Community and Environmental Sustainability					
Strategic Objective 3: Increase mobilisation of funds					
KPI 3: Increased funding collaboration and funds mobilised for sustainable growth, expansion and access					
3.1	Total RBIG funding for rural schemes received, Rm.	R282m	R294m	Nil	124
Strategic Objective 4: Increase financial sustainability					
KPI 4: The extent to which there are sustainable financial returns for each system, area, region and the organisation					
4.1	Total revenue, Rm and per cent variance.	R2.38bn±10%	R2.36bn Within allowed variance	Nil	142
4.2	Total expenditure, Rm and per cent variance. **(DWS SHC Indicator)**	R1.86bn±10%	R1.61bn (Below budget)	Nil	142
4.3	Total surplus (loss), Rm and per cent variance.	R529m±10%	R790m (Above target)	Nil	142
4.4	Number of debtor days. **(DWS SHC Indicator)**	≤ 42	40.34	Nil	172

SCORECARD 2015/2016 *...continued*

#	Result Indicator	Target	Actuals	Variance	Pg#
Balanced Scorecard Perspective: Financial *...continued*					
OUTCOMES: Financial Viability, Stakeholder Understanding, Customer Satisfaction and Support, Community and Environmental Sustainability *...continued*					
Strategic Objective 4: Increase financial sustainability *...continued*					
KPI 4: The extent to which there are sustainable financial returns for each system, area, region and the organisation *...continued*					
4.5	Total s30 revenue, Rm and per cent of turnover. **(DWS SHC Indicator)**	R36m, 1%	R115m, 5%	Nil	158
4.6	Per cent return on assets. **(DWS SHC Indicator)**	≥ 7%	8.56%	Nil	129
4.7	Number of breaches or instances of non-compliance to the approved materiality and significance framework. **(DWS SHC Indicator)**	Nil	Nil	Nil	184
Strategic Objective 5: Improve financial ratios					
KPI 5: Ratios for financial viability and sustainability met					
5.1	Debt to Equity %. **(DWS SHC Indicator)**	≤ 60%	34%	Nil	129
5.2	Interest cover ratio.	≥ 2.5	4.6	Nil	129
5.3	Current ratio. **(DWS SHC Indicator)**	1.5 to 2.1	2.07	Nil	129
5.4	Liquidity - operating cash flows, Rm.	≥ R800m	R1152m	Nil	145
5.5	Gross profit margin % for primary activity (Bulk Water and Wastewater). **(DWS SHC Indicator)**	≥ 50%	59%	Nil	158
5.6	Net profit margin % for primary activity (Bulk Water and Wastewater). **(DWS SHC Indicator)**	≥ 20%	35%	Nil	158
5.7	Gross profit margin % for secondary activity. **(DWS SHC Indicator)**	≥ 5%	5%	Nil	158
5.8	Net profit margin % for secondary activity. **(DWS SHC Indicator)**	≥ 1%	5%	Nil	158
Balanced Scorecard Perspective: Process					
OUTCOMES: Operational Resiliency, Operational Optimisation, Community and Environmental Sustainability					
Strategic Objective 6: Improve service delivery systems					
KPI 6: The extent to which business processes, policies and systems are enabling strategy implementation					
6.1	Turnaround time (working days) for awarding of capex programme tenders, contract negotiations and issuing of signed contracts.				80
	Working days from tender advert to issuing intention of award.	≤ 90	87 days average 14 of 19 tenders < 90	5 of 19 tenders > 90	
	Working days for CPG negotiations, measured from expiry of appeals period.	≤ 45	18 days average 16 of 19 tenders < 45	3 of 19 tenders > 45	
	Working days for issuing of signed contracts, measured from conclusion of CPG negotiations.	≤ 15	20 days average 8 of 12 tenders < 15	4 of 12 tenders > 15	
6.2	Project lifecycle, Engineering, Procurement and Construction Management (EPCM), incorporates structured gate review process.	100% complete	73% complete	27% behind schedule	80
6.3	Per cent Enterprise Resource Planning (ERP) system reviewed and implemented.	100% complete	70% complete	30% behind schedule	111
6.4	Number of environmental sustainability initiatives implemented.	≥ 3 initiatives implemented	3 initiatives implemented	1 very slightly behind schedule	91

SCORECARD 2015/2016 *...continued*

#	Result Indicator	Target	Actuals	Variance	Pg#
Balanced Scorecard Perspective: Process *...continued*					
OUTCOMES: Operational Resiliency, Operational Optimisation, Community and Environmental Sustainability *...continued*					
Strategic Objective 6: Improve service delivery systems *...continued*					
KPI 6: The extent to which business processes, policies and systems are enabling strategy implementation *...continued*					
6.5	Number of research and development / innovation initiatives implemented.	≥ 3 initiatives implemented	5 initiatives in progress with 2 on track	3 behind schedule	110
6.6	Unqualified external audit report with no matters of emphasis (clean audit). (DWS SHC Indicator)	Unqualified audit	Unqualified audit	Nil	134
6.7	Number of repeat internal audit findings.	Nil	Nil	Nil	41
	Number of unresolved internal audit findings. (DWS SHC Indicator)	≤ 5	7 unresolved findings (6 Medium and 1 High)	> 5 unresolved findings.	
6.8	Board / Committee meetings attended as a % of planned meetings. (DWS SHC Indicator)	≥ 80%	Board: 89.2% Audit: 90% Capex: 84.4% REMCO: 77.1% Governance: 100%	REMCO: < 80%	39
6.9	Ethical issues addressed as assessed against key ethics areas.	100% addressed	100% addressed	Nil	40
6.10	Disabling Injury Frequency Ratio (DIFR).	≤ 1.0	0.08	Nil	102
6.11	Per cent compliance against legal Compliance Register.	100%	99.5% One non-compliance	0.5% To be closed in 2017	41
6.12	Water Utility Benchmarking System includes four (4) new parameters with developed Business Intelligence (BI).	100% complete	100% complete	Nil	25
Balanced Scorecard Perspective: Organisational Capacity					
OUTCOME: Infrastructure Stability					
Strategic Objective 7: Improve and increase infrastructure assets					
KPI 7: Infrastructure expenditure within target cash flows and completion dates					
7.1	Actual CAPEX Rm implemented and % variance against budget. (DWS SHC Indicator)	≥ 80% of R1 962m (Escalated: R2,142m)	R2 019m Within allowed variance	Nil	80
7.2	Number of CAPEX projects within target completion dates against planned number.	≤ 85% completion	93% completion	Nil	80
	% variance (DWS SHC Indicator)	≤ 15% variance	7% variance		
7.3	Actual CAPEX spend on rural expansion related projects as % of budget. (DWS SHC Indicator)	R 843m ± 10% (Escalated: R917m)	R967m (Above budget due to project acceleration)	Nil	80
7.4	Repairs and maintenance spend (excluding renewals) Rm as % of Property Plan and Equipment (PPE) and Investment Property (Carrying Value).	R175m ± 10% ≥ 4% of PPE	R169m 2.4% of PPE Reallocation from renewals to Capex	Nil	75

SCORECARD 2015/2016 *...continued*

#	Result Indicator	Target	Actuals	Variance	Pg#
Balanced Scorecard Perspective: Process *...continued*					
OUTCOME: Water Resources Adequacy					
Strategic Objective 8: Increase water resources sustainability					
KPI 8 : Sustainable water resource options identified for all systems					
8.1	Supply and demand status and projections demonstrating long-term water resources adequacy per system and region.	100%	100%	Nil	87
8.2	Per cent supply disrupted > 24 hours (over total supply days). **(DWS SHC Indicator)**	0%	0%	Nil	70
8.3	Avoidable water loss as a percentage of water produced. **(DWS SHC Indicator)**	≤ 5%	3.85%	Nil	75, 91
8.4	Water demand business unit developed and functional and analysis of customer non-revenue water.	100% complete	100% complete	Nil	91
OUTCOME: Leadership and Employee Development					
Strategic Objective 9: Increase skills and competency					
KPI 9 : Effectiveness and efficiency of employee training and development programmes					
9.1	Number of employees enrolled and developed through Senior Management Development Programme (SMDP).	100% complete	63% complete	Behind schedule. To be implemented in 2017	33
9.2	Number of Artisans and Apprentices (Learnerships). **(DWS SHC Indicator)**	≥ 40	57 Artisans 12 Apprentices 91 Process Controllers	Nil	103
9.3	Number of Bursar degree plans met. **(DWS SHC Indicator)**	≥ 10	13	Nil	104
9.4	Number of Graduate Trainees development plans met (Graduates, In-Service Trainees and Interns). **(DWS SHC Indicator)**	≥ 28 Graduate Trainees ≥ 28 In-Service Trainees ≥ 10 Interns	39 Graduate Trainees 31 In-Service Trainees 13 Interns	Nil	104
9.5	Number of candidate engineers / professionals developed (NT) and professional registration submissions.	≥ 40 developed 11 professional registrations	40 13 professional registrations	Nil	104
9.6	Formulate scope for involvement in War-on-Leaks programme (Rand Water) skills development partnership.	100% Scope of involvement finalised.	100% MOU signed	Nil	91
9.7	Number of permanent jobs created.	35 permanent jobs	155 permanent jobs	Nil	83, 101
	Number of temporary jobs created. **(DWS SHC Indicator)**	600 temporary jobs	1514 temporary jobs	Nil	
9.8	Number of staff terminations, excluding normal retirements, as a % of the total staff complement. **(DWS SHC Indicator)**	≤ 8% turnover	4% turnover	Nil	101
9.9	Staff remuneration % of total operating expenditure. **(DWS SHC Indicator)**	≤ 35%	30.3%	Nil	142

9.0

Creating Value

Umgeni Water strives to create value through actively applying its skills and competencies in response to customer and stakeholder needs and a reciprocal value proposition.

9.1 PRODUCT QUALITY

MANAGEMENT APPROACH

Umgeni Water is committed to providing all its customers with safe potable water suitable for lifetime consumption and to ensuring that wastewater discharges are not deleterious to the environment and downstream users. This is achieved through implementing a rigorous and system-wide water quality management programme. This includes carefully planned monitoring programmes, auditing, compliance reporting, water quality assessments (conducted using a catchment to consumer approach) and the implementation of water safety plans.

Furthermore, sampling and analysis are undertaken in accordance with an ISO 9001 certified monitoring programme and SANAS 17025 accredited laboratory methods, respectively. Each year, water quality monitoring programmes are reviewed for all operational sites to ensure they continue to provide sufficient information that meets legislative requirements, customer bulk supply agreements and water treatment process requirements, as well as, to take into account the risks that have previously been identified in the system. Further information on the entity's approach to ensuring laboratory proficiency is provided in Chapter 12 (Improving Resiliency) of this report.

Specifically for potable water treatment, Umgeni Water also continuously reviews the water quality risks associated with abstraction, conveyance, treatment and bulk distribution to ensure control effectiveness and quality assurance. All operational sites are equipped with a recently revised Incident Management Protocol aligned to SANS 241: Drinking Water Specification.

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

Darvill WWTW Upgrade

POTABLE WATER QUALITY PERFORMANCE

Bulk Water Supply Systems are required to comply with the South African National Drinking Water Specification (SANS 241:2015) that requires the performance to be reported against five risk categories:

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

Key for classification of the performance of drinking water supply systems according to SANS 241: 2015

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

The performance of all Umgeni Water bulk water supply systems was recorded to be excellent against all five risk categories specified in SANS 241:2015 (**Figure 9.1**). The detailed potable water quality compliance per water supply system is shown in **Table 9.1.**

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

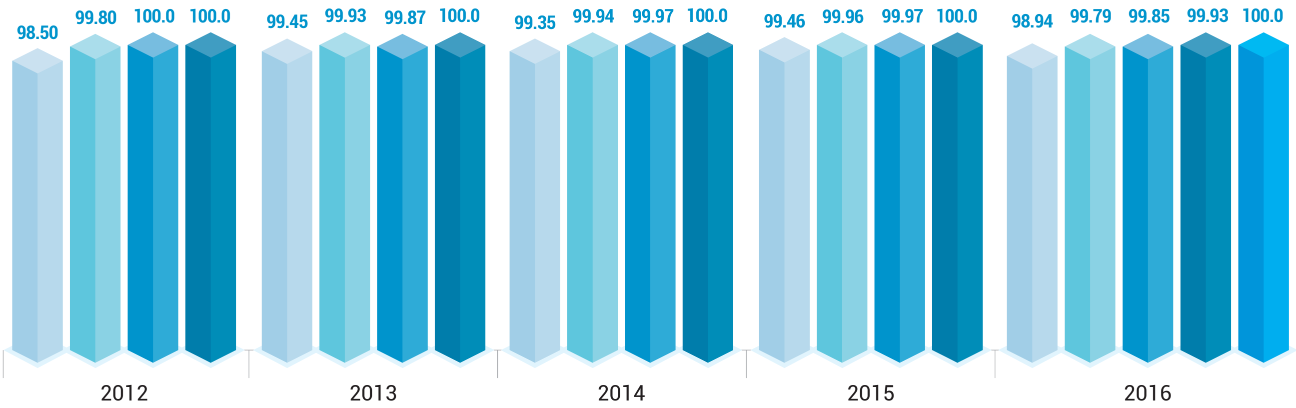


Table 9.1: *2015/2016 Potable Water Quality Compliance with SANS 241:2015 per Water Supply System*

Water Supply System	Average daily volume treated (Ml/d)	% Volume	Per cent Compliance with SANS 241:2015				
			Acute Microbiological Health	Acute Chemical Health	Chronic Chemical Health	Operational	Aesthetic
1. Durban Heights	485.0	38.5	100.0	100.0	100.0	99.95	100.0
2. Wiggins	283.1	22.4	99.73	100.0	100.0	99.42	100.0
3. Midmar	254.5	20.2	99.85	100.0	100.0	99.41	100.0
4. DV Harris	81.6	6.5	100.0	100.0	100.0	99.76	100.0
5. Hazelmere	27.0	2.1	100.0	100.0	99.95	99.44	99.67
6. Amanzimtoti	72.0	5.8	99.67	100.0	99.86	99.07	99.81
7. Mvoti	16.3	1.3	98.30	100.0	99.71	93.88	99.90
8. Umzinto	10.7	0.9	100.0	100.0	98.97	99.69	100.0
9. Mtwalume	10.8	0.9	100.0	100.0	100.0	99.38	100.0
10. Ixopo	1.9	0.1	100.0	100.0	100.0	96.80	95.39
11. Maphephethwa	2.7	0.2	100.0	100.0	100.0	100.00	100.0
12. Mhlabatshane	2.9	0.2	100.0	100.0	100.0	96.05	100.0
13. Maphumulo	5.6	0.4	100.0	100.0	100.0	95.50	99.75
14. Ngcebo	1.2	0.1	100.0	Note 1	100.0	96.43	98.57
iLembe WTW & Boreholes	6.3	0.5	99.39	Note 1	100.0	87.16	96.24
uMgungundlovu Schemes	*Note 2*	*Note 2*	98.66	100.0	100.0	90.38	99.03

1. The iLembe WTW and Borehole schemes together with the Ngcebo WTW were handed over to the iLembe District Municipality during the latter part of 2015. Acute Chemical Health (a new category, monitored annually) had not been monitored for these schemes at the time of handover.
2. Umgeni Water acquired additional schemes from the uMgungundlovu District Municipality during the latter part of 2015. Information on the inflows for these schemes is still being gathered.

BULK WATER SUPPLY SYSTEMS

All fourteen (14) bulk water supply systems complied with all risk categories specified in SANS 24:2015 Drinking Water Specification.

ILEMBE SMALL SCHEMES AND BOREHOLES

The iLembe schemes, comprising ten (10) small water treatment works and nine (9) borehole schemes, were handed over to iLembe District Municipality in October 2015. Up until that point, compliance with health and aesthetic categories was excellent and for the operational risk category performance fell into the unacceptable category.

Acute Microbiological Health: 99.4%
Chronic Chemical Health: 100.0%
Aesthetic: 96.2%
Operational category: 87.2%

The operational non-compliances at a number of sites were due to increased turbidity as a result of low river abstraction levels, caused by drought conditions and the lack of adequate backwashing as the plants are unmanned at night. Blockages in the disinfectant dosing system and lack of process optimisation to changes in raw water quality resulted in chlorine non-compliances at a number of sites. The schemes are now being managed by iLembe District Municipality.

UMGUNGUNDLOVU SCHEMES

Umgeni Water acquired four small water treatment works schemes from uMgungundlovu District Municipality during the course of the reporting period with the intention of assessing these in terms of suitability for maintaining, refurbishing or consolidating in the longer term to provide a more sustainable bulk water solution to the areas targeted by the schemes. At the end of the reporting period, health and aesthetic categories met the excellent SANS 241:2015 standard and the operational risk category complied with the good standard.

Acute Microbiological Health: 98.7%
Acute Chemical Health: 100.0%
Chronic Chemical Health: 100.0%
Aesthetic: 99.0%
Operational: 90.4%

WASTEWATER QUALITY PERFORMANCE

Wastewater quality compliance (**Table 9.2**) is assessed against the relevant licence or General Authorisation General Limits prescribed by the Department of Water and Sanitation (DWS).

Table 9.2: *Wastewater compliance per treatment works*

Wastewater Treatment Works System	Volume (Ml/d)	Volume (%)	2012	2013	2014	2015	2016
1. Darvill	73.66	83.19	86.0%	87.0%	78%	84.5%	82.1%
2. Howick	4.38	4.95	92.0%	82.7%	87%	87.2%	89.2%
3. Ixopo	0.70	0.79	83.2%	88.1%	95%	95.9%	93.4%
4. Lynnfield Park	Note 2	Note 2	-	-	66%	87.3%	85.5%
5. Richmond [1]	1.17	1.32	-	-	-	-	89.0%
6. Cool Air [1]	0.61	0.69	-	-	-	-	89.9%
7. Mpofana [1]	7.74	8.74	-	-	-	-	64.8%
8. Camperdown [1]	0.28	0.32	-	-	-	-	90.9%
9. Applesbosch [1]	Note 2	Note 2	-	-	-	-	94.4%

1. Operation of these schemes commenced in the latter half of 2015
2. No inflow or outflow meter at these sites.

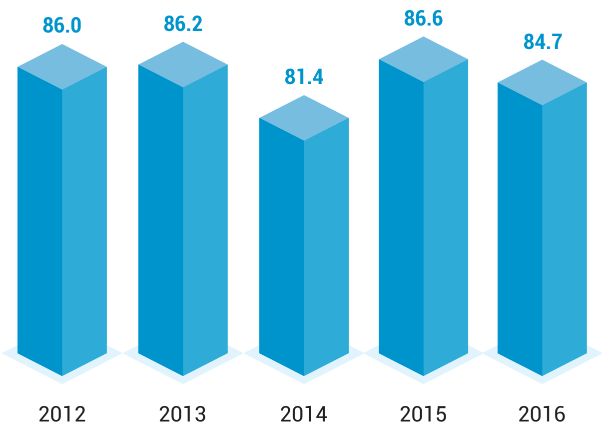
BULK WASTEWATER SUPPLY SYSTEMS

Overall effluent compliance for the reporting period was 84.7%. Umgeni Water had set an achievable target of ≥ 85% compliance for each of four (4) bulk wastewater treatment works (WWTW) for the reporting period. Three (3) WWTW achieved the target and one (1) achieved 82.1%.

Darvill WWTW: 82.1%
Howick WWTW: 89.2%
Ixopo WWTW: 93.4%
Lynnfield Park WWTW: 85.5%

The non-compliances recorded at the Darvill WWTW were mainly due to plant capacity constraints as well as spillage of the storm dam, resulting in elevated *E. coli* among other non-compliances. Inadequate aeration, power supply issues, low winter temperatures, high Chemical Oxygen Demand (COD) loading rates, sludge wasting issues, high mixed liquor suspended solids and some impacts caused by the current construction work contributed to the recorded non-compliances. Use of the alternate effluent discharge site, which does not have sufficient settling or contact time, was required to be used due to upgrade work underway.

Figure 9.2: *Bulk Wastewater Water Quality Compliance (%)*



Chlorination was significantly increased to ensure disinfection during this period, and therefore led to several out-of-range total chlorine results. The plant upgrade, with greater resilience and higher capacity should resolve most of the problems related to non-compliance. In addition, the proposed constructed wetland for detention of some storm dam spills would have a significant benefit once completed.

UMGUNGUNDLOVU WASTEWATER SUPPLY SYSTEMS

Umgeni Water acquired five (5) small wastewater treatment works schemes from uMgungundlovu District Municipality during the course of the reporting period with the intention of assessing and improving the wastewater treatment at these schemes. At the end of the reporting period the overall effluent compliance for these schemes was 81.4%:

Richmond WWTW:	89.9%
Cool Air WWTW:	89.9%
Mpofana WWTW:	64.8%
Camperdown WWTW:	90.9%
Applesbosch WWTW:	94.4%

There has been consistent improvement in effluent compliance over the reporting period, but nonetheless significant interventions are still needed to further improve compliance. The compliance benchmarks will be used to determine future repairs, maintenance and refurbishment plans and targets for these systems in the coming period.

9.2 CUSTOMER SATISFACTION

GEOGRAPHICAL MARKETS AND CUSTOMERS

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

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

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

eThekwini Metropolitan Municipality:	Retain and grow
Msunduzi Local Municipality:	Retain and grow
iLembe District Municipality:	Consolidate and grow
uMgungundlovu District Municipality:	Consolidate and grow
Harry Gwala District Municipality:	Market penetration
Ugu District Municipality:	Market penetration
uMkhanyakude District Municipality:	Market Development
Newcastle Local Municipality:	Market Development
Amajuba District Municipality:	Market Development
uMzinyathi District Municipality:	Market Development
uThukela District Municipality:	Market Development
uThungulu District Municipality:	Market Development
uMhlathuze Local Municipality:	Market Development
Zululand District Municipality:	Market Development

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 water business comprise:

- Approximately 1260 kilometres of pipelines and sixty-seven (67) kilometres of tunnels,
- Fourteen (14) impoundments,
- Seventeen (17) water treatment works and
- Nine (9) wastewater treatment works.

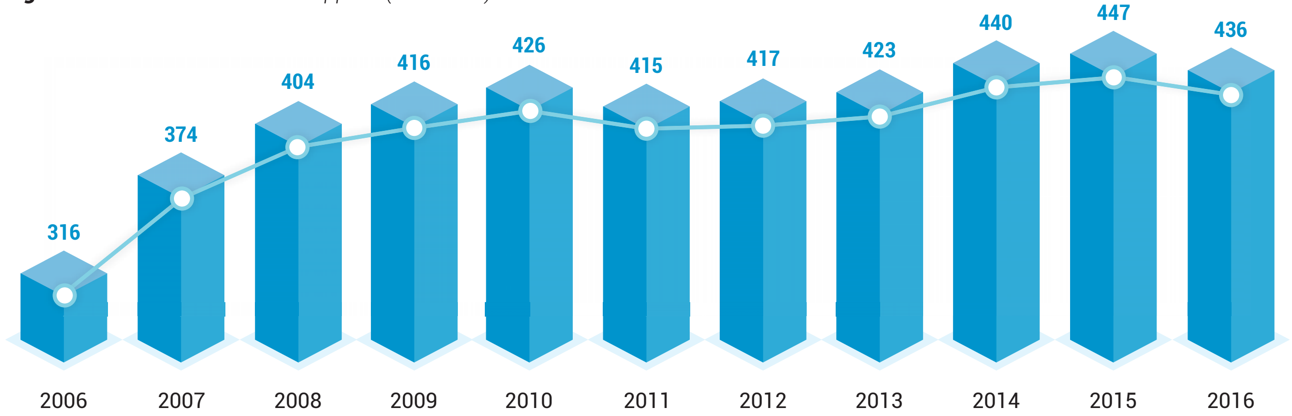
A total of 436 million cubic metres of potable water per annum (1195 Ml/d) are currently supplied to customers **(Figure 9.3)** who serve a population of 6 million or 1.64 million households through reticulation networks.

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

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

The organisation currently treats bulk wastewater totalling 31 million cubic metres per annum (88 Ml/d). Wastewater treatment works' capacities and utilisation are shown in **Figure 9.4** (c) and (d) respectively.

Figure 9.3: *Customer Volumes Supplied (million m³)*



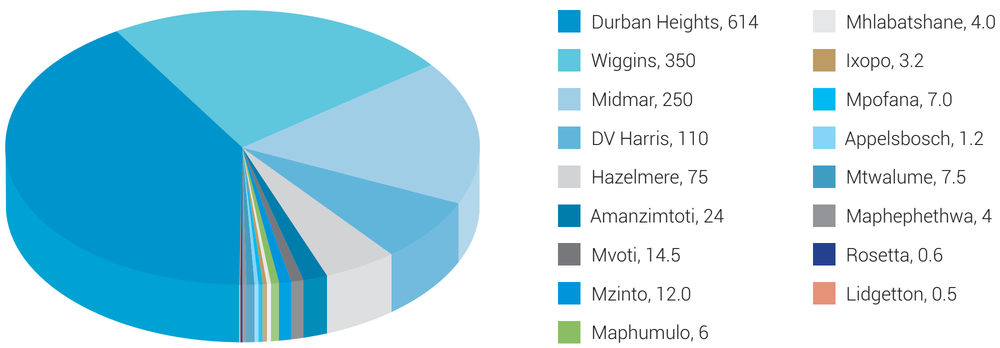
BULK SUPPLY AGREEMENTS

Bulk Supply Agreements are concluded to cover obligations of both Umgeni Water and its customers in relation to water volumes, water quality, supply pressure, service interruption intervals, metering, tariff consultation, assurance of supply and capital infrastructure plans.

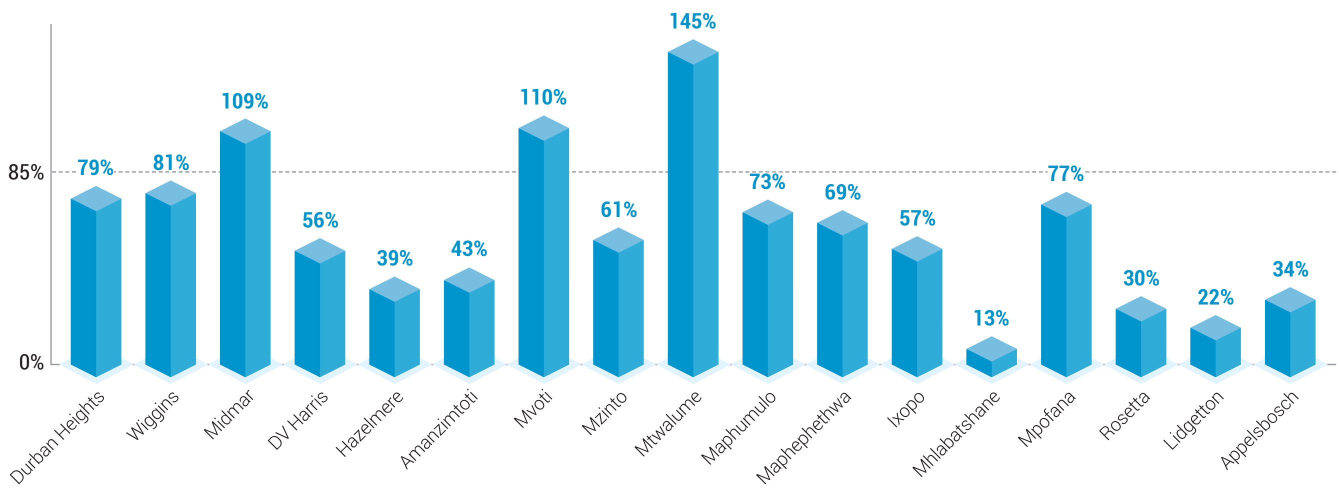
Water demand projections are updated based on trends in historical water sales volumes and customer demand trends. In parallel, analysis of Umgeni Water's bulk infrastructure and water works capacity in relation to demands highlight any infrastructure supply constraints or limitations on future growth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

Figure 9.4: *Water and Wastewater Treatment Works Capacity and Utilisation*

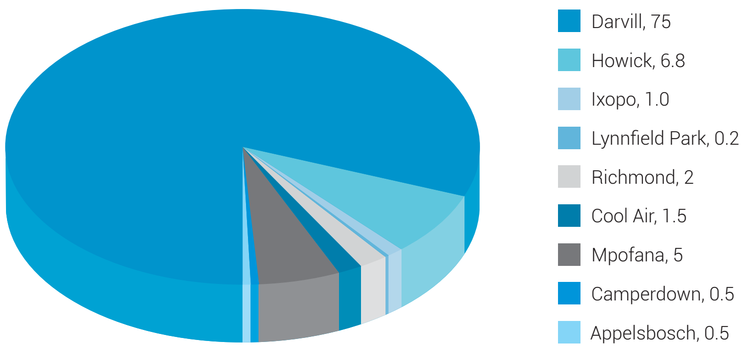
(a) WTW Capacity (Ml /d)



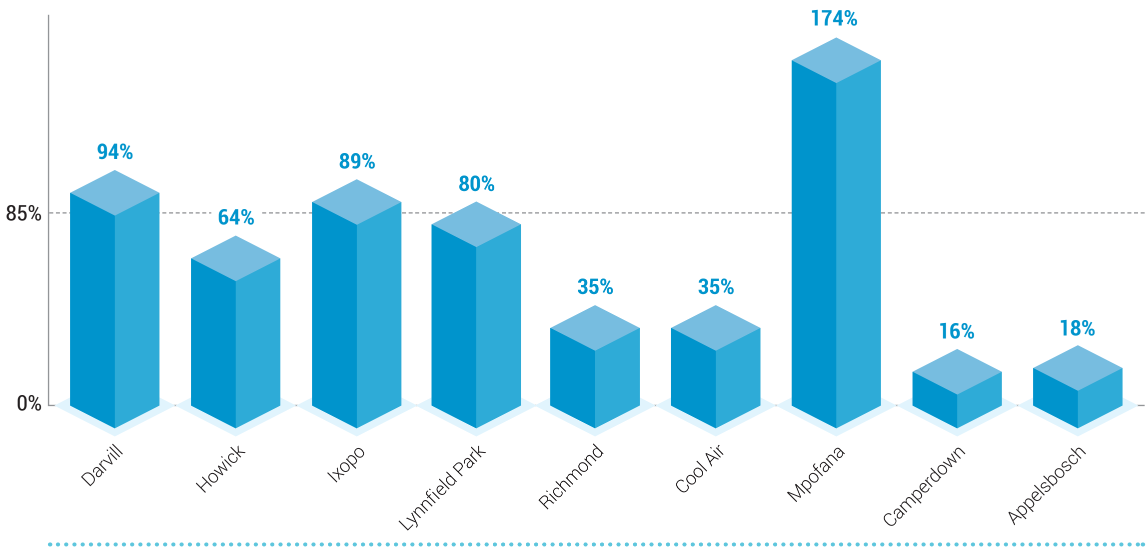
(b) WTW Utilisation (%)



(c) WWTW Design Capacity (Ml/d)



(d) WWTW Utilisation (%)



SUPPLY CAPACITY AND CONSTRAINTS

Several works, as shown in **Figure 9.4 (b)** are currently operated above their design capacity to meet demands and this also impacts on water quality. Specific interventions are in place to address these including:

- **Midmar WTW:** A works upgrade is currently underway.
- **Mvoti WTW:** The Lower Thukela BWSS will replace this works by Sep 2016. As a short-term solution, the refurbishment of the filters was completed and a 2 Ml/d package plant installed.
- **Mtwalume WTW:** Operational and process enhancements will alleviate constraints. The load on the Mtwalume system will be shed to the South Coast Pipeline when the Pennington Link is completed by Ugu DM. The long-term solution to address the Mtwalume capacity constraints is the extension of the South Coast Pipeline and related system upgrades.
- **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. An additional source of raw water has been commissioned to cater for drought period.
- **WWTWs:** Several works upgrades are underway or planned to address the treatment capacity constraints.

OPERATIONAL PERFORMANCE AND SERVICE PLANNING

Umgeni Water met formally with all customers several times during the year to ensure adequate interaction and feedback regarding operational performance, planning service level improvements and upgrades. Operational performance is measured against bulk supply agreements. Umgeni Water successfully met all customer requirements, notably 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, Umgeni Water provided water quality monitoring services to the following customers:

- Alfred Nzo District Municipality,
- uMsunduzi Local Municipality,
- uMgungundlovu District Municipality, and
- Harry Gwala District Municipality.

DROUGHT MANAGEMENT

In the reporting period several areas experienced below-average rainfall resulting in a prolonged drought. In response, Umgeni Water worked tirelessly with customers and communities affected by the water shortages to mitigate this. Several drought management initiatives were implemented including: implementation of Emergency Water Transfer Schemes, Facilitation of Drought related Joint Operating Committee Meetings and Imposition of daily water rationing from systems.

Drought Joint Operating Committee meetings were specifically facilitated for the North Coast System (with iLembe DM, eThekwini MM, Sembcorp Siza Water, DWS and CoGTA), as well as for the Mgeni System (with eThekwini MM, Msunduzi LM, uMgungundlovu DM, Ugu DM, DWS, CoGTA and the Agricultural sector). Initiatives implemented through the Joint Operating Committee included:

- Management of water resources to extend the duration of available supplies,
- Water Savings Plans developed and implemented by Water Service Authorities,
- Increased media awareness campaigns aimed at the general public to encourage prudent water use and provide information on the diminishing water supply, and
- Dissemination of daily water treatment plant production data and water savings targets to all stakeholders for monitoring purposes.

Daily water rationing was imposed for three systems, namely: Hazelmere System, Mgeni System (Durban Heights, Midmar, DV Harris WTWs') at 15% below agreed baseline levels, and Ixopo System (50% reduction in overall demand).

The emergency water transfer schemes implemented by Umgeni Water comprised:

- A transfer scheme from the Hlimbithwa River to supply the Maphumulo Bulk Water Supply Scheme,
- A transfer scheme from the uThongathi River to supplement Hazelmere Dam,
- A transfer scheme from the Mpambanyoni River to the South Coast EJ Smith Dam,
- A transfer scheme from St Isidore Dam to Ixopo Dam, and
- A transfer system from a borehole to the Hospital Water Treatment Works at Applesbosch.

This extreme event, which has been widespread, will positively change mindsets regarding water use and conservation. For Umgeni Water specifically, the event has added to institutional knowledge and will be used to inform Operational planning and long-range planning, to enhance future event response.

SUPPORT TO UMKHANYAKUDE DISTRICT MUNICIPALITY

During the reporting period the entity provided technical assistance to uMkhanyakude District Municipality. The objectives of the interventions were to restore services where these had been disrupted due to the severe drought and failure to maintain or upgrade existing infrastructure. In addition, some new infrastructure had not been fully commissioned, including pipelines, boreholes, storage tanks and pump stations that targeted communities ravaged by the drought. In response, Umgeni Water seconded employees with multi-disciplinary expertise and specialist knowledge in civil, mechanical, electrical and instrumentation engineering fields to the area.

The summary of work implemented is as follows:

- Groundwater siting, drilling, testing, equipping and commissioning, which had the impact of eliminating service delivery protests by restoring a reliable water supply,
- Repairs to existing boreholes / hand pumps to windmill conversion, which resuscitated water supply for which infrastructure had malfunctioned,
- Equipping Department of Water and Sanitation boreholes and fast tracking completion/commissioning of work not completed by previous service providers, thereby improving service delivery,
- Refurbishing existing infrastructure and eliminating water leaks to ensure continuation of water supply to target communities,
- Installation of potable water storage tanks as part of drought alleviation,
- Operational interventions, including chemical and diesel provision, callouts and repairs, to address issues arising from vandalism and to stablise collapsed infrastructure, and
- Implementation of sewerage infrastructure to prevent contamination of water resources and ensure compliance with Legislation.

SUPPORT TO HARRY GWALA DISTRICT MUNICIPALITY

The Xhobo River catchment has been heavily impacted by the drought, resulting in reduced river flows and reduction in the water level in the dam. The level of Ixopo Dam dropped to 10.5% capacity during the reporting period and without intervention dead storage was expected by end December 2015. Umgeni Water provided support to the Harry Gwala District Municipality through implementation of emergency water transfer schemes and supply restrictions.

An emergency scheme to pump raw water from St Isidore Dam to the Ixopo Dam was put in place to assure supply to Ixopo and surrounding areas. This project was completed within two weeks and also included a temporary measuring weir upstream of the dam to monitor water inflows and releases on a daily basis. Umgeni Water, together with the Department of Water and Sanitation, is currently funding construction of a permanent gauging weir above the dam upstream of Ixopo Dam. This will allow accurate readings to be taken so that water use license conditions can be maintained.

A second initiative included removal of alien plans (Gum and Wattle trees) along the river banks upstream and around Ixopo Dam to increase the flow. This was undertaken in collaboration with Working-for-Water.

The Greater Kokstad Local Municipality specifically was also assisted with technical and specialist support during this period. Several recommendations were made by Umgeni Water and implemented by the municipality, to manage supply and demand including:

- Options for pumping from the Kempdale Quarry to supplement the Mzintlava River used as a supply resource,
- Gauging of the Crystal Springs Dam and implementation of operational rules for managing abstraction and dam capacity,
- Metering, daily water balancing and water loss management for the Kokstad Water Treatment Works.
- Managing water quality below abattoir discharge, and
- Increasing water usage communication / awareness.

SUPPORT TO UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Umgeni Water has engaged in a partnership with the uMgungundlovu District Municipality to operate its treatment works, comprising five (5) potable water treatment works (of which one has since been decommissioned) and five (5) wastewater treatment works.

In the year Umgeni Water focussed on improving critical unit processes for each water treatment works and for some of the wastewater treatment works. Each works was provided with site operating procedures and, where required, training of existing operators was undertaken. Operational limits and compliance monitoring were implemented along with process optimisation. Improvements to water treatment works included:

- Design of chemical dosing systems,
- Implementation of methods to reduce chemical usage and improve final water quality,
- Installation of mobile chlorine gas units,
- Installation and commissioning of a 2 megalitre per day package plant at Mpofana Water Treatment Works, and
- Investigation of alternative raw water sources, such as boreholes, for works in areas of high demand.

At the end of the reporting period, the potable water treatment works were successfully brought within the SANS 241:2015 water quality standard.

Process optimisation for wastewater treatment works included:

- Optimisation of dissolved oxygen concentration by adjustment to aeration time,
- Upgrade for activated sludge return pumps (still in progress),
- Technical support for the Mpofana Wastewater Treatment Works upgrade,
- Initiation of process unit modifications to improve operation and legal compliance, and
- Optimisation of waste sludge dewatering and chlorine dosing.

A project is underway which investigates the treatment and disposal of both potable water and wastewater sludge. The options to be implemented will be environmentally sustainable and economically viable.

The municipality has expressed satisfaction with the collaborative approach, teamwork and efforts made by Umgeni Water, which have resulted in improvements in compliance scores - Blue and Green Drop – for these works.

A three-year plan of renewals and capital expenditure has been developed and agreed with the uMgungundlovu District Municipality as part of the near-term sustainable solution for the water and wastewater treatment works.

The municipality was also very appreciative of the supply assurance made possible by the Richmond Pipeline, amongst other bulk infrastructure that Umgeni Water implemented in the prior year, without which the potable water supply to the Richmond area would have been completely depleted due to the drought.

Additional support services have also since been requested by the municipality due to its confidence in Umgeni Water's ability to deliver on service delivery promises.

SUPPORT TO UTHUKELA DISTRICT MUNICIPALITY

The uThukela District Municipality required support in terms of human resources skills and capacity to effectively operate, maintain and optimise some of their water and wastewater treatment plants during this period. Umgeni Water responded through secondment of graduate process engineers and technicians to target areas. These graduates are part of the National Treasury initiative to increase the availability of skills in the water and sanitation sector and had already completed more than two years of the programme at Umgeni Water. They were therefore in a position to be deployed to assist in the operation and optimisation of treatment plants, under supervision of a senior process technician that was also provided by Umgeni Water.

A total of nine technicians and two engineers were deployed to the municipality for a period of six (6) months to assist at target works, namely, the George Cross Water Treatment Works, Archie Rodel Water Treatment Works, Escourt Wastewater Treatment Works, Loskop Water Treatment Works, Winterton Water Treatment Works and Winterton Wastewater Treatment Works.

The work undertaken during this time was development of piping and instrumentation diagrams, process performance evaluations and optimisation, provision of skills transfer to plant staff and assistance in the operations of the treatment works, amongst other tasks.

The secondment both provided key support to the municipality and had the additional benefit of providing further exposure of the National Treasury engineers and technicians to operation and optimisation of municipal water and wastewater works. This is a core requirement for applications for professional registration with the Engineering Council of South Africa. Over the six month period, these objectives were achieved.

Technical expertise and logistic support was provided by Umgeni Water including provision of dedicated vehicles and test equipment. The intervention also provided much needed relief to the overstretched uThukela District Municipality supervisory staff.

ASSET CONDITION, MAINTENANCE AND MANAGEMENT

Umgeni Water conducts regular maintenance and inspection of all its assets as an intrinsic part of continued operations management. Maintenance is implemented in accordance with the asset management strategy and plan.

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

In the year the total asset maintenance spend was R169 million **(Figure 9.5)**. Over the years Umgeni Water has continued to maintain its assets and on average invests 7.0% of its revenue on asset maintenance. Based on assessments conducted over the past year, there are no assets that pose significant risk to supply and the organisation envisages no major interruptions to its business over the next five years and beyond.

Figure 9.5 (a): *Maintenance Spend (Rm)*

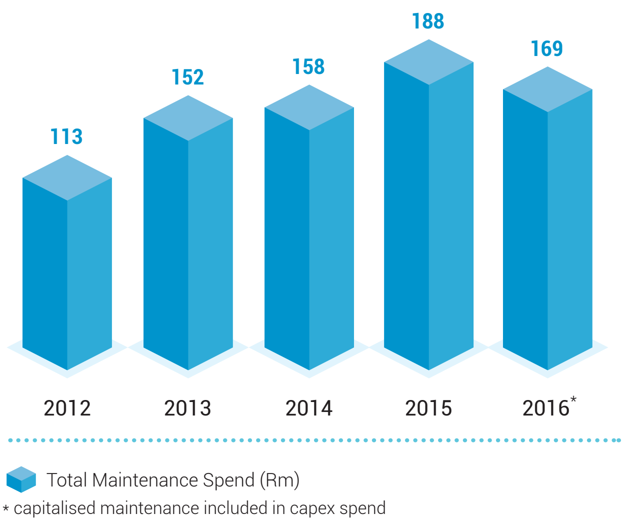
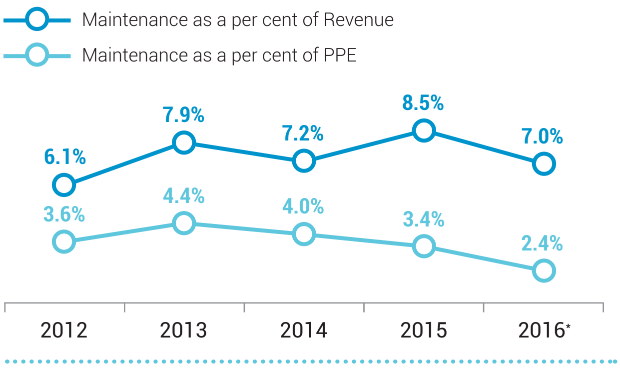


Figure 9.5 (b): *Maintenance (%)*



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.

9.3 INFRASTRUCTURE STABILITY

MANAGEMENT APPROACH

Infrastructure development 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 B-BBEE 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 are independently monitored and audited during implementation.

STATUS OF WATER ACCESS IN SUPPLY AREA

Overall water access status is 79% 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 9.6** (Census 2011). In addition, components of the served areas that are characterised by small schemes have been found to be unsustainable.

Figure 9.6 (a): *Water Supply Access and Backlog*

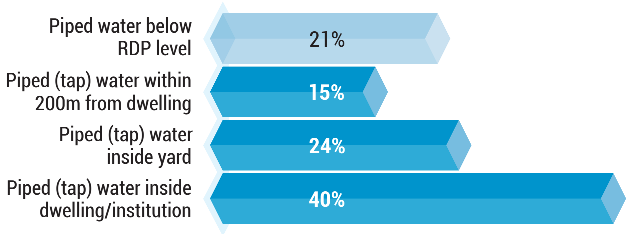


Figure 9.6 (b): *Water Supply Access and Backlog by Customer-Umgeni Water Traditional Operational Area*

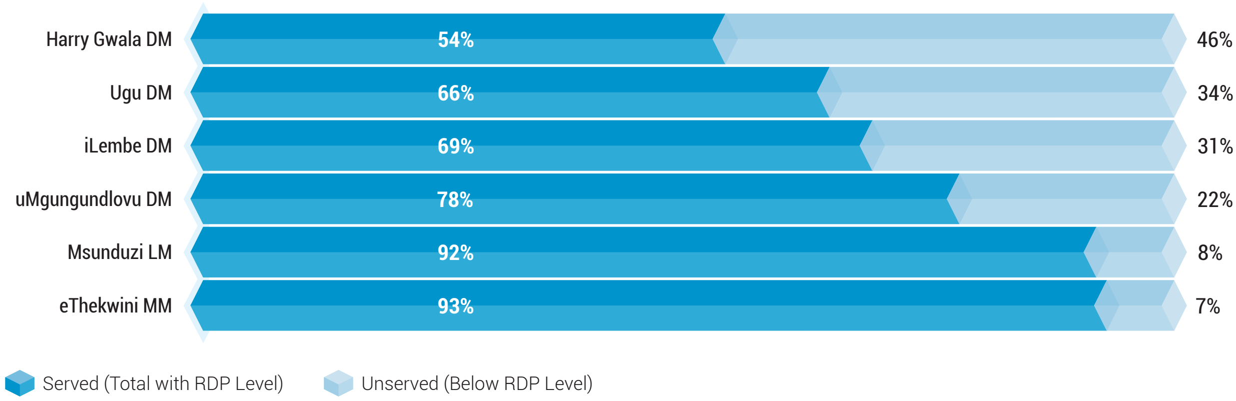
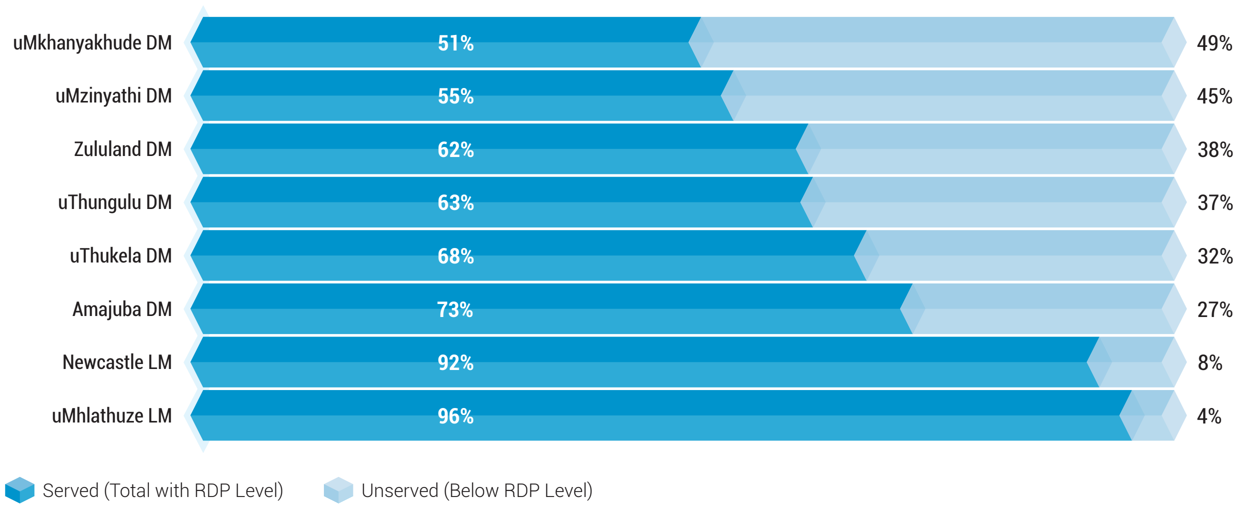


Figure 9.6 (c): *Water Supply and Backlog by Customer-Rest of KZN*



Working closely with national and provincial stakeholders in KwaZulu-Natal, Umgeni Water completed the planned development of Universal Access Plans (UAPs) for all Water Services Authorities (WSAs).

The first phase of the UAP project yielded conceptual-level reports for each WSA consisting of water requirements, potential water supply schemes and costing to provide access to bulk water supply.

The second phase of the UAP project was a follow-up reconnaissance level study to further refine the outputs of the first phase. Conceptual plans for bulk water supply schemes have been developed, documented and captured in a GIS format. Backlogs were identified and high level costs were formulated to eradicate these backlogs and provide wall to wall coverage. Information will be communicated to customers and stakeholders in 2017.

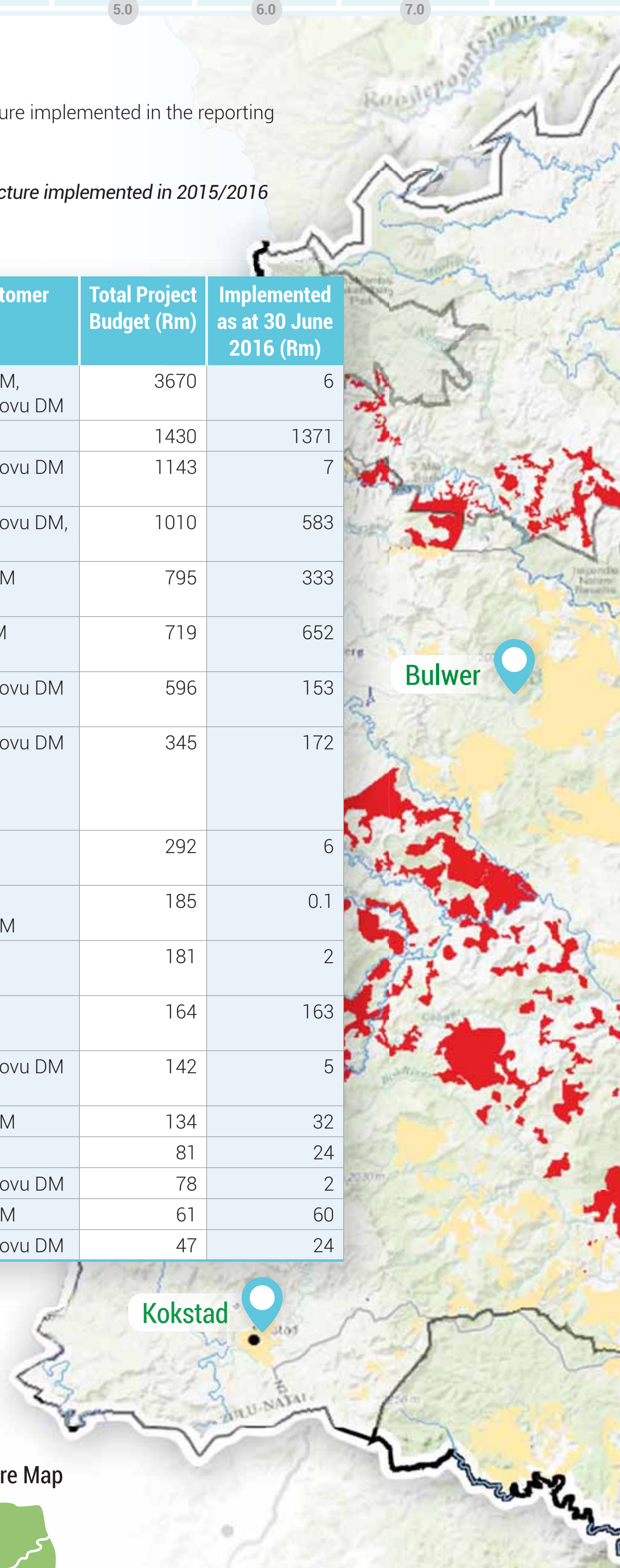
Midmar WTW Raw Water Pipeline Doubling

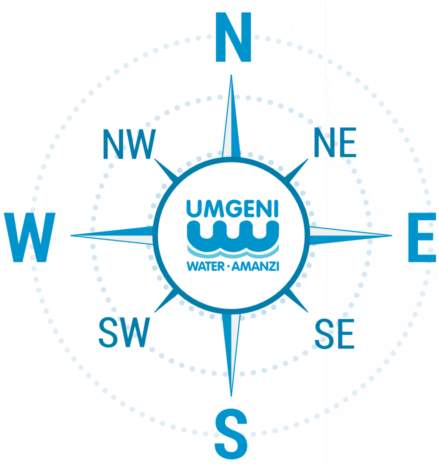
Current bulk infrastructure and supply footprint and the status of bulk infrastructure implemented in the reporting period in shown in **Figure 9.7.**

Figure 9.7: *Umgeni Water current bulk supply footprint and status of bulk infrastructure implemented in 2015/2016*

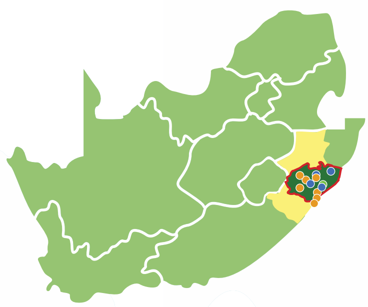
Table 9.3: *Major projects implemented in 2015/2016*

	Project name	Objective	Major Customer	Total Project Budget (Rm)	Implemented as at 30 June 2016 (Rm)
1	Mkhomazi Bulk Water Supply	Augmentation	eThekwini MM, uMgungundlovu DM	3670	6
2	Lower Thukela BWSS PH1	Rural Development	iLembe DM	1430	1371
3	Lower Mkomazi Bulk Water Supply Scheme	Augmentation	uMgungundlovu DM	1143	7
4	uMshwathi Bulk Water Supply Scheme (Wartburg Phases 1 - 3)	Rural Development	uMgungundlovu DM, iLembe DM	1010	583
5	Durban Heights WTW - Various Projects	Upgrade	eThekwini MM	795	333
6	Darvill Wastewater Treatment Works Upgrade	Upgrade	Msunduzi LM	719	652
7	Greater Mpofana Bulk Water Supply Scheme Phase 1	Rural Development	uMgungundlovu DM	596	153
8	Midmar Raw Water Pipeline Augmentation and Raw Water Pump Station and Water Treatment Works Upgrade.	Augmentation	uMgungundlovu DM	345	172
9	Mhlabatshane Sub- Regional Scheme Phase 2-Mzimkhulu River abstraction	Rural Development	Ugu DM	292	6
10	Elysium Desalination	Augmentation	Ugu DM, eThekwini MM	185	0.1
11	South Coast Phase 2b Kelso to Umdoni	Expansion	Ugu DM	181	2
12	Hazelmere WTW: Upgrade and Pumpstation Upgrade	Augmentation	iLembe DM	164	163
13	Mpophomeni Wastewater Treatment Works	Expansion	uMgungundlovu DM	142	5
14	Wiggins WTW - Various Projects	Upgrade	eThekwini MM	134	32
15	Nungwane Raw Water Aqueduct	Expansion	Ugu DM	81	24
16	Wartburg to Bruyns Hill Pipeline	Augmentation	uMgungundlovu DM	78	2
17	Maphephethwa WTW Upgrade	Augmentation	eThekwini MM	61	60
18	Lion Park Pipeline	Augmentation	uMgungundlovu DM	47	24





Umgeni Water Infrastructure Map




Maphumulo
Mandeni
uThukela
Mooi River
uMgungundlovu WSA
KwaDukuza
uMvoti
Howick
Wartburg
iLembe WSA
Ndwedwe
Ballito
uThongati
Msunduzi WSA
Indian Ocean
uMgeni
Durban
Richmond
eThekwini WSA
uMlazi
Ixopo
uMkhomazi
Harry Gwala WSA
uMzinto
Pennington
Ugu WSA
uMthwalume
uMzumbe
Port Shepstone
uMzimkhulu
uMtamvuma
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

Significant progress with capital infrastructure implementation was achieved during the reporting period. Spend performance for the year was a commendable R2019 million. Of this, R967 million (48%) went towards projects for rural development. Overall, 93% of target water infrastructure project milestones were met.

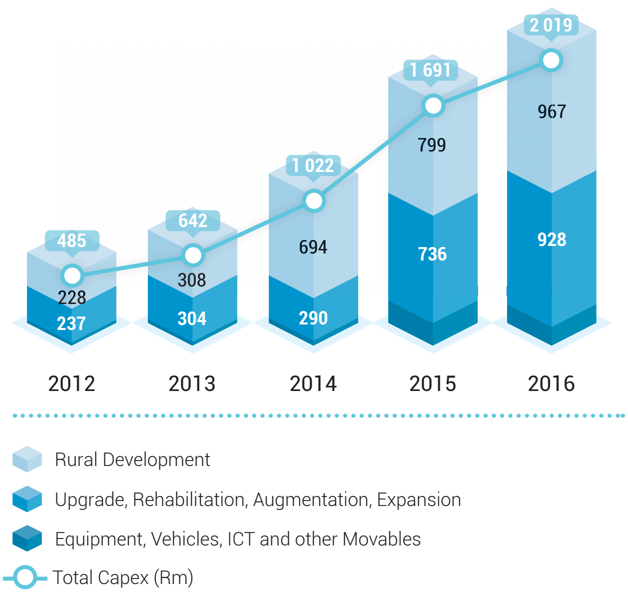
Key projects implemented are shown in **Table 9.3**.

Rural projects implementation was accelerated, including the Lower Thukela BWSS, Greater Mpofana BWSS, Maphephethwa WTW Upgrade, 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, the review and alignment of the Engineering, Procurement and Construction Management (EPCM) process was completed in the year and the rollout and training in preparation for the implementation will be undertaken during 2016/2017.

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

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



CUSTOMERS TARGETED AND 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 was completed in 2015/2016.*
  - *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.*
  - *In 2015/2016 Construction of Access Roads, the Weir and Abstraction Works, Gravity main, Water Treatment Works civil works, Command Reservoir, Rising main and power supply were completed.*
  - *Mechanical, Electrical and Instrumental works to be completed in 2016/2017.*

- **Darvill WWTW Capacity Increase**
  Serves The Msunduzi Local Municipality.
  Upgrade of plant capacity from 65 Ml/d to 100 Ml/d. The new or additional components include an inlet works, primary and secondary settling tanks, pumps and pump station, reactor, chlorination house and anaerobic digesters, amongst other components.
  - *Construction of WWTW upgrade was in progress during 2015/2016.*
  - *Completion by the end of 2016/2017.*

- **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 mid-2012/2013.*
  - *Construction of filter beds was completed during 2015/2016.*

- **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 early in 2015/2016.*

- **uMshwathi RBWSS**
  Serves uMgungundlovu District Municipality and iLembe District Municipality
  - *Phase 1: 27 km Pipeline from Claridge to Wartburg. Design completed in 2012/2013. Construction was completed mid 2015/2016.*
  - *Phase 2: 17 km Pipeline from Wartburg to Dalton, booster pump stations, an 8 Ml Reservoir at Wartburg and a 10 Ml Reservoir at Dalton. Design completed in 2013/2014. Construction will be completed mid 2017/2018.*
  - *Phase 3.2: 29 km Pipeline from Dalton to Efaye via Fawn Leas and a booster pump station Design completed in 2013/2014. Construction will be completed mid 2017/2018.*
  - *Phase 3.3b: 18 km pipeline from the Fawn Leas to Ozwathini pipeline. Construction will be completed mid 2017/2018.*
  - *Phase 3.3c: 12 Ml Reservoir at Ozwathini – Procurement in progress. Construction expected to be completed mid 2018/2019.*

- **Mhlabatshane BWSS (Phase 2) Mzimkhulu River Abstraction**
  Serves Ugu District Municipality and will reach and provide potable water access for over 100 000 inhabitants in ten tribal authority areas: Bhekani, Nhlangwini (west), KwaCele 1, Hlubi, Mabhaleni (west), KwaCele K, Frankland, Qwabe P, Shabeni, and KwaMadladla.
  The bulk infrastructure will comprise of an abstraction works on the Mzimkhulu River, pump station and pipeline to deliver water to the Mhlabatshane WTW, and upgrade of the Water Treatment Works from 4 Ml/day to 8 Ml/day.
  - *Phase 1 - commissioning of the Bulk Water Supply Scheme - was completed in 2014/2015.*
  - *Planning of Phase 2 is in progress.*

- **Maphumulo BWSS**
  Serves iLembe District Municipality, which includes KwaMaphumulo, Ndwedwe, and KwaDukuza Local Municipalities, and will serve 150,000 people in Maqumbi, Ashville, Maphumulo, Masibambisane, KwaSizabantu and Ngcebo supply areas.
  Phase 1 comprises Imvutshane River abstraction, 6 Ml/d WTW, Potable water pipelines, Booster pump stations and Reservoirs. Phase 2 comprises construction of the Imvutshane Dam.
  - *Phase 1 was commissioned in 2012/2013.*
  - *Phase 2 the construction of Imvutshane Dam was completed in 2014/2015.*
  - *Phase 3 the appointment of engineering design consultant for the upgrade of WTW to 12 Ml/d, detailed planning for the upgrade of the raw water and booster pump stations and relocation of a package plant from Hazelmere WTW to Maphumulo WTW were completed during 2015/2016.*
  - *Phase 4 the inter-basin transfer from the Hlimbithwa River into Imvutshane Dam, detailed feasibility investigation, which entails the Hlimbithwa River weir location and transfer infrastructure, commenced in 2015/2016.*

- **Greater Mpofana BWSS**
  Serves uMgungundlovu District Municipality.
  - *Construction of 20 Ml/d Rosetta Water Treatment Works at Rosetta adjacent to the newly constructed Spring Grove Dam. Design was completed in 2014. Construction started in 2015/2016 and the planned completion date is 2019/2020.*
  - *Construction of 5 Ml and 12 Ml reservoirs at Nottingham Road and Bruntville completed in 2015/2016.*
  - *Construction of a 8km pipeline from Rosetta WTW to Nottingham Road Reservoir completed in 2015/2016.*
  - *Construction of a 13km pipeline from Rosetta WTW to Bruntville Reservoir is scheduled to start in 2016/2017, with the anticipated completion date being 2018/2019.*

9.4 ECONOMIC EMPOWERMENT

MANAGEMENT APPROACH

Umgeni Water makes procurement accessible to Black Economic Enterprises, through processes which are competitive, fair, transparent, equitable and cost effective. This is 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.

A focussed approach to empowerment is followed including:

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

CONTRACT PARTICIPATION GOALS

Umgeni Water continued to implement its B-BBEE initiatives through the continued implementation of Contract Participation Goals (CPGs). CPGs 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 2015/2016

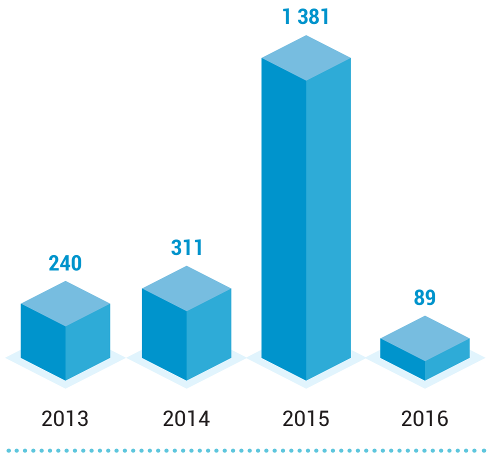
CPG targets set for 2015/2016 were 35% for construction contracts and professional services providers (and 5% for Black Women Owned businesses).

Seventeen (17) contracts were awarded during the 12-month reporting period. An average of 36% CPG was achieved with a total CPG award value of R 89 million. Of the total CPG, R36 million was awarded to Black Women-Owned businesses. The CPG per cent breakdown is listed below:

- Five (5) construction contracts were awarded in the year with an average CPG of 43.5% (R22 million) achieved.
- Seven (7) Professional Service Provider contracts were awarded in the year with an average CPG of 27.9% (R7 million) achieved.
- A total of Five (5) Operations renewal contracts were awarded in the year with an average CPG of 35.0% (R61 million) achieved.

Major contracts are multi-year with the benefits of economic transformation in prior period being realised over several years demonstrating success of this B-BBEE initiative.

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



B-BBEE SPEND PERFORMANCE

Companies have been classified and registered on a supplier database, according to their progress in achieving Broad-Based Black Economic Empowerment. The B-BBEE spend target for the reporting period was achieved with details provided in **Table 9.4.**

Table 9.4: *B-BBEE scorecard and expenditure for 2015/2016*

B-BBEE Status	Qualification	B-BBEE Recognition Level	B-BBEE Expenditure as at 2015/2016
Level one contributor	≥ 100 points on the Generic Scorecard	135%	R 137 057 089
Level two contributor	≥ 95 but < 100 points on the Generic Scorecard	125%	R 1 176 215 026
Level three contributor	≥ 90 but < 95 points on the Generic Scorecard	110%	R 504 195 676
Level four contributor	≥ 80 but < 90 points on the Generic Scorecard	100%	R 101 683 776
Level five contributor	≥ 75 but < 80 points on the Generic Scorecard	80%	R 364 734 738
Level six contributor	≥ 70 but < 75 points on the Generic Scorecard	60%	R 23 606 504
Level seven contributor	≥ 55 but < 70 points on the Generic Scorecard	50%	R 5 504 269
Level eight contributor	≥ 40 but < 55 points on the Generic Scorecard	10%	R 24 322 327
Non-Compliant contributor	< 40 points on the Generic Scorecard	0%	R 5 121 331
Total			**R 2 342 440 736**

The calculation of this percentage is based on the B-BBEE levels of the companies that have been awarded work by Umgeni Water which includes other SOEs. If the spend with non-discretionary spend is excluded, the B-BBEE spend recognition level exceeds 100%.

Fifteen (15) new entrants were added to the database, of which eight (8) have been awarded work.

MONITORING B-BBEE / CPG IMPLEMENTATION AT UMGENI WATER

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

- Established enterprises are in fact engaging the targeted enterprises as per contracts,
- Targeted enterprises are in fact performing the scope as per contract, and
- Payments due to targeted enterprises are processed at the correct rates and at agreed timeframes.

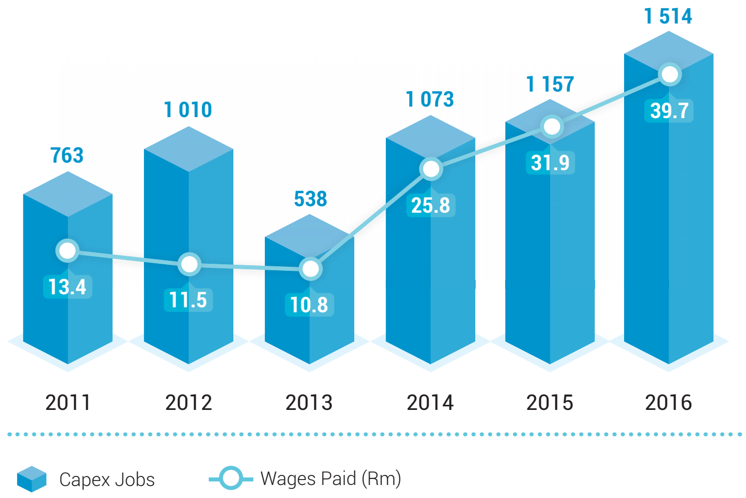
SKILLS DEVELOPMENT AND JOB CREATION

Infrastructure construction is targeted towards the poorest members of society and employs unskilled workers. Although the construction jobs created are not permanent, the volume of work available to the poor is high. Despite being temporary this work enables skills to be developed and utilised at a local community level and results in a meaningful flow of income to the poorest sectors of communities.

In the 2015/2016 reporting period Umgeni Water created a total of 1514 temporary jobs through its Capex Programme,

A total of R39.7m (R31.9 million in 2015) was paid in wages to local labour.

Figure 9.10: *Capex Jobs and Wages Paid*



9.5 COMMUNITY OUTREACH AND CORPORATE SOCIAL INVESTMENT (CSI)

MANAGEMENT APPROACH

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

- Education and Training,
- Job Creation,
- Public Health, Community Development and Support,
- Environmental Conservation, and
- Arts, culture and sport.

Umgeni Water also strives to help create a society that is aware of water as a finite and scarce resource. To this end the entity develops and implements integrated water education and awareness programmes that drive home key water concepts to influence behavioural change.

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

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

WATER EDUCATION AND COMMUNITY OUTREACH

Water, environment, health education and awareness were delivered through three 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 creates learning opportunities for visitors who gain 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, Howick WWTW and Midmar WTW. Water classroom presentations are followed by tours of the water or wastewater treatment works where learners get to see the practicality of the treatment processes.

In the reporting period 116 water classroom lessons were delivered from these sites reaching 85 institutions and 4200 participants.

Schools and Community Outreach Programmes: The schools outreach programme in the year ensured that learners who could not access Umgeni Water's facilities were reached through presentations made at schools, through roadshows and campaigns undertaken during special day events.

Other Educational Programmes implemented in the year include:

- Eighteen (18) events commemorating National Arbour Week in fifty-seven (57) schools, reaching over 5000 learners,
- Facilitation of the MiniSASS programme, a river health programme initiative, for schools in the Molweni area, Inanda (National Water Week),
- Bring a Girl Child to Work campaign, where thirty (30) girls visited Midmar WTW, to learn about water treatment and the importance of conserving water, as well as attend a careers seminar held during Environmental Week,

- A Dam safety awareness campaign was conducted at Mhlabatshane Dam in Ugu DM targeting schools and communities living near the dam, and
- A river clean-up campaign in collaboration with the youth of Sobantu, was conducted to clean up the Baynespruit.

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

Educator workshops on drought awareness were conducted for educators from nineteen (19) rural schools within iLembe District Municipality and eThekwini Metropolitan Municipality. Water scarcity and the importance of water conservation were emphasised across various water education platforms.

Community engagement is also a critical success factor for successful implementation of infrastructure projects and is approached in a manner that ensures community contribution to resolution of issues affecting them. Each project presented unique issues or opportunities and required targeted interventions. Umgeni Water institutional and social development facilitators play a key role in this process. As a result of successful management of these engagements, a foundation of trust has been built with community stakeholders. The changes in the political landscape and servitude encroachments are added factors that require further engagement and awareness building in the coming period. 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.

CORPORATE SOCIAL INVESTMENT (CSI) PROGRAMME

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

- Umgeni Water contributed towards social improvement projects in celebration of Mandela Day by contributing towards charitable initiatives to commemorate the late president's social improvement ideologies. Five beneficiaries received sponsorship, namely:
  - Prestige Football Academy in Msunduzi Local Municipality,
  - Soviyo Primary in the Harry Gwala District Municipality, which received two water tanks,
  - Insika High School in uMgungundlovu District Municipality, which received maths books and calculators,
  - iNkanyezini crèche in Ugu District Municipality, which received play facilities for the children and
  - Childhood Cancer Association in eThekwini Metropolitan Municipality.

- Assistance was provided to schools as follows:
  - Isiphingo Primary, for which funds were allocated towards purchase of school uniforms,
  - Completion of the Haza Primary School Multi-resource Centre project, which assisted the school transform library facilities into a multi-purpose centre to be utilised as a library, computer room and hall, and
  - Assistance to Ngome School to purchase furniture, to help alleviate overcrowding in classrooms.

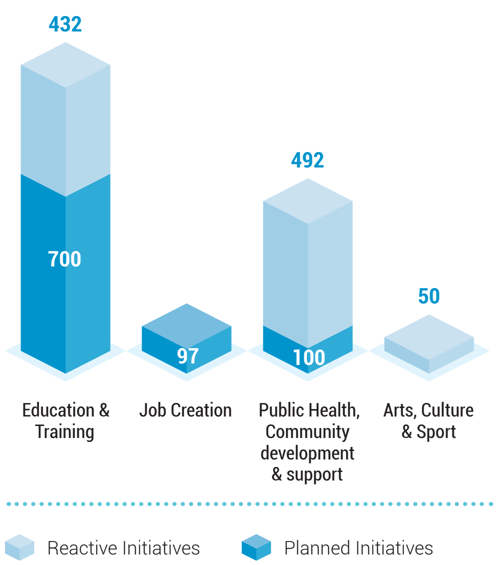
- Youth empowerment initiatives, included:
  - Training of post matric students in Mpophomeni, in Mngeni Municipality, as Environmental Rehabilitation Specialists, during the construction phase of the infrastructure project that Umgeni Water is currently implementing. These skills will assist the youth gain access to the main stream economy.
  - Assistance provided to a group of eight (8) youth to establish a cooperative and to gain skills in business management.
  - Funding to St John Ambulance, utilised for training of five (5) learners in home-based care.

- Lay Ecumenical Centre in Pietermaritzburg was assisted in fulfilling its role in providing opportunities for the underprivileged by sponsoring chairs for the hall in the Centre.

- Contribution made towards the purchase of soccer and netball kits to Ndwedwe Local Municipality. The community radio was also supported by contributing toward the purchase of furniture for KZN Radio Hub, in support of the ideology of realising the value of locally generated programmes.

CSI Spend for these initiatives is shown in **Figure 9.11.** Environmental Conservation initiatives were covered through other programmes implemented in the year.

Figure 9.11: *CSI Projects spend (R thousands)*



Darvill WWTW

Conserving our Natural Resources

10.1 ENVIRONMENTAL SUSTAINABILITY, INCLUDING WATER RESOURCES ADEQUACY

MANAGEMENT APPROACH

Umgeni Water is highly reliant on adequate supplies of raw water resources for its core business. In addition, energy, water treatment chemicals and other natural resources are crucial inputs for the water business. As a result, the entity is steadfast in protecting, conserving and efficiently using and sustaining these resources.

Environmental management programmes and plans are embedded in all components of the project life-cycle, namely, during planning, construction, operation and decommissioning. These environmental management programmes and plans are classified as Corporate, Operational or Integrated environmental management:

- Corporate Environmental Management: focuses on aligning the business activities towards environmental sustainability and promoting a shift towards the state of green economy,
- Operational Environmental Management: focuses on ensuring compliance of the entity with applicable environmental legislation and regulations and ensuring the entity avoids and or minimises environmental impacts from business activities, and

Abstraction Weir, Lower Thukela BWSS

- Integrated Environmental Management: focuses on the identification, mitigation and implementation of management plans for potential environmental impacts associated with infrastructure developments.

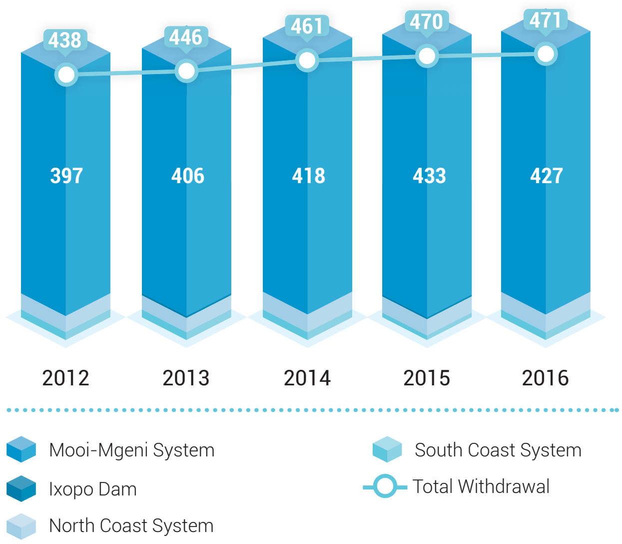
Umgeni Water, as public water services entity in South Africa, complies with all mandatory environmental disclosure requirements. Notwithstanding this, the entity continues to improve alignment of environmental indicators with other national and internationally accepted indicator disclosure requirements,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

WATER RESOURCES ADEQUACY

The core business function of Umgeni Water is to treat and supply bulk potable water – a business that is crucially dependent on the availability and sustainability of water resources. The reconciliation between water resource availability and demand is therefore of primary importance to the entity and forms an integral part of the infrastructure planning process. Understanding what water resources are available, both in the short term and for the long term, and factors affecting the level of assurance from these resources, is key to achieving the balance between supply and demand and for maintaining assured levels of supply required by customers.

Umgeni Water primarily sources water from twelve (12) 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 **Figure 10.1.**

Figure 10.1: *Water Withdrawal by Source (million m³)*



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

- Imvutshane Dam (UW) has been commissioned although impoundment has not been successful as a result of the drought. Impoundment is expected during the next rainfall season,
- uMkhomazi Water Project (DWS and UW) feasibility study is complete,
- Hazelmere Dam raising (DWS) construction is in progress,
- Lower Thukela Bulk Water Supply Scheme (UW) construction is almost complete and commissioning will start in October 2016,
- Lower uMkhomazi Bulk Water Supply Scheme (UW) feasibility study is now complete and a detailed design will be undertaken once a decision is made on whether this augmentation option would be more appropriate than desalination, and
- East Coast Desalination Plants detailed feasibility study (completed in 2015).

CLIMATE CHANGE AND WATER RESOURCES

Umgeni Water considers information on climate change to inform infrastructure planning and design, particularly given the significant costs and long planning period required for major infrastructure investments such as dams, pipelines, structures, buildings and transport infrastructure.

Umgeni Water has largely been proactive in considering the potential impacts of climate change on water resources and has incorporated projections into planning processes. The earlier work indicated that the majority of the climate models projected an increase in runoff in the catchments along the east coast of South Africa. Most models showed very high impacts, likely to be accompanied by significant increases in flooding risk, whilst a few models projected drying in these same catchments. Overall, results show a general increase in catchment runoff and therefore the ability to supply future water demands in KwaZulu-Natal, but projections do vary between catchments.

Umgeni Water is currently participating in the uMngeni Resilience Project, led by SANBI and uMgungundlovu District Municipality (UMDM), which is aimed at developing an adaptation strategy to mitigate the impacts of future flood events on the infrastructure and communities residing in close proximity to river systems within UMDM.

This Project will be completed over a two-year period with the outcome being a real time flood warning system, which would alert communities to the dangers of impending flood events. The design of the Flood Early Warning System (FEWS) will be undertaken in 2017 with implementation taking place thereafter.

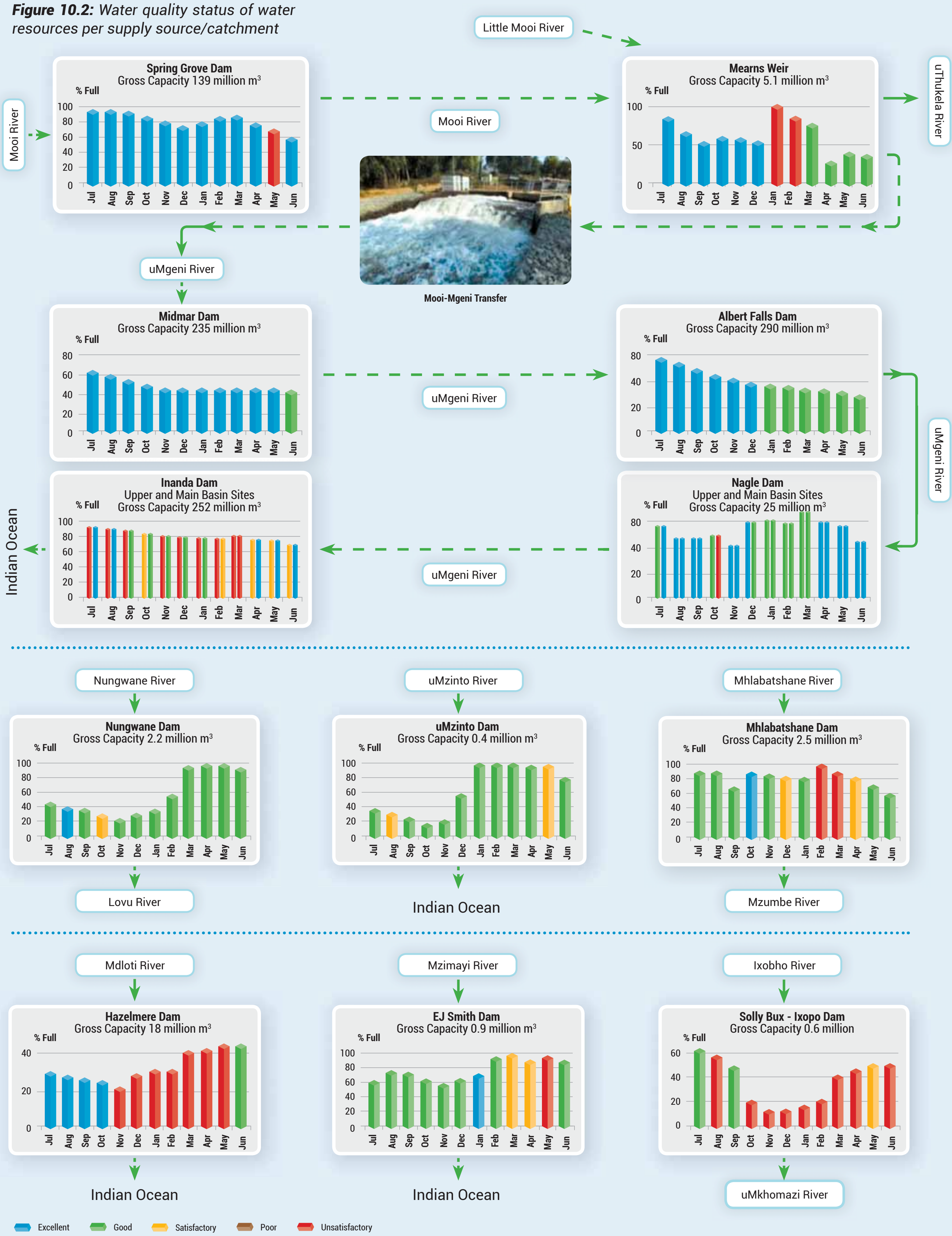
RAW WATER QUALITY

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

Table 10.1: *Resource Water Quality*

System	Catchment	Impoundment	Water Quality Status and Trend				Description of Raw Water Quality
			2013	2014	2015	2016	
Mgeni	Mooi, Mgeni	Spring Grove	-	**-**	**Filling**	**Excellent to Good**	*Excellent to good quality from the abstraction point in Midmar Dam. Occasional elevated nutrient concentrations in the inflow rivers to the impoundments as a result of inputs from the catchment. These result in elevated algal counts in the impoundments on a few occasions each year.*
		Mearns Weir, Midmar Dam	Good	**Good**	**Good**	**Excellent to Good**	
	Mgeni	Albert Falls Dam	Good	**Good**	**Excellent**	**Excellent to Good**	*Excellent to good quality in Albert Falls Dam at the site from where water is released for abstraction to the downstream Nagle Dam. Elevated nutrient concentrations in the inflow rivers to the impoundments as a result of inputs from the catchment, particularly from Howick WWTW and problematic sewer infrastructure in that area.*
	Mgeni	Nagle Dam	Moderate	**Good**	**Excellent**	**Excellent to Good**	*Excellent to good quality from the abstraction points in Nagle Dam. Occasional elevated nutrient concentrations and turbidity problems in the inflow to the impoundment as a result of the catchment rain events.*
	Mgeni	Inanda Dam	Moderate	**Moderate**	**Moderate**	**Moderate**	*Excellent to good water quality from the abstraction point in Inanda Dam. Poor quality in upper reaches of the Dam due to high algal counts associated with nutrient enrichment from the Msunduzi catchment and Darvill WWTW.*
North Coast	Mdloti	Hazelmere Dam	Good	**Excellent**	**Moderate**	**Poor**	*Quality generally poor as a result of elevated turbidity, algal counts and high iron and manganese concentration associated with the drought conditions and extremely low dam level.*
	Mvoti	Run-of-river abstraction	Moderate	**Good**	**Good**	**Moderate**	*Quality generally good with exception of elevated turbidity associated with rainfall events and erosion in the catchment.*
	Thukela	Run-of-river abstraction		**Poor**	**Poor**	**Moderate**	*Moderate quality due to elevated phosphates, turbidity and TOC associated with erosion due to rainfall runoff events and poor agricultural practices.*
	iMvutshane, Maphumulo	Run-of-river abstraction		**Good**	**Good**	**Moderate**	*Quality generally moderate with the exception of elevated turbidity associated with rainfall events.*
South Coast	Nungwane, Lovu	Nungwane Dam	Moderate	**Moderate**	**Good**	**Good**	*Quality generally good with high algal counts at times as well as TOC and iron concentration. Drought conditions' resulting in low water levels has reduced impoundment mitigation of problems.*
	Mzimayi	E J Smith Dam	Poor	**Poor**	**Poor**	**Moderate**	*Moderate quality from the abstraction point in EJ Smith Dam. The river inflow quality remains poor due to the presence of elevated E. coli, TOC and nutrient input as a result of sewage contamination from the Mzinto town.*
	Mzinto	Mzinto Dam	Moderate	**Moderate**	**Moderate**	**Good**	*Good quality in Mzinto Dam at the site from where water is released for abstraction downstream at Esperanza (Mzinto River).*
	Mthwalume	River Abstraction	Moderate-Poor	**Moderate-Poor**	**Good**	**Excellent to Good**	*Quality generally good with exception of elevated turbidity associated with rainfall events.*
Ixopo	Xhobo (Ixopo area)	Ixopo Dam	Poor	**Poor**	**Poor**	**Poor**	*Poor quality from the abstraction point in Ixopo Dam. Eutrophication and elevated organic carbon, algal blooms, iron, manganese and aquatic weed problems, due to sewer problems in Ixopo Town and extremely low dam water level. Problems have been made worse due to drought conditions.*

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



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

Water quality management plans include:

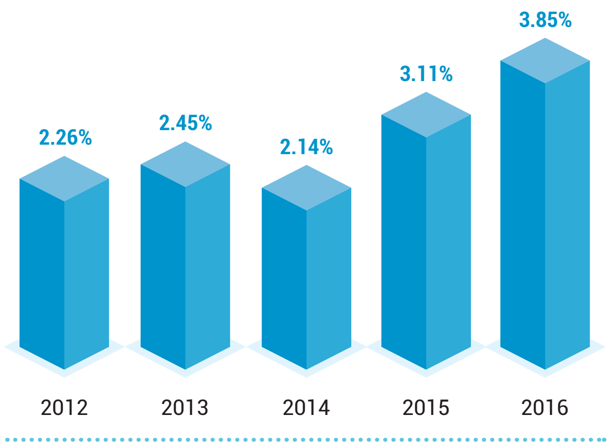
- Monitoring the quality of raw water resources to assess quality for potable water treatment,
- Assessing risks associated with negative trends in eutrophication, chemical contamination, pathogens and suspended solids, and progress toward achieving raw water quality objectives,
- Engaging in catchment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

The Department of Water and Sanitation (DWS) is kept continuously apprised of the quality, trends and potential risks associated with raw water supply resources. As the custodian of South Africa's water resources, DWS will continue to ensure there is long-term sustainability of water resources.

WATER LOSS MANAGEMENT

During the year, resources were used assiduously and water balancing and water loss management measures were put in place for treatment systems. The total water loss level, at 3.85%, has been maintained below the target of 5% **(Figure 10.3)**.

Figure 10.3: *Water Loss (%)*



MATERIALS USAGE AND EFFICIENCY

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

ENERGY USAGE, CARBON FOOTPRINT AND EMISSIONS REDUCTION INITIATIVES

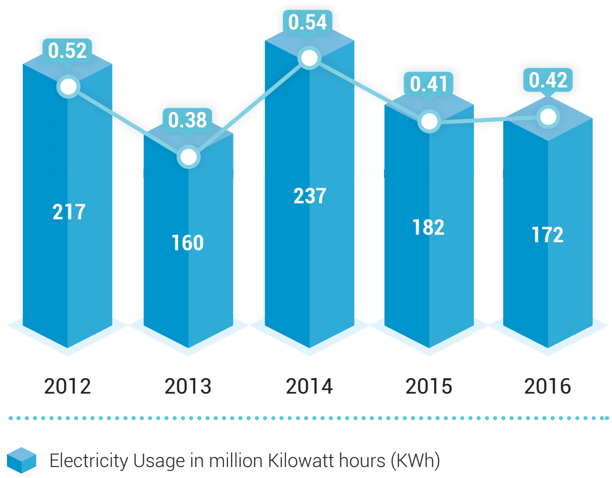
Energy is a crucial resource for water and wastewater treatment processes. In the reporting period Umgeni Water utilised a total of 172 million kWh of electricity. **Figure 10.4** shows energy usage and efficiency. The 5% decrease from the prior year (2015: 182 million kWh) is attributed to a slight decrease in raw and potable water pumping in the year, which is subject to optimal matching of storage levels with demands from various systems.

Umgeni Water has established a Water Demand Business Unit to help focus water loss management initiatives/projects in support of municipalities.

A scope for participating in the War-on-Leaks Programme being led by Rand Water has been formulated. This will also assist municipalities with curbing water loss in the reticulation system.

Umgeni Water's direct (Scope 1) CO_2 emissions arise from fuel usage by the entity's vehicles, boats and generators, while indirect (Scope 2 & Scope 3) CO_2 emissions are primarily due to electricity usage, and to a minor extent flights and waste generated.

Figure 10.4: *Electricity Usage and Efficiency Trends*



The entity's carbon footprint is primarily due to consumption of purchased electricity, which accounts for > 99% of the total carbon footprint. This is due to electricity being the key input to water and wastewater treatment processes. The carbon footprint trend over the past five years is shown in **Figure 10.5** and **Table 10.2.**

It is anticipated that implementing energy efficiency measures will contribute to reducing the entity's carbon footprint over time.

Figure 10.5: *CO_2 Equivalents (tonnes)*

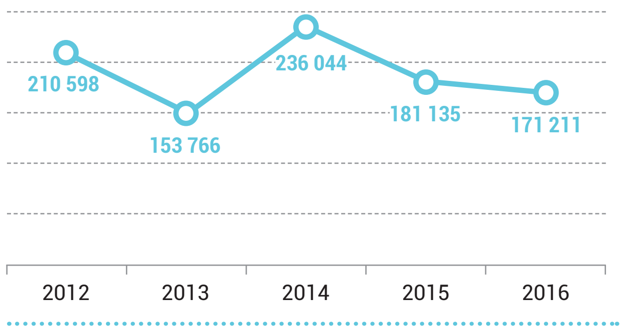


Table 10.2: *CO_2 Equivalents (tonnes)*

CO_2 equivalents (tonnes) per activity	2012	2013	2014	2015	2016
Electricity	208071	153280	234575	180117	170287
Travel: Car	2086	137	1035	204	177
Travel: Air	81	71	87	91	99
Waste	262	196	305	684	620
Other fuel	98	82	42	39	29
Total	**210598**	**153766**	**236044**	**181135**	**171211**

The main initiative to reduce the entity's carbon footprint is development of an electricity co-generation plant at the Darvill Wastewater Treatment Works. This 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 indicate that approximately 40% of the total energy requirement of the wastewater treatment works can be generated from this source. The produced energy can be used for pumping raw water from various sources to treatment plants and can also be used for pumping bulk potable water to customer points. The project is in final design phase.

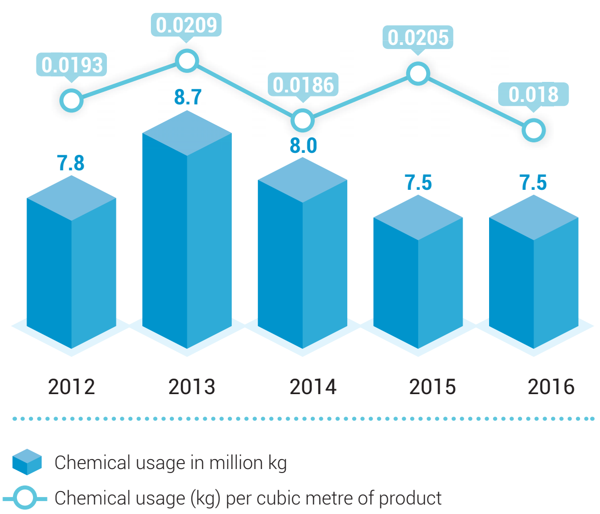
Umgeni Water also implements carbon offsetting initiatives, including:

- On-going tree planting initiatives and
- Implementing the Darvill Wastewater Treatment Works wetland construction project.

CHEMICALS USAGE AND EFFICIENCY

Umgeni Water continues to monitor chemical usage at all its sites on a monthly basis to ensure optimal chemical usage and therefore support transformation towards sustainable development. (**Figure 10.6**).

Figure 10.6: *Chemical Usage and Efficiency Trends*



Umgeni Water has various initiatives in place as part of its on-going commitment to protect and conserve the natural environment and its resources. These include:

- Water treatment process evaluation audits. These are undertaken at operational sites. Areas to improve process and operational efficiency are identified and recommendations made and implemented.
- Monitoring the seasonal variation in water quality of the water column in dams / impoundments. Information is used to optimise the raw water quality abstraction for water treatment.
- Participation 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 developments.
- Regular chemical optimisation audits. This ensures the optimal use of treatment chemicals and facilitates prompt response should a problem be identified through the sampling.

BIODIVERSITY MANAGEMENT

UMNGENI ECOLOGICAL INFRASTRUCTURE PARTNERSHIP (UEIP)

Umgeni Water is a signatory of the uMngeni Ecological Infrastructure Partnership (UEIP). The UEIP is committed to harnessing the potential of ecosystems to complement built infrastructure in an integrated approach to managing water resources in the greater uMgeni River catchment.

Strategic investment in the rehabilitation and management of ecological infrastructure in the catchment is enabled by coordination, collaboration and joint learning through the partnership.

As part of this partnership, Umgeni Water is involved in a project entitled: *The role of ecological infrastructure in securing water supply in the uMgeni Catchment.* The sub-projects that are part of this are:

- Effects of Land Use on Water Quality of uMgeni River,
- The hydrological benefits of rehabilitation of critical areas of the catchment, including, land use change impacts, alien plants and degradation,
- The value of community-based water quality monitoring programmes,
- The restoration of the Lions River Wetland for improved downstream water quality and quantity,
- An improved long-term water quality monitoring programme for key sub-catchments of the uMgeni River.
- Water quality of the Baynespruit,

- Hydrological modelling to estimate water quantity and quality of the Mthimzima Stream,
- Assessment and monitoring of the water quality of inflows to Midmar Dam, and
- Estimating chlorophyll content in water bodies in the uMgeni Catchment from hyperspectral satellite imagery.

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.

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

Job opportunities for neighbouring communities were created through administration work, alien plant eradication programme, hospitality and park maintenance. A total of 556 temporary job opportunities were created during the reporting period and a total of 2179 hectares of land were cleared of alien plants.

Msinsi Holdings continues to be seen as a significant player in the conservation and tourism sector in KwaZulu-Natal and the state-owned company will continue to ensure that ecosystem services provided by these water and environmental are sustainably managed.

Education: Msinsi continued providing environmental education targeting surrounding communities. Twenty-three (23) environmental education initiatives in areas of water conservation, environmental awareness and commemoration of environmental special days were implemented, learners were reached through environmental education presentations while young and old community leaders were partaking in tree planting activities.

Corporate Social Investment (CSI): Msinsi continued with the implementation of CSI initiatives which included the donation of five (5) food parcels to some of the less privileged households and sponsorships to other local community events.

ALIEN AQUATIC WEED MANAGEMENT

Well managed and sustainable water resources are essential to Umgeni Water, as the entity relies on adequate quantities of acceptable quality of raw water being available for water treatment abstraction. Alien invasive aquatic weeds that have been introduced into water resources are posing a significant threat to maintaining the sustainable of these resources. The primary threat to water bodies in the Umgeni Water operational area is mainly posed by: Water hyacinth *(Eichhornia crassipes)* and Water lettuce *(Pistia stratiotes)*.

Water hyacinth is considered to be the most significant threat to water bodies across the world as it is the fastest growing and most difficult to control perennial, herbaceous, free-floating aquatic weed. Control of water hyacinth and water lettuce in this nutrient enriched aquatic environment is critical due to the exponential growth rate of these weeds. Once established, and even when the plants are removed or destroyed, they are extremely difficult to eradicate entirely due to the large seed bank. In the reporting period Umgeni Water has maintained these weeds at manageable low numbers due to the following control methods and initiatives:

- Close cooperation between the multi-stakeholder group, Alien Weed Working Group which include regulatory and non-governmental organisations who assisted in the control of the weeds,
- Monitoring and assessment of the weeds status, assisted by social media, which improved response time and reduced cost of control,
- Combining biocontrol, herbicide and manual removal to keep infested areas at manageable low numbers,
- Continuing to grow the knowledge base through sharing experiences and lessons learned, including at conferences and similar events. Improving education and awareness remains one of the best options for aquatic weed management.

WASTE MANAGEMENT

Volumes of general and hazardous waste generated during the reporting period are shown in **Figure 10.7** and the waste recycled is shown in **Figure 10.8.** Most of the operational sites have implemented recycling initiatives and waste is separated at source.

Figure 10.7: *Waste Produced*

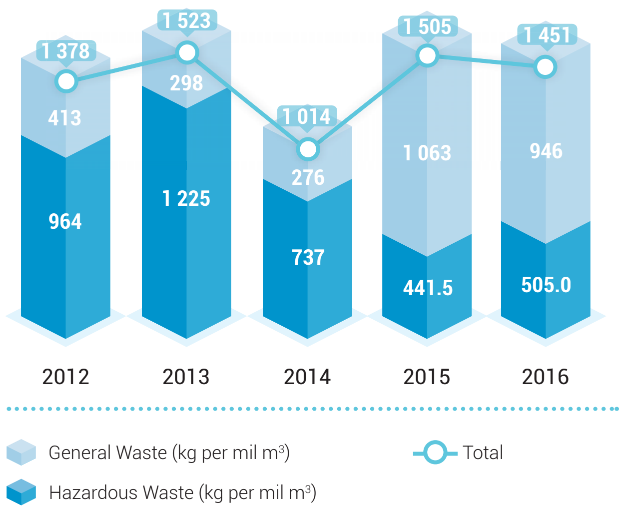
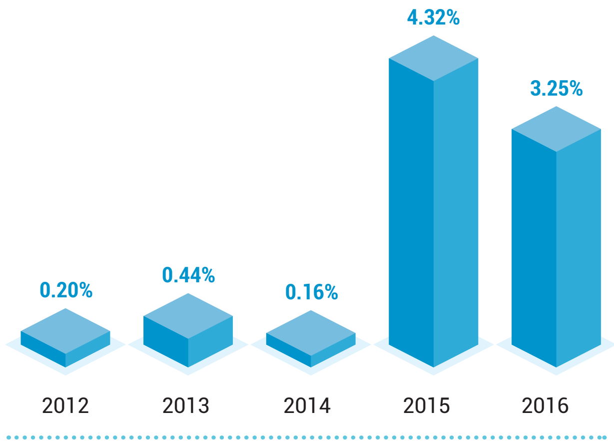


Figure 10.8: *Per Cent Waste Recycled*



ENVIRONMENTAL PERFORMANCE OF OPERATIONAL SITES

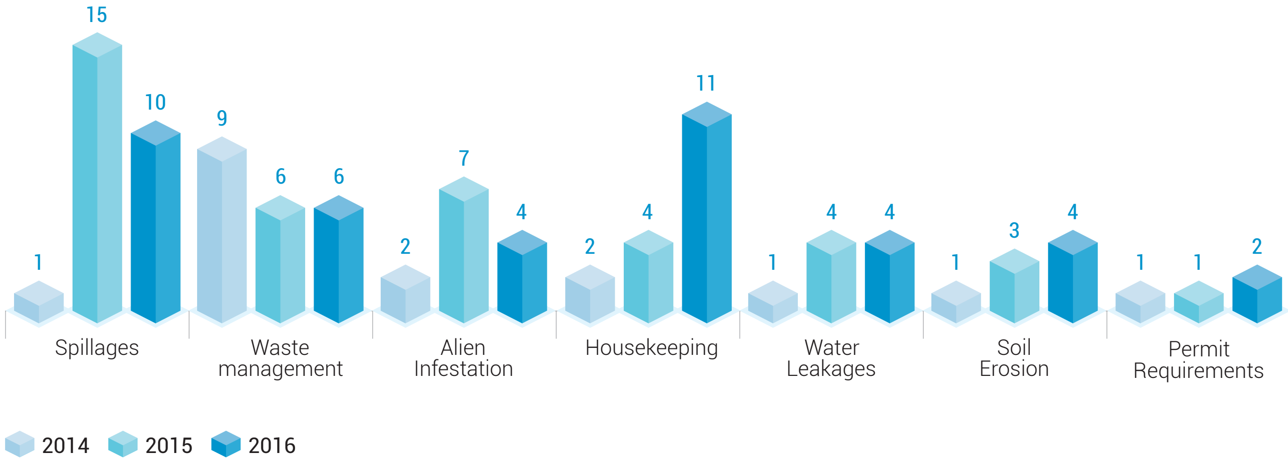
Annual environmental audits are undertaken at operational sites, the objectives of which are:

- To assess whether the site is complying with all applicable environmental legislation and regulations,
- To assess internal policy and procedural compliance in relational to environmental management,
- To assess the status of energy consumption, waste management and biodiversity management at the site and alignment with corporate environmental sustainability initiatives, and
- To recommend mitigation measures to address areas of non-conformance.

In the reporting period, environmental audits were undertaken at operational sites, including: water treatment works, wastewater treatment works, dams, workshops and regional offices. The main findings **(Figure 10.9)** were:

- Inadequate waste management in relation to waste separation, storage and implementation of waste recycling measures,
- Terrestrial and aquatic alien weed infestations,
- Soil erosion,
- Poor housekeeping,
- Non-compliance with permit requirements,
- Wastage of non-renewable resource and water leakage,
- Lack of containment for potential hydrocarbon spillages from stationary vehicles, and
- Contamination of the surrounding environment due to concrete and oil spillages that were not cleared.

Figure 10.9: *Environmental Management Findings from Audits*

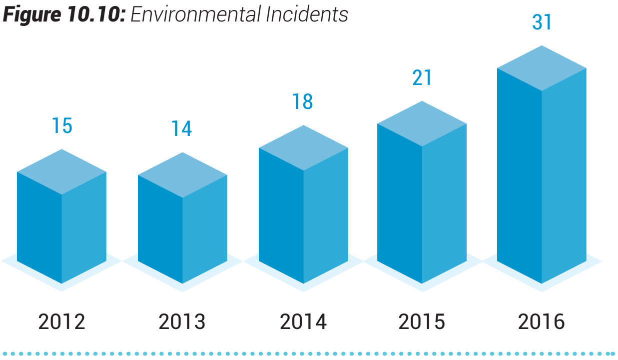


Umgeni Water acquired additional operational sites during the reporting period all of which were in a poor state. Plans and initiatives are being put into place to improve these sites over time. The monitoring undertaken serves as an invaluable tool to assist with assessing the success of interventions.

ENVIRONMENTAL INCIDENTS

The number of environmental incidents for the reporting period increased to thirty-one (31), compared to twenty-one (21) for the prior year (**Figure 10.10**). The increase in incidents was mainly due to sewage spillages due to failure of wastewater treatment works pumps, chemical spillages and water leakages. With the acquisition of four additional wastewater treatment works during the year, it was expected that the incident tally will increase. The incident management systems that are put in place will reduce such incidents over time.

Figure 10.10: *Environmental Incidents*



INTEGRATED ENVIRONMENTAL MANAGEMENT

The entity currently has eleven (11) projects in the planning, design or procurement phases 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, projects that trigger listed activities are required to obtain an environmental authorisation (EA) prior to any construction activity. The process of obtaining an EA can be either through a basic assessment (BA) process or a scoping and full environmental impact assessment process (EIA). The status of environmental authorisation for key bulk infrastructure projects is shown in **Table 10.3.**

Table 10.3: *Environmental Authorisation status for key Bulk Infrastructure Projects*

Project name	EA status requirements
uMkhomazi Water Project Phase 1	EIA application in progress
Lower uMkhomazi BWSS	EIA application in progress
East Coast Desalination	EIA application in progress
uMshwathi BWSS Phase 4	EIA application in progress
Mhlabatshane Pipeline and Plant Upgrade	BA Application in progress
South Coast Phase 2A	BA Application in progress
uMshwathi BWSS Phase 1	EA obtained
Bruynshill Pipeline and Pump Station	EA obtained

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

Fourteen (14) projects are currently in construction and are monitored for compliance against Environmental Management Plans, conditions of the EA, contractual obligations and international best practises by both independent Environmental Control Officers and internal Environmental Officers and Scientists.

Overall, environmental performance has been satisfactory with the following minor challenges identified during project construction and rehabilitation phases:

- Outstanding rehabilitation of disturbed areas,
- Hydrocarbon spill containment procedures not followed,
- Weed infestations at construction and stockpile areas, and
- Inadequate waste management of construction surplus material and domestic waste.

Mitigation measure were recommended and implemented for these. Notwithstanding these, environmental practise remains good and activities are generally conducted in an environmentally sustainable manner.

A Subsidary of Umgeni Water

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.

11.0

Enabling our People

11.1 LEADERSHIP AND EMPLOYEE DEVELOPMENT

MANAGEMENT APPROACH

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

Labour and employment matters *including:*

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

Social and economic development

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

- The ten (10) principles set out in the United Nations Global 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 and development of the communities in which Umgeni Water conducts its business, and
- Impartial/objective sponsorship, donations and charitable giving.

MDP Graduation

The environment, health and public safety *including:*

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

Consumer relationships *including:*

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

LABOUR PRACTICES AND DECENT WORK

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

EMPLOYMENT

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

- The entity seeks to maintain a workforce that enables it to deliver quality services to all stakeholders.
- All employees are based in KwaZulu-Natal and within commuting distance from all operational sites.
- All full time and fixed term contract employees are provided with several benefits, including: membership of provident fund or retirement fund, housing allowance and medical aid.
- All female employees are entitled to maternity leave. During the reporting period thirty-two (32) female employees took maternity leave and 99% returned to work after their leave.

SUCCESSION, MENTORING AND COACHING

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

- Scarce, Core and Critical positions, including positions critical for retention of institutional memory,
- Profiling of potential retirees (60 – 65 years of age) occupying scarce and critical positions,
- Documenting competencies identified for key positions for compilation of job profiles,

- Preparing individuals to assume higher levels of responsibility in key and strategic positions, and
- Developing a skills database of Employees, Learners, Apprenticeships and other Trainees, which provides an informed pool from which to identify successors.

Table 11.1: *2015/2016 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)

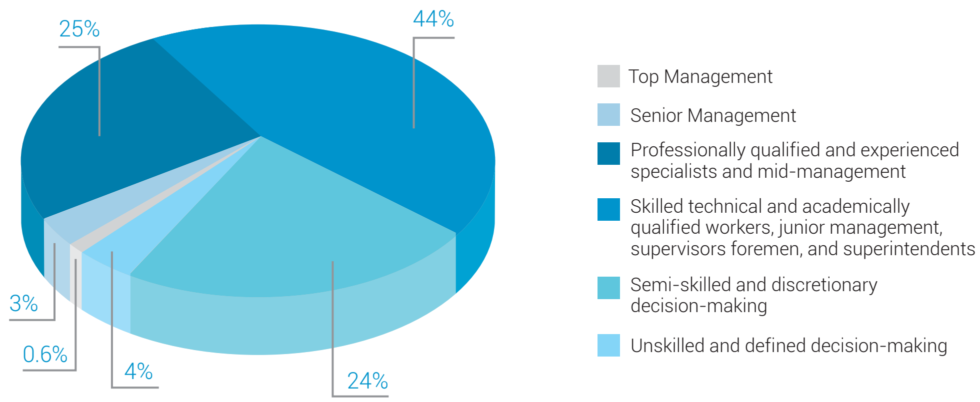
Occupational Category	Total	Male				Female			
		A	C	I	W	A	C	I	W
Top Management	5	3	0	0	1	1	0	0	0
Senior management	28	7	2	8	3	4	0	3	1
Professionally qualified and experienced specialists and mid-management	216	68	4	34	23	61	3	17	6
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	381	168	6	39	13	120	5	26	4
Semi-skilled and discretionary decision-making	212	192	3	0	0	13	0	4	0
Unskilled and defined decision-making	32	23	0	0	0	9	0	0	0
Total	**874**	461	15	81	40	208	8	50	11

(b) Msinsi Holdings SOC Ltd (permanent establishment)

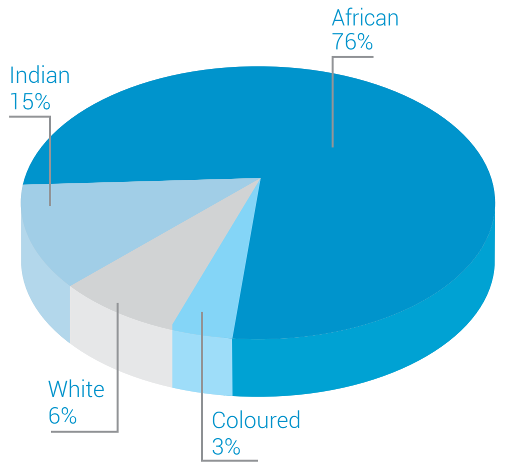
Occupational Category	Total	Male				Female			
		A	C	I	W	A	C	I	W
Top management	1	0	0	1	0	0	0	0	0
Senior management	2	1	0	0	0	1	0	0	0
Professionally qualified and experienced specialists and mid-management	7	2	0	0	1	3	0	1	0
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	25	11	0	0	0	14	0	0	0
Semi-skilled and discretionary decision making	40	34	0	0	0	6	0	0	0
Unskilled and defined decision making	41	20	0	0	0	21	0	0	0
Total	**116**	68	0	1	1	45	0	1	0

Figure 11.1: *Employment (Parent) in 2015/2016 showing - (a) category, (b) race, (c) gender, (d) age and (e) disability*

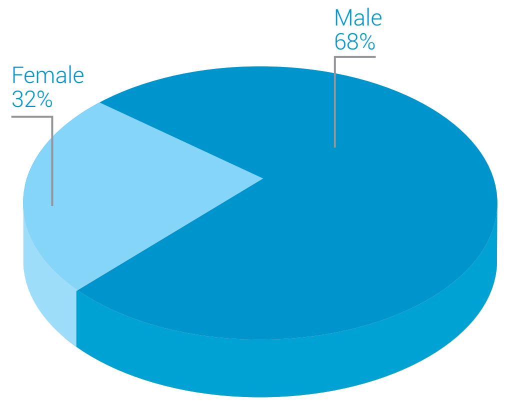
(a) Employment Status (Parent) by Category



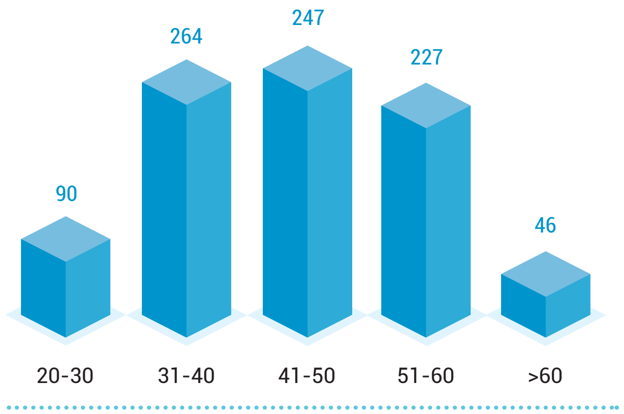
(b) Employment status (Parent) by race



(c) Employment status (Parent) by gender



(d) Age Profile (parent)



(e) Employee Disability Profile (Parent)

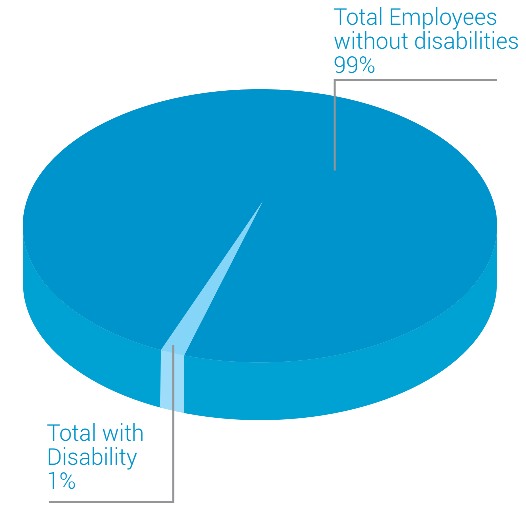


Table 11.2: *Summary of staff numbers as at 30 June 2016*

(a) Umgeni Water Group (permanent establishment)

Staff Numbers	Total
Parent permanent	874
Msinsi permanent	116
Group permanent	**990**
Group fixed term contracts	144
Group Total	**1134**

RECRUITMENT AND TURNOVER

In the reporting period the entity recruited two hundred and sixty four (264) employees, comprising:

- One hundred and fourteen (114) permanent employees,
- Thirty-five (35) contract employees, and
- One hundred and fifteen (115) graduates, apprentices, interns and in-service trainees.

Turnover was twenty-nine (29) including:

- Fifteen (15) resignations,
- Three (3) from natural deaths,
- Three (3) early retirees,
- One (1) dismissal, and
- Seven (7) from medically boarding due to ill health.

The entity's turnover percentage for the year is 4% and is below the industry benchmark of 8%.

LABOUR/MANAGEMENT RELATIONS

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

Specifically with its union, NEHAWU, the entity has in place a Collective Agreement that is maintained. Currently fifty-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.

OCCUPATIONAL HEALTH AND SAFETY

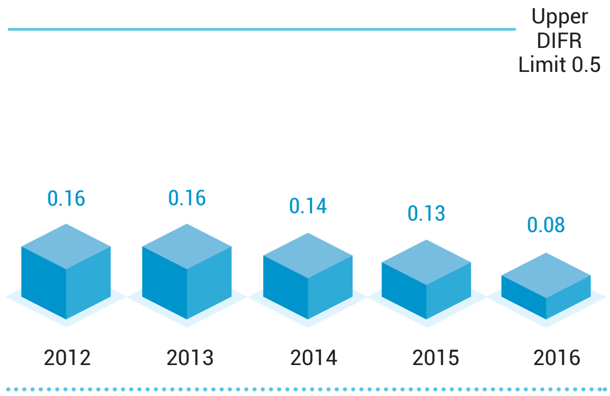
The entity ensures active data collection, analysis and assessment of key statistics relating to occupational diseases, vehicle accidents and absenteeism, amongst others.

A total of nine (9) disabling incidents were recorded in the reporting period, none of which resulted in a fatality. For these, root causes were identified and corrective actions were instituted.

Setting of clear targets and implementation of detailed management programmes form the foundation for teams as well as contractors to continue to work towards a safer working environment.

The Disabling Injury Frequency Rate (DIFR) target set for the year was less than or equal to 0.5, which is equivalent to a Five-Star rating. The entity however achieved 0.08. **Figure 11.2** shows the DIFR trend, which continues to move down.

Figure 11.2: *Disabling Injury Frequency Rate (DIFR)*



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

The low DIFR is attributed to joint management-worker health and safety committees, the collaboration between fleet management and the 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.

Specific activities during the 2015/2016 reporting period included:

- Ensuring compliance to Safety, Health and Environmental legislation and continuing to entrench a SHEQ culture within the entity,
- Enhancement of quality management system document controls,
- Implementation of an internal audit programme, carried out by the entity's SHEQ specialists, which supplemented the SABS surveillance audits,
- Legal audits to verify legal compliance with health and safety legislation and regulations, at which no major issues were raised and action plans put in place to close identified gaps,
- Efforts to improve the SHEQ culture within suppliers and contractors, communicated and enforced through presentations made during supplier briefing held in the year,
- Increased effort to reduce the number of vehicle incidents, which included, sending all drivers for 4X4 training, retraining of employees on the fleet management and incident reporting procedures, ensuring standard implementation of procedures, future planning of compulsory defensive driving course for all drivers and introduction of a call centre to report bad driving, and
- Improving efforts to curb the high rates of vandalism affecting some operational sites.

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

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

SKILLS DEVELOPMENT

Continued skills development is essential and enables employees to excel in their individual and organisational roles and functions and deliver on the entity's strategy. Umgeni Water annually compiles and submits a Workplace Skills Plan to EWSETA, which identifies the skills needs of the entity and ensures skills training and development is effective. Skills development programmes include:

- Employee training and development,
- Assisted education programme,
- Learnership and apprenticeship programmes,
- Bursary programme, and
- Graduate trainee and Internship programmes.

Progress with each of these is detailed in the sections that follow.

TRAINING AND DEVELOPMENT

Training categorised by gender and by employee category are shown in **Figure 11.3** and **Table 11.3**, which show that all categories of employees were exposed to training with a total of 25 862 hours spent in training and development.

Figure 11.3 (a): *Training Hours*

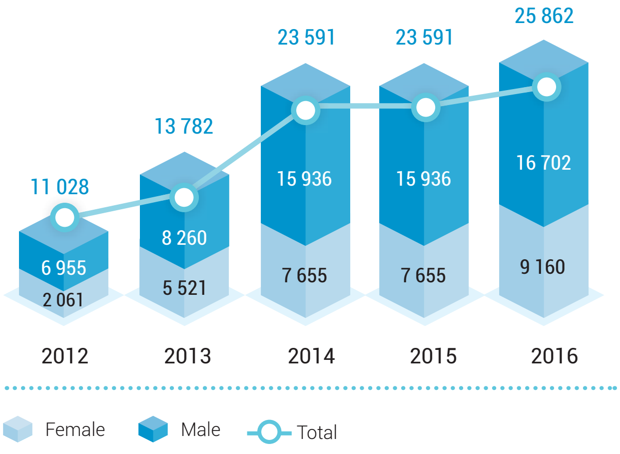


Figure 11.3 (b): *Training Spend (Rm)*

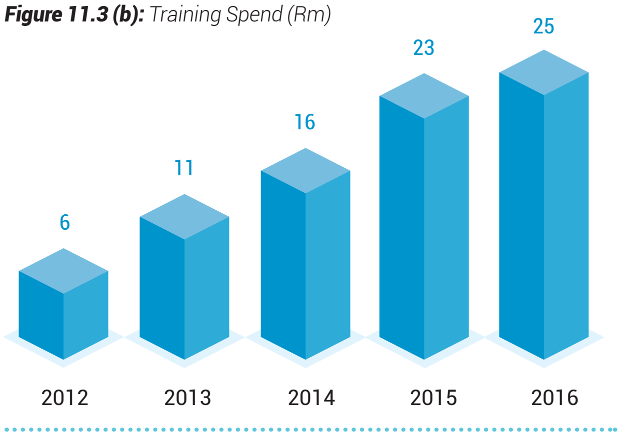


Table 11.3: *2015/2016 training by employment type/category and race and gender.*

Occupational Levels	Total Employees Trained	Total Female	Training Hours Female	Total Male	Training Hours Male	Total Hour per category
Top Management.	1	1	88	0	0	88
Senior Management.	39	7	104	32	536	640
Professionally Qualified and Experienced Specialists and Mid-Management.	144	43	684	101	1462	2146
Skilled Technical and Academically Qualified Workers, Junior Management, Supervisors, Foreman and Superintendents.	810	243	2820	567	6904	9724
Semi-Skilled and Discretionary Decision Making.	322	87	2700	234	5328	8028
Unskilled and Defined Decision Making.	111	37	544	74	1220	1764
Non-Permanent.	159	81	2220	78	1252	3472
Total	1586	499	9160	1086	16702	25862

LEADERSHIP, LEARNERSHIP AND APPRENTICESHIPS

In the prior year Umgeni Water partnered with the University of KwaZulu-Natal to develop and implement programmes for leadership and management development. Implementation of two key programmes, the Management Development Programme (MDP) and the Emerging Management Programme (EMP) were implemented with a total of 103 employees successfully completing these programmes. During the reporting period, efforts focused on finalising the next level programme, the Senior Management Development Programme (SMDP), which will be implemented in 2017.

The Learnerships and Apprenticeships programmes in the year provided training, development and exposure to both internal and external candidates. Fifty-seven (57) Apprentices were recruited in the following trades: Mechanical Engineering, Electrical Engineering, Boiler-making, Motor / Diesel Mechanical and Instrumentation. The Apprentices completed the first phase in April 2016 and are currently receiving workplace training at respective Umgeni Water workshops. EWSETA confirmed that all the entity's Apprentices are registered as Apprentices, which is one of the trade test application pre-requisites.

There are currently twelve (12) Artisan trainees who passed their trade tests and were employed within the entity over a two-year period as artisan trainees: Three (3) are in Electrical Engineering, three (3) in Instrumentation, three (3) in Boiler-making, two (2) in Mechanical Fitting and one in (1) Motor Mechanic.

Umgeni Water assessed the skills and competency levels of internal personnel against requirements of Regulation 17 of the Water Services Act for Blue Drop and Green Drop certification and developed a multi-year training plan to fill the skills and competency gaps. The internal positions include Superintendent, Process and Quality Technicians, Senior Operator, Operator and Process Controller positions. In the reporting period a total of 318 Process Controllers were enrolled in either the Learnership Programme or in N3 Water and Waste Treatment and various courses in water and wastewater treatment.

ASSISTED EDUCATION

Sixty-three (63) of the entity's employees are on an Assisted Education Programme of which 35% are enrolled in programmes that are directly targeting critical and scarce skills.

UMGENI WATER YOUNG PROFESSIONALS

The Umgeni Water Young Professionals (UWYP) forum, established in 2014, is a solutions-oriented platform set up to cultivate professional development, leadership and social responsibility in the entity's young workforce. The membership of the forum consists of employees under the age of 35. Forum membership as at 30 June 2016 was 176.

In the year under review, the forum continued in its quest of motivating and inspiring the entity's young professionals to grow professionally and be active social citizens by organising and participating in various conferences, seminars and technical tours.

The UWYP continued to grow in stature as a socially-responsible forum by conducting career guidance seminars in rural schools in the province. Two (2) such seminars were successfully conducted during 2015/2016.

In the year, Umgeni Water established two Toastmasters® clubs and opened the first intake to the Young Professionals. Toastmasters International is a non-profit educational organisation which equips its members to be effective communicators and leaders.

Participating in Toastmasters® offers both personal and professional growth for employees – a commitment that the entity has made as part of increasing employee competencies, specifically in communication and leadership skills development.

BURSAR, GRADUATE AND IN-SERVICE TRAINEE PROGRAMMES

Umgeni Water's graduate trainee programme is aligned to guidelines provided by professional registration bodies. In the reporting period, the entity had a total of thirty-nine (39) graduates enrolled in engineering, science and other required professional fields and thirty-one (31) in-service trainees receiving experiential training.

The entity also has a one-year internship programme to provide work experience to unemployed graduates and contracted thirteen (13) interns during the reporting year to work in multi-disciplinary fields across the organisation.

Umgeni Water is funding thirteen (13) bursary students through the Umgeni Bursary Scheme with students enrolled at various universities in disciplines of Civil Engineering, Mechanical Engineering, Electrical Engineering, Chemistry, Microbiology and Finance.

Umgeni Water in partnership with National Treasury continued to implement the graduate development programme of engineers, technologists, process support and technicians with specific emphasis on meeting the skills shortages in the municipalities in KwaZulu-Natal and OR Tambo District Municipality in Eastern Cape. As part of this programme, forty (40) trainees are enrolled and in training for a period of five years.

PRE-RETIREMENT TRAINING

Information is regularly provided to employees regarding retirement planning. In addition, pre-retirement training is conducted annually, aligned to the expected number of retirees in the age group fifty-five (55) to sixty-five (65). This training strives to assist employees with sustainable management of their retirement fund benefits.

KEY MEMBERSHIPS AND ASSOCIATIONS

The key memberships and associations that the entity and employees subscribe to are shown in **Table 11.4.** These straddle governance and risk, water, science and engineering, natural resources, social impact management, business, finance and accounting, and occupational health and safety, amongst others. The memberships help ensure employees keep abreast in core fields through participation in sector knowledge sharing, thereby retaining and enhancing core and distinctive competencies of the entity.

***Table 11.4:** Key Membership and Associations*

Category	Memberships
Governance and Risk	Institute of Directors in Southern Africa (IoDSA) Institute of Risk Management South Africa (IRMSA) Ethics Institute of South Africa (EthicsSA) Institute of Internal Auditors (IIA)
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 (DCCI) Pietermaritzburg Chamber of Business (PCB) Chartered Institute of Purchasing (CIPS)
Product Quality, Infrastructure Stability, Research, Innovation, Science and Technology	Water Institute of Southern Africa (WISA) South African Association of Water Utilities (SAAWU) International Desalinisation Association South African Institute of Agricultural Engineers South African Institute of Mechanical Engineers International Association of Hydrological Sciences American Water Works Association (AWWA) International Water Association (IWA) Engineering Council of South Africa (ECSA) South African Institute of Civil Engineers (SAICE) construction industry development board (cidb) South African Institute of Chemical Engineers (SAIChE) Project Management Institute South African Council for Planners South African Planning Institute South African National Committee on Large Dams (SANCOLD) The Association of SA Quantity Surveyors Concrete Society of Southern Africa NPC South African Council for the Project and Construction Management Professions (SACPCMP) The Southern African Institute of Mining and Metallurgy (SAIMM) SA Geomatics Institute American Chemical Society (ACS)
Community and Environmental Sustainability, Science and Technology	International Association for Impact Assessment (IAIAsa) South African Council for Natural Scientific Professions (SACNASP) Institute of Waste Management
Employee and Leadership Development, Operational Resiliency, Operational Optimisation	Institute of Information Technology Professional of South Africa (IITPSA) South African National Standards Association (SABS) South African 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) South African Institute of Occupational Safety and Health (SAIOSH) Toastmasters International

PERFORMANCE, ALIGNMENT TO STRATEGY AND REMUNERATION

The entity has been very successful in introducing and implementing 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 entity's strategy and an explicit understanding of their own performance objectives and targets.

The Board of Umgeni Water assesses the entity's performances against pre-determined objectives on a quarterly and annual basis, whilst formal employee performance assessments are undertaken twice a year. The performance management process at Umgeni Water is development orientated, intended to cultivate effective human resources management and career development. As a result, appraisals are constructively used to provide feedback and coaching to individual employees concerning their job performance.

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

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

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

DIVERSITY AND EQUAL OPPORTUNITY

Umgeni Water's workforce by employment type/category, race and gender is shown in **Table 11.1** and **Figures 11.1.** The organisation annually submits an Employment Equity Plan to the Department of Labour and prepares quarterly equity reports to track the status of its workforce diversity against its plan.

Umgeni Water does not discriminate between men and women in terms of remuneration. **Table 11.5** shows salary package ratios, which vary over the years, with an average ratio of 1.0 (equal women to men remuneration).

Table 11.5: *Ratio of Remuneration of Women to Men by Occupational Category*

Occupational Levels	2011	2012	2013	2014	2015	2016	Average
1 Top Management.	0.7	1.3	1.1	0.8	0.8	0.8	0.9
2 Senior Management	0.9	1.0	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	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	0.9
5 Semi-Skilled and Discretionary Decision Making.	1.2	0.9	0.8	1.0	0.8	1.1	1.0

HUMAN RIGHTS

INVESTMENT AND PROCUREMENT PRACTICES

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

Procurement systems improved in the year, including updates to the supplier database and timely renewal of contracts. Awareness continues to be built amongst the entity's employees through requesting mandatory disclosures of interests in support of fair, equitable, transparent and competitive procurement practices.

Umgeni Water continued during this period to implement its Contract Participation Goals (CPGs) initiative. 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 in the year is shown in an earlier section of this annual report.

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

CHILD AND FORCED LABOUR

Umgeni Water, as a state-owned entity, subscribes fully to National Legislation which ensures a healthy and safe work environment for its employees. The 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.

Albert Falls

12.0

Improving Resiliency

12.1 OPERATIONAL OPTIMISATION

ISO 17025 ACCREDITED LABORATORY SERVICES ASSURING WATER QUALITY

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

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

- Providing assurance that the entity produces potable water that complies with drinking water standards,
- Assuring that treated effluent complies with wastewater and effluent discharge limits,
- Assuring, via the above, public health protection from water-borne diseases and water related health impacts,
- Undertaking research and development and generation of scientific data for new infrastructure developments,
- Supporting/auditing water treatment for process selection and optimisation, and
- Undertaking catchment and river health monitoring to assess the status of water resources and quality of raw water supply.

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

The analytical results are produced within specified times that forms part of a Service Level Agreements with end users. Supported by 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.

In addition to assuring the quality of bulk water produced, the Laboratory Services provides water testing and sampling services to municipalities and various private sector clients. This valuable service supports and assists municipalities to improve their Blue and Green Drop compliance. This service also enables the laboratory to create temporary employment opportunities assisting with job creation. Laboratory Services are provided to eThekwini MM, Harry Gwala DM, Ugu DM, uMgungundlovu DM, Msunduzi LM and Alfred Nzo DM, the Department of Water and Sanitation, Mhlathuze Water, Amatola Water, uThukela Water and various private clients and institutions throughout the country.

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 as detailed in **Table 12.1.**

RESEARCH AND INNOVATION

Umgeni Water plays a role in contributing to research and development that benefits the sector as a whole through active participation in various Water Research Commission (WRC) projects. A large portion of the knowledge gained in new technology and processes is also through the Innovation, Research and Development (IRD) projects that are undertaken in partnership with academia, notably through the Umgeni Water–University of KwaZulu-Natal Chair of Water Resource Management. The outcomes are expected to benefit the organisation in providing sustainable solutions to the challenges faced by the sector and also advance Human Capital development through research training in post graduate (MSc/PhD) studies.

Major projects in 2015/2016 are shown in **Tables 12.1** and **12.2.**

Table 12.1: *Major research projects and progress made in 2015/2016.*

	Research Project	Objectives	Progress 2015/2016
1.	Evaluation of Alternative Technologies for Treatment of Sludge from Potable Water Works	To identify and investigate alterative lower cost technologies and methods for treatment and disposal of sludge from potable water works at Umgeni Water.	Literature review identifying most viable technologies is complete. Procurement of equipment is being finalised. Technology evaluation will take place at Durban Heights Water Treatment Works.
2.	Ultrafiltration Full Scale Evaluation	To investigate Ultrafiltration technology for low turbidity waters on full scale.	A 10 Ml/day UF membrane plant is to be constructed at the Wiggins Water Treatment Works to evaluate Ultrafiltration technology on full scale. Preliminary design has been completed and detailed design is in progress.
3.	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 project has been successfully implemented in Maphumulo as a test case. The design includes a real time telemetry feedback system which reports system failures and process values via SMS using GSM technology.
4.	Soil testing	To develop, validate and accredit soil tests for routine application as per legislation.	Seven soil test methods have been fully validated and the data has been submitted to SANAS for audit for ISO 17025 accreditation. Routine testing is in progress.
5.	Real Time Polymerase Chain Reaction (PCR)	To set up a test method for quantification of Salmonella in river water by PCR.	The test method has been developed. The quantification aspect is now being addressed.
6.	Endocrine Disrupting Compounds	To setup a test method to measure some selected steroid oestrogens in raw and treated waste water.	The ELISA test method is being developed and validated evaluated as a routine test for these compounds.
7.	Radioactive screening	To setup a test method to measure Uranium in drinking water.	The test for uranium in water is now setup in-house at Laboratory Services for routine screening/quantification.
8.	On-line COD	To do COD testing on-line to get real time data to enable process optimisation.	The sourcing of suitable instrumentation from the market, to be followed by technical evaluations, with an intention to recommend a suitable analytical solution to Operations, is in progress.
9.	Sea water testing/analysis	Assess viability of conducting sea water analyses in-house.	In-house method development and analysis was identified as the most feasible option. Work is in progress.
10.	Oil-grease analysis	To evaluate the Soxhlet extraction -gravimetry (Soxtherm equipment) as an alternative to the liquid-liquid extraction method.	Preliminary results look promising. Further validation is to continue.

Table 12.2: *Umgeni Water-UKZN Collaboration Research Projects.*

Project Title	Objectives
1. Harnessing Vermi-Composting for Management of Dewatered Activated Sludge from Howick and Darvill Wastewater Works'	› To determine the effects of vermin-composting and domestic sewage sludge type on stabilisation, fertiliser value and composition of coliforms in sludge. › To determine whether vermin-compositing is an appropriate sludge waste management strategy.
2. The effect of age on the friction of large diameter potable water cement mortar lined pipes	› To establish the relationship between pipe age and friction for mortar-lined steel pipes transporting potable water treated with chlorine or chloramine.
3. Optimisation of Biogas production in the Darvill Digesters:	› To assess maintenance of a stable microbial community via safeguarding appropriate process parameters to enable a reliable, continuous production of methane from the organic waste treatment.
4. River Health Programme (RHP) 2014 to 2016	› To evaluate the state of the ecological well-being of selected bio-physical components of the rivers at 43 sites in KwaZulu-Natal.
5. A comparative life cycle assessment (LCA) for the provision of potable water from alternative sources - seawater and wastewater - in South Africa	› To investigate water treatment technologies - desalination and wastewater recycling – in order to improve the overall environmental performance of these processes.
6. UW-UKZN Statistical Analysis Project	› To assess the statistical relevance (likelihood) of rare microbiological non-compliances at large bulk water treatment works (Durban Heights, Wiggins, Midmar, DV Harris). › To assess appropriate statistical analysis methods that provides information about relationships between microbiological out-of-range data (Total Coliforms, E. coli and Heterotrophic Plate Counts (HPC) and other measurable variables. › To assess the relationship between microbiological out-of-range data and associated water quality data (free and total chlorine, pH, turbidity, sample temperature) in treated water samples. › To assess whether the extensive historical (time series) microbiological and other water quality databases be used to improve our understanding of the efficacy of the water treatment process and the risk to public health? › To assess whether a decision-support tool can be developed to assist with verification of future microbiological data. › To develop appropriate data presentation techniques to display statistical information to non-statistical and management.
7. Development of a predictive mass balance model of chlorine and flocculant consumption in water treatment systems	› To develop a system for estimating the optimal amount of chemicals required for water purification.

ASSURANCE THROUGH ROBUST INFORMATION AND COMMUNICATIONS TECHNOLOGY SYSTEMS

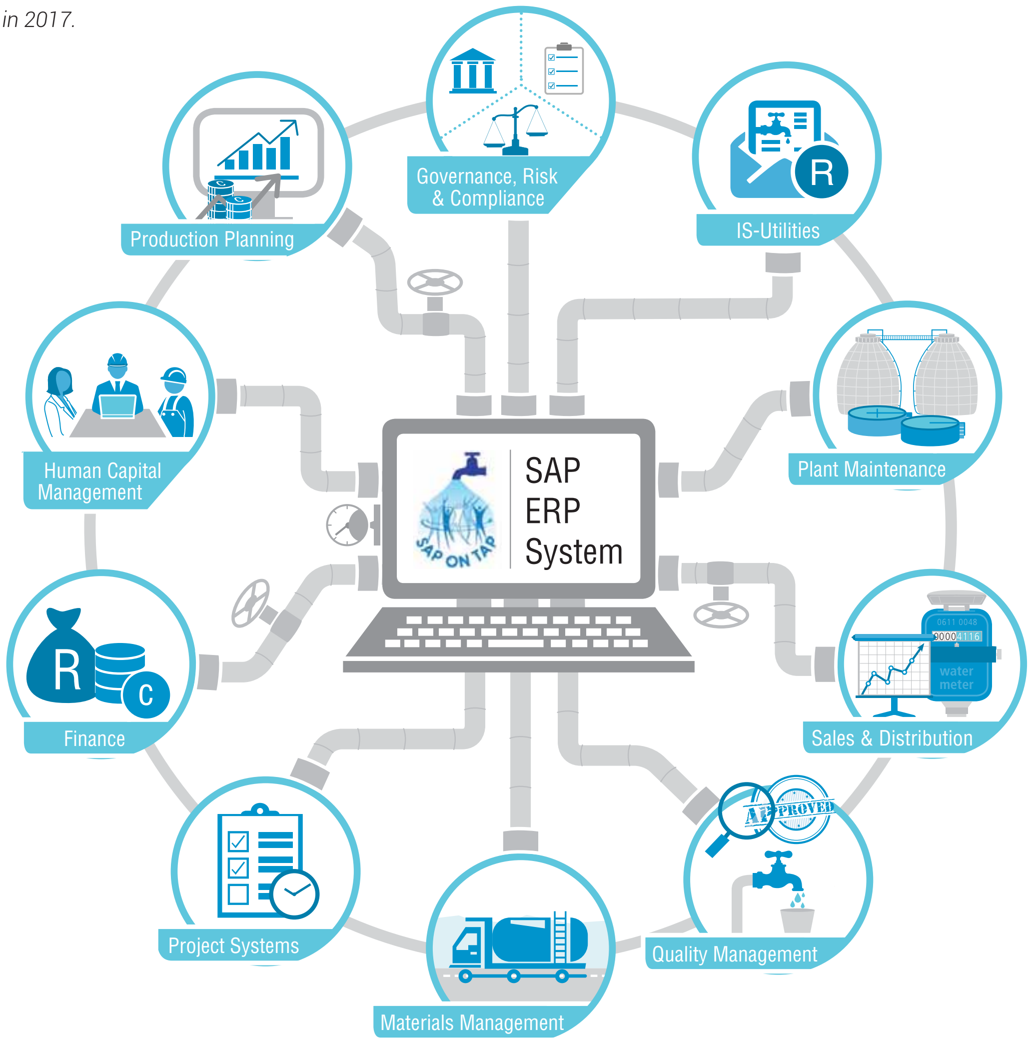
The implementation of the SAP ERP system has been a significant entity-wide focus during the reporting period. ERP is an industry acronym for Enterprise Resource Planning. The implementation of an ERP system will enable automation and integration of the core business processes within the entity.

Umgeni Water core business processes entail responding to customer and stakeholder requirements, effectively scheduling operations, managing and maintaining assets, managing projects, procurement and inventory records, enabling human resources and managing financial data, amongst many other business processes. The ERP system is intended to drive huge improvements in our operational efficiency and effectiveness. These include:

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

Implementing the SAP ERP system is a major undertaking for Umgeni Water – is among the most sophisticated enterprise process interventions undertaken in its history of existence – and has therefore received support from the highest levels in the entity. Its successful implementation, targeted for 2017 will ensure the entity is well positioned for its current water board business and future business success as a regional water entity.

Figure 12.1: *Schematic of SAP ERP System that will enable entity-wide integration of core business processes in 2017.*



12.2 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 12.3** 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 60% (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 12.3 *Strategic Risks as at 30 June 2016*

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: Dam levels are such that there is a threat of non-supply if mitigation measures are not put in place. (Restrictions, emergency schemes). *Treatment Approach: Commissioning of the emergency scheme at target sites completed or in progress. On-going short-term water resources and demand management initiatives. Implementation of appropriate operating rules. Water rationing implemented as per target percentages for all systems. Collaboration and partnerships to pool efforts, such as Joint Operating Committees.*	<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	**Infrastructure investment to meet service delivery mandate and growth plans.** › Overall Control Strength: Reasonable 60% › Severity: Moderate: 19 › Probability:70% Likely and/or could occur within 1 year › Risk Owner: GM Engineering and Scientific Services **SCORE** **13.3 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.* *Details of major infrastructure initiatives and progress with these are outlined in the Infrastructure Chapter of this annual report.*	<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 12.3 *Strategic Risks as at 30 June 2016 ...continued*

Risk #	Risk Name, Score and Status	Cause, Context and Treatment	Main Strategic, Perspective, Objectives and Outcomes Impacted
3	**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 by target dates. These include the Darvill Wastewater Treatment Works (WWTW) upgrade, Ixopo WWTW clarifier development and Howick WWTW Bridge pumpstation upgrade plan.*	Customer and Stakeholder Perspective: SO2: Increase customer and stakeholder value. Organisational Capacity Perspective: SO7: Improve and increase infrastructure assets. **Outcomes** Infrastructure Stability Product Quality Customer Satisfaction Stakeholder Understanding and Support Community and Environmental Sustainability.
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 and procedures. *Treatment Approach: Supply Chain Management policies and procedures reviewed, simplified and linked to legislation. Bid Committee oversight and assurance of compliance through on-going assessment of control effectiveness.*	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.

Table 12.3 *Strategic Risks as at 30 June 2016 ...continued*

Risk #	Risk Name, Score and Status	Cause, Context and Treatment	Main Strategic, Perspective, Objectives and Outcomes Impacted
6	**Protection and safeguarding of assets.** › Overall Control Strength: Reasonable 65% › Severity: Minor: 5 › Probability: 65% Even probability and/or could occur within 1- 2 years › Risk Owner: GM Corporate Services **SCORE** 3.3 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.
7	**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.
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.

Table 12.3 *Strategic Risks as at 30 June 2016 ...continued*

Risk #	Risk Name, Score and Status	Cause, Context and Treatment	Main Strategic, Perspective, Objectives and Outcomes Impacted
9	**Long-term water resources availability.** › Overall Control Strength: Good 70% › Severity: Minor: 4 › Probability: 45% Fairly poor and/or could possibly occur within 2 years › Risk Owner: GM Engineering & Scientific Services **SCORE** 1.8 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. Reluctance of customer to pay, inability to control full value chain. *Treatment Approach: Integrated planning and implementation for medium and long-term augmentation of systems with stakeholders. Water conservation and demand management initiatives. Review of water resources mix including reuse and desalination. Timely completion of target water resources projects including:* *- Mgeni system: Completion of the uMkhomazi Water Project is projected for 2024.* *- North Coast system: Completion of the Lower Thukela Bulk Water Supply Scheme by September 2016.* *- South Coast system: Following the evaluation of the two options of the East Coast Desalination (southern site) and the Lower uMkhomazi BWSS, design of the South Coast Bulk Water Supply Scheme is scheduled for completion by June 2018.*	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.
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

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

13.0

Financial Review

1. INTRODUCTION

The 2016 financial year has been challenging due to the difficult operating environment as the drought in KZN continued. Umgeni Water partnered closely with its customers and shareholder to manage the risks arising from the drought. Despite this Umgeni Water has continued with a sound operating performance with a focus on managing factors within its control. The group continued to focus on debt and liquidity management and delivery of the capital expenditure programme. In line with the approved funding strategy Umgeni Water had a successful bond issuance in March 2016 of R935m. This will allow the group to deliver the crucial bulk water infrastructure to be implemented in the next five years.

Albert Falls Dam

Operating performance albeit strong at R645m (2015: R687m) was 6% lower than the previous year. Gross profit margins reduced marginally by 1% driven mainly by the higher direct operating costs. Profits for the year reduced by 6% due to a combination of the lower operating performance, as well as higher impairments on development projects.

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 2015/2016 section of the annual report, pages 58-65.

2. OPERATING PERFORMANCE

2.1. OVERVIEW OF OPERATING PERFORMANCE

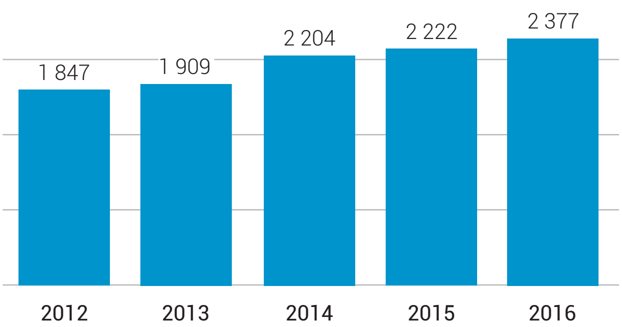
2.1.1. YEAR ON YEAR CHANGES OF GROUP OPERATING PERFORMANCE

Bulk water revenue grew by 5% resulting from a 7.8% bulk water tariff increase combined with a 2.4% reduction in sales volumes, whilst the direct operating costs increased by 9% driven primarily by the main cost drivers. The increase in wastewater is due to new contracts to manage wastewater treatment works on behalf of Umgungundlovu District Municipality.

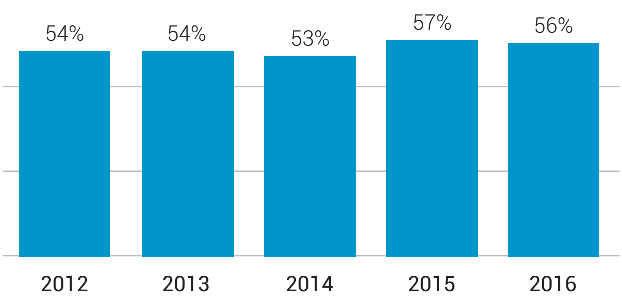
Other operating and administrative expenses were up by 18% due mostly to higher impairments on property, plant and equipment which were R133m (2015: R90m). Net finance income has decreased marginally by 2% as finance costs were almost nil resulting from the capitalisation of borrowing costs on qualifying assets driven by the major capital projects under construction.

	GROUP		
	2016	**% CHANGE**	**2015**
	R'm		**R'm**
Revenue	**2 377**	**7**	**2 222**
Water	2 132	5	2 021
Wastewater	116	71	68
Section 30	129	(3)	133
Cost of sales	**(1 040)**	**9**	**(950)**
Water	(856)	8	(794)
Wastewater	(75)	44	(52)
Section 30	(109)	5	(104)
Gross profit	**1 337**	**5**	**1 272**
GP%	*56%*	*(1%)*	*57%*
Other income	37	9	34
Other operating and administration expenses	(729)	(18)	(619)
Profit from operations	**645**	**(6)**	**687**
Net finance income	132	(2)	135
Share of profit from associate	4	(20)	5
Profit before taxation	**781**	**(6)**	**827**

Revenue (R'm)



Gross Profit %

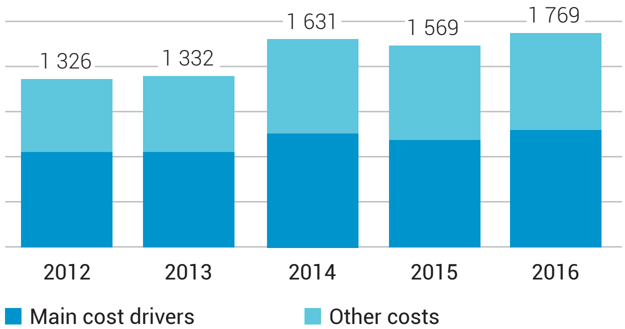


2. OPERATING PERFORMANCE (continued)

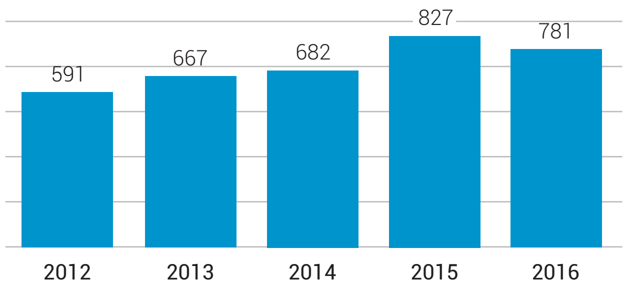
2.1. OVERVIEW OF OPERATING PERFORMANCE (continued)

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

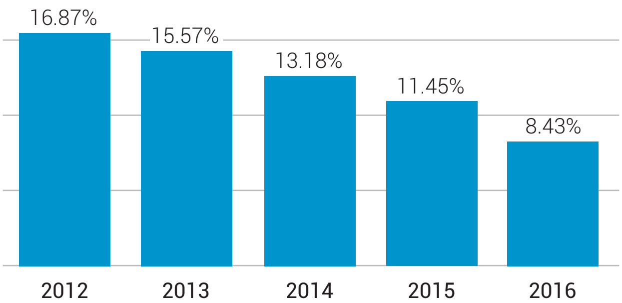
Total costs excluding finance costs (R'm)



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 72% (2015: 75%) of cost of sales. Cost of sales increased by 9% year on year mainly from higher depreciation, energy and staff costs. Depreciation was up by 21% in line with major infrastructure commissioned in the last 2 years.

Energy costs increased by 17% resulting from an average tariff increase of 12.7% coupled with additional pumping to assist with alleviating the drought.

Staff costs grew by 18% due mainly to increases in the staff complement in line with new contracts for the management of wastewater treatment works, the average salary increases for the year were 8%.

Raw water costs reduced by 2% as a result of the lower volumes abstracted due to the drought in both the Hazelmere and Mgeni systems which reduced by 32% and 3% respectively. The average tariff increase for the year for raw water was 5%.

Maintenance costs reduced by 10% primarily due to lower renewals costs, as some of these were capital in nature and as a result were capitalised in the current year.

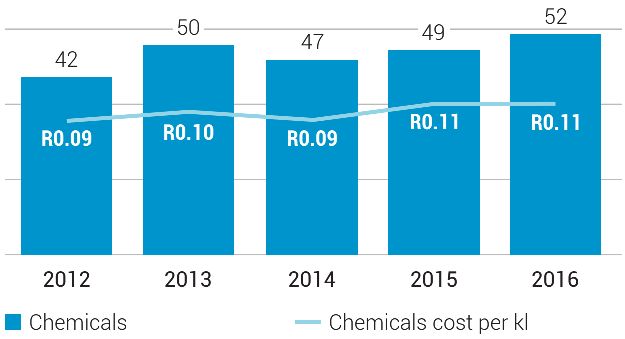
Chemicals increased by 6% primarily due to average price increases of 8% offset by lower usage resulting from optimisation in chemical dosages as well as lower volumes of water treated.

2. OPERATING PERFORMANCE (continued)

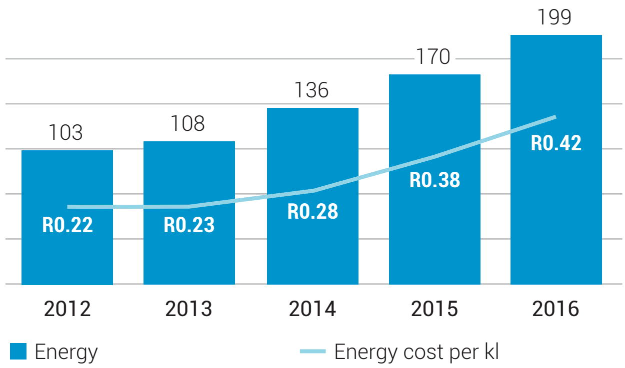
2.1. OVERVIEW OF OPERATING PERFORMANCE (continued)

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

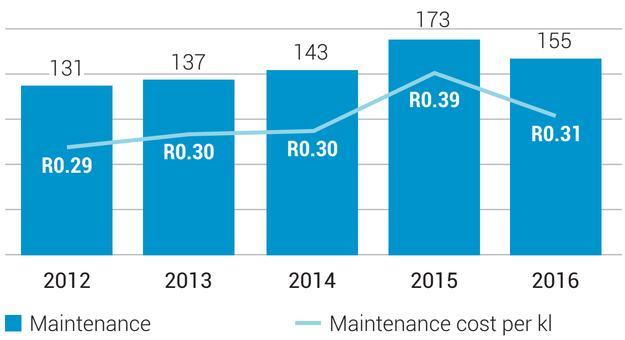
Chemicals (R'm)



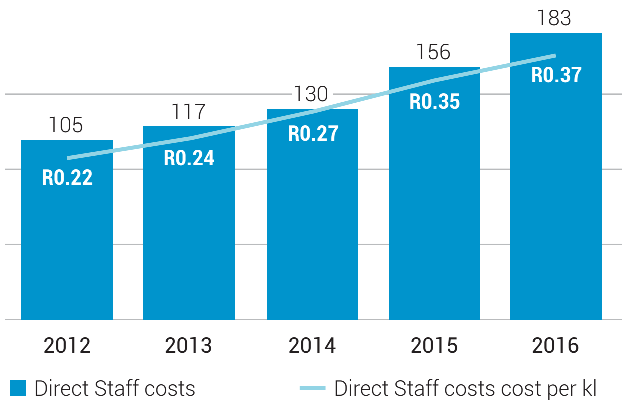
Energy (R'm)



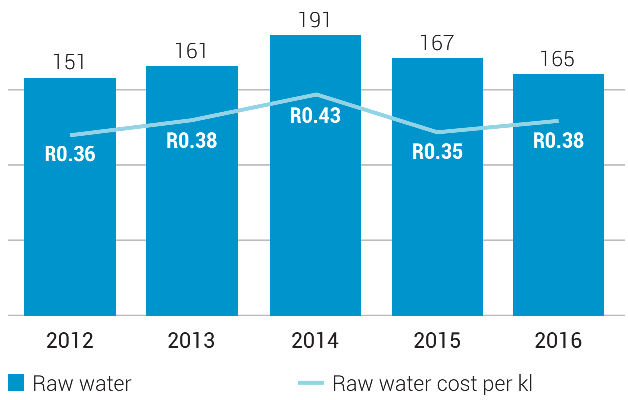
Maintenance (R'm)



Direct staff costs (R'm)



Raw Water (R'm)



2. OPERATING PERFORMANCE (continued)

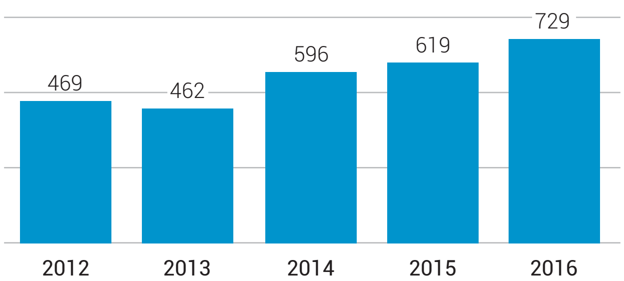
2.1. OVERVIEW OF OPERATING PERFORMANCE (continued)

2.1.3. OTHER OPERATING AND ADMINISTRATION EXPENSES AND NET FINANCE INCOME

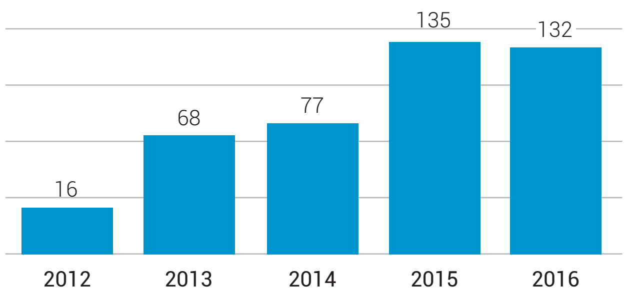
Other operating and administration costs increased by 18% mostly due to the higher impairments on property, plant and equipment of R133m (2015: R90m), as well as higher consulting fees incurred on the Engineering, Procurement and Construction Management (EPCM) process in line with the national guidelines and higher licence costs resulting from the implementation of the SAP ERP system projected to go live in 2017.

Net finance income reduced by 2%. Interest income on investments was 3% lower at R133m (2015: R138m) while finance costs after borrowing costs capitalised reduced by 67% to R1m (2015: R3m). Borrowing costs capitalised to qualifying assets totalled R142m (2015: R113m).

Other operating and administration expenses (R'm)



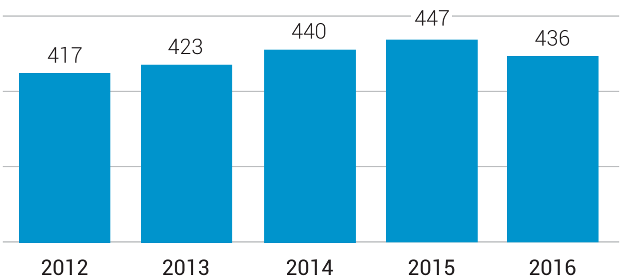
Net finance income (R'm)



2.2. BULK WATER SALES VOLUME ANALYSIS

Bulk water sales volumes reduced by 2.4% as the full impact of drought was experienced in the central and northern areas of Umgeni Water's area of operation. The positive volume growth in Umgungundlovu District Municipality is mainly attributable to the new plants taken over for the management of wastewater treatment works.

Water sold (Kl'm)



2. OPERATING PERFORMANCE (continued)

2.2. BULK WATER SALES VOLUME ANALYSIS (continued)

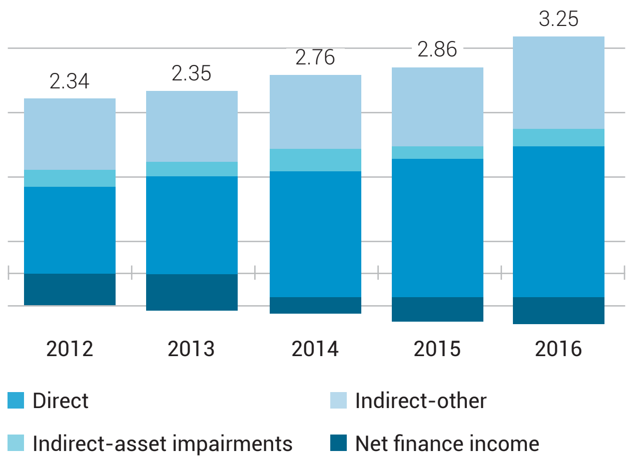
VOLUME BY CUSTOMER AND % CHANGE

	2012		2013		2014		2015		2016	
	Kl'000	%	Kl'000	%	Kl'000	%	Kl'000	%	Kl'000	%
eThekwini	311 434	0.1%	315 669	1.4%	327 011	3.6%	331 347	1.3%	320 151	(3.4%)
Other customers	105 561	1.6%	107 122	1.5%	112 533	5.1%	115 201	2.4%	115 575	0.3%
Msunduzi	64 909	1.5%	64 668	(0.4%)	66 991	3.6%	70 362	5.0%	69 944	(0.6%)
UMgungundlovu	11 195	80.0%	14 772	31.9%	15 052	1.9%	15 041	(0.1%)	19 417	29.1%
Sembcorp Siza	4 488	30.0%	4 352	(3.0%)	4 767	9.5%	4 438	(6.9%)	3 338	(24.8%)
Ugu	8 203	3.5%	9 012	9.9%	9 890	9.7%	10 317	4.3%	11 295	9.5%
iLembe	12 514	8.2%	13 244	5.8%	14 810	11.8%	14 060	(5.1%)	10 790	(23.3%)
Harry Gwala	929	90.0%	936	0.7%	862	(7.9%)	837	(2.9%)	661	(21.0%)
Other	3 323	15.7%	138	(95.8%)	161	16.0%	146	(9.5%)	130	(11.0%)
Total	**416 995**	**0.5%**	**422 791**	**1.4%**	**439 544**	**4.0%**	**446 548**	**1.6%**	**435 726**	**(2.4%)**

2.3. BULK WATER COST PER KILOLITRE (Kl)

The average cost of bulk water per kl increased by 14%, primarily due to the increases in cost of sales and higher impairments in the current year.

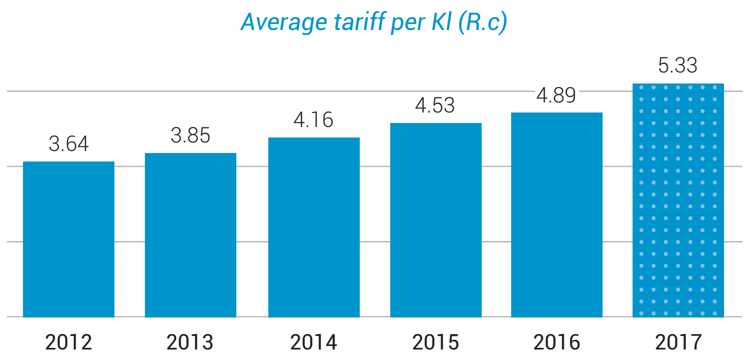
Cost per kl of bulk water (R.c)



3. BULK WATER TARIFF

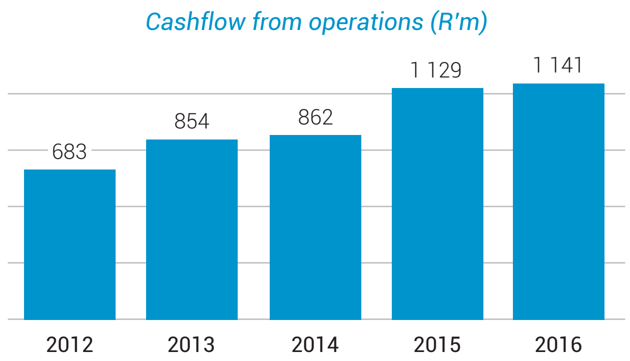
The average Umgeni Water bulk water tariff increase for 2015/2016 was 7.8% and the bulk water tariff increase for the next financial year, effective 1 July 2016, has been approved at 9%.

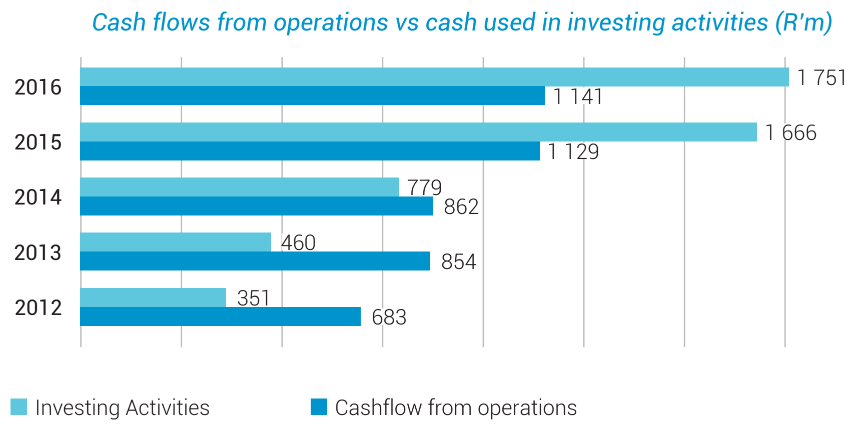
3. BULK WATER TARIFF (continued)



4. CASH FLOW ANALYSIS

Operating cash flows continue to be strong at R1 141m (2015: R1 129m), but not sufficient to meet the investing activities cash requirements of R1 751m (2015: R1 666m) resulting from the investment in infrastructure. The shortfall was funded by financing activities which totalled R617m (2015: R543m) through the issuance of the UG26 bond of R935m, while investments increased by R237m, R78m was spent on loan repayments and R5m on net interest paid.





5. CAPITAL PROJECTS

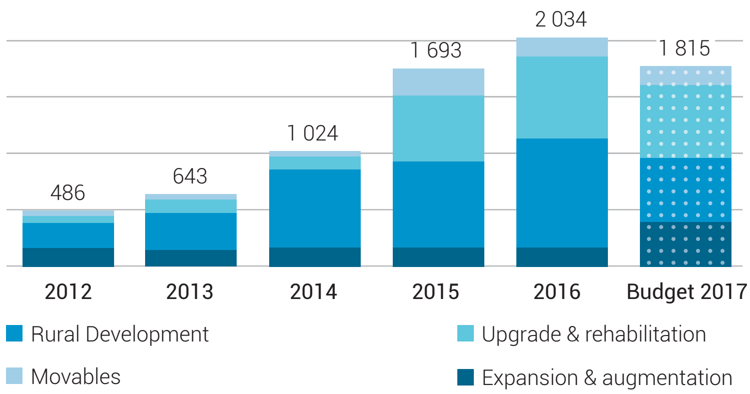
The capital expenditure programme is based on Umgeni Water's infrastructure master plan which is aligned to the KZN provincial and local strategic priorities, is estimated at R3 589m for the next 5 years as per the Corporate Business Plan for 2017. Details of the major projects included in work in progress and capitalised 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, R1 018m from regional bulk infrastructure grants and new debt in 2017. For further details on the funding requirements, refer to section 7.1.

5.1. CAPITAL EXPENDITURE

During the year capital expenditure totalled R2 034m (2015: R1 693m) against a target of R1 962m (2015: R1 755m).

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 R3 589m has been planned, with a specific allocation of R1 158m for development projects for the period 2017 to 2021, representing 32% 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.

DEVELOPMENTAL PROJECTS FUNDING & IMPAIRMENTS JUNE 2016

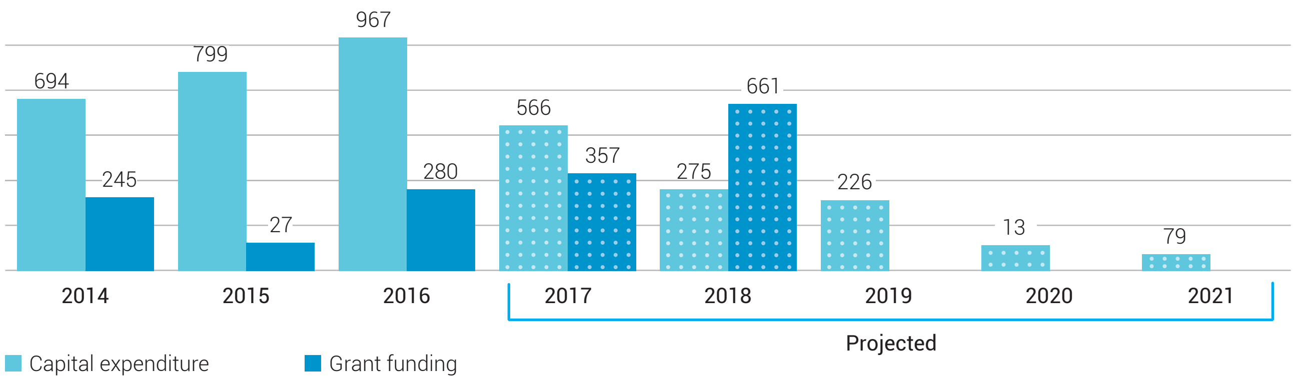
			PROJECTED FUNDING SPLIT				
PROJECT	SYSTEM	TOTAL PROJECTED COST	REGIONAL BULK INFRASTRUCTURE GRANT FUNDING	UMGENI WATER FUNDING	TOTAL PROJECT COST JUNE 2016	IMPAIRMENT	2016 IMPAIRMENT
		R'000	R'000	R'000	R'000	%	R'000
Greater Mpofana Phase 1	Mooi	639 699	- 0%	639 699 100%	162 823	61%	79 040
Lower Thukela Bulk Water Supply Phase 1	Lower Thukela	1 460 166	870 770 60%	589 396 40%	1 464 093	0%	-
uMshwathi Bulk Water Supply Scheme (Wartburg Phase 1 - 3)	Wartburg System	1 121 442	656 000 58%	465 442 42%	633 568	0%	(34 338)
Total		**3 221 307**	**1 526 770** 47%	**1 694 537** 53%	**2 260 484**		**44 702**

Impairments on development infrastructure commissioned and included under buildings and infrastructure totalled R95m (2015: R37m). Further details on impairments are included in note 9 of the financial statements.

5. CAPITAL PROJECTS (continued)

5.2. DEVELOPMENT PROJECTS (continued)

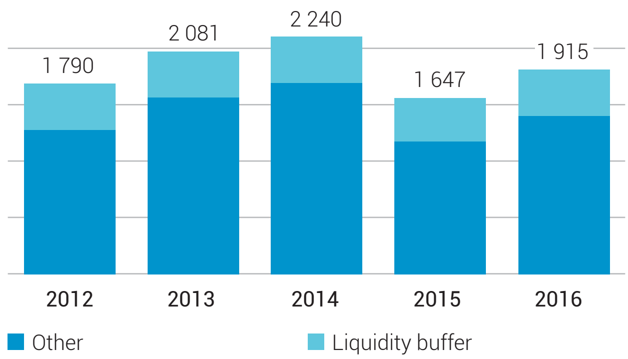
Capital expenditure on development projects and grant funding (R'm)



6. INVESTMENTS

Financial investments increased by 16% to R1 915m, due to the temporary investment of cash from the UG26 bond, which will ultimately fund the capital expenditure. It is anticipated that investments will decrease in the short to medium-term to fund the organisation's capital expenditure programme.

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.

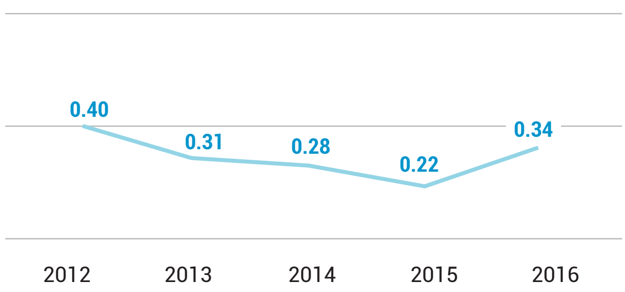
The debt: equity ratio increased by 55% to 0.34 (2015: 0.22) while the interest rate structure is 85% fixed and 15% variable (2015: 68% fixed and 32% variable). The UG26 bond of R935m was issued in March 2016 at a fixed interest rate of 11.31% and contributed to the changes in the debt to equity ratio as well as the fixed to floating interest rate structure and the gross weighted average cost of capital which was 10.53% (2015: 9.46%).

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

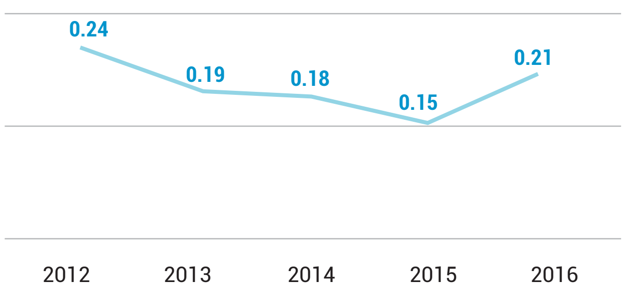
7. DEBT MANAGEMENT (continued)

	GROUP	
	2016 R'm	2015 R'm
Debt		
Long-term	1 951	1 094
Short-term	78	78
Total Debt	**2 029**	**1 172**
Increase (decrease) in debt	857	(78)

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

As per the Corporate Business Plan for 2017 the detailed cash flow forecasts have been prepared for the next five years, taking into account the group's R3 589m planned capital expenditure (unescalated) and is detailed in the table that follows:

	SHORT-TERM	MEDIUM-TERM			LONG-TERM
	2017 R'm	2018 R'm	2019 R'm	2020 R'm	2021 R'm
Operational cash flows	887	1 064	1 236	1 359	1 663
Capex (escalated)	(1 815)	(981)	(595)	(185)	(228)
Net operating cash (shortfall) after capex	(927)	82	641	1 174	1 435
Capex-grant: confirmed	357	661	-	-	-
Net financing activities	90	(290)	(251)	(128)	(623)
Annual funding requirements	**(480)**	**453**	**390**	**1 046**	**812**

The funding requirements in the short to medium term will be funded primarily through the existing financial investments and a further debt issuance of R350m in 2017. 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

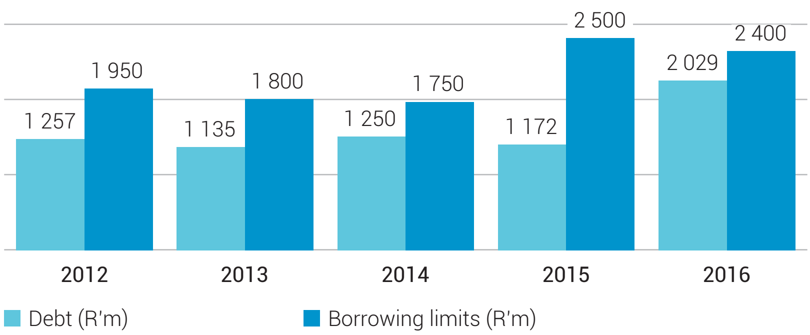
The borrowing limits for the period 2016 to 2019 have been approved by the Minister of Water and Sanitation with the concurrence of the Minister of Finance. The borrowing limit is applicable to the value of gross borrowings, collateral and guarantees exposure and may not exceed the approved limits. The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

	TOTAL AMOUNT R'm	CONDITIONAL R'm	UNCONDITIONAL R'm
2016	2 400	-	2 400
2017	2 850	300	2 550
2018	2 750	300	2 450
2019	2 700	300	2 400

Utilisation of the borrowing limit as at 30 June 2016 was as follows:

	R'm
Actual gross borrowings	2 029
Collateral and guarantees	2
Total actual borrowings	2 031
Borrowing limit	2 400
Underutilisation	**369**

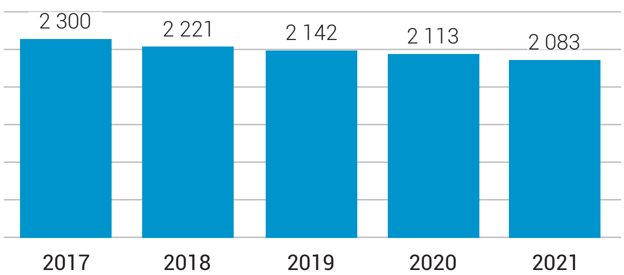
Debt and borrowing limits (R'm)



7.3. PROJECTED BORROWING LEVEL

Umgeni Water expects to remain within the approved borrowing limits for the 5 year projected period 2017 to 2021 and will closely monitor the borrowing levels and capital expenditure costs in line with the approved borrowing limits.

Projected borrowing level (R'm)



7. DEBT MANAGEMENT (continued)

7.4. CREDIT RATINGS

Umgeni Water's national credit rating as issued by Standard & Poor's on 28 January 2016 was AAA long-term and A-1 short-term. This was the first rating issued by the ratings agency Standard & Poor's since the previous credit rating issued by Fitch.

8. RETIREMENT BENEFIT OBLIGATIONS

8.1. DEFINED BENEFIT PENSION PLAN

In terms of IAS19, the group's retirement benefit plan is in an under-funded position of R203m (2015: R161m) and in terms of the approved accounting policy the full amount has been recognised in the statement of financial position in order to account for this liability. Further details are disclosed in note 26 of the financial statements.

8.2. 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 R389m (2015: R341m). Further details are disclosed in note 26 of the financial statements.

9. FINANCIAL RISKS

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

The major risks to the organisation and the mitigating strategies are analysed in note 30 on financial risk management to the financial statements and the Corporate Risk Management Framework on page 112 - 115 of the annual report.

10. FUTURE PROSPECTS

The strategy going forward will be to remain financially sustainable within the difficult operating environment as the drought continues and while Umgeni Water continues in its capital intensive phase to deliver crucial bulk water infrastructure in line with the shareholder compact and service delivery mandate. The group will manage via prioritisation of capex projects and increased efforts to secure grant funding, managing controllable costs and continuing to partner closely with its customers and shareholder to manage the risks and impact of the drought.

GROUP FIVE-YEAR KEY PERFORMANCE INDICATORS

	2016	2015	2014	2013	2012	2015-2016 MOVEMENT
PERFORMANCE CRITERIA/INDICATORS						
Total revenue (R'm)	2 377	2 223	2 204	1 909	1 847	6.93%
Profit from operations/revenue	0.27	0.31	0.27	0.31	0.31	(12.90%)
Total expenditure/revenue	0.69	0.65	0.71	0.66	0.71	6.15%
Cost of sales/revenue	0.44	0.43	0.47	0.46	0.46	2.33%
Capex spend (including intangibles) (R'm)	2 034	1 693	1 024	643	486	20.14%
Bulk water business segment						
Treated water volume sold (kl'000)	435 726	446 548	439 542	422 791	416 995	(2.42%)
Raw water volume sold (kl'000)	630	574	574	595	787	9.76%
Total water sold (kl'000)	436 356	447 122	440 116	423 386	417 782	(2.41%)
Bulk water tariff 1 (Rc/kl)	4.951	4.593	4.225	3.901	3.694	7.80%
Bulk water tariff 2 (Rc/kl)	4.853	4.502	4.142	3.825	3.622	7.80%
WRC levy (Rc/kl)	0.057	0.054	0.049	0.046	0.043	5.55%
Total bulk cost/volume sold (Rc/kl)(1)	3.25	2.86	2.76	2.35	2.34	13.64%
kl'000 sold per employee(1)	396	449	431	433	448	(11.80%)
OPERATING RISK INDICATORS						
Working ratio Operating costs (excl. depreciation and amortisation) divided by revenue	0.68	0.64	0.69	0.65	0.66	6.25%
Rate of return on assets Profit from operations divided by assets (excl. investments)	8.43%	11.45%	13.18%	15.57%	16.87%	(26.38%)
Gross profit margin ratio Gross profit divided by revenue	56.22%	57.25%	53.05%	54.43%	53.61%	(1.80%)
Debtors collection period (days) after provision for doubtful debts Trade and other receivables (excl. VAT, grant funding and advance invoicing) divided by revenue x 365	41	41	39	35	30	-
FINANCIAL RISK INDICATORS						
Current ratio Current assets divided by current liabilities	2.10	2.48	3.55	3.21	3.28	(15.73%)
Interest cover before interest capitalised Profit from operations divided by finance costs before interest capitalised	4.50	5.93	5.12	5.26	4.53	(24.12%)
Debt: equity ratio Total interest-bearing debt divided by capital and reserves	0.34	0.22	0.28	0.31	0.40	54.55%
Debt: asset ratio Total interest-bearing debt divided by total assets	0.21	0.15	0.18	0.19	0.24	40.00%

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

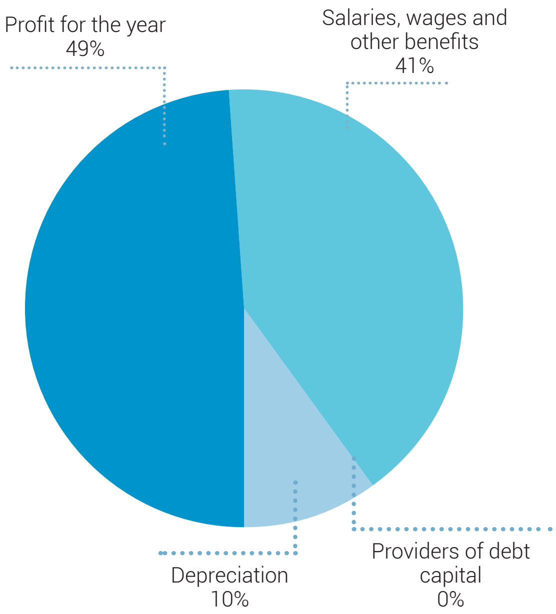
GROUP FIVE-YEAR KEY PERFORMANCE INDICATORS (continued)

	2016 R'000	2015 R'000	2014 R'000	2013 R'000	2012 R'000
FINANCIAL POSITION					
Capital and reserves	5 983 758	5 239 108	4 416 184	3 613 872	3 107 777
Net debt	114 345	(474 916)	(990 325)	(945 624)	(533 193)
Assets excluding investments	7 642 701	5 999 900	4 565 172	3 826 892	3 398 317
Total interest-bearing debt	2 029 388	1 171 764	1 250 029	1 135 381	1 257 137
Total investments	1 915 042	1 646 680	2 240 354	2 081 005	1 790 330
Total assets	9 557 743	7 646 580	6 805 526	5 907 897	5 188 647
FINANCIAL PERFORMANCE					
Revenue	2 377 324	2 222 565	2 204 140	1 908 834	1 847 151
Cost of sales	(1 040 846)	(950 054)	(1 034 890)	(869 910)	(856 808)
Gross Profit	**1 336 478**	**1 272 511**	**1 169 250**	**1 038 924**	**990 343**
Other income (expenses)	36 881	33 871	28 778	18 814	52 109
Other operating and administration expenses	(728 800)	(619 147)	(596 217)	(461 925)	(469 197)
Profit from operations	**644 559**	**687 235**	**601 811**	**595 813**	**573 255**
Net finance income	132 269	135 152	76 991	67 519	15 546
Share of profit from associate	4 427	4 602	3 627	3 482	2 531
Profit before taxation	**781 255**	**826 989**	**682 429**	**666 814**	**591 332**
Taxation	(65)	-	-	-	-
Profit for the year	**781 190**	**826 989**	**682 429**	**666 814**	**591 332**
CASH FLOW					
Net cash from operating activities	1 140 609	1 128 715	861 767	854 426	683 230
Net cash used in investing activities	(1 751 245)	(1 666 383)	(778 880)	(459 932)	(350 889)
Net cash (utilised) generated	**(610 636)**	**(537 668)**	**82 887**	**394 494**	**332 341**
Net cash from (used in) financing activities	616 588	542 908	(57 805)	(398 461)	(422 854)
Net decrease (increase) for the year	(5 952)	(5 240)	(25 082)	3 967	90 513
Net cash generated (utilised)	**610 636**	**537 668**	**(82 887)**	**(394 494)**	**(332 341)**

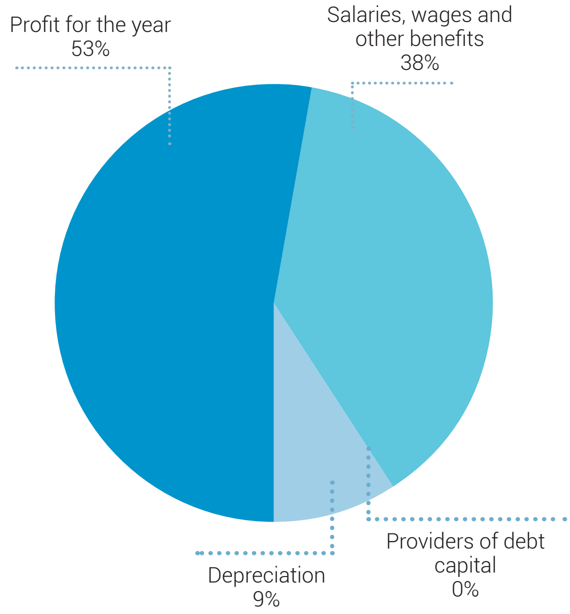
VALUE ADDED STATEMENT

	2016 R'000	2015 R'000	2014 R'000	2013 R'000	2012 R'000
Gross revenue	2 377 324	2 222 565	2 204 140	1 908 834	1 847 151
Paid to suppliers for materials and services	(906 129)	(794 708)	(964 126)	(762 494)	(724 643)
Value added	**1 471 195**	**1 427 857**	**1 240 014**	**1 146 340**	**1 122 508**
Income from investments	133 454	137 857	122 546	134 026	100 135
Total wealth created	**1 604 649**	**1 565 714**	**1 362 560**	**1 280 366**	**1 222 643**
Salaries, wages and other benefits	658 277	597 270	525 240	454 190	453 241
Providers of debt capital	1 185	2 705	45 555	66 507	84 589
Depreciation	163 997	138 750	109 336	92 855	93 481
Profit for the year	781 190	826 989	682 429	666 814	591 332
Total wealth distributed	**1 604 649**	**1 565 714**	**1 362 560**	**1 280 366**	**1 222 643**

2016



2015



EMPLOYEE STATISTICS

	2016	2015	2014	2013	2012	2015-2016 MOVEMENT
Number of employees as at year end	1 101	996	1 020	976	931	10.54%
Gross revenue per employee (R'000)	2 159	2 231	2 161	1 956	1 984	(3.24%)
Value added per employee (R'000)	1 336	1 434	1 216	1 175	1 206	14.23%
Wealth created per employee (R'000)	1 457	1 572	1 336	1 312	1 313	(7.29%)

STATEMENT OF DIRECTORS' RESPONSIBILITIES AND APPROVAL OF THE FINANCIAL STATEMENTS

The directors are responsible for the integrity and 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 No.1 of 1999 to keep full and proper records of the financial affairs of the group and its performance against predetermined objectives at the end of the year.

The financial statements set out in this report have been prepared in accordance with International Financial Reporting Standards (IFRS) as approved by National Treasury in terms of section 79 of the Public Finance Management Act No.1 of 1999, as amended, and in the manner required by the Water Services Act No. 108 of 1997. The preparation of financial statements in conformity with IFRS requires management to consistently apply appropriate accounting policies, supported by reasonable and prudent judgements and estimates. The financials have been prepared on a going concern basis under the supervision of the Chief Financial Officer, 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 behaviour are applied and managed within predetermined procedures and constraints.

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

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

The Audit Committee has evaluated Umgeni Water and the group's financial statements and has recommended its approval to the Board. The Audit Committee's approval is set out on page 133.

The directors have reviewed the group's forecast financial performance for the year 30 June 2017 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 2016 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 136 to 195 were approved by the Board of Directors on 21 September 2016, and thus signed on their behalf by:

A. Mahlalutye

MR ANDILE MAHLALUTYE
Chairman of the Board

MR 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 auditor on the result of their audits, that:

- The internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the financial statements, and accountability for assets and liabilities is maintained;
- the expertise, resources and experience of the finance function are adequate;
- the system and process of risk management and compliance processes are adequate;
- the effectiveness of the combined assurance function is adequate;
- 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 2016 and based on the information provided, 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 7 September 2016, the adoption of the financial statements by the Board of Directors.

Professor I Vally
Audit Committee Chair
7 September 2016

REPORT OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON UMGENI WATER

REPORT ON THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

INTRODUCTION

1. I have audited the consolidated financial statements of the Umgeni Water and its subsidiaries set out on pages 136 to 195, which comprise the consolidated and separate statement of financial position as at 30 June 2016 , the consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows and 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 CONSOLIDATED AND SEPARATE 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 consolidated and separate 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of Umgeni Water as at 30 June 2016 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.

EMPHASIS OF MATTERS

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

LEGISLATIVE CHANGES – CONSOLIDATION OF WATER BOARDS

8. The directors' report on page 138 of the financial statements indicates that 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 the water boards.

ADDITIONAL MATTER

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

OTHER REPORTS REQUIRED BY THE COMPANIES ACT

10. As part of our audit of the financial statements for the year ended 30 June 2016, I have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate 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

11. 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 programmes presented in the annual performance report, 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 (continued)

PREDETERMINED OBJECTIVES

12. 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 entity for the year ended 30 June 2016:
    - Objective 2: increase customer and stakeholder value, on pages 61 - 62
    - Objective 4: increase financial sustainability, on pages 62 - 63
    - Objective 5: improve financial ratios, on page 63
    - Objective 7: improve and increase infrastructure assets, on page 64
    - Objective 8: increase water resources sustainability, on page 65

13. 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 programmes. 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).

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

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

ADDITIONAL MATTER

16. 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

17. Refer to the annual performance report on pages 58 - 65 for information on the achievement of the planned targets for the year.

COMPLIANCE WITH LEGISLATION

18. I performed procedures to obtain evidence that the entity had complied with applicable legislation regarding financial matters, financial management and other related matters.

19. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

INTERNAL CONTROL

20. 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.

AUDIT-RELATED SERVICE AND SPECIAL AUDITS

21. Agreed upon procedures report was issued to the Department of Water and Sanitation in respect of expenses incurred by Umgeni Water on the Working for Water Project, for the period ended 31 March 2016; and

22. Agreed upon procedures report, in respect of the bond issue by Umgeni Water to report on whether the transaction complies, in all material respects, with the provisions of the notice as required by paragraph 3(5)(j) of the Commercial Paper Regulations, Government Notice 2172 in Government Gazette 16167 dated 14 December 1994 issued by the Registrar of Banks.

Auditor-General

Pietermaritzburg
30 September 2016

AUDITOR-GENERAL
SOUTH AFRICA
Auditing to build public confidence

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 2016.

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);
- Public Audit Act, 25 of 2004;

Umgeni Water is not required and has not fully complied with the provisions of the Companies Act No 71 of 2008, as amended. The organisation has, however, incorporated aspects of the Act that relate to the accounting records, financial statements and other ancillary matters which may have an impact on the financial statements.

CORPORATE GOVERNANCE AND RISK MANAGEMENT

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

The Board is responsible for monitoring the risk management process. For further details on corporate governance and risk management refer to the section on corporate governance detailed on pages 36 - 51.

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 44 - 47 of the annual report.

Members of the Board and Executive Committee's emoluments are disclosed in the remuneration report on pages 140 - 141 in terms of regulation 28.1 of the PFMA.

COMPANY SECRETARY AND REGISTERED ADDRESS

The Company Secretary is Mr Sbusiso Madonsela, appointed on 1 January 2014. The registered address of the Company Secretary and that of the registered office during the current financial year are as follows:

Business address
310 Burger street
Pietermaritzburg
3201

Postal address
PO Box 9
Pietermaritzburg
3200

AUDITORS

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

DIRECTORS' REPORT (continued)

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 No. 56 of 2003 and Circular 23 issued by National Treasury. This process encompasses the principle of consultation and transparency and aims to assist Umgeni Water's stakeholders with their long term planning.

Umgeni Water bulk water tariff increase for 2016/2017 effective 1 July 2016 has been approved at 9.0% for all Water Service Authorities. The directors, after full analysis of its projected cash flows, are of the opinion that the tariff for 2016/2017 is appropriate and will not adversely affect Umgeni Water's gearing levels or its financial sustainability.

PRICE PER KILOLITRE	2015	2016	2017
Bulk Tariff 1: Water Service Authorities			
Base tariff	R4.225	R4.593	R4.951
Tariff increase	R0.368	R0.358	R0.446
Umgeni Water bulk tariff	**R4.593**	**R4.951**	**R5.397**
% increase	*8.7%*	*7.8%*	*9.0%*
Capital unit charge Spring Grove dam	R0.426	R0.458	R0.484
Mkomazi bulk water supply charge	–	–	R0.108
New Tariff	**R5.019**	**R5.409**	**R5.989**
% increase	*8.3%*	*7.8%*	*10.7%*
Bulk Tariff 2: eThekwini Metropolitan Municipality			
Base tariff	R4.142	R4.502	R4.853
Tariff increase	R0.360	R0.351	R0.437
Umgeni Water bulk tariff	**R4.502**	**R4.853**	**R5.290**
% increase	*8.7%*	*7.8%*	*9.0%*
Capital unit charge Spring Grove dam	R0.426	R0.458	R0.484
Mkomazi bulk water supply charge	–	–	R0.106
New Tariff	**R4.928**	**R5.311**	**R5.880**
% increase	*8.3%*	*7.8%*	*10.7%*
Bulk Tariff 3: Sembcorp Siza Water			
Base tariff	R4.262	R4.633	R6.518
Tariff increase	R0.371	R1.885	R0.587
Umgeni Water bulk tariff	**R4.633**	**R6.518**	**R7.105**
% increase	*8.7%*	*40.7%*	*9.0%*
Capital unit charge Spring Grove dam	R0.426	R0.458	R0.484
Mkomazi bulk water supply charge	–	–	R0.142
New Tariff	**R5.059**	**R6.976**	**R7.731**
% increase	*8.3%*	*37.9%*	*10.8%*

DIRECTORS' REPORT (continued)

FINANCIAL PERFORMANCE

The group continued with a sound operating performance with a profit for the year of R781m (2015: R827m). The 5.6% decrease year on year is largely attributable to the lower sales volumes as a result of the drought, increased cost of sales mainly to higher depreciation, energy and direct staff costs and higher asset impairments on development projects.

Impairments to property, plant and equipment totalled R133m (2015: R90m). Impairments to existing assets included in buildings and infrastructure was R95m (2015: R37m) and impairments to capital work in progress was R38m (2015: R53m). The impairments during the current year relate primarily to development infrastructure and reflect the social component carried by Umgeni Water. Refer to note 9 of the financial statements for further details on impairments.

Operating cash flows were R1 141m (2015: R1 129m), which is an increase of 1% 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 R617m through the issuance of a bond, the UG26 of R935m in March 2016.

Capital expenditure on property, plant and equipment totalled to R1 978m in the current year, a 19% increase from R1 662m in the prior year. Expenditure on intangible assets (software) totalled to R56m (2015: R31m). 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 126.

Loan covenants remain unbreached at financial year end and Umgeni Water remained within its approved borrowing limits of R2 400m.

Full details of the financial results of the group and company are set out in the financial statements and summarised in the financial review on pages 116 - 128.

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. This process was initially envisaged to be concluded during the 2016/2017 financial year, however due to a number of strategic steps that need to be taken to inform the final decision making process (which includes parliamentary processes, legislative processes and financial commitments confirmed for National Treasury) this will not be achieved during the 2016/2017 financial year.

This initiative 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 2016/2017 financial year, albeit that it will create growth opportunities for the new entity (once all conditional processes have been achieved) 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 R12m (2015: 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 R0.4m (2015: R2.4m) arose primarily as a result of non-compliance to the supply chain management policy and was subsequently condoned as valid expenditure incurred in support of the business requirements. Management has instituted preventative and corrective measures as considered appropriate to improve controls and processes. Further details are set out in note 28 of the financial statements.

FRAUD & FINANCIAL MISCONDUCT

There were instances of fraud and financial misconduct in the current financial year, which are not material in value. Disciplinary proceedings were instituted and 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 61 - 65 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 (GMs)).

REMUNERATION STRUCTURE

The remuneration structure of Executives is comprised of the following components:

- Guaranteed amount:
  The guaranteed amount comprises a fixed cash portion and compulsory benefits such as medical aid and retirement.
- Short term incentive bonus:
  The short term incentive bonus rewards the achievement of individual predetermined performance objectives and targets.
- Long term incentive bonus:
  The long term incentive bonus is designed to attract, retain and reward the Chief Executive, General Managers and Senior Managers for meeting the organisational objectives set by the shareholder.

DIRECTORS' AND EXECUTIVES' EMOLUMENTS

					2016	2015
	FEES FOR SERVICES/ SALARY	ALLOWANCES AND BONUSES	EXPENSE ALLOWANCES	RETIREMENT CONTRIBUTIONS	TOTAL	TOTAL
	R'000	R'000	R'000	R'000	R'000	R'000
Non-Executive Board Members						
Ms N Afolayan	322	-	25	-	347	306
Mr GDJ Atkinson	310	-	24	-	334	376
Ms NB Chamane	393	-	24	-	417	400
Ms TMV Dube	354	-	22	-	376	310
Mr VG Gounden	267	-	21	-	288	259
Mr A Mahlalutye (Chairman)	593	-	23	-	616	561
Ms ZB Mathenjwa	423	-	24	-	446	386
Mr T Nkhahle	335	-	19	-	354	387
Mr VG Reddy	366	-	23	-	389	360
Ms TC Shezi	363	-	25	-	388	377
Mr IAS Vally	375	-	24	-	399	386
Mr T Zulu	328	-	24	-	352	362
Total Non Executive Board Members	**4 430**	**-**	**277**	**-**	**4 707**	**4 470**
Executive Board Member						
Mr C Gamede (CE)	2 442	1 076	203	-	3 721	2 919
Total - Parent	**6 872**	**1 076**	**480**	**-**	**8 428**	**7 389**
Msinsi Holdings (Pty) Ltd						
Non-Executive Board Members	117	-	-	-	117	43
Total Subsidiaries	**117**	**-**	**-**	**-**	**117**	**43**
Total Group	**6 989**	**1 076**	**480**	**-**	**8 545**	**6 359**
Exco Members						
Mr M Cele	1 380	334	150	-	1 864	953
Mr S Gillham	1 415	573	155	224	2 367	1 856
Mr T Hlongwa	1 600	605	249	-	2 454	1 968
Ms M Moleko	1 445	518	195	-	2 158	1 564
Total Exco	**5 840**	**2 030**	**749**	**224**	**8 843**	**6 341**

REMUNERATION REPORT (continued)

LONG TERM INCENTIVE BONUS

The board has set performance conditions in line with Umgeni Water's shareholder compact over a five-year performance period which covers financial and non-financial targets.

In terms of the Umgeni Water Performance Management Policy and Remuneration Policy, the long-term incentive bonus, based on variable pay, is payable to the Chief Executive, General Managers and Senior Managers when the following conditions are met:

- The employee has fulfilled the full term of his/her employment contract for the 5 year period;
- The employee has achieved a level of performance of 75% or more, in terms of the performance management scoring process, for the full term of the performance period in terms of the policy.

The distributable audited surplus is calculated at 20% of the audited surplus after consideration of loan covenant levels. The available variable pay for long term incentive bonuses is then calculated at the maximum of 25% of the distributable audited suplus.

Conditions met were approved by the board in September 2015, as a result the following long term incentive bonuses have accrued to Executives:

NAME	DESIGNATION	LONG TERM INCENTIVES ACCRUED FOR 2016	LONG TERM INCENTIVES ACCRUED FOR 2015
Mr C Gamede	Chief Executive	3 507	-
Mr S Gillham	GM Engineering	3 507	-
Mr T Hlongwa	Chief Financial Officer	3 507	-
Ms M Moleko	GM Corp Service	3 507	-
Mr M Cele	GM Operations	3 507	-
Long term incentive bonus provided		17 533	-

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
Mr S Gillham	GM Engineering and Scientific Services	01 February 2012	n/a	01 February 2017
Mr T Hlongwa	Chief Financial Officer	01 July 2013	n/a	01 July 2018
Ms M Moleko	GM Corporate Service	01 January 2014	n/a	01 January 2019

Umgeni Water Executives are also directors in the wholly owned subsidiaries of Umgeni Water. No remuneration was received by the directors from the subsidiaries for the services rendered in the current and prior year. Details of the Directorship are as follows:

SUBSIDIARY EXECUTIVES

EXECUTIVES	DESIGNATION	DATE FIRST APPOINTED BY THE BOARD	MSINSI HOLDINGS SOC LIMITED	UMGENI WATER SERVICES SOC LIMITED
Mr C Gamede	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[N1]	✓	✓
Ms M Moleko	Non Executive Director	16 April 2014	X	✓

N1: 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 2016

		GROUP		PARENT	
	NOTE	2016	2015	2016	2015
		R'000	R'000	R'000	R'000
Revenue	4	2 377 324	2 222 565	2 363 290	2 207 704
Cost of sales		(1 040 846)	(950 054)	(1 040 846)	(950 054)
Changes in water inventory		(698)	70	(698)	70
Chemicals		(51 742)	(48 786)	(51 742)	(48 786)
Depreciation		(129 421)	(106 992)	(129 421)	(106 992)
Energy		(199 086)	(169 940)	(199 086)	(169 940)
Maintenance		(154 952)	(173 481)	(154 952)	(173 481)
Raw water		(164 578)	(167 230)	(164 578)	(167 230)
Section 30 activities		(108 063)	(93 647)	(108 063)	(93 647)
Staff costs		(183 312)	(155 676)	(183 312)	(155 676)
Other direct operating expenses		(48 994)	(34 372)	(48 994)	(34 372)
Gross profit		**1 336 478**	**1 272 511**	**1 322 444**	**1 257 650**
Other income	5	36 881	33 871	40 583	32 153
Other operating and administration expenses		(728 800)	(619 147)	(704 779)	(622 160)
Profit from operations	6.1	**644 559**	**687 235**	**658 248**	**667 643**
Net finance income		132 269	135 152	131 260	133 286
Interest income	7	133 454	137 857	132 421	135 958
Finance costs	8	(1 185)	(2 705)	(1 161)	(2 672)
Share of profit from associate	12	4 427	4 602	-	-
Profit before taxation		**781 255**	**826 989**	**789 508**	**800 929**
Taxation	6.2	(65)	-	-	-
Profit for the year		**781 190**	**826 989**	**789 508**	**800 929**

STATEMENTS OF OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2016

	GROUP		PARENT	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
Profit for the year	781 190	826 989	789 508	800 929
Other comprehensive income:				
Items that will not be reclassified to profit and loss:				
Remeasurement of gains and losses - retirement plans	(36 540)	(4 065)	(36 540)	(4 065)
Total other comprehensive income for the year	**744 650**	**822 924**	**752 968**	**796 864**

STATEMENTS OF FINANCIAL POSITION

For the year ended 30 June 2016

	NOTE	GROUP 2016 R'000	GROUP 2015 R'000	PARENT 2016 R'000	PARENT 2015 R'000
ASSETS					
Non-current assets		**7 452 095**	**5 648 197**	**7 445 282**	**5 641 767**
Property, plant and equipment	9	7 043 119	5 506 937	7 026 173	5 502 792
Intangible assets	10	96 002	44 517	95 801	44 190
Biological assets	11	4 911	4 733	-	-
Subsidiaries and associates	12	6 005	6 005	21 250	8 780
Investments	13	295 142	77 097	295 142	77 097
Other financial assets	14	6 916	8 908	6 916	8 908
Current assets		**2 105 648**	**1 998 383**	**2 075 206**	**1 956 906**
Investments	13	1 619 900	1 569 583	1 619 900	1 569 583
Inventories	15	14 721	12 068	14 721	12 068
Trade and other receivables	16	398 776	345 048	392 381	340 042
Interest receivable	17	28 366	33 751	28 366	33 751
Bank and cash	18.1	43 885	37 933	19 838	1 462
Total assets		**9 557 743**	**7 646 580**	**9 520 488**	**7 598 673**
EQUITY AND LIABILITIES					
Capital and reserves		**5 983 758**	**5 239 108**	**5 945 441**	**5 192 473**
Capital	19	442 847	442 847	442 847	442 847
OCI Reserve		(104 822)	(68 282)	(104 822)	(68 282)
Accumulated profit		5 645 733	4 864 543	5 607 416	4 817 908
Non-current liabilities		**2 571 252**	**1 601 006**	**2 570 194**	**1 601 006**
Long-term debt	20	1 950 770	1 093 331	1 949 712	1 093 331
Other non-current liabilities	21	3 152	5 935	3 152	5 935
Provisions	22	25 046	-	25 046	-
Post-retirement benefit obligations	26	592 284	501 740	592 284	501 740
Current liabilities		**1 002 733**	**806 466**	**1 004 853**	**805 194**
Short-term debt	20	78 618	78 433	78 618	78 433
Provisions	22	88 780	94 727	85 365	93 028
Accounts payable	23	776 470	606 470	782 005	606 897
Interest payable		58 865	26 836	58 865	26 836
Total equity and liabilities		**9 557 743**	**7 646 580**	**9 520 488**	**7 598 673**

STATEMENTS OF CHANGES IN EQUITY

For the year ended 30 June 2016

	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 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**
Movement for the year				
Total comprehensive income	-	(36 540)	781 190	744 650
Profit for the year	-	-	781 190	781 190
Other comprehensive income	-	(36 540)	-	(36 540)
Balance as at 30 June 2016	**442 847**	**(104 822)**	**5 645 733**	**5 983 758**

	PARENT			
	CAPITAL	OCI RESERVE	ACCUMULATED PROFIT	TOTAL
	R'000	R'000	R'000	R'000
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**
Movement for the year				
Total comprehensive income	-	(36 540)	789 508	752 968
Profit for the year	-	-	789 508	789 508
Other comprehensive income	-	(36 540)	-	(36 540)
Balance as at 30 June 2016	**442 847**	**(104 822)**	**5 607 416**	**5 945 441**

STATEMENTS OF CASH FLOWS

For the year ended 30 June 2016

	NOTE	GROUP 2016 R'000	GROUP 2015 R'000	PARENT 2016 R'000	PARENT 2015 R'000
OPERATING ACTIVITIES					
Cash receipts from customers		2 362 766	2 399 311	2 350 030	2 344 411
Cash paid to suppliers and employees		(1 222 157)	(1 270 596)	(1 197 700)	(1 222 109)
Net cash from operating activities	18.2	**1 140 609**	**1 128 715**	**1 152 330**	**1 122 302**
INVESTING ACTIVITIES					
Proceeds on disposals of assets		2 457	-	2 457	-
Receipt of grants	9	280 016	26 517	280 016	26 517
Additions to property, plant and equipment	9	(1 978 099)	(1 662 201)	(1 963 217)	(1 660 528)
Additions to intangible assets	10	(55 707)	(30 845)	(55 647)	(30 506)
Additions to biological assests	11	(510)	-	-	-
Proceeds on disposal of biological assets		598	146	-	-
(Increase) decrease of investments in subsidiaries		-	-	(11 555)	695
Net cash used in investing activities		**(1 751 245)**	**(1 666 383)**	**(1 747 946)**	**(1 663 822)**
FINANCING ACTIVITIES					
Long-term borrowings raised		936 587	-	935 000	-
Long-term borrowings repaid	20	(78 434)	(78 265)	(78 434)	(78 265)
(Increase) decrease in investments		(236 593)	615 321	(236 593)	615 321
Interest received		106 367	122 397	105 335	120 395
Finance costs paid		(111 339)	(116 545)	(111 316)	(116 409)
Net cash from financing activities		**616 588**	**542 908**	**613 992**	**541 042**
CASH AND CASH EQUIVALENTS					
Net increase (decrease) for the year		5 952	5 240	18 376	(478)
At beginning of year		37 933	32 693	1 462	1 940
At end of year	18.1	**43 885**	**37 933**	**19 838**	**1 462**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2016

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 2016.

2.1. BASIS OF PREPARATION AND MEASUREMENT

STATEMENT OF COMPLIANCE

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations of those standards, as issued by the International Accounting Standards Board (the IASB), the Public Finance Management Act (Act 1 of 1999), as amended (PFMA) and the Companies Act (Act 71 of 2008). In terms of section 79 of the PFMA, National Treasury has issued an approval authorising the use of IFRS as the accounting reporting framework.

BASIS OF PREPARATION OF FINANCIAL RESULTS

The consolidated financial statements are prepared using the historic cost basis except for the following items in the statement of financial position:

- Biological assets are measured at fair value less costs to sell; and
- the defined benefit plan obligation and post-retirement healthcare obligation are measured at the projected unit credit method.

The consolidated financial statements are prepared on the going concern basis using the accrual basis of accounting except for cash flow information.

Except as otherwise disclosed, these accounting policies are consistent with those applied in all periods presented in these consolidated financial statements.

CURRENT AND NON-CURRENT CLASSIFICATION OF ASSETS AND LIABILITIES

Current assets are assets that are expected to be realised in the entity's normal operating cycle, held primarily for the purpose of trading, expected to be realised within 12 months after the reporting period or the asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after reporting date. All other assets are non-current.

Current liabilities are those liabilities expected to be settled within the entity's normal operating cycle, held for purpose of trading, due to be settled within 12 months for which the entity does not have an unconditional right to defer settlement beyond 12 months. Other liabilities are non-current.

FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated financial statements 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

2.1. BASIS OF PREPARATION AND MEASUREMENT (continued)

KEY SOURCES OF ESTIMATION UNCERTAINTY

VALUE-IN-USE CALCULATIONS FOR IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

The recoverable amount of development infrastructure is determined based on value-in-use calculations. Key assumptions relating to these valuations include the discount rate (gross weighted average cost of capital), cash flows and sales volume demand per scheme. Future cash flows are extrapolated over the useful life of the assets to reflect the long-term plan for the group using the growth rates as projected by the economic indicators (CPI, PPI, energy).

Management determines the expected performance of these assets based on the sales volume demands and the operating cost structure aligned to the system from which water will be drawn. Refer to note 9 for further details on impairments of property, plant and equipment.

RESIDUAL VALUES AND USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are depreciated over its useful life taking into account residual values, where appropriate. Assessments of useful lives and residual values are performed annually after considering factors such as technological innovation, maintenance programs, relevant market information, manner of recovery and management consideration. In assessing residual values, the group considers the remaining life of the asset, its projected disposal value and future market conditions. Refer to note 9.

FAIR VALUE OF BIOLOGICAL ASSETS

The carrying amounts of biological assets are recognised at fair value. The fair values of game were determined with reference to market prices as at 30 June 2016. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

2.1. BASIS OF PREPARATION AND MEASUREMENT (continued)

STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE (continued)

IFRS 9 FINANCIAL INSTRUMENTS - CLASSIFICATION AND MEASUREMENT EFFECTIVE 1 JANUARY 2018 (continued)

IFRS 9 has also been amended to include the derecognition requirements from IAS 39. These requirements have remained unchanged but additional disclosure requirements relating to the disclosure of transfers of financial assets have been included in IFRS 7. The group is still determining the impact of the standard on the financial statements.

IFRS 16 LEASES EFFECTIVE 1 JANUARY 2019

IFRS 16 replaces IAS 17 Leases, IFRIC 4 determining whether an arrangement contains a lease. IFRS 16 primarily affects lessees who must account for all leases in a single model on the balance sheet where the lease term exceeds 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right of use asset representing its right to use the underlying leased asset and a liability representing its obligation to make lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and depreciation expense on the right of use asset.

Lessor accounting substantially remains unchanged from the previous requirements in IAS 17.

The new standard requires lessors and lessees to make more extensive disclosures than previously required under IAS 17. The group is still determining the impact of the standard on the financial statements.

ADOPTION OF NEW AND REVISED STANDARDS

During the current year there were no amendments to or new and revised standards which are relevant to the group.

IMPROVEMENTS TO IFRS

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

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION OF FINANCIAL RESULTS

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

ELIMINATION OF INTER-COMPANY TRANSACTIONS

Inter-company transactions, balances and unrealised gains and losses between entities are eliminated on consolidation. To the extent that a loss on a transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss of a non-current asset, that loss is charged to the statement of profit and loss.

In respect of associates, unrealised gains and losses are eliminated to the extent of the group's interest in these entities. Unrealised gains and losses arising from transactions with associates are eliminated against the investment in the associate.

BUSINESS COMBINATIONS

A business may comprise an entity, group of entities or an unincorporated operation including its operating assets and associated liabilities. Business combinations are accounted for using the acquisition method which is the date on which control is transferred to the group. On acquisition date, fair values are attributed to the identifiable assets, liabilities and contingent liabilities. Fair value of all identifiable assets and liabilities included in the business combination are determined by reference to market values of those similar items, where available, or by discounting expected future cash flows using the discount rate to present values. The consideration transferred is the fair value of the group's contribution to the business combination in the form of assets transferred, liabilities assumed or contingent consideration at the acquisition date. Transaction costs directly attributable to the acquisition are charged to the statement of profit and loss except if related to the issue of debt or equity securities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

BUSINESS COMBINATIONS (continued)

A non-controlling interest at acquisition date is determined as the non-controlling shareholders' proportionate share of the fair value of the net identifiable assets of the entity acquired.

On acquisition date goodwill is recognised when the consideration transferred and the recognised amount of the non-controlling interests exceeds the fair value of the net identifiable assets of the entity acquired. Goodwill is tested at each reporting date for impairment. To the extent that the fair value of the net identifiable assets of the entity acquired exceeds the consideration transferred and the recognised amount of non-controlling interests, the excess is recognised in the statement of profit and loss on acquisition date.

When an acquisition is achieved in stages (step acquisition), the identifiable assets and liabilities are recognised at their full fair value when control is obtained, and any adjustment to fair values related to these assets and liabilities previously held as an equity interest is recognised in the statement of other comprehensive income or statement of profit and loss as appropriate.

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

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

SUBSIDIARIES

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

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

The 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ASSOCIATES

An associate is an entity over which the group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The group has an associate via its subsidiary Umgeni Water Services SOC Ltd. Further details on the associate are included in note 12 of the annual financial statements.

The financial results of associates are included in the group's results according to the equity method from acquisition date until disposal date. Under the equity method, the investment in associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the group's share of profit or loss of the associate after the acquisition date. The group's share of profits or losses and other comprehensive income are recognised in the statement of profit and loss as equity accounted earnings. Distributions received from associates reduce the carrying amount of the investment. All cumulative post-acquisition movements in other comprehensive income of associates are adjusted against the carrying amount of the investment. When the group's share of losses in associate equals or exceeds its interest in those associates; the group does not recognise further losses, unless the group has incurred a legal or constructive obligation or made payments on behalf of those associates. Goodwill relating to associates forms part of the carrying value of those associates.

The total carrying value of each associate is evaluated annually, as a single asset, for impairment or when conditions indicate that a decline in fair value below the carrying amount is other than temporary. If impaired, the carrying value of the group's share of the underlying assets of associates is written down to its estimated recoverable amount in accordance with the accounting policy on impairment and charged to the statement of profit and loss as part of equity accounted earnings of that associate.

When significant influence over an associate is lost, the group measures any investment retained in the former associate at fair value, with any consequential gain or loss recognised in profit or loss.

Where the reporting date of an associate differs from that of the group, adjustments are made to the associate's most recent audited financial results for material transactions and events that occur since then to the reporting date of the group.

Where a group entity transacts with an associate of the group, unrealised profits and losses are eliminated to the extent of the group's interest in the relevant associate.

In the parent financial statements, the parent accounts for investments in associates at cost.

OPERATING SEGMENTS AND SEGMENT REPORTING

The group has two reportable segments:

- The primary segment as defined by section 29 of the Water Services Act No. 108 of 1997; and
- other activities as defined by Section 30 of the Water Services Act No. 108 of 1997.

Segment results that are reported include items directly attributable to the segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, assets and liabilities.

PROPERTY, PLANT & EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Land is not depreciated.

Costs include expenditure that is directly attributable to the acquisition of the asset. Works under construction are stated at cost less accumulated impairment losses. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROPERTY, PLANT & EQUIPMENT (continued)

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.

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%

LEASES

CLASSIFICATION

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

IN THE CAPACITY OF A LESSOR

Operating lease

Rental income from operating leases with fixed escalation clauses is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.

IN THE CAPACITY OF A LESSEE

Operating lease

Rentals payable under operating leases with fixed escalation clauses are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 is available; and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Research and development costs that do not meet the criteria are recognised in profit and loss. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

An intangible assets is amortised from the time it's ready for use over a straight line basis over its useful life.

SOFTWARE

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

Software is amortised in full on a straight-line basis as follows:

- customised software 5 years; and
- shelf software 2 years.

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

The useful lives of intangible assets are reviewed annually and adjusted prospectively if appropriate. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount and are recognised in the statement of profit and loss when the asset is derecognised.

BIOLOGICAL ASSETS

Game stock 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, genes, 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IMPAIRMENT OF NON-FINANCIAL ASSETS (continued)

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 retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses are recognised immediately in other comprehensive income in accordance with IAS 19 revised. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight line basis over the average period until the benefit becomes vested.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the present value of available funds and reductions in future contributions to the plan.

OTHER RETIREMENT BENEFITS

Post-retirement healthcare benefits are provided to certain of the group's retirees. The cost of providing benefits is determined using the projected unit credit method with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses are recognised immediately in other comprehensive income in accordance with IAS 19 revised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

EMPLOYEE BENEFITS (continued)

SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits are those that are due to be settled within twelve months after the end of the period in which the services have been rendered. Short-term employee benefits include salaries, bonuses, allowances and other fringe benefits. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. Remuneration of employees is charged to the statement of profit and loss. The group recognises a liability for leave and performance bonuses which is included in provisions and accrues for other short-term employee benefits if the group has a present legal or constructive obligation to pay the amount and the obligation can be estimated reliably.

PROVISIONS

Provisions are recognised when the group has a present legal or constructive obligation as a result of a past event and it is probable that this will result in an outflow of economic benefits that can be reliably estimated.

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 39 - Financial Instruments: Recognition and Measurement.

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 2016

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FAIR VALUE OF FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE (continued)

When determining the fair value of the asset or liability for disclosure purposes the group uses observable market data as far as possible. Fair values are categorised into different levels in the fair value hierarchy based on inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly (i.e. prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the assets and liabilities that are not based on observable market data (unobservable inputs).

REVENUE

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

SALE OF GOODS

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

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

RENDERING OF SERVICES

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

TAXATION (continued)

CURRENT TAX

The tax currently payable is based on taxable income for the year. Taxable income differs from profit as reported in the statement of profit and loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

DEFERRED TAX

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

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

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

INTEREST INCOME

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

FINANCE COSTS

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

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

3. OPERATING SEGMENTS AND SEGMENT REPORTING

Umgeni Water has two reportable segments:

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

(ii) Other activites as defined by Section 30 of the Water Services Act No. 108 of 1997. This business segment consists of non-regulated activies which are mainly defined as servies that complement bulk water services provision such as laboratory services, water quality monitoring, environmental management and where Umgeni Water acts as an implementing agent for any sphere of goverment 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 inclued 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 2016

3. OPERATING SEGMENTS AND SEGMENT REPORTING (continued)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

3. OPERATING SEGMENTS AND SEGMENT REPORTING (continued)

	GROUP			
	PRIMARY ACTIVITIES			
	BULK WATER	Wastewater	OTHER ACTIVITIES	TOTAL
	kl'000	kl'000	kl'000	kl'000
For the year ended 30 June 2015				
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 2016

4. REVENUE

	GROUP		PARENT	
	2016	**2015**	**2016**	**2015**
	R'000	**R'000**	**R'000**	**R'000**
Sale of goods	**2 262 320**	**2 089 615**	**2 248 286**	**2 089 615**
Water sales	2 131 950	2 021 558	2 131 950	2 021 558
Wastewater	130 370	68 057	116 336	68 057
Rendering of services - other activities	**115 004**	**132 950**	**115 004**	**118 089**
Water infrastructure	81 345	47 859	81 345	47 859
Scientific and environmental	16 603	39 556	16 603	39 556
Operating and maintenance	1 633	14 607	1 633	14 607
Other	15 423	30 927	15 423	16 066
Included in revenues arising from water sales are revenues of approximately R1 554m (2015: R1 492m) from sales to the group' s largest customer. (Refer to note 27)				
Total revenue	**2 377 324**	**2 222 565**	**2 363 290**	**2 207 704**

5. OTHER INCOME

Sundry income	33 182	31 554	37 541	29 836
Rental income	3 699	2 317	3 042	2 317
Total other income	**36 881**	**33 871**	**40 583**	**32 153**

Sundry income comprises primarily of operational grants; penalties on contracts and insurance proceeds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

6.1. PROFIT FROM OPERATIONS

	GROUP		PARENT	
	2016	2015	2016	2015
	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	140 088	90 058	140 088	90 058
Buildings and infrastructure impairments (refer to note 9)	94 755	36 787	94 755	36 787
Buildings and infrastructure write-offs (refer to note 9)	5 584	-	5 584	-
Capital work-in-progress impairments (refer to note 9)	38 126	53 271	38 126	53 271
Other asset impairments and write-offs (refer to note 9)	1 623	-	1 623	-
Amortisation of intangible assets (refer to note 10)	4 222	4 335	4 036	4 324
Auditors remuneration	2 748	2 293	1 836	1 970
Audit fees - current year	2 944	2 293	2 032	1 970
Audit fees - prior year over provision	(196)	-	(196)	-
Board members' emoluments (refer pg 140)	4 824	4 513	4 707	4 470
Depreciation	163 997	138 750	161 916	137 411
Buildings and infrastructure (refer to note 9)	135 990	112 064	135 990	112 064
Equipment and vehicles (refer to note 9)	28 007	26 686	25 926	25 347
Doubtful debts provision	3 805	408	3 805	408
Fair value adjustment of biological assets (refer to note 11)	(691)	(668)	-	-
(Impairment reversal) impairment of investment in subsidiary	-	-	(915)	24 491
Legal fees	7 228	2 078	6 350	2 078
Maintenance	175 986	197 529	169 331	188 020
Direct costs	154 952	173 481	154 952	173 481
Indirect costs	21 034	24 048	14 379	14 538
Operating lease payments	423	1 467	423	394
Loss on disposal of property, plant and equipment	4 749	1 391	4 749	1 391
Loss on disposal on biological assets	425	33	-	-
Loss on disposal of intangible assets	-	96	-	96
Retirement benefits	94 714	89 287	94 714	89 287
Post retirement medical aid (refer to note 26.3)	40 634	39 875	40 634	39 875
Pension - defined benefit (refer to note 26.2)	54 080	49 412	54 080	49 412
Salaries and other staff costs	563 564	507 982	532 361	483 522
Direct	183 312	155 676	183 312	155 676
Indirect	289 734	272 202	258 531	247 742
Maintenance	90 518	80 104	90 518	80 104

	No.	No.	No.	No.
Number of employees at 30 June				
Permanent	990	906	873	805
Fixed term contracts	111	90	111	90
Total number of employees	**1 101**	**996**	**984**	**895**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

6.2 TAXATION

	GROUP		PARENT	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
Taxation arises from the 100% owned subsidiary Umgeni Water Services SOC Limited.				
Taxation expense	65	-	-	-
Reconcilliation of taxation				
Accounting profit	4 597	-	-	-
Permanent differences	(4 365)	-	-	-
Dividend received	(4 427)	-	-	-
Disallowed expenses	62	-	-	-
Taxable income	232	-	-	-
Taxation expense	**65**	**-**	**-**	**-**

7. INTEREST INCOME

	GROUP 2016 R'000	GROUP 2015 R'000	PARENT 2016 R'000	PARENT 2015 R'000
Interest received - investments	131 719	131 144	131 719	131 144
Interest received - other financial assets (refer to note 14)	702	889	702	889
Interest received - other	1 033	5 824	-	3 925
Total interest income	**133 454**	**137 857**	**132 421**	**135 958**

8. FINANCE COSTS

	GROUP 2016 R'000	GROUP 2015 R'000	PARENT 2016 R'000	PARENT 2015 R'000
Bank overdrafts and other	1 155	1 872	1 155	1 872
Bonds	64 376	64 200	64 376	64 200
Loans	77 838	49 803	77 814	49 770
Less: borrowing costs capitalised (refer to note 9)	(142 184)	(113 170)	(142 184)	(113 170)
Interest was capitalised to work-in-progress at the gross weighted average cost of capital of 10.53 % (2015: 9.46%).				
Total finance costs	**1 185**	**2 705**	**1 161**	**2 672**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

9. PROPERTY, PLANT AND EQUIPMENT

Year ended 30 June 2016	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 2015	3 543	3 589 768	87 749	1 821 732	5 502 792	4 145	5 506 937
Cost	3 543	5 175 637	186 838	2 345 678	7 711 696	14 705	7 726 401
Accumulated impairments	-	(452 666)	-	(91 121)	(543 787)	-	(543 787)
Accumulated grant funding	-	(147 148)	-	(432 825)	(579 973)	-	(579 973)
Accumulated depreciation	-	(986 055)	(99 089)	-	(1 085 144)	(10 560)	(1 095 704)
Additions	-	-	24 159	1 939 058	1 963 217	14 882	1 978 099
Grant funding	-	-	-	(280 016)	(280 016)	-	(280 016)
Borrowing costs capitalised	-	-	-	142 184	142 184	-	142 184
Disposals/Asset write-offs	-	(5 584)	(1 623)	-	(7 207)	-	(7 207)
Cost	-	(18 614)	(13 342)	-	(31 956)	-	(31 956)
Accumulated depreciation	-	13 030	11 719	-	24 749	-	24 749
Depreciation charge	-	(135 990)	(25 926)	-	(161 916)	(2 081)	(163 997)
							-
Impairment	-	(94 755)	-	(38 126)	(132 881)	-	(132 881)
Commissioning	-	447 492	-	(447 492)	-	-	-
Cost	-	650 978	-	(650 978)	-	-	-
Accummulated grant funding	-	(173 562)	-	173 562	-	-	-
Accumulated impairment	-	(29 924)	-	29 924	-	-	-
Total property, plant and equipment	**3 543**	**3 800 931**	**84 359**	**3 137 340**	**7 026 173**	**16 946**	**7 043 119**
Cost	3 543	5 808 001	197 655	3 775 941	9 785 140	29 587	9 814 727
Accumulated impairments	-	(577 346)	-	(99 322)	(676 668)	-	(676 668)
Accumulated grant funding	-	(320 710)	-	(539 279)	(859 989)	-	(859 989)
Accumulated depreciation	-	(1 109 014)	(113 296)	-	(1 222 310)	(12 641)	(1 234 951)
Total property, plant and equipment	**3 543**	**3 800 931**	**84 359**	**3 137 340**	**7 026 173**	**16 946**	**7 043 119**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

9. PROPERTY, PLANT AND EQUIPMENT (continued)

	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	7 726 402
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**

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

Equipment and vehicles consists of motor vehicles, computer hardware and furniture and fittings. The subsidiaries property, plant and equipment is all classified as equipment and vehicles.

A schedule of land and buildings is available for inspection at the registered office of Umgeni Water. The group has an agreement with its major customer to operate and maintain the South Coast Booster pump station with the option for the customer to acquire the pump station at the end of it useful life of 14 years. The pump station has a carrying amount of R87m and is used by the customer to guarantee supply to a portion of its operational areas.

The impairment losses arose from projects relating to rural development infrastructure where the recoverable amount is less than the carrying amount. The recoverable amount is the estimated value in use using the weighted average cost of capital as at 30 June 10.53% (2015: 9.46%). It was not possible to determine fair value less costs to sell as there was no basis for making a reliable estimate of the amount obtainable from the sale of these assets in an arms length transaction between knowledgeable and willing parties. The impairment losses to work-in-progress were calculated as a pro-rata impairment based on the final projected impairment value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

9. PROPERTY, PLANT AND EQUIPMENT (continued)

SUMMARY OF IMPAIRMENTS	ACCUMULATED IMPAIRMENT 30 JUNE 2015 R'000	IMPAIRMENT TRANSFERRED FROM WIP R'000	IMPAIRMENT EXPENSE 30 JUNE 2016 R'000	ACCUMULATED IMPAIRMENT 30 JUNE 2016 R'000
Buildings and infrastructure				
Ngcebo bulk water supply scheme (Phase 1)	38 775	-	-	38 775
Greater Eston	-	29 924	(29 193)	731
Maphumulo bulk water supply scheme	227 386	-	167 779	395 165
Mhlabatshane bulk water supply scheme	90 879	-	17 165	108 045
Richmond pipeline	45 886	-	(43 728)	2 158
Mpambanyoni	14 068	-	1 396	15 465
Hazelmere package plant	14 508	-	-	14 508
Tongaat pipeline	18 664	-	(18 664)	-
Other assets	2 499	-	-	2 499

	PROGRESSIVE IMPAIRMENT 2015 %	PROGRESSIVE IMPAIRMENT 2016 %	ACCUMULATED IMPAIRMENT 30 JUNE 2015 R'000	IMPAIRMENT TRANSFERRED TO BUILDINGS AND INFRASTRUCTURE R'000	IMPAIRMENT EXPENSE 30 JUNE 2016 R'000	ACCUMULATED IMPAIRMENT 30 JUNE 2016 R'000
Work in progress						
Greater Eston*	15%	n/a	29 924	(29 924)	-	-
Greater Mphofana (Phase 1)	74%	61%	20 282	-	79 040	99 322
uMshwathi Bulk water supply (Phase 1)	12%	0%	34 338	-	(34 338)	-
Mpambanyoni*	100%	n/a	6 576	-	(6 576)	-

* Assets have been capitalised

9.1. CAPITAL WORK IN PROGRESS

Major projects:	System	Category	GROUP - 2016 COST R'000	ACCUMULATED GRANT FUNDING R'000	ACCUMULATED IMPAIRMENT LOSSES R'000	TOTAL R'000
251 RW p/l: Midmar RW P/S	Upper Umgeni	Augmentation	89 594	-	-	89 594
Midmar WW: Upgrade Ph 2 (250 to 375Ml/d)	Upper Umgeni	Augmentation	77 450	-	-	77 450
Lower Thukela bulk water supply scheme	Lower Thukela	Development	1 464 093	(539 280)	-	924 813
Greater Mpofana Regional scheme	Mooi	Development	162 823	-	(99 322)	63 501
uMshwathi bulk water supply scheme (Wartburg Phase 1 - 3)	Upper Umgeni	Development	633 568	-	-	633 568
51 Pipeline Rehabilitation	Upper Umgeni	Rehabilitation	44 887	-	-	44 887
Darvill wastewater works	Upper Umgeni	Upgrade	708 129	-	-	708 129
Durban Heights water works	Lower Umgeni	Upgrade	93 523	-	-	93 523
Durban Heights chlorine upgrade	Lower Umgeni	Upgrade	177 038	-	-	177 038

These projects comprise of 96% of capital work in progress cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

9. PROPERTY, PLANT AND EQUIPMENT (continued)

9.1. CAPITAL WORK IN PROGRESS (continued)

			GROUP - 2015			
			COST	ACCUMULATED GRANT FUNDING	ACCUMULATED IMPAIRMENT LOSSES	TOTAL
Major projects:	**System**	**Category**	**R'000**	**R'000**	**R'000**	**R'000**
Hazelmere water works: Upgrade (45 to 75Ml/day)	North Coast	Augmentation	131 478	-	-	131 478
Maphephethwa water works: upgrade plant (5.0 Ml/d) (incl reservoir)	Lower Umgeni	Augmentation	67 748	-	-	67 748
Lower Thukela bulk water supply scheme	North Coast	Development	920 313	(294 420)	-	625 893
Greater Eston	Upper Umgeni	Development	199 496	(138 405)	(29 925)	31 166
uMshwathi bulk water supply scheme (Wartburg Phase 1 - 3)	Upper Umgeni	Development	286 150	-	(34 338)	251 812
Darvill wastewater works	Upper Umgeni	Upgrade	350 634	-	-	350 634
51 Pipeline Rehabilitation	Upper Umgeni	Rehabilitation	40 484	-	-	40 484

These major projects comprise of 82% of capital work in progress cost.

9.2. PROPERTY, PLANT AND EQUIPMENT CAPITALISED

			GROUP - 2016			
			COST	ACCUMULATED GRANT FUNDING	ACCUMULATED IMPAIRMENT LOSSES	CARRYING VALUE
Summary of major projects capitalised by system, including interest are as follows:	**System**	**Category**	**R'000**	**R'000**	**R'000**	**R'000**
Maphephethwa water works: upgrade plant (5.0 Ml/d) (incl reservoir)	Lower Umgeni	Augmentation	77 130	-	-	77 130
Hazelmere water works	Upper Umgeni	Augmentation	178 139	-	-	178 139
Greater Eston	Upper Umgeni	Development	199 893	(138 405)	(29 924)	31 563
Durban Heights water works	Upper Umgeni	Upgrade	65 986	-	-	65 986

These major projects comprise of 79% of the costs capitalised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

9. PROPERTY, PLANT AND EQUIPMENT (continued)

9.2. PROPERTY, PLANT AND EQUIPMENT CAPITALISED (continued)

Summary of major projects capitalised by system, including interest are as follows:	System	Category	GROUP - 2015 COST R'000	ACCUMULATED GRANT FUNDING R'000	ACCUMULATED IMPAIRMENT LOSSES R'000	CARRYING VALUE R'000
Ellingham link pipeline	South Coast	Augmentation	26 341	-	-	26 341
Howick reservoir upgrade	Upper Umgeni	Augmentation	21 218	-	-	21 218
61 p/l: extension (Richmond offtake to Umlaas Road)	Upper Umgeni	Augmentation	181 808	-	-	181 808
Mhlabatshane sub-regional scheme	South Coast	Development	213 818	(108 955)	(90 879)	13 984
Maphumulo bulk water supply scheme PH 1	Upper Mvoti	Development	491	-	34 351	34 841
Maphumulo bulk water supply scheme PH 2	Upper Mvoti	Development	208 890	-	(119 742)	89 148
Nagle Aqueduct 2 - joint refurbishment	Lower Umgeni	Rehabilitation	127 905	-	-	127 905
Richmond pipeline - 30km	Upper Umgeni	Development	242 754	(38 193)	(45 856)	158 675

These major projects comprise of 84% of the costs capitalised.

	GROUP 2016 R'000	GROUP 2015 R'000	PARENT 2016 R'000	PARENT 2015 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	1 764 031	1 367 065	1 754 781	1 367 065
authorised but not contracted for	966 240	1 807 386	964 690	1 807 386
Total capital commitments	**2 730 271**	**3 174 451**	**2 719 471**	**3 174 451**
Estimated capital expenditure to be incurred as follows:				
Within one year	353 106	923 064	342 306	923 064
Two to five years	735 531	1 716 627	735 531	1 716 627
More than five years	1 641 634	534 760	1 641 634	534 760
	2 730 271	**3 174 451**	**2 719 471**	**3 174 451**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

10. INTANGIBLE ASSETS

	INTANGIBLE ASSET R'000	WORK IN PROGRESS R'000	TOTAL PARENT R'000	SUBSIDIARY R'000	GROUP R'000
As at 30 June 2016					
SOFTWARE					
Carrying amount 1 July	15 642	28 548	44 190	327	44 517
Cost	43 537	28 548	72 086	338	72 424
Accumulated amortisation	(27 896)	-	(27 896)	(11)	(27 906)
Additions	470	55 177	55 647	60	55 707
Amortisation	(4 036)	-	(4 036)	(186)	(4 222)
Total intangible assets	**12 076**	**83 725**	**95 801**	**201**	**96 002**
Cost	44 007	83 725	127 733	399	128 131
Accumulated amortisation	(31 931)	-	(31 931)	(197)	(32 128)
Total intagible assets	**12 076**	**83 725**	**95 801**	**201**	**96 002**
As at 30 June 2015					
SOFTWARE					
Carrying Amount 1 July	18 104	-	18 104	-	18 104
Cost	42 537	-	42 537	-	42 537
Accumulated amortisation	(24 433)	-	(24 433)	-	(24 433)
Additions	1 958	28 548	30 506	338	30 844
Disposals	(96)	-	(96)	-	(96)
Cost	(957)	-	(957)	-	(957)
Accumulated amortisation	861	-	861	-	861
Amortisation	(4 324)	-	(4 324)	(11)	(4 335)
Total intangible assets	**15 642**	**28 548**	**44 190**	**327**	**44 517**
Cost	43 537	28 548	72 086	338	72 424
Accumulated amortisation	(27 896)	-	(27 896)	(11)	(27 907)
Total intangible assets	**15 642**	**28 548**	**44 190**	**327**	**44 517**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

11. BIOLOGICAL ASSETS

	GROUP		PARENT	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
11.1. GAME	**4 911**	**4 733**	**-**	**-**
Opening carrying amount	4 733	4 242	-	-
Additions	510	-	-	-
Disposals	(1 023)	(177)	-	-
Fair value adjustment	691	668	-	-
Total biological assets	**4 911**	**4 733**	**-**	**-**

The carrying amount was based on an estimated 539 (2015: 474) game, the most significant categories being Buffalo, White Rhino and Zebra. The fair values of game are based on market related prices and is therefore classified as level 2 fair values in terms of IFRS 13. These assets are not restricted nor are they pledged as security.

12. SUBSIDIARIES AND ASSOCIATES

	GROUP 2016 R'000	GROUP 2015 R'000	PARENT 2016 R'000	PARENT 2015 R'000
12.1. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES	**6 005**	**6 005**	**6 424**	**5 509**
Cost	2 590	2 590	30 000	30 000
Accumulated impairment	-	-	(23 576)	(24 491)
Share of post-acquisition reserves	3 415	3 415	-	-
12.2. LOANS TO SUBSIDIARIES AND ASSOCIATES	**-**	**-**	**14 826**	**3 271**
Msinsi Holdings SOC Ltd	-	-	14 771	1 588
Umgeni Water Services SOC Ltd	-	-	55	1 683
Total subsidiaries and associates	**6 005**	**6 005**	**21 250**	**8 780**

The loan with Umgeni Water Services has no set date for repayment and bears no interest. The loan with Msinsi Holdings SOC Limited is unsecured and bears interest at 7.39% per annum. The loan is expected to be paid by 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

12. SUBSIDIARIES AND ASSOCIATES (continued)

INVESTMENTS IN SUBSIDIARIES			PROPORTION OF OWNERSHIP INTEREST		PROPORTION OF VOTING POWER HELD	
SUBSIDIARY	PRINCIPAL ACTIVITY	PLACE OF INCORPORATION	2016	2015	2016	2015
			%	%	%	%
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.

During the year Umgeni Water reversed the impairment in its investment in Msinsi SOC Limited by R0.9m as it expected to be in a net asset position in the next 5 years. The recoverable amount was based on value-in-use calculations using the projected operating cash flows of Msinsi and the weighted average cost of capital as at 30 June 2016 of 10.53%.

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

INVESTMENTS IN ASSOCIATE OF UMGENI WATER SERVICES SOC LTD			PROPORTION OF OWNERSHIP INTEREST		PROPORTION OF VOTING POWER HELD	
ASSOCIATE	PRINCIPAL ACTIVITY	PLACE OF INCORPORATION	2016	2015	2016	2015
			%	%	%	%
Durban Water Recycling (Pty) Ltd	Water recycling	RSA	18.5	18.5	18.5	18.5

Umgeni Water Services SOC Limited has significant influence over Durban Water Recycling (Pty) Limited through the exercise of voting rights due to representation on the Board of Directors and is thus accounted for as an associate. Durban Water Recycling (Pty) Limited's financial year end is 31 December. There have been no material transactions or events since then to the reporting date of the group except for total dividends of R23.9m declared by the board of Durban Water Recycling on 20 May 2016.

	CARRYING AMOUNT		DIRECTORS' VALUATION	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
Investments in associate of Umgeni Water Services (Pty) Ltd				
Durban Water Recycling (Pty) Ltd	6 005	6 005	6 005	6 005
Investments held by Msinsi Holdings (Pty) Ltd				
Powaprops 31 (Pty) Ltd	-	-	-	-
Net Investment	**6 005**	**6 005**	**6 005**	**6 005**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

12. SUBSIDIARIES AND ASSOCIATES (continued)

	2016 R'000	2015 R'000
Summarised financial information of associates:		
Total non-current assets of associates	29 955	34 750
Total non-current liabilities of associates	13 792	15 833
Total current assets of associates	52 427	52 370
Total current liabilities of associates	12 201	13 954
Total capital and reserves	56 389	57 334
Total revenue of associates	74 070	71 402
Share of profit for the year of associates	4 427	4 602

13. INVESTMENTS

	GROUP		PARENT	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
13.1. LONG TERM INVESTMENTS	295 142	77 097	295 142	77 097
Held-to-maturity	150 142	77 097	150 142	77 097
Loans and receivables	145 000	-	145 000	-

Held to maturity investments represents the sinking fund redemption asset that matures in March 2021 for the UG21. Refer to note 30 financial risk management and financial instruments for maturity profile and fair value of the long term investments.

Loans receivables represents money market funded investments.

	GROUP 2016 R'000	GROUP 2015 R'000	PARENT 2016 R'000	PARENT 2015 R'000
13.2. SHORT TERM INVESTMENTS	1 619 900	1 569 583	1 619 900	1 569 583
Loans and receivables	1 619 900	1 569 583	1 619 900	1 569 583

Loans and receivables represent money market funded investments.

Refer to note 30 financial risk management and financial instruments for interest rates and maturity profile of investments. The carrying amount of investments approximates its fair value.

	GROUP 2016 R'000	GROUP 2015 R'000	PARENT 2016 R'000	PARENT 2015 R'000
Total investments	**1 915 042**	**1 646 680**	**1 915 042**	**1 646 680**

13.1.1 ANALYSIS OF HELD-TO-MATURITY FINANCIAL ASSETS

	GROUP 2016 R'000	GROUP 2015 R'000	PARENT 2016 R'000	PARENT 2015 R'000
Opening Balance	77 097	83 561	77 097	83 561
Receipt of capital and interest	73 045	66 536	73 045	66 536
Reallocation to short term investments	-	(73 000)	-	(73 000)
Closing Balance	**150 142**	**77 097**	**150 142**	**77 097**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

14. OTHER FINANCIAL ASSETS

	GROUP		PARENT	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
Opening balance	8 908	11 258	8 908	11 258
Amortisation	(2 694)	(3 239)	(2 694)	(3 239)
Interest income	702	889	702	889
The financial asset is in respect of an agreement 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	**6 916**	**8 908**	**6 916**	**8 908**

15. INVENTORIES

	GROUP 2016 R'000	GROUP 2015 R'000	PARENT 2016 R'000	PARENT 2015 R'000
15.1. STORES	**13 618**	**10 266**	**13 618**	**10 266**
Pipe inventories	627	584	627	584
Maintenance spares	1 284	1 465	1 284	1 465
Chemicals	6 060	4 575	6 060	4 575
Miscellaneous	5 647	3 642	5 647	3 642
15.2. WATER INVENTORY				
Water inventory consists of closing inventory of raw and treated water.	1 103	1 802	1 103	1 802
Total inventories	**14 721**	**12 068**	**14 721**	**12 068**

16. TRADE AND OTHER RECEIVABLES

	GROUP 2016 R'000	GROUP 2015 R'000	PARENT 2016 R'000	PARENT 2015 R'000
Trade receivables	334 271	278 020	334 271	278 020
Less: provision for doubtful debts	(31 678)	(22 964)	(31 678)	(22 964)
Opening Balance	(22 964)	(16 602)	(22 964)	(16 602)
Written off during the year	34	39	34	39
Provided for during the year	(8 748)	(6 401)	(8 748)	(6 401)
Sub-total trade receivables	**302 593**	**255 056**	**302 593**	**255 056**
Sundry debtors	96 199	89 992	89 788	84 986
Less: provision for doubtful debts	(16)	-	-	-
Sub-total sundry debtors	**96 183**	**89 992**	**89 788**	**84 986**
Total trade and other receivables	**398 776**	**345 048**	**392 381**	**340 042**

Trade debtors comprise of bulk water and wastewater sales to municipalities of which eThekwini Municipality and Msunduzi Municipality comprise a significant proportion - 84% (2015: 89.8%)

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 (2015: 41 days).

Sundry debtors include prepayments of R23m (2015: R57m), relating primarily to capital expenditure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

16. TRADE AND OTHER RECEIVABLES (continued)

	AMOUNT DUE R'000	PROVISION R'000	TOTAL 2016 R'000	TOTAL 2015 R'000
Customer				
eThekwini Metropolitan Municipality	151 676	-	151 676	157 059
Ilembe District Municipality	26 269	(13 497)	12 772	21 261
Msunduzi Local Municipality	35 722	-	35 722	39 915
Ugu District Municipality	6 146	-	6 146	5 303
uMgungundlovu District Municipality	9 929	-	9 929	7 600
Harry Gwala District Municipality	1 366	-	1 366	1 570
Sembcorp Siza Water	9 385	(4 136)	5 249	3 983
Other bulk customers	243	(58)	185	118
Trade receivables - primary activities	240 736	(17 691)	223 045	236 809
Trade receivables - secondary activities	93 535	(13 987)	79 548	18 247
Total trade receivables	**334 271**	**(31 678)**	**302 593**	**255 056**

Trade and other receivables are classified as loans and receivables and the carrying amount approximates fair value. A further analysis of financial risk relating to trade receivables is included in note 30.

17. INTEREST RECEIVABLE

	GROUP		PARENT	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Interest and premiums have been accrued for where investments have earned interest, but have not been received at year end.	28 366	33 751	28 366	33 751
Interest and premium receivable relating to investments are classified as loans and receivables, the carrying amount approximates fair value.				
Total interest receivable	**28 366**	**33 751**	**28 366**	**33 751**

18.1. BANK AND CASH

	GROUP 2016 R'000	GROUP 2015 R'000	PARENT 2016 R'000	PARENT 2015 R'000
Cash and cash equivalents consist of:				
Bank and cash on hand	43 885	37 933	19 838	1 462
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	**43 885**	**37 933**	**19 838**	**1 462**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

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

	GROUP		PARENT	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
Profit for the year	781 190	826 989	789 508	800 929
Interest income	(133 454)	(137 858)	(132 421)	(135 958)
Finance costs	1 185	2 704	1 161	2 672
Adjusted for non-cash items:				
Fair value adjustment of biological assets	(691)	(668)	-	-
Loss on disposal of biological assets	425	33	-	-
Impairment of investment in subsidiary	-	-	(915)	24 491
Asset impairments	132 881	90 058	132 881	90 058
Amortisation - financial assets	2 694	3 239	2 694	3 239
Amortisation - amount owing to customer	(3 572)	(3 572)	(3 572)	(3 572)
Amortisation - intangible asset	4 222	4 335	4 036	4 324
Depreciation	163 997	138 749	161 916	137 411
Loss on disposal of property, plant and equipment	4 749	1 487	4 749	1 487
Increase in provisions and non-current liabilities	76 699	92 686	74 961	92 380
Increase in doubtful debts provision	3 805	408	3 805	408
Share of profit from associate	(4 427)	(4 602)	-	-
Operating surplus before working capital changes	**1 029 703**	**1 013 988**	**1 038 803**	**1 017 869**
Working capital changes	**110 906**	**114 727**	**113 527**	**104 433**
(Increase) decrease in accounts receivable	(53 109)	111 555	(56 145)	107 595
Increase (decrease) in accounts payable	166 669	3 784	172 325	(2 550)
(Increase) decrease in inventory	(2 653)	(612)	(2 653)	(612)
Net cash from operating activities	**1 140 609**	**1 128 715**	**1 152 330**	**1 122 302**

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	1 950 770	1 093 331	1 949 712	1 093 331
Short-term	78 618	78 433	78 618	78 433
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	**2 029 388**	**1 171 764**	**2 028 330**	**1 171 764**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

20. DEBT (continued)

20.1. ANALYSIS OF DEBT HELD AT AMORTISED COST

	Terms of repayment	Weighted average interest rate as at 30 June 2016	GROUP 2016 R'000	GROUP 2015 R'000	PARENT 2016 R'000	PARENT 2015 R'000
Bank loans			170 911	224 506	170 911	224 506
Fixed rate	Semi annual	5.00%	20 911	24 506	20 911	24 506
Variable	Semi annual	9.60%	150 000	200 000	150 000	200 000
Bonds			1 535 000	600 000	1 535 000	600 000
UG21 - Fixed rate	Semi annual	10.70%	600 000	600 000	600 000	600 000
UG26 - Fixed rate	Semi annual	11.31%	935 000	-	935 000	-
Foreign loans			322 419	347 258	322 419	347 258
Fixed rate	Semi annual	9.08%	161 129	173 064	161 129	173 064
Variable	Semi annual	8.44%	161 290	174 194	161 290	174 194
Other			1 058	-	-	-
Total debt			**2 029 388**	**1 171 764**	**2 028 330**	**1 171 764**

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

	GROUP 2016 R'000	GROUP 2015 R'000	PARENT 2016 R'000	PARENT 2015 R'000
Reconciliation of movement in debt for the year:				
Balance at the beginning of the year	1 171 764	1 250 029	1 171 764	1 250 029
Loans repaid	(78 434)	(78 265)	(78 434)	(78 265)
Loans raised	936 058	-	935 000	-
Balance at the end of the year	**2 029 388**	**1 171 764**	**2 028 330**	**1 171 764**

21. OTHER NON-CURRENT LIABILITIES

	GROUP 2016 R'000	GROUP 2015 R'000	PARENT 2016 R'000	PARENT 2015 R'000
Amounts received in advance	3 152	5 935	3 152	5 935
Total other non-current liabilities	**3 152**	**5 935**	**3 152**	**5 935**

Amounts received in advance in terms of a settlement agreement, held at amortised cost which approximates fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

22. PROVISIONS

	LEAVE PAY	LEGAL CLAIMS	BONUS	SUB-TOTAL CURRENT PROVISIONS	NON-CURRENT INCENTIVE BONUS PROVISION	TOTAL 2016	TOTAL 2015
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Group							
Opening balance	25 081	5 547	64 099	94 727	-	94 727	50 445
Provided during the year	9 220	7 001	50 845	67 066	25 046	92 112	72 644
Utilised during the year	(4 754)	(4 160)	(64 099)	(73 013)	-	(73 013)	(28 362)
Closing balance	**29 547**	**8 388**	**50 845**	**88 780**	**25 046**	**113 826**	**94 727**
Parent							
Opening balance	23 382	5 547	64 099	93 028	-	93 028	49 053
Provided during the year	8 414	7 001	49 343	64 758	25 046	89 804	71 730
Utilised during the year	(4 162)	(4 160)	(64 099)	(72 421)	-	(72 421)	(27 755)
Closing balance	**27 634**	**8 388**	**49 343**	**85 365**	**25 046**	**110 411**	**93 028**

The leave pay provision is based on the number of days leave due to employees at financial year end and their cost to company per day.

Legal claims provisions are raised to the extent that it is probable Umgeni Water will be required to honour obligations. Legal claims consist of employment and supply matters, finalisation of which is expected within the next financial year.

The provision for bonus is raised to recognise the performance of employees, which is payable to employees at the Board's discretion in line with the Performance Management Scheme.

The non-current incentive bonus provision is raised in terms of Umgeni water's performance policy and is based on a five year performance period. Refer to the remuneration report on page (140) for further detail.

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

23. ACCOUNTS PAYABLE

	GROUP		PARENT	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
Trade accounts payable	422 437	302 674	421 031	299 175
Accruals	123 315	111 449	122 049	111 052
Amounts due to related parties:				
Water purchases accrual - DWS	13 876	16 913	13 876	16 913
Sundry creditors	20 731	19 129	28 938	23 452
Section 30 customer advances	167 503	127 208	167 503	127 208
Current portion of non current liabilties	2 782	2 456	2 782	2 456
SARS	25 826	26 641	25 826	26 641
Total accounts payable	**776 470**	**606 470**	**782 005**	**606 897**

Trade accounts payable and accruals comprise amounts outstanding for trade purchases. Section 30 advances comprise amounts received from customers in advance in terms of the contractual agreements and primarily relate to implementing agent agreements.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

24. OPERATING LEASE ARRANGEMENTS

	GROUP		PARENT	
	2016	2015	2016	2015
	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 R3.7m (2015: R2.3m) was earned. Rentals are received from staff and telecommunications companies.				
At the reporting date, the group had contracted with tenants for the following future minimum lease payments.	1 082	1 475	1 082	1 475
0 - 1 year	422	1 162	422	1 162
1 - 5 years	660	313	660	313
> 5 years	-	-	-	-
Total operating lease arrangements	**1 082**	**1 475**	**1 082**	**1 475**

25. CONTINGENT LIABILITIES

	GROUP		PARENT	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
Guarantees				
Guarantees have been given by certain financial institutions in respect of payments to utility service providers.	1 925	822	1 925	822
Total contingent liabilities	**1 925**	**822**	**1 925**	**822**

26. POST-RETIREMENT BENEFIT OBLIGATIONS

	GROUP AND PARENT	
	2016	2015
	R'000	R'000
All the Umgeni Water retirement benefit plans are governed by the Pension Funds Act (No. 24 of 1956) of South Africa. All full-time employees are compelled to belong to either the defined benefit or the defined contribution plan.		
Summary of net liabilities for post-retirement benefit obligations:		
Defined benefit plan (refer note 26.2.)	202 757	160 590
Post-retirement healthcare benefits (refer note 26.3.)	389 527	341 150
Total post-retirement benefit obligations	**592 284**	**501 740**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

26. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)

26.1 DEFINED BENEFIT CONTRIBUTION

	GROUP		PARENT	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
The total cost charged to income represents the group's portion of the contribution payable to this scheme. At reporting date all amounts due and payable to this scheme had been paid.	34 211	37 052	32 190	35 232

	GROUP AND PARENT		
	2016	2015	2014
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 2016. 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	9.60%	9.40%	9.40%
Expected rate of salary increases	8.20%	8.00%	7.90%
Future pension increase	4.80%	4.67%	4.60%
	R'000	R'000	R'000
Amounts recognised in profit/loss in respect of the defined benefit plan are as follows:			
Current service cost	36 939	35 152	36 071
Interest on obligation	86 304	76 207	65 603
Expected return on plan assets	(69 163)	(61 947)	(46 399)
Total included in staff costs in statement of profit and loss	**54 080**	**49 412**	**55 275**
Amounts recognised in other comprehensive income in respect of the defined benefit plan are as follows:			
Net actuarial loss (gain)	20 277	12 406	(108 879)
Total included in statement of other comprehensive income	**20 277**	**12 406**	**(108 879)**
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	961 604	897 740	793 345
Fair value of plan assets	(758 847)	(737 150)	(659 341)
Net liability in statement of financial position	**202 757**	**160 590**	**134 004**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

26. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)

26.2 DEFINED BENEFIT PLAN (continued)

	GROUP AND PARENT		
	2016	2015	2014
	R'000	R'000	R'000
Movement in the net liability recognised in the statement of financial position is as follows:			
Net liability at start of year	160 590	134 004	208 000
Net expense recognised in the statement of profit and loss	54 080	49 412	55 275
Net expense (income) recognised in the statement of other comprehensive income	20 277	12 406	(108 879)
Company contributions	(32 190)	(35 232)	(20 392)
Net liability at end of year	**202 757**	**160 590**	**134 004**
Movements in the defined benefit obligation for the year:			
Defined benefit obligation at beginning of year	897 740	793 345	776 267
Current service cost	36 939	35 152	36 071
Member contributions	7 974	7 740	7 604
Interest cost	86 304	76 207	65 603
Actuarial (gain) loss	(24 450)	28 926	(59 352)
Benefits paid	(36 749)	(36 202)	(25 893)
Risk premiums	(4 970)	(6 151)	(5 828)
Expenses	(1 184)	(1 277)	(1 127)
Defined benefit obligation at end of year	**961 604**	**897 740**	**793 345**
Movements in the present value of plan assets in the current period were as follows:			
Fair value of plan assets at beginning of year	737 150	659 341	568 267
Interest on plan assets	69 163	61 947	46 399
Member contributions	7 974	7 740	7 604
Employer contributions	32 190	35 232	20 392
Actuarial gain	(44 727)	16 520	49 527
Benefits paid	(36 749)	(36 202)	(25 893)
Risk premiums	(4 970)	(6 151)	(5 828)
Expenses	(1 184)	(1 277)	(1 127)
Fair value of plan assets at end of year	**758 847**	**737 150**	**659 341**
Actual Return on Assets	24 436	78 467	95 926
The major categories of plan assets and the expected rate of returns at the end of the reporting period are as follows:			
Cash	12.37%	15.24%	15.10%
Equity	40.49%	38.01%	45.26%
Bonds	18.49%	14.44%	11.96%
Property	4.21%	6.82%	3.44%
International	23.49%	23.97%	23.19%
Other	0.95%	1.52%	1.05%
Total	**100.00%**	**100.00%**	**100.00%**

Percentages reflected in 2016 are based on June 2016 asset composition. The group expects to make a contribution of R23m to the defined benefit plan during the next financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

26. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)

26.2 DEFINED BENEFIT PLAN (continued)

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

SENSITIVITY FACTOR	CENTRAL ASSUMPTION	ACCRUED LIABILITY INCREASE		ACCRUED LIABILITY DECREASE	
		%	R'000	%	R'000
1% change in discount rate	9.60%	(15.10%)	(144 868)	19.10%	183 668
1% change in inflation rates	7.20%	15.90%	152 765	(13.20%)	(126 618)
1% change in salary increase rate	8.20%	9.90%	95 608	(8.70%)	(83 658)

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 2016.

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

26.3 POST-RETIREMENT HEALTHCARE BENEFITS

	GROUP AND PARENT 2016	2015	2014
Key assumptions used in the actuarial valuation, were as follows:			
Discount rate	9.80%	9.40%	9.90%
Expected rate of increase in medical indices	9.40%	9.00%	9.50%
	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	8 984	8 941	8 750
Interest on obligation	31 650	30 934	24 763
Past service cost	-	-	4 931
Total included in staff costs in statement of profit and loss	**40 634**	**39 875**	**38 444**
Amounts recognised in other comprehensive income in respect of the post-retirement healthcare costs are as follows:			
Actuarial loss (gain)	16 263	(8 341)	(11 004)
Total included in statement of other comprehensive income	**16 263**	**(8 341)**	**(11 004)**
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	341 150	316 379	294 661
Net expense recognised in the statement of profit and loss	40 634	39 875	38 444
Company contributions	(8 520)	(6 763)	(5 722)
Net expense (income) recognised in the statement of other comprehensive income	16 263	(8 341)	(11 004)
Liability at end of year	**389 527**	**341 150**	**316 379**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

26. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)

26.3 POST-RETIREMENT HEALTHCARE BENEFITS (continued)

	GROUP AND PARENT		
	2016	2015	2014
	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	341 150	316 379	294 661
Current service cost	8 984	8 941	8 750
Interest cost	31 650	30 934	24 763
Actuarial loss (gain)	16 263	(8 341)	(11 004)
Employer contributions	(8 520)	(6 763)	(5 722)
Past service cost	-	-	4 931
Projected benefit obligation at end of year	**389 527**	**341 150**	**316 379**

The group expects to make a contribution of R10.2m 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	9.70%	19.30%	75 325	(15.30%)	(59 427)
1 year change in expected retirement age	60 years	(3.80%)	(14 687)	3.80%	14 637
1% change in discount rate	10.10%	(15.00%)	(58 615)	19.4%	75 586

The information presented above is as per the latest valuation, which was performed on 30 June 2016.

The risks faced by the company as a result of the post-employment retirement benefits obligation are as follows:

- Inflation: the risk that future CPI Inflation is higher than expected and uncontrolled;
- longevity: the risk that pensioners live longer than expected and thus their pension benefit is payable for longer than expected;
- open-ended, long-term liability: the risk that the liability may be volatile in the future and uncertain;
- future changes in legislation: the risk that changes to legislation with respect to the post-employment liability may increase the liability for the company;
- future changes in the tax environment: the risk that changes in the tax legislation governing employee benefits may increase the liability for the company;
- perceived inequality by non eligible employees: the risk of dissatisfaction of employees who are non eligible for a post-employment healthcare subsidy; and
- administration: administration of this liability poses a burden to the company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

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 of subsidiaries of Umgeni Water and associates of the group and post retirement benefit plans for the benefit of the employees. For disclosures regarding the post retirement benefit plan, refer to note 26. Related parties also includes key management personnel of Umgeni Water or its shareholder and close family members of the related parties.

Key management personnel for Umgeni Water include the group's Board of Directors and the Executive Management (EXCO) and their remuneration is disclosed in the remuneration report page 140. There were no other transactions with key management personnel during the current and prior periods.

IAS 24 Related Party disclosures provides government related entities with an exemption which eliminates the requirements to disclose information that is costly to gather and of less value to users. The group applies the exemption in respect of its relationship with government related entities at national and local levels of government.

All related party transactions are carried within normal trade conditions. The following transactions were carried out with related parties.

	GROUP		PARENT	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
Revenue: Sale of goods and services				
Bulk water and wastewater				
Local government (includes municipalities)*	2 109 245	2 082 839	2 109 245	2 082 839
Revenue: Section 30				
Local government (includes municipalities)	57 665	23 043	57 665	23 043
National Department	52 301	77 025	52 301	77 025
Cost of sales				
Raw water purchases				
National Department	164 578	167 230	164 578	167 230
Section 30				
Local government (includes municipalities)	57 320	21 471	57 320	21 471
National Department	49 143	70 123	49 143	70 123
Other operating and administration expenses				
Subsidiaries and associates	-	-	33 132	26 404
Finance Income				
Subsidiaries and associates	-	-	874	103
Work-in-progress: Grant funding for rural development projects				
National Department	280 016	26 517	280 016	26 517

* Included in local government is sales to the group's largest customer of R1 554m (2015: R1 492m)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

27. RELATED PARTIES (continued)

	GROUP		PARENT	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
Loans to entities:				
Subsidiaries and associates	-	-	14 826	3 271
Investments in subsidiaries				
Subsidiaries and associates	6 005	6 005	6 424	5 504
Other payables				
Subsidiaries and associates	-	-	10 120	17 736
Revenue in advance: local government and municipalities	2 782	2 456	2 782	2 456
Raw water purchases accrual	13 876	16 913	13 876	16 913
Right of use agreement				
Local government (includes municipalities)	6 916	8 908	6 916	8 908
Revenue in advance				
Local government (includes municipalities)	3 152	5 935	3 152	5 935

28. IRREGULAR EXPENDITURE

Opening balance 1 July	-	-	-	-
Add: irregular expenditure relating to current year	356	2 356	356	2 356
Less: amounts condoned by appropriate authority	(356)	(1 393)	(356)	(1 393)
Less: amounts awaiting condonement	-	(963)	-	(963)
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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

29. FRUITLESS AND WASTEFUL EXPENDITURE

	GROUP		PARENT	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
Opening balance 1 July	-	-	-	-
Fruitless and wasteful expenditure relating to current year	7	11	-	11
Less: amounts condoned by appropriate authority	(4)	(9)	-	(9)
Less: amounts transferred to receivable	(3)	(2)	-	(2)
Closing balance 30 June	**-**	**-**	**-**	**-**
Analysis of fruitless and wasteful expenditure				
Fines and penalties	-	7	-	7
Interest paid	7	4	-	4
Total fruitless and wasteful expenditure	**7**	**11**	**-**	**11**

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

	GROUP		PARENT	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
30.1.1 CAPITAL MANAGEMENT				
Capital and reserves is consistent with the prior year and consists of:				
Capital	442 847	442 847	442 847	442 847
Accumulated profit	5 645 733	4 864 543	5 607 416	4 817 908
Other comprehensive income	(104 822)	(68 282)	(104 822)	(68 282)
Total	**5 983 758**	**5 239 108**	**5 945 441**	**5 192 473**
Total interest bearing debt	2 029 388	1 171 764	2 028 330	1 171 764

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

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	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
Gross Debt (Refer note 20)	2 029 388	1 171 764	2 028 330	1 171 764
Interest Rate Structure				
Fixed	85%	68%	85%	68%
Floating	15%	32%	15%	32%

	GROUP		PARENT	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
Gearing Ratio	0.34	0.22	0.34	0.23

(b) Asset and liability management

Asset and liability matching focuses on two components:

- The first being the matching of maturity dates of financial assets and liabilities whereby financial assets will be used to repay debt on its maturity. This will typically be applied in a redemption strategy.
- The second component is whereby surplus cash (cash after operating expenditure and interest cost) is matched to debt redemption or specific funding requirements.

Taking the business environment and market conditions into account, the following framework is used in managing the redemption portfolio build-up over the years preceding the redemption of the bond. Prior to redemption, the entity must have provided for at least:

- 10% of the capital value required in the year of redemption;
- 40% provided for 2 years before redemption;
- 75% provided for 1 year before maturity; and
- the balance of 25% is funded during the year of maturity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

30.1.2 DEBT MANAGEMENT (continued)

(c) Managing debt within approved borrowing limits

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

	2019	2018	2017	2016	2015
	R'000	R'000	R'000	R'000	R'000
Borrowing Limit					
Unconditional	2 400 000	2 450 000	2 550 000	2 400 000	2 200 000
Conditional	300 000	300 000	300 000	-	300 000
Total	**2 700 000**	**2 750 000**	**2 850 000**	**2 400 000**	**2 500 000**

	2016	2015
	R'000	R'000
Utilisation of borrowing limits		
Borrowing limit	2 400 000	2 500 000
Gross borrowings (refer to note 20)	(2 028 330)	(1 171 764)
Collateral and guarantees (refer to note 25)	(1 925)	(822)
Unutilised borrowing limits	**369 745**	**1 327 414**

(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 cash flows by anticipating adverse market and business conditions and continuous monitoring of strategies devised to counteract the adverse market conditions. Umgeni Water's national credit ratings are as follows:

			LONG-TERM RATING	SHORT-TERM RATING
Rating Agency	**Issue date**	**Details**		
Standard and Poors	28/01/2016	New rating	zaAAA	zaA-1
FitchRatings	21/01/2015	Affirmed rating	AA+(zaf)	F1+(zaf)

30.2. FINANCIAL RISK MANAGEMENT

Umgeni Water's exposure to risk, its objectives, policies and processes for managing the risk and the methods used to measure it have been consistently applied in the years presented, unless otherwise stated. The Corporate Treasury function provides services to the business, co-ordinates access to domestic financial markets, monitors and manages the financial risks relating to the operations of Umgeni Water through the short, medium and long-term funding strategy, and highlights the risk implications of various financial transactions.

The use of financial derivatives is governed by Umgeni Water's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. Umgeni Water does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The principal financial risks to which Umgeni Water is exposed as a result of its financial instruments are:

- Credit risk (which includes counterparty risk);
- liquidity risk and;
- market risk (interest rate risk)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

30.2. FINANCIAL RISK MANAGEMENT (continued)

30.2.1 CREDIT RISK

Credit risk is the risk of financial loss to the group if a customer or other counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the group's receivables and investment securities. Credit risk concentration will result in Umgeni Water being exposed to counter party failure. This has the potential to impact on the organisation's ability to remain within its optimal debt level.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is as follows:

	GROUP		PARENT	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
A) Investments	1 915 042	1 646 680	1 915 042	1 646 680
B) Trade and other receivables (excluding provision for bad debts)	430 470	368 011	424 059	363 006
C) Cash and cash equivalents (excluding petty cash)	43 833	37 882	19 812	1 436

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 following table 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 2016

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

30.2. FINANCIAL RISK MANAGEMENT (continued)

30.2.1 CREDIT RISK (continued)

		GROUP AND PARENT		
COUNTERPARTY	**FITCH RATING**	**CREDIT LIMIT**	**2016**	**2015**
		R'000	**R'000**	**R'000**
Held-to-maturity		-	150 142	77 097
Nedbank Limited	AA/F1+	1 000 000	150 142	77 097
Loans and receivables		-	1 764 900	1 569 583
ABSA Bank Limited	AA/F1+	1 000 000	341 965	406 500
First Rand Bank Limited	AA/F1+	1 000 000	678 000	245 500
Standard Bank of South Africa Limited	AA/F1+	1 000 000	-	100 500
Nedbank Limited	AA/F1+	1 000 000	403 411	723 686
Investec Limited	AA-/F1+	300 000	95 128	50 000
Nedgroup Money Market Fund Limited	AA+/V1	100 000	100 000	-
Investec Money Market Fund Limited	AA+/V1	100 000	100 000	-
Corporation for Public Deposits	Government Guarantee	3 000 000	46 396	43 397
Total			**1 915 042**	**1 646 680**

b) Trade and other receivables

The management of credit risk in relation to trade and other receivables is summarised as follows:

- Umgeni Water aims to minimise loss caused by default of customers through specific policies and procedures; and
- compliance with these policies and procedures are the responsibility of the Chief Financial Officer and Financial Manager. Monitoring of compliance with these policies is carried out by internal audit. All known risks are required to be fully disclosed and accounted for and are provided for as doubtful debts.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are bulk or commercial customers, their aging profile and existence of previous financial difficulties.

The average credit period allowed is 30 days from invoice date. Interest is charged at prime rate on debtors over 30 days from date of invoice. Trade receivables over 30 days are provided for based on estimated irrecoverable amounts from the sale, determined by reference to past default experience.

Monitoring exposure

Umgeni Water monitors exposures on an on-going basis utilising various reporting tools and flagging potential risks which are reported to National Treasury in terms of Section 41 of the Municipal Finance Management Act. The following reports are used to monitor credit risk:

- Age analysis reports; and
- status report for significant overdue debtors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

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)

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	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
Gross Amounts (excluding provision for bad debts)				
Bulk	323 145	238 590	323 145	238 590
Wastewater	11 126	6 828	11 126	6 828
Other activities	96 199	122 594	89 788	117 589
Total amounts (excluding provision for bad debts)	**430 470**	**368 012**	**424 059**	**363 006**

The group's most significant customer accounts for R152m of the trade and receivables carrying amount at 30 June 2016. (2015:R157m)

Impairment Losses

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

	GROUP AND PARENT	
	2016	2015
	R'000	R'000
There were no financial assets past due or impaired and whose terms have been renegotiated.	-	-
Analysis of the ageing of financial assets (trade receivables) which are past due but have not been impaired:	31 678	20 732
30 days	875	12 930
60 days	419	5 927
90 days	862	1 175
120+ days	29 522	701

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

30.2. FINANCIAL RISK MANAGEMENT (continued)

30.2.1 CREDIT RISK (continued)

Cash and Cash Equivalents

The group held cash and cash equivalents of R38m at 30 June 2016 (2015: R38m) of the following which represents the maximum credit exposure on these assets.

		GROUP		PARENT	
COUNTERPARTY	RATING	2016	2015	2016	2015
		R'000	R'000	R'000	R'000
Cash		43 833	37 882	19 812	1 436
First Rand Bank Limited	AA/F1+	24 021	36 446	-	-
ABSA Bank Limited	AA/F1+	19 812	1 436	19 812	1 436
Total		43 833	37 882	19 812	1 436

The remaining balance of 51 (2015: 51) for the Group and 26 (2015: 25) for the parent represents petty cash in Rands per thousand for which there is no credit risk attached.

Guarantees

At 30 June 2016 the group had R1.9m (2015:R0.8m) of guarantees outstanding and this represents the maximum exposure to the Group.

Collateral

At 30 June 2016 the group has no collateral held as security.

30.2.2 LIQUIDITY RISK

Liquidity risk is the risk that the group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

Mitigation approach

To mitigate liquidity risk, Umgeni Water:

- Monitors the level of expected cash inflows on trade and other receivables together with the expected cash outflows on trade and other payables;
- has short-term funding facilities to meet on-going cash requirements for which facility options are in place with four banks (FNB, Standard, ABSA, Nedbank);
- has 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 a delay in payments by its customers;
- has a redemption strategy framework, which provides guidelines for managing the risks associated with refinancing large debt maturities; and
- has borrowing limits approved by National Treasury.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

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

The following table details the group's expected maturity for its financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Umgeni Water anticipates that the cash flow will occur in a different period.

	GROUP						
	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	< 1 MONTH	1-3 MONTHS	3 MONTHS-1 YEAR	1-5 YEARS	>5 YEARS	TOTAL
		R'000	R'000	R'000	R'000	R'000	R'000
Financial Assets							
2016							
Fixed interest rate instruments*	9.21%	(5 241)	(10 483)	(47 172)	369 379	-	306 483
Variable interest rate instruments	7.91%	623 487	470 151	364 872	422 888	-	1 881 398
Trade and other Receivables	n/a	-	363 209	35 567	-	-	398 776
Total		**618 246**	**822 877**	**353 267**	**792 267**	**-**	**2 586 657**
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		-	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.

The group and parent figures remain the same with the exception of parent trade and other receivables maturity of 1-3 months of R368 465 (2015: R299 672) in Rands per thousand.

30.2.2.1 Liquidity risk inherent in contractual cash flows

The following tables summarises Umgeni Water's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Umgeni Water can be required to pay. The table includes both interest and principal cash flows which may differ from the carrying values of the liabilities at the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

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
Financial Liabilities							
2016							
Fixed interest rate instruments	10.81%	-	88 062	112 962	1 393 735	1 606 951	3 201 710
Variable interest rate instruments	9.00%	-	32 220	56 788	206 976	133 844	429 828
Trade and other payables	n/a	-	239 769	536 702	-	-	776 471
Total		**-**	**360 051**	**706 452**	**1 600 711**	**1 740 795**	**4 408 009**
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**	**975 131**	**2 125 810**

The group and parent figures remain the same with the exception of parent trade and other payables maturity of 3 months - 1 year of R541 228 (2015:R297 394) in Rands per thousand.

30.2.2.2 Primary source of funding and unused facilities

The primary source of funding to meet Umgeni Water's requirements are revenue, cash inflows from maturing financial assets purchased, debt issued in the market and other loans. The following sources of funding are available to Umgeni Water to meet its short, medium and long-term funding requirements and will supplement the primary liquidity sources under stress conditions:

(a) Domestic Medium Term Note Programme (DMTN)

Umgeni Water has established a Domestic Medium Term Note Programme to issue bonds to meet long term capital expenditure funding requirements.

The programme has an authorised amount of R4 000m and is a useful funding tool in terms of the following:

- Refinancing the duration of the stock of debt;
- refinancing the fixed to floating ratio of the debt book;
- meeting short-term liquidity requirements; and
- filling gaps in the debt maturity profile.

The UG21 was issued at a total nominal value of R600m on 02 March 2010 at a fixed rate of 10.70% and the UG21 was issued at a total nominal value of R935m at a fixed rate of 11.31% on 09 March 2016, both under the DMTN Programme. The unutilised portion of the programme as at the 30 June 2016 is R2 465m.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

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)

(b) General banking facilities

Umgeni Water has the following committed and uncommitted bank facilities available:

	GROUP AND PARENT	
	COMMITTED R'000	UNCOMMITTED R'000
Type of facility		
Working capital facility	70 020	49 980
General Banking facility	50 000	-

(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 cash flow interest rate risk.

Mitigation approach

The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings: 70% fixed to 30% floating interest rate profile.

	GROUP AND PARENT		
	RECOMMENDED RATIO	2016 R'000	2015 R'000
Ratio of fixed to floating interest rate			
Fixed	70%	85%	68%
Floating	30%	15%	32%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

30.2. FINANCIAL RISK MANAGEMENT (continued)

30.2.3 INTEREST RATE RISK (continued)

At reporting date the interest rate profile of the group's interest bearing financial instruments is as follows:

	GROUP AND PARENT	
	2016	2015
	R'000	R'000
Fixed rate instruments		
Financial assets	150 142	77 097
Financial liabilities	(1 717 040)	(797 571)
Net position	**(1 566 900)**	**(720 474)**
Variable rate instruments		
Financial assets	1 764 900	1 569 583
Financial liabilities	(311 290)	(374 194)
Net Position	**1 453 610**	**1 195 389**

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 2016 would decrease/increase by R1.9m (2015: R1.1m)

30.4. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

The following tables show the carrying values and the fair value of financial assets and liabilities, including the fair value hierarchy. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of the fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2016

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

30.4. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES (continued)

	GROUP		PARENT	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
CARRYING VALUES				
CATEGORIES OF FINANCIAL INSTRUMENTS				
Financial Assets				
Held-to-maturity	150 142	77 097	150 142	77 097
Loans and receivables	2 235 927	1 995 222	2 205 485	1 953 746
Other investments	1 764 900	1 569 583	1 764 900	1 569 583
Trade and other receivables	398 776	345 048	392 381	340 042
Interest and premium receivable	28 366	33 751	28 366	33 751
Cash and cash equivalents	43 885	37 933	19 838	1 462
Financial Liabilities				
Held at amortised cost	2 809 010	1 811 004	2 813 486	1 811 432
Long and short-term debt	2 029 388	1 171 764	2 028 330	1 171 764
Other non current liabilities	3 152	5 935	3 152	5 935
Accounts payable	776 470	606 472	782 004	606 897
Interest payable	-	26 834	-	26 836

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	
	FAIR VALUE HIERACHY LEVEL	2016	2015	2016	2015
		R'000	R'000	R'000	R'000
FAIR VALUES					
CATEGORIES OF FINANCIAL INSTRUMENTS					
Held to maturity financial assets	Level 2	169 043	82 175	169 043	82 175
Long and short-term debt	Level 2	2 137 368	1 144 761	2 137 368	1 144 761

Financial instruments not measured at fair value

FINANCIAL INSTRUMENT	VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS
Held to maturity financial assets	Discounted cash flow analysis using prices from observable current market transactions for similar instruments.	N/A
Long-term and short term debt	Discounted cash flow analysis using prices from observable current market transactions for similar instruments.	N/A

31. SUBSEQUENT EVENTS

No other material event has occurred between the accounting date and the date of this report.

14.0

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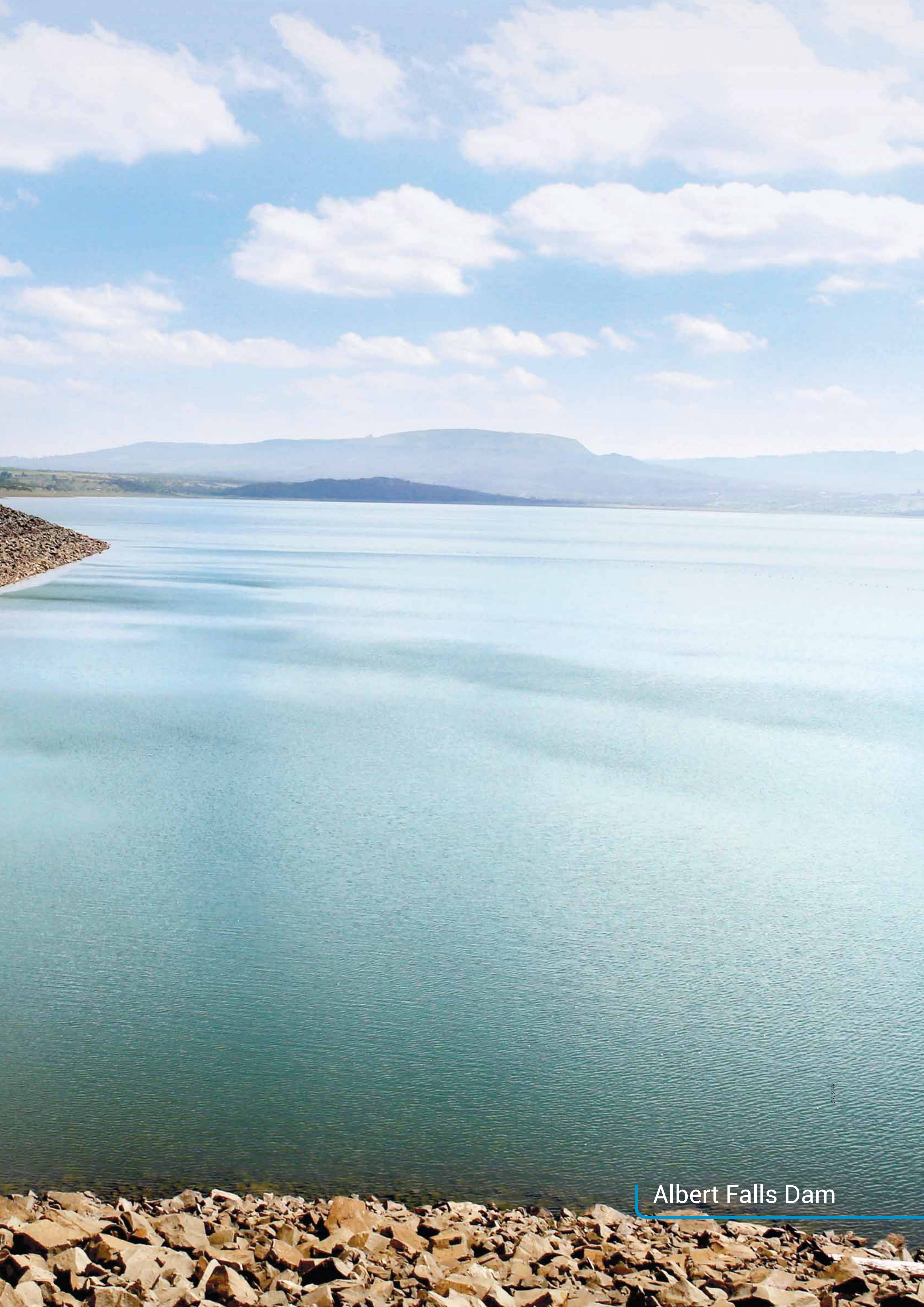
SOCIAL INDICATORS – PRODUCT RESPONSIBILITY

	Product Responsibility, including Customer Health & Safety, Products & Services, Marketing & Communication and Customer Privacy	Pg #
G4-PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvements.	66
G4-PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	66
G4-PR3	Type of product and service information required by the organisation's procedures for product and service information, and percentage of significant products and service categories subject to such information requirements.	66
G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes.	66
G4-PR5	Results of surveys measuring customer satisfaction.	71

Notes

Notes



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