

ORGANISATIONAL PERFORMANCE

FIVE-YEAR FINANCIAL REVIEW

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|--|------------------|------------------|------------------|------------------|------------------|
| | R'000 | R'000 | R'000 | R'000 | R'000 |
| Financial position | | | | | |
| Capital and reserves | 1,022,534 | 635,808 | 390,171 | 327,661 | 288,698 |
| Net debt | 1,137,021 | 1,655,964 | 1,923,577 | 2,024,936 | 2,340,278 |
| Assets excluding financial assets | 2,719,544 | 2,711,954 | 2,635,891 | 2,698,718 | 2,843,735 |
| Total interest-bearing debt | 2,078,335 | 2,180,591 | 2,284,762 | 3,354,991 | 3,516,087 |
| Total assets | 3,660,859 | 3,236,581 | 2,997,076 | 4,028,773 | 4,049,998 |
| Operations | | | | | |
| Revenue | 1,289,035 | 1,188,029 | 1,084,544 | 1,008,352 | 912,895 |
| Cost of sales ⁽¹⁾ | (393,282) | (381,958) | (112,825) | (96,656) | (82,516) |
| Gross Profit | 895,753 | 806,071 | 971,719 | 911,696 | 830,379 |
| Other income | 8,577 | 7,943 | 24,180 | 6,545 | - |
| Administration expenses ⁽²⁾ | (347,116) | (344,236) | (575,832) | (530,581) | (397,396) |
| Profit from operations | 557,214 | 469,778 | 420,067 | 387,660 | 432,983 |
| Net finance costs | (165,440) | (219,911) | (283,741) | (346,469) | (470,674) |
| Share of profit from associate | 1,092 | 649 | 1,272 | 1,113 | 630 |
| Profit (loss) before taxation | 392,866 | 250,516 | 137,598 | 42,304 | (37,061) |
| Taxation | - | - | (35) | (1,696) | (125) |
| Profit (loss) for the year | 392,866 | 250,516 | 137,563 | 40,608 | (37,186) |
| Cash flow | | | | | |
| Net cash from operating activities | 844,312 | 724,198 | 644,654 | 630,412 | 536,908 |
| Net cash (used in) from investing activities | (106,224) | (175,437) | (80,645) | (4,834) | 54,601 |
| Net cash generated | 738,088 | 548,762 | 564,009 | 625,578 | 591,509 |
| Net cash used in financing activities | (745,610) | (541,031) | (556,819) | (625,560) | (592,015) |
| Net increase (decrease) for the year | 7,522 | (7,730) | (7,190) | (18) | 506 |
| Net cash utilised | (738,088) | (548,761) | (564,009) | (625,578) | (591,509) |

| | 2008 | 2007 | 2006 | 2005 | 2004 | Annual trend growth rate 5-year average | 2008-2007 Growth rate |
|---|-----------|-----------|-----------|-----------|---------|---|--------------------------|
| Financial indicators/ratios | | | | | | | |
| Water sold (kl'000) | 403,754 | 373,857 | 361,438 | 352,634 | 340,190 | 4.17% | 8.00% |
| Total revenue (R'000) | 1,289,035 | 1,188,029 | 1,084,544 | 1,008,352 | 912,895 | 9.06% | 8.50% |
| Bulk water tariff (Rc/kl) | 2.960 | 2.819 | 2.698 | 2.579 | 2.442 | 5.54% | 5.00% |
| WRC levy (Rc/kl) | 0.034 | 0.032 | 0.029 | 0.028 | 0.027 | 6.37% | 6.25% |
| | 2.994 | 2.851 | 2.727 | 2.607 | 2.469 | | |
| Operating indicators/ratios | | | | | | | |
| Profit from operations/revenue | 0.43 | 0.40 | 0.39 | 0.39 | 0.47 | 2.71% | 7.50% |
| Total expenditure/revenue | 0.70 | 0.80 | 0.90 | 0.97 | 1.04 | (8.43%) | (12.50%) |
| Cost of sales ⁽¹⁾ /revenue | 0.31 | 0.32 | 0.10 | 0.10 | 0.09 | 48.10% | (3.13%) |
| Net finance costs/revenue | 0.13 | 0.19 | 0.26 | 0.34 | 0.52 | (21.66%) | (31.58%) |
| Primary segment: bulk water | | | | | | | |
| Total cost/volume sold (Rc/kl) | 2.02 | 2.19 | 2.37 | 2.94 | 2.37 | (1.97%) | (7.76%) |
| Net finance costs/volume sold (Rc/kl) | 0.39 | 0.57 | 0.77 | 0.96 | 1.18 | (15.60%) | (31.58%) |
| Personnel costs (Rc/kl) | 0.59 | 0.57 | 0.52 | 0.51 | 0.46 | 3.97% | 3.51% |
| Personnel costs | | | | | | | |
| Personnel (Including retirement benefits) (Rc/kl) | 0.67 | 0.64 | 0.57 | 0.60 | 0.52 | 4.38% | 4.69% |
| Training and development (Rc/kl) | 0.01 | 0.02 | 0.02 | 0.02 | 0.01 | (3.40%) | (50.00%) |
| kl'000 sold per employee | 452 | 417 | 398 | 391 | 380 | 10.14% | 8.39% |
| Number of employees as at year-end | 895 | 897 | 908 | 902 | 896 | (0.90%) | (0.22%) |
| Ratios | | | | | | | |
| Working ratio ⁽¹⁾ | 0.37 | 0.36 | 0.49 | 0.54 | 0.53 | (8.85%) | 2.78% |
| Rate of return on assets | 20.49% | 17.32% | 15.94% | 14.42% | 15.15% | 16.30% | 17.65% |
| Gross Profit margin ratio ⁽¹⁾ | 69.49% | 67.85% | 89.60% | 90.41% | 90.96% | (5.03%) | 1.47% |
| Current ratio | 1.38 | 1.23 | 1.20 | 0.71 | 0.90 | 16.52% | 12.20% |
| Debt-service ratio (interest cover) | 3.37 | 2.14 | 1.48 | 1.12 | 0.92 | 33.63% | 57.48% |
| Net debt-equity ratio | 1.11 | 2.60 | 4.93 | 6.18 | 8.46 | (26.00%) | (57.31%) |
| Debt-equity ratio | 2.03 | 3.43 | 5.86 | 10.24 | 12.18 | (25.79%) | (40.82%) |
| Trade debtors collection period (days) | 37 | 37 | 35 | 40 | 36 | (2.23%) | 0.48% |
| Debt to asset ratio | 0.57 | 0.67 | 0.76 | 0.83 | 0.87 | (7.00%) | (14.93%) |

Definition of ratios

Working ratio

Operating costs, exclusive of raw water costs, section 30 activities, depreciation and amortisation, divided by revenue.

Rate of return on assets

Profit from operations divided by assets (excluding financial assets).

Current ratio

Current assets divided by current liabilities.

Debt-service ratio (interest cover)

Profit from operations divided by net finance costs.

Net debt-equity ratio

Net interest-bearing debt divided by capital and reserves.

Debt-equity ratio

Total interest-bearing debt divided by capital and reserves.

Debt to assets ratio

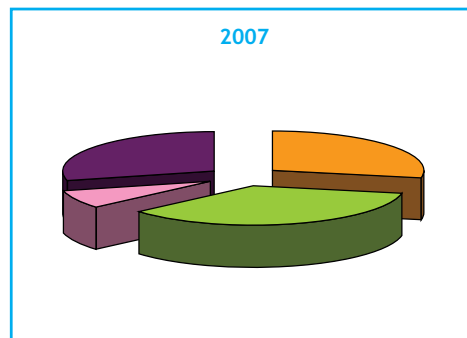
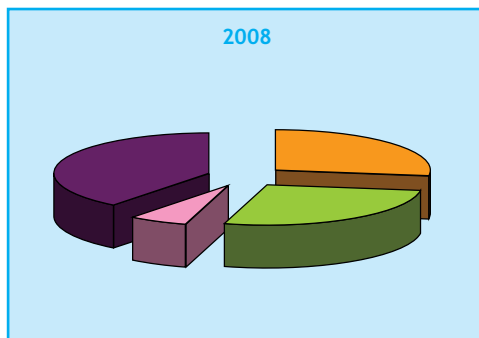
Total interest-bearing debt divided by total assets.

(1) Includes operating costs associated with the production processes reclassified to cost of sales for the current and prior year only. (refer to note 3 of the annual financial statements).

(2) Previous years 2004 to 2006 include operating and administration expenses.

VALUE-ADDED STATEMENT

| | 2008 | 2007 |
|--|----------------|----------------|
| | R'000 | R'000 |
| Gross revenue | 1,289,035 | 1,188,029 |
| Paid to suppliers for materials & services | (394,898) | (408,707) |
| Value added | 894,137 | 779,322 |
| Income from investments | 105,311 | 89,522 |
| Total wealth created | 999,448 | 868,844 |
| Salaries, wages and other benefits | 272,182 | 244,157 |
| Providers of debt capital | 270,751 | 309,433 |
| Depreciation | 63,649 | 64,738 |
| Profit for the year | 392,866 | 250,516 |
| Total wealth distributed | 999,448 | 868,844 |



CORPORATE SCORECARD: PERFORMANCE

2007/08

Targets met 😊

Targets mostly met 😐

Targets not met 😞

The reporting of the following performance indicators are in line with the shareholders compact. The corporate scorecard reflects performance Umgeni Water's Six Strategic Sustainability Pillars and the 15 strategic objectives.

| PERFORMANCE INDICATORS | PERFORMANCE AS AT JUNE 2008 | STATUS |
|--|--|--------|
| CUSTOMER & GROWTH: Strategic Objective 1 - Exceed Customer Expectations | | |
| Percentage customers with signed agreements | Solid progress towards obtaining signed agreements with all customers made, with the impasse with two outstanding customers successfully overcome through rigorous stakeholder engagements. Notably, signed an MOU with Sisonke; resolved the 'Darvill dispute' and finalising the Darvill agreement. | 😊 |
| Compliance with water quantity, water quality and pressure requirements as per respective bulk supply agreements (SALGA/ SAAWU) | Maintained water quantity, water quality and pressure requirements as per signed bulk agreements for respective municipalities. | 😊 |
| Progress in expanding/ growing section 30 activities | Enhanced customer value through successful provision of additional products/services. Services (provided as s30 activities) included: water quality monitoring and compliance assessments; treatment process auditing and enhancement; safety, health and environmental assessments; applications for registration and licensing of waste discharges; and provision of training and capacity building. | 😊 |
| CUSTOMER & GROWTH: Strategic Objective 2 - Maintain Stakeholder Relations | | |
| Feedback and assessments from Executive Authority, Portfolio Committee for Water Affairs & Forestry; and National Treasury. | Maintained Positive feedback from Executive Authority through timely preparation and submission of key statutory documents (business plan with financial plan and tariff, annual report), with follow-through performance reporting and presentations (quarterly performance reports, annual report and presentations). | 😊 |
| CUSTOMER & GROWTH: Strategic Objective 3 - Growth (Increase Customer Base) | | |
| Progress with the implementation of key projects in the Five Year (2008- 2012) CAPEX Programme. | Achieved fair progress with project milestones for key infrastructure projects. | 😊 |
| WATER AND SOCIO-ECONOMIC DEVELOPMENT: Strategic Objective 4 & 5 - Contribute to National Development Agenda & Reduction of Backlogs | | |
| Increased Access to Sanitation: School Sanitation | Enhanced shareholder and customer value through delivery of school sanitation project milestones, notably, completion of 7 School Sanitation projects, 8 Curriculum Upgrade projects and 16 Historically Disadvantaged Boarding Schools Renovation projects | 😊 |
| Increased Access to Sanitation: Household Sanitation | Enhanced shareholder and customer value through meeting targets partially, by completing 2550 household sanitation units and provision of all households with H&H and end-user education. | 😊 |

| PERFORMANCE INDICATORS | PERFORMANCE AS AT JUNE 2008 | STATUS | | | | | | | | |
|--|---|-----------------|---------|-----------------------|--------------------------------------|----------------------|------------------------------|-------------------|----------------------|--------|
| Water Education | Enhanced shareholder and customer value through successfully implemented appropriate schools education and awareness programmes and special day programmes in communities and water classrooms. Met targets and reached over 30,000 people, hosted 84 institutions, and visited 44 schools within eThekweni, uMgungundlovu, Ugu, iLembe and Sisonke District Municipalities. | ☺ | | | | | | | | |
| Strategic Objectives 6: Job Creation and Contribution to BBBEE | | | | | | | | | | |
| Jobs created: | Enhanced customer and shareholder value through meeting job creation targets. Employed 1069 people through school and household sanitation projects; 1090 through CAPEX programme; and created 7696 employment days through working for water programme. | ☺ | | | | | | | | |
| PPPFA Compliance (BEE Spend) | Met and exceeded target for BBBEE spend (60.6% vs 55%). Total spend of R 25,3 million on (BEE) Contractors and Suppliers for School and Household Sanitation. Spent 3% of CAPEX on job creation. | ☺ | | | | | | | | |
| FINANCE: Strategic Objective 7 - Reduce the Net Debt | | | | | | | | | | |
| Reduction of debt | Improved financial position. <table border="1"> <thead> <tr> <th>TARGETED RATIOS</th> <th>ACTUALS</th> </tr> </thead> <tbody> <tr> <td>Net Debt: Equity 1.86</td> <td>1.12</td> </tr> <tr> <td>Debt Service. 2.58</td> <td>3.36</td> </tr> <tr> <td>Debt: Assets 0.64</td> <td>0.57</td> </tr> </tbody> </table> | TARGETED RATIOS | ACTUALS | Net Debt: Equity 1.86 | 1.12 | Debt Service. 2.58 | 3.36 | Debt: Assets 0.64 | 0.57 | ☺ |
| TARGETED RATIOS | ACTUALS | | | | | | | | | |
| Net Debt: Equity 1.86 | 1.12 | | | | | | | | | |
| Debt Service. 2.58 | 3.36 | | | | | | | | | |
| Debt: Assets 0.64 | 0.57 | | | | | | | | | |
| FINANCE: Strategic Objective 8 - Contribute to an Affordable Tariff | | | | | | | | | | |
| Constant tariff in real terms | Tariff: R 2.96 per kl Manage total organisational costs per kl to below R 2.51. Achieved total organisational costs per kl of R2.22 | ☺ | | | | | | | | |
| FINANCE: Strategic Objective 9 - Improved Return on Assets | | | | | | | | | | |
| Improvement on Return on Asset | <table border="1"> <thead> <tr> <th>TARGETED RATIOS</th> <th>ACTUALS</th> </tr> </thead> <tbody> <tr> <td>ROA 16.48%</td> <td>20.53%</td> </tr> <tr> <td>Asset turnover: 0.44</td> <td>0.47</td> </tr> </tbody> </table> | TARGETED RATIOS | ACTUALS | ROA 16.48% | 20.53% | Asset turnover: 0.44 | 0.47 | ☺ | | |
| TARGETED RATIOS | ACTUALS | | | | | | | | | |
| ROA 16.48% | 20.53% | | | | | | | | | |
| Asset turnover: 0.44 | 0.47 | | | | | | | | | |
| FINANCE: Strategic Objective 10: Enhance Shareholder Value | | | | | | | | | | |
| Credit rating maintained. | <ul style="list-style-type: none"> Rating re-affirmed in Oct 2007: AA Long term; F1+ short term | ☺ | | | | | | | | |
| Percentage improvement on Profit and accumulated reserves. | Managed liquidity risks and protected operating cash flows by anticipating adverse market / business conditions. <table border="1"> <thead> <tr> <th>TARGET</th> <th>ACTUALS</th> </tr> </thead> <tbody> <tr> <td>Positive operating cash flows: R655m</td> <td>R842m</td> </tr> <tr> <td>Profit for the period: R300m</td> <td>R391m</td> </tr> <tr> <td>Net Profit %: 20.75%</td> <td>30.54%</td> </tr> </tbody> </table> | | TARGET | ACTUALS | Positive operating cash flows: R655m | R842m | Profit for the period: R300m | R391m | Net Profit %: 20.75% | 30.54% |
| TARGET | ACTUALS | | | | | | | | | |
| Positive operating cash flows: R655m | R842m | | | | | | | | | |
| Profit for the period: R300m | R391m | | | | | | | | | |
| Net Profit %: 20.75% | 30.54% | | | | | | | | | |
| | <ul style="list-style-type: none"> Exceeded Profit target: R 391.1'm (vs R 300.4'm) Exceeded Net Profit target % 30.54% vs 20.75% ytd budget | | | | | | | | | |
| ENVIRONMENT: Strategic Objective 11 & 12 - Conservation of Natural Resources and Mitigate/Minimise Impacts of all our Operations. | | | | | | | | | | |
| The extent to which environmental stresses and human vulnerability to environmental stresses has been reduced; institutional capacity to respond to environmental challenges has been built and environmental stewardship practiced. | Successfully completed Corporate Environmental Sustainability Framework. | ☺ | | | | | | | | |

| PERFORMANCE INDICATORS | PERFORMANCE AS AT JUNE 2008 | STATUS |
|--|---|-------------|
| ORGANISATIONAL: Strategic Objective 13 – Strategic Effectiveness | | |
| The extent of engagement with the Executive Authority on substantive issues. | Shareholder Compact (2007/08) approved by the Executive Authority. Chairperson and CE to met with the Minister and Portfolio Committee on Water Affairs | ☺ |
| ORGANISATIONAL: Strategic Objective 14 – Operational Competence | | |
| The extent to which Integrated Enterprise Wide risks are managed and mitigated to an acceptable level. The extent to which the company adheres to Good Corporate Governance (King II Report). The extent to which internal control effectiveness is improved | Strategic risks continued to be managed. Improved Control Effectiveness and Control strength validation undertaken for 12 strategic risks Divisional Risk Registers Developed Quarterly Risk Reports submitted to each Audit Committee. 10 Finance policies approved Internal Controls improved in response to Internal & External Audit Findings. | ☺ ☺ ☺ |
| ORGANISATIONAL: Strategic Objective 15 – Functional Excellence | | |
| The extent to which human resources are developed and managed. | Human Capital Development Strategy successfully developed, communicated and approved. Report on Employment Equity targets to Board. | ☺ |
| Progress with implementation of Supply Chain Management Framework and compliance with the PPPFA. | Successfully developed, approved and implemented vital SCM policies and procedures, established Bid Committees; and developed and approved a Procurement Plan. | ☺ |
| The extent of the alignment of IS to the business needs. | IT strategy successfully drafted for further review and finalisation. | ☺ |
| The extent to which the organisation leads and contributes to knowledge and innovation in the water sector. | The organisation has maintained innovation, research and development and science excellence. Notably, the following were accomplished: Assessing and implementing new processes for disinfection in iLembe; Collaborations with Department of Science and Technology, DWAF and CSIR towards development of a strategic document for use of science and technology for fast tracking project delivery in District Municipalities. Providing leaderships, advising and directing research for 8 country-wide WRC projects; Completion and publication of two in-house WRC projects with excellent reviews; Presentation of 10 papers at WISA 2008 and major contributions at WISA workshops. | ☺ |
| Implementation of quality management systems | Successfully retained existing ISO 9001 certification in all existing business areas. Developed Policies and Procedures for addition business systems to meet ISO 9001 and Integrated OHS 18001 and ISO14001 targets. Made good progress for target business units including: Completion of legal compliance and preparations for pre-audit for the Midmar system integration to OHS 1800; and training of staff in several business units in ISO quality management systems. | ☺ |



OPERATIONAL REVIEW

This section of the report covers operational performance over the reporting period with the focus on external factors affecting operations, internal arrangements from operations perspective, risk management, customer relations management and innovation. It is based on aggregate performance for the Umgeni Water Inland and Coastal Systems comprising dams, water treatment plants, distribution networks and wastewater treatment systems.

The Operations Division forms the core of Umgeni Water business in respect of provision of bulk water and wastewater services to the municipal customers. The key drivers of operations activities are management of water resources, production and distribution, metering and billing and customer relations. While asset management falls under secondary activities from a value chain point of view, it has emerged as an issue of materiality noting recent trends in South Africa on infrastructure failures in public utilities.

Constraints and challenges during the year under review

Umgeni Water's corporate business plan identified pertinent issues in the macro and micro environment affecting the business at high level (see details on www.umgeni.co.za). There are further unique elements in the external environment that are worth discussing at operational level to give context to activities undertaken and performance against key indicators. The following factors were identified as having a direct bearing on the key operations drivers.

Water stress in major catchments

Agriculture and forestry combined account for a major share in water use in the Upper Mgeni River Catchment. Low precipitation and runoff further exacerbates the situation. Pollution remains a serious concern and this requires extensive river water quality monitoring and operators to be vigilant at water treatment plants.

Rising inflation and cost of energy

Umgeni Water managed to run its operations in a cost efficient manner despite the high cost of chemicals arising from inflation and the increased energy costs, thus ensuring that the water quality standards continue to be maintained.

Water sector reform process

While there is still no clarity in terms of the approach and form that the sector will take in terms of establishing a regulatory body, it is anticipated that there will be tight regulation on water conservation measures, the quality of wastewater discharges and tariffs charged to customer on bulk water supply. These issues were discussed at various forums around the water sector reform process and also featured prominently in the Minister of the Department of Water Affairs and Forestry's speeches. It is anticipated that customers and consumers will have more regulatory protection.

Skills shortage

The shortage of skills is affecting every sector in the country and therefore requires innovative ways to minimize its impact. What the organization experiences the most, is the problem of skills gap, with many incumbents with the scarce skills fresh from institutions of higher learning coming into the mainstream without the requisite experience, for example, operator or artisan experience. The combined skills of the more experienced staff cannot be replicated overnight and hence there is a need to retain them whilst fast-track training of the new incumbents.

Legislative dictates

Corporate governance is understood better with time and therefore there is a great need for disclosure even at operational level. The requirements of the PFMA to run the entity on business principles also implies efficient management of operations and prudent cost management at all levels.

Stakeholder opinion on state of infrastructure for public utilities

The recent energy crisis was an eye-opener across the spectrum of users, investors, suppliers and regulators. There is now pressure on utilities from customers, business and government, amongst others, to give assurance on the state and operability of their infrastructure, maintenance programmes and sustainability issues. Umgeni Water is mindful of this factor and a detailed outline of its asset management plan is discussed under operational performance.

Responding to challenges and constraints

There are many challenges in the operating environment which have a bearing on the effectiveness of service delivery from an operational point of view. Scaling down to operational level, a few have been prioritized based on the material impact they have on the key drivers of operations. The responses and case studies discussed below give an account of how such challenges, including areas of improvement to ensure that our customers receive sustainable service at an affordable tariff, were dealt with.

Water resources

The Albert Falls system (Albert Falls and Nagle Dams), has been in Resource Conservation mode since November 2007. Pumping from Inanda Dam (50 to 100 MI/d) has been implemented in order to reduce the abstraction required from the Albert Falls system, thereby reducing the stress on upstream raw water resource in the Albert Falls system. Operations has implemented operating rules in both the Inanda/Wiggins and Nagle/Durban Heights systems to satisfy both the raw water demand at Durban Heights Waterworks, and the resource conservation requirements in the upstream catchment area.

With the approaching 2010 Soccer World Cup, Umgeni Water and DWAF have taken a conservative approach to water resources management. A total of 47 887 MI, or a volume equal to 20.5% of Midmar's capacity, was pumped from Mearns Dam to the Umgeni system. As a result, Midmar Dam spilled for 11 weeks and Albert Falls Dam rose to 89% full, thus reducing the risk of water restrictions during the 2010 World Cup in the area.

CASE STUDY – IMPROVEMENT TO RAW WATER INTAKE AT MVOTI WATERWORKS

The raw water abstraction tower at Mvoti Waterworks constructed over 20 years ago has not been sustainable due to the river changing its course during severe floods. Mvoti Waterworks now abstracts raw water off a temporary channel along the Mvoti River. This channel was excavated by iLembe District Municipality to ensure sustainable raw water abstraction, but the reliability of the raw water supply has always been poor and required continuous maintenance by local sand miners.

Since July 2007, when Umgeni Water took over the operations of the Mvoti Waterworks, the plant has experienced numerous instances of raw water shortage, either due to river flood conditions or due to low water levels in the abstraction channel. Umgeni Water has instituted regular monitoring of the water level in the channel and used tracked excavators on a regular basis to maintain raw water flow in the channel. In November 2007, a local flood washed away the channel resulting in water shortages to KwaDukuza for four days while the channel was reconstructed.

Umgeni Water, together with consulting engineers, refined the initial iLembe proposal of installing shallow wells on the banks of the river to augment raw water supply, and installing lateral screen wells into the existing intake tower. This proposal intends to utilize the existing intake tower and to improve the supply of raw water to the treatment plant. Construction of the shallow wells commenced in March 2008, with an initial six wells being drilled. Only four of the six wells drilled were found to have a viable yield, and subsequently an additional four shallow wells have been drilled. The wells are currently being pump tested to determine the yield and thereafter the pumps and pipeline will be installed by August 2008.

In the interim, the design of the lateral screen wells has been completed and the specialist contractor is to begin installation during August 2008. The lateral screen wells have been designed to abstract 16 MI/day into the intake tower. The existing four submersible pumps will be moved into the intake tower to improve the operating conditions of these pumps.

With the above improvements, raw water abstraction will be continuous and sustainable during both drought and flood conditions.

Bulk Potable Water Supply

During the year under review, Umgeni Water fulfilled its role of providing bulk potable water services to its customers, viz, eThekweni Metropolitan, Ugu, iLembe, Sisonke and uMgungundlovu District Municipalities as well as Msunduzi Local Municipality. Overall, sales volume growth increased by 8.4% during the 2007/08 financial year against the 2006/07 financial year. The water sales exceeded budget, with annual average daily demand of 1 106 MI/day compared to 1 021 MI/day in the 2006/07 financial year. The iLembe bulk supply (KwaDukuza Area 15.2%) and Amanzimtoti Water Works (6.3%) were the main contributors towards increased sales volumes growth. Amanzimtoti Water Works sale volume increased from 4.7 MI/day in 06/07 financial year to 10.3 MI/day in 07/08 financial year.

| Bulk Water Sales | 2007/2008 | 2006/2007 | Volume Increase | Percentage increase |
|---------------------------------|--------------------|--------------------|-------------------|---------------------|
| Midmar WW | 78 588 890 | 75 146 793 | 3 442 097 | 4.6% |
| Midmar WW Commercial | 160 301 | 107 061 | 53 240 | 49.7% |
| DV Harris WW | 15 239 897 | 11 837 919 | 3 401 978 | 28.7% |
| Ixopo WW | 802 284 | 750 544 | 51 740 | 6.9% |
| Durban Heights WW | 189 732 280 | 187 236 113 | 2 496 167 | 1.3% |
| Wiggins WW | 87 308 587 | 74 880 337 | 12 428 250 | 16.6% |
| Amanzimtoti WW | 3 777 273 | 1 440 088 | 2 337 185 | 162.3% |
| Hazelmere WW | 13 542 860 | 13 100 070 | 442 790 | 3.4% |
| Mzinto WW | 3 828 441 | 3 167 913 | 660 528 | 20.9% |
| Craigieburn WW | 2 240 016 | 2260985 | -20 969 | -0.9% |
| Mtwalume WW | 1 647 970 | 1 568 150 | 79 820 | 5.1% |
| iLembe Bulk Supply (Deemed Vol) | 5 673 000 | 0 | 0 | 100.0% |
| Ogunjini WW | 472 713 | 440 020 | 32 693 | 7.4% |
| Mfume WW | 96 239 | 66 727 | 29 512 | 44.2% |
| Maphephethwa Bulk Water | 504 588 | 434 083 | 70 505 | 16.2% |
| Bulk Raw Water | 138 661 | 142 020 | | |
| TOTAL | 403 754 000 | 373 857 000 | 29 897 000 | 8.4% |



Production

The organization has performed well against the backdrop of costs that threatened to spiral out of control, problems with the electricity load shedding programme and the challenges associated with skills availability. The ISO 9001 quality system and operating within stringent internal limits allowed consistent operation of water and wastewater treatment plants. Efficient control and management of plants created opportunities for further improvements and adjustments, which led to cost-saving and reliable production, albeit with changes in input arising from external factors. This further responded to requirements for running operations on business lines as prescribed in the governance instruments.

Rising costs

Through efficient control of dosing systems and selection of suitable chemicals based on plant trials, more cost-effective outcomes were achieved leading to cost-saving against the rising cost of chemicals thus reducing the full impact of rising costs. A culture of continuous improvement is beginning to surface and this will see further cost reduction and attention to detail (e.g. taking accurate measurements and conducting logical analyses).

Regulation readiness

Umgeni Water continues to produce excellent quality potable water for its customers, and discharges satisfactory effluents from its wastewater facilities relative to other players. Details are reported under sections:

- Ensuring Safe and Reliable Water Supply,
- Bulk Wastewater Treatment and Disposal and
- Asset Capacity and Condition

Umgeni Water strives for continuous improvement, and efforts and investment in research and development can only bear fruit in terms of surpassing the imminent stringent regulations.

Co-regulation is one of the tenets of our approach to operations. For example, our Darvill Wastewater Works has instituted a programme of load-shifting. The influent is stored in the balancing tanks during peak electricity demand periods, where possible, then treated during the following off-peak period. This provides no benefit to Umgeni Water but helps to reduce Eskom's supply constraints.

Asset management strategy

With assets worth R2.3 billion, a comprehensive strategy has been crafted to ensure continuous operability and full functionality to meet the short and long-term requirements of our customers.

Metering and billing

One of the focus areas of asset management is metering to ensure that value produced through production is captured. The essence of this is to ensure that meters are strategically placed and maintained to give accurate measurements of incoming water and sales which ultimately affect billing.

Integration

Operations require extensive interaction with various stakeholders, both internal and external to the organization, in order to fulfil the goal of supplying water of the right quantity and quality. This has been achieved by firstly realizing water service delivery as a common goal between Umgeni Water and customers, and then integrating the activities in order to achieve this common goal. Integrated long- and short-term planning has yielded the conception of efficient regional water supply schemes that effectively eradicate water supply backlogs.

Engagement with customers has also led to the establishment of a framework for monitoring compliance with bulk water supply agreements. Compliance feedback is conducted at executive quarterly meetings as well as at monthly operational meetings. Such customer engagements allow for the opportunity to resolve challenges encountered in the value chain of water service delivery.

Bulk water supply agreements

Relationships with customers are managed through the bulk water supply agreements. Umgeni Water has entered into long-term agreements with the six Water Services Authorities. In the interim, a memorandum of understanding has been concluded with Sisonke District Municipality with a view to signing a bulk water supply agreement.

These agreements are in line with the model agreement developed by SALGA and SAAWU. They regulate the terms and conditions of bulk water supply between Umgeni Water and its customers.