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.

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

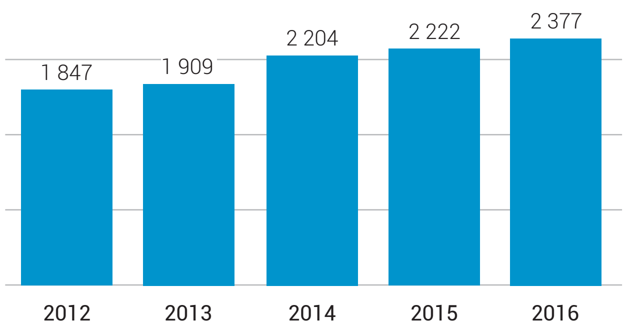
2.1.1. YEAR ON YEAR CHANGES OF GROUP OPERATING PERFORMANCE

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.

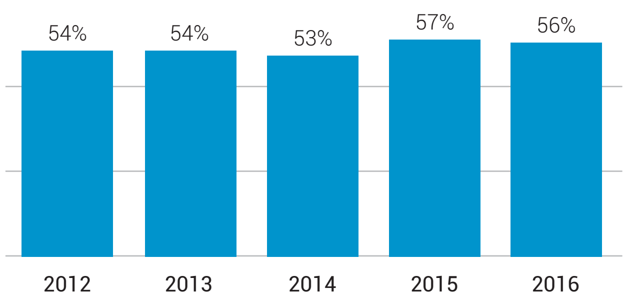
Other operating and administrative expenses were up by 18% due mostly to higher impairments on property, plant and equipment which were R133m (2015: R90m). Net finance income has decreased marginally by 2% as finance costs were almost nil resulting from the capitalisation of borrowing costs on qualifying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

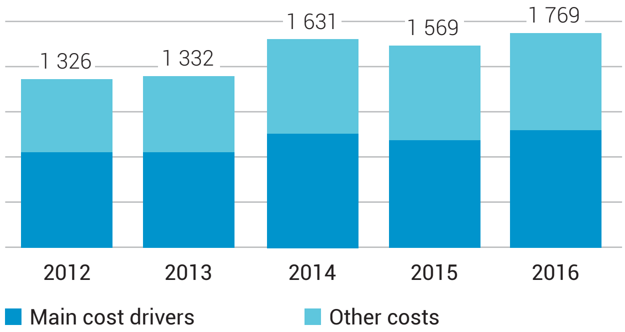


2. OPERATING PERFORMANCE (continued)

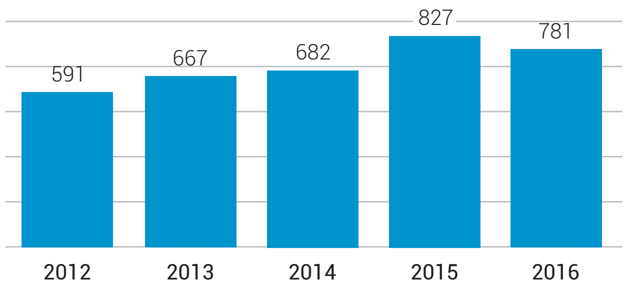
2.1. OVERVIEW OF OPERATING PERFORMANCE (continued)

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

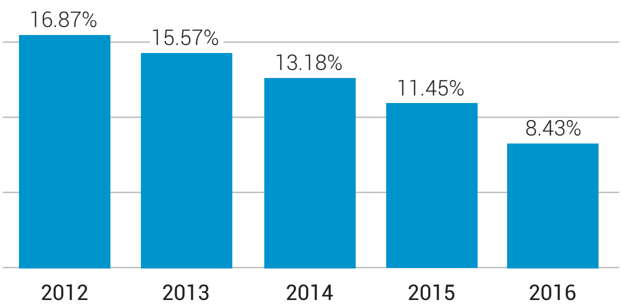
Total costs excluding finance costs (R'm)



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.

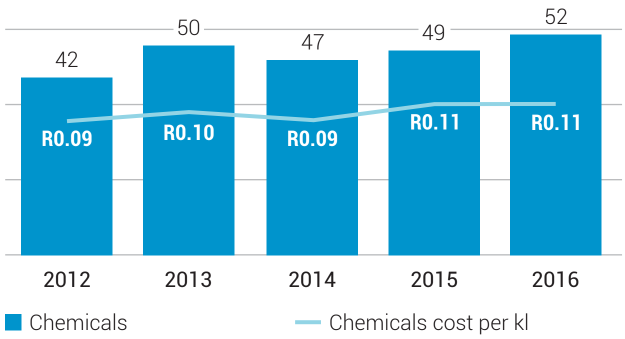
Chemicals increased by 6% primarily due to average price increases of 8% offset by lower usage resulting from optimisation in chemical dosages as well as lower volumes of water treated.

2. OPERATING PERFORMANCE (continued)

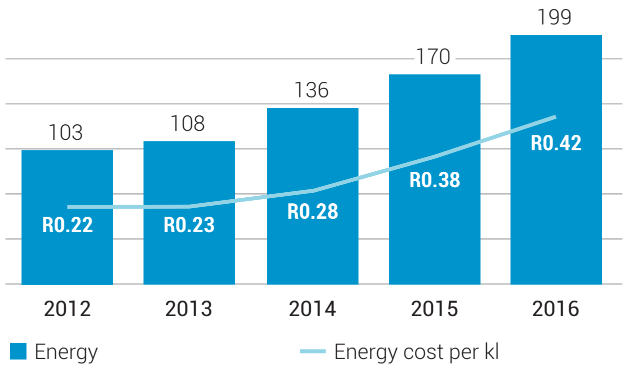
2.1. OVERVIEW OF OPERATING PERFORMANCE (continued)

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

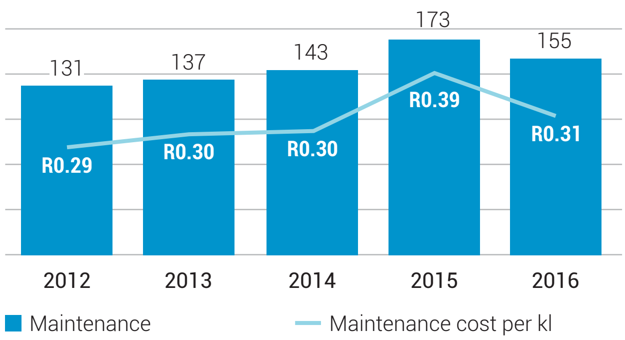
Chemicals (R'm)



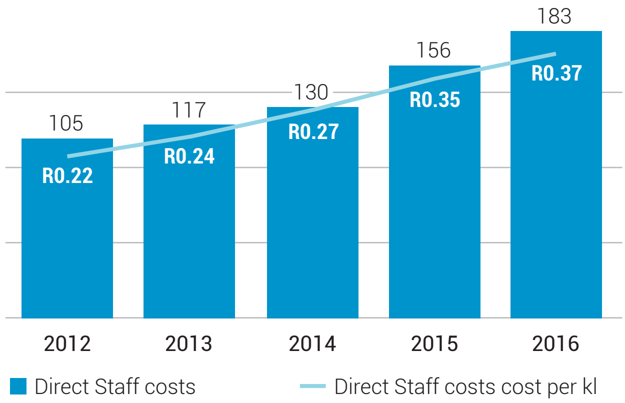
Energy (R'm)



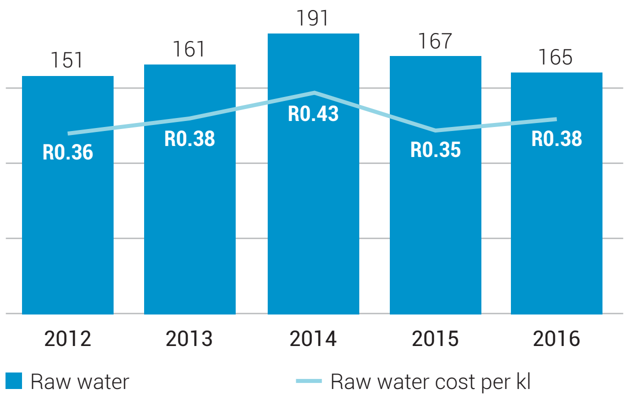
Maintenance (R'm)



Direct staff costs (R'm)



Raw Water (R'm)



2. OPERATING PERFORMANCE (continued)

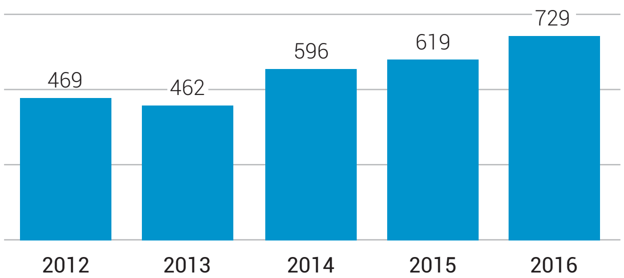
2.1. OVERVIEW OF OPERATING PERFORMANCE (continued)

2.1.3. OTHER OPERATING AND ADMINISTRATION EXPENSES AND NET FINANCE INCOME

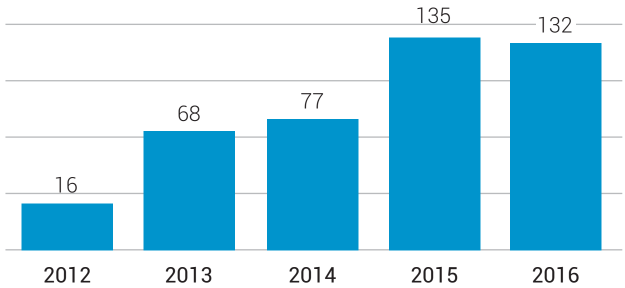
Other operating and administration costs increased by 18% mostly due to the higher impairments on property, plant and equipment of R133m (2015: R90m), as well as higher consulting fees incurred on the Engineering, Procurement and Construction Management (EPCM) process in line with the national guidelines 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)



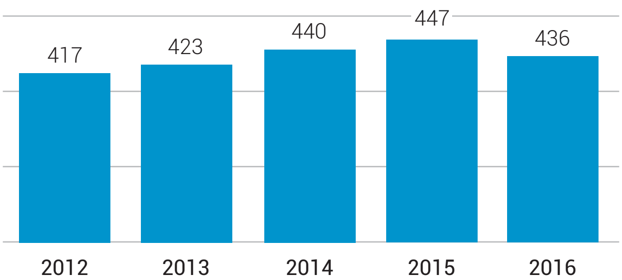
Net finance income (R'm)



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)

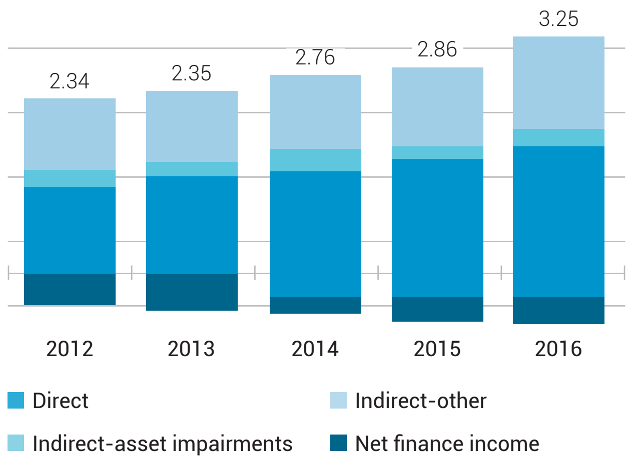
VOLUME BY CUSTOMER AND % CHANGE

	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)

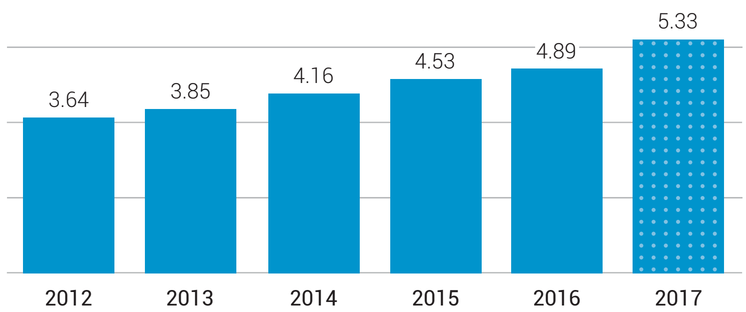


3. BULK WATER TARIFF

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)

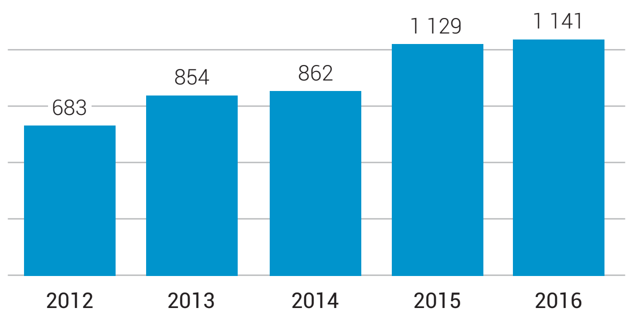
Average tariff per Kl (R.c)



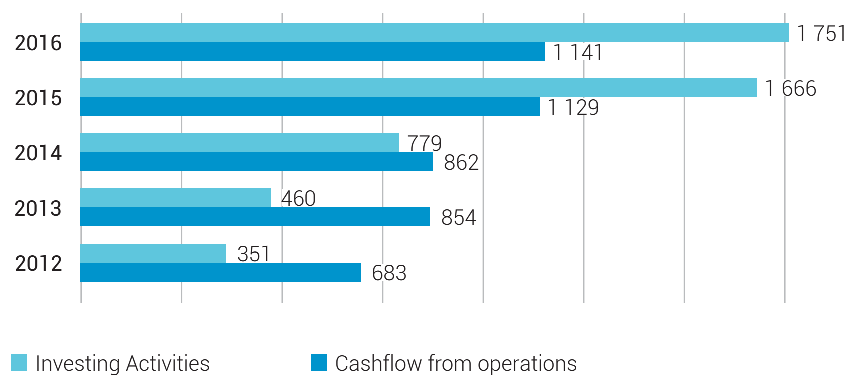
4. CASH FLOW ANALYSIS

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.

Cashflow from operations (R'm)



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



5. CAPITAL PROJECTS

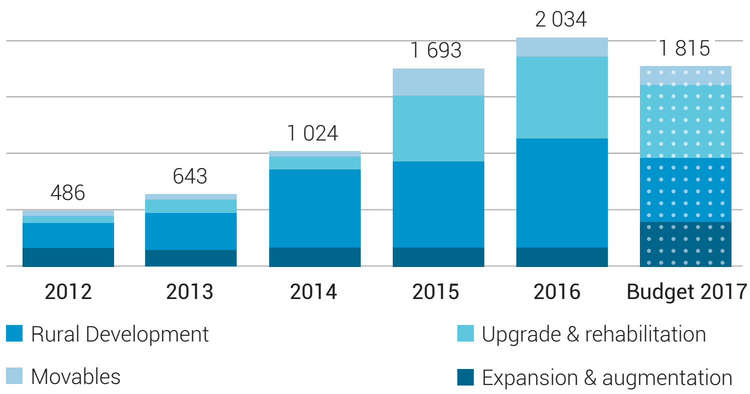
The capital expenditure programme is based on Umgeni Water's infrastructure master plan which is aligned to the KZN provincial and local strategic priorities, is estimated at R3 589m for the next 5 years as per the Corporate Business Plan for 2017. Details of the major projects included in work in progress 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

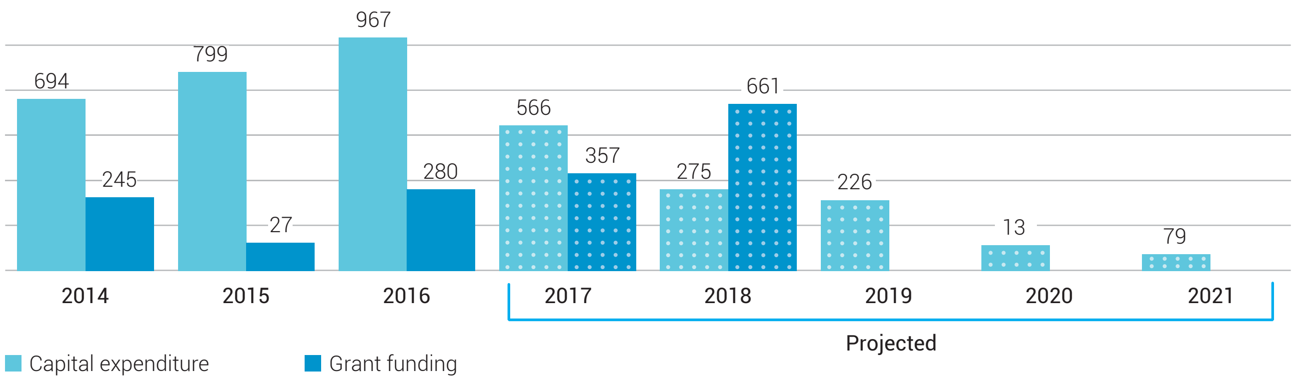
			PROJECTED FUNDING SPLIT				
PROJECT	SYSTEM	TOTAL PROJECTED COST	REGIONAL BULK INFRASTRUCTURE GRANT FUNDING	UMGENI WATER FUNDING	TOTAL PROJECT COST JUNE 2016	IMPAIRMENT	2016 IMPAIRMENT
		R'000	R'000	R'000	R'000	%	R'000
Greater Mpofana Phase 1	Mooi	639 699	- 0%	639 699 100%	162 823	61%	79 040
Lower Thukela 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)

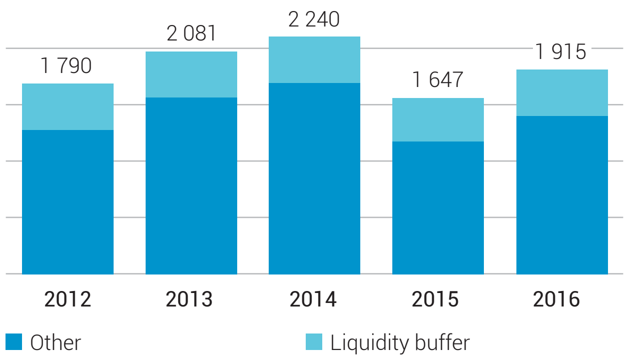
Capital expenditure on development projects and grant funding (R'm)



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.

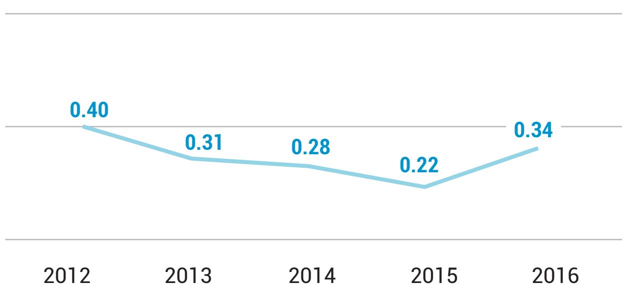
The debt: equity ratio increased by 55% to 0.34 (2015: 0.22) while the interest rate structure is 85% fixed and 15% variable (2015: 68% fixed and 32% variable). The UG26 bond of R935m was issued in March 2016 at a fixed interest rate of 11.31% and contributed to the changes in the debt to equity ratio 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.

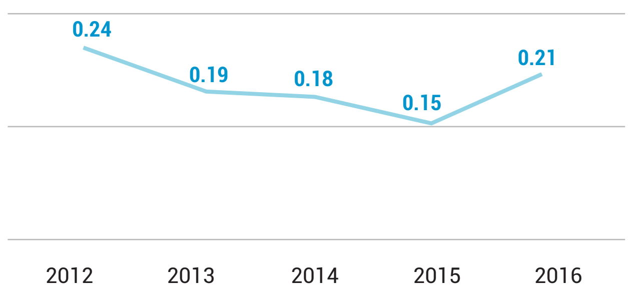
7. DEBT MANAGEMENT (continued)

	GROUP	
	2016	2015
	R'm	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	2018	2019	2020	2021
	R'm	R'm	R'm	R'm	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

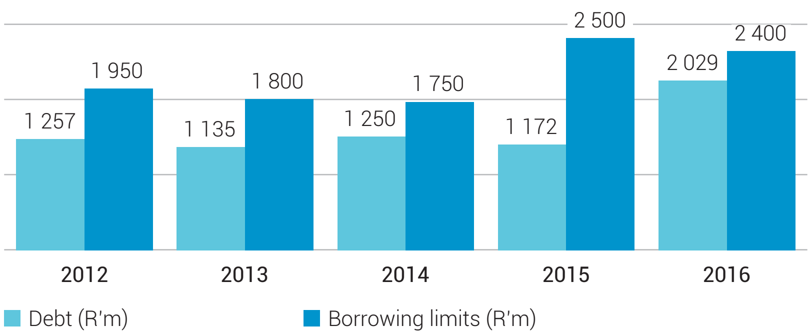
The borrowing limits for the period 2016 to 2019 have been approved by the Minister of Water and Sanitation with the concurrence of the Minister of Finance. The borrowing limit is applicable to the value of gross borrowings, collateral and guarantees exposure and may not exceed the approved limits. The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

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

Utilisation of the borrowing limit as at 30 June 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**

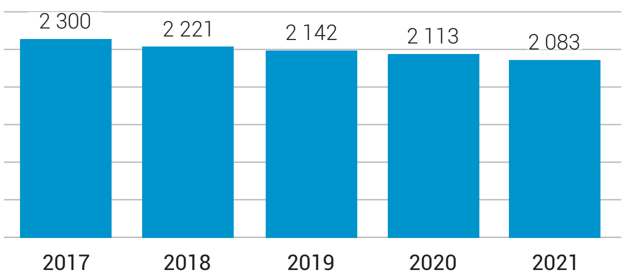
Debt and borrowing limits (R'm)



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%

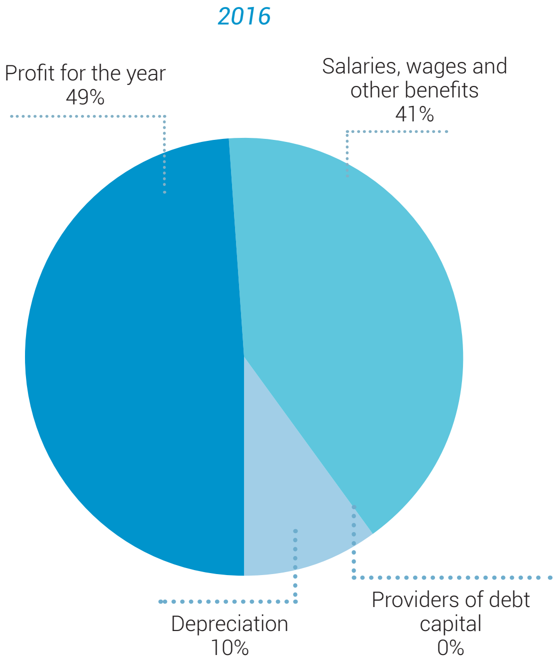
(1) These indicators have been calculated using treated water volumes only.

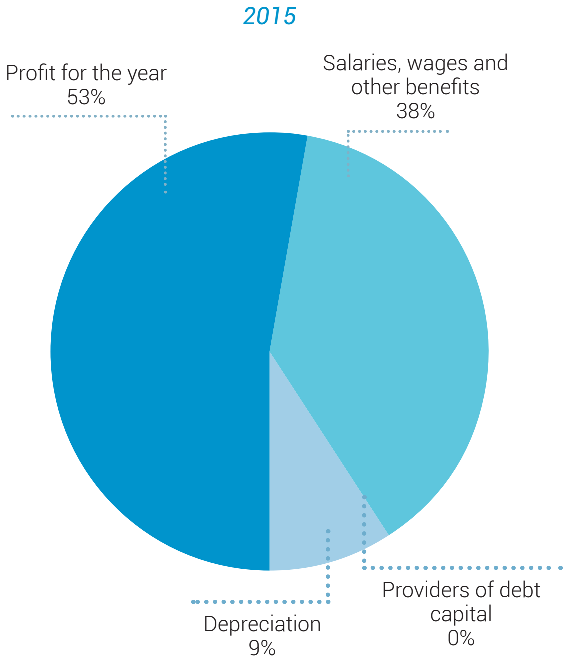
GROUP FIVE-YEAR KEY PERFORMANCE INDICATORS (continued)

	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**





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	Postal address
310 Burger street	PO Box 9
Pietermaritzburg	Pietermaritzburg
3201	3200

AUDITORS

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

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

	FEES FOR SERVICES/ SALARY R'000	ALLOWANCES AND BONUSES R'000	EXPENSE ALLOWANCES R'000	RETIREMENT CONTRIBUTIONS R'000	2016 TOTAL R'000	2015 TOTAL 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

	NOTE	GROUP 2016 R'000	GROUP 2015 R'000	PARENT 2016 R'000	PARENT 2015 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 2016 R'000	GROUP 2015 R'000	PARENT 2016 R'000	PARENT 2015 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

		GROUP		PARENT	
	NOTE	2016	2015	2016	2015
		R'000	R'000	R'000	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 Of 1997), are disclosed as cost of sales. All other costs are considered to be administration expenses.

TAXATION

Umgeni Water and Msinsi Holdings SOC Ltd are tax-exempt entities in terms of Section 10(1)(t)(ix) of the Income Taxation Act and therefore the policy is only in respect of its subsidiary, Umgeni Water Services SOC Ltd and associates.

The income tax charge represents the tax currently payable and deferred tax.

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

	GROUP 2016	GROUP 2015	PARENT 2016	PARENT 2015
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

	LAND	BUILDINGS AND INFRASTRUCTURE	EQUIPMENT AND VEHICLES	CAPITAL WORK IN PROGRESS	TOTAL PARENT	SUBSIDIARIES	GROUP
Year ended 30 June 2016	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**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)

Year ended 30 June 2015	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 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

			GROUP - 2016			
Major projects:	**System**	**Category**	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	-	-
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.				
Total biological assets	**4 911**	**4 733**	**-**	**-**

12. SUBSIDIARIES AND ASSOCIATES

	GROUP		PARENT	
	2016	**2015**	**2016**	**2015**
	R'000	**R'000**	**R'000**	**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
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.				
Total subsidiaries and associates	**6 005**	**6 005**	**21 250**	**8 780**

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.				
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.				
Total investments	**1 915 042**	**1 646 680**	**1 915 042**	**1 646 680**
13.1.1 ANALYSIS OF HELD-TO-MATURITY FINANCIAL ASSETS				
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	GROUP 2015	PARENT 2016	PARENT 2015
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	GROUP 2015	PARENT 2016	PARENT 2015
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.

Reconciliation of movement in debt for the year:	GROUP 2016 R'000	GROUP 2015 R'000	PARENT 2016 R'000	PARENT 2015 R'000
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	GROUP AND PARENT 2015	GROUP AND PARENT 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:

SENSITIVITY FACTOR	CENTRAL ASSUMPTION	ACCRUED LIABILITY			
		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 R'000	2018 R'000	2017 R'000	2016 R'000	2015 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 R'000	2015 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:

Rating Agency	Issue date	Details	LONG-TERM RATING	SHORT-TERM RATING
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	UNCOMMITTED
	R'000	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	2015
		R'000	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.