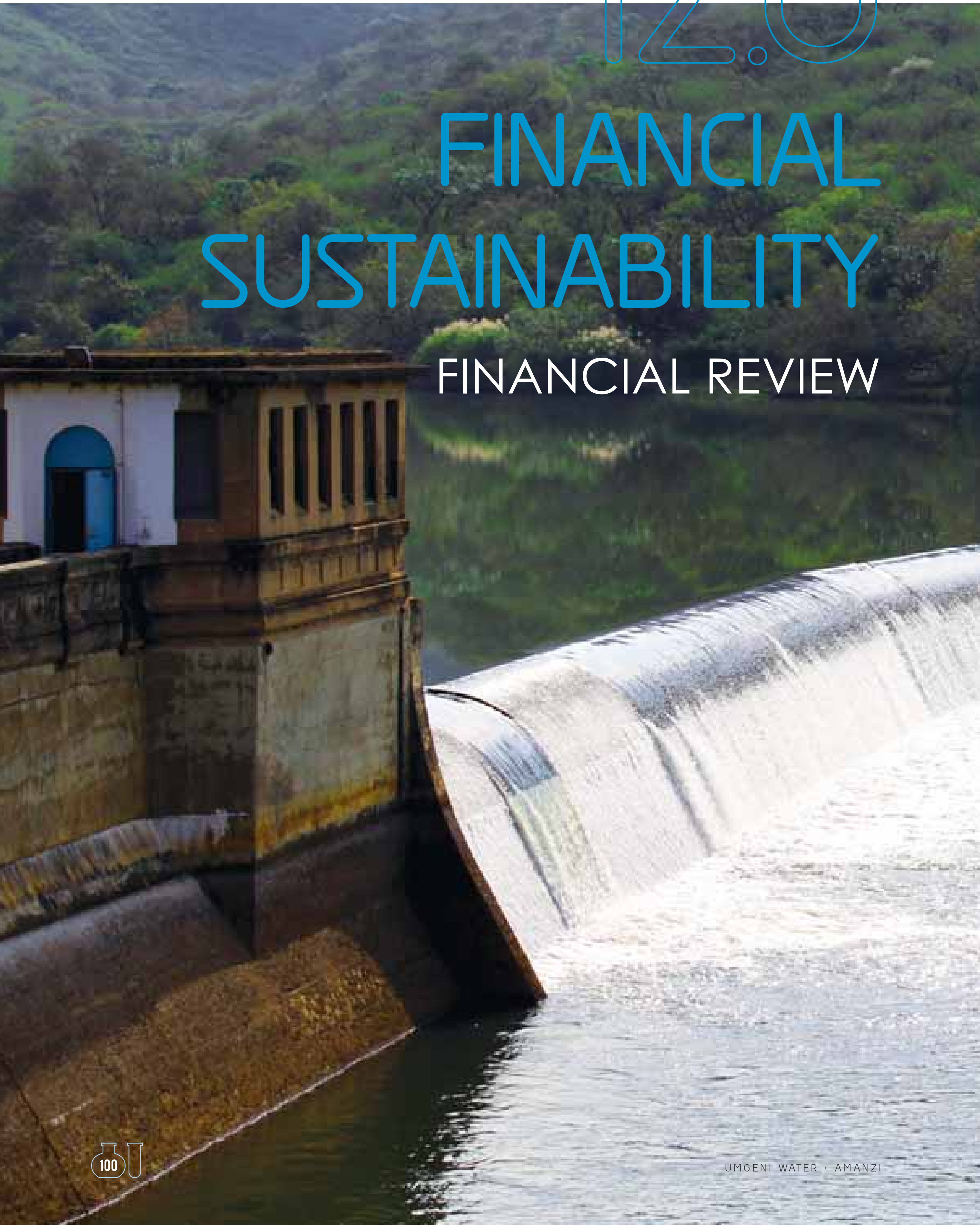
12.0

FINANCIAL SUSTAINABILITY

FINANCIAL REVIEW



1. INTRODUCTION

The trend of strong financial performance has continued in the current financial year with positive growth in bulk water sales volumes and net finance income arising from lower borrowings and increased investments. The decline in gross profit margins is due to the increasing cost of sales which increased by 22% year on year primarily due to higher raw water costs attributable to the inclusion of the capital unit charge (CUC) for the Spring Grove Dam.

The organisation has continued to strengthen its balance sheet which positions itself well for the delivery of the capital expenditure programme and future growth opportunities.

Umgeni Water measures its financial performance in terms of its achievement against financial indicators which are aligned to the organisation's strategic objectives and are included in the Key performance indicators section of the annual report, pages 46 - 53.

2. OPERATING PERFORMANCE

2.1. OVERVIEW OF OPERATING PERFORMANCE

2.1.1. YEAR ON YEAR ANALYSIS OF GROUP OPERATING PERFORMANCE

The group has maintained steady operating profits despite increased retirement benefit costs which contributed to the 11% decrease. Revenue growth excluding the CUC was 3%, while cost of sales growth excluding CUC increased by 2%. Other income reduced as the prior year included a reversal of an accrual for raw water of R41m which had prescribed. Overall profit for the year at R583m reflects a decrease of 1%.

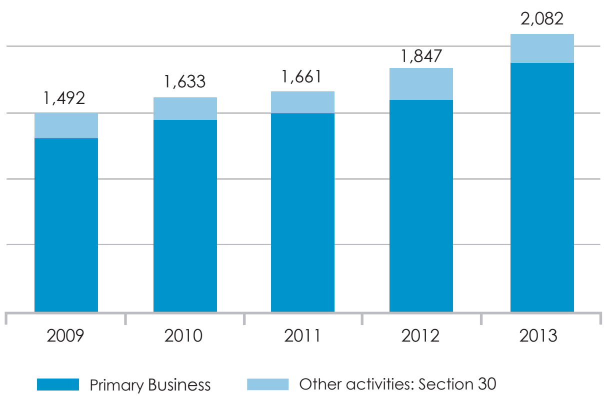
	Group		
	2013 R'm	% change	2012 R'm
Revenue	**2,082**	**13**	**1,847**
Water	1,799	18	1,520
Waste water	55	8	51
Section 30	228	(17)	276
Cost of sales	**(1,043)**	**22**	**(857)**
Water	(806)	40	(577)
Waste water	(40)	14	(35)
Section 30	(197)	(20)	(245)
Gross profit	**1,039**	**5**	**990**
GP%	*50%*	*(4%)*	*54%*
Other income	19	(63)	52
Other operating and administration costs	(545)	16	(469)
Profit from operations	**513**	**(11)**	**573**
Net finance income	67	347	15
Share of profit from associate	3	-	3
Profit for the year	**583**	**(1)**	**591**

2. OPERATING PERFORMANCE continued...

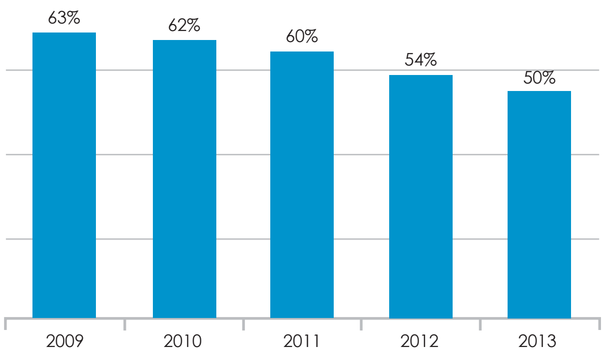
2.1. OVERVIEW OF OPERATING PERFORMANCE continued...

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

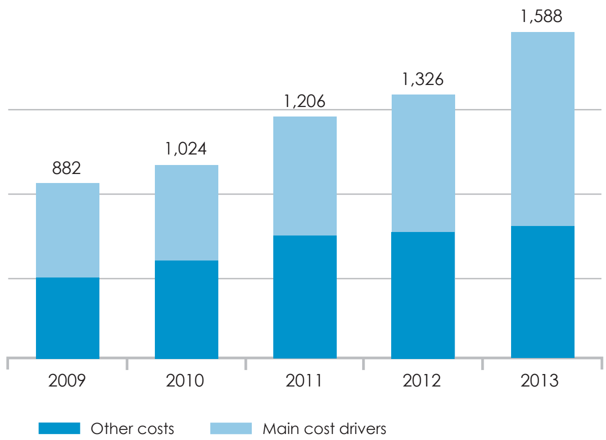
Revenue (R'm)



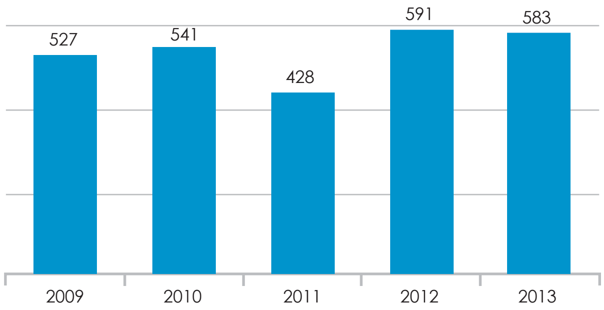
Gross profit %



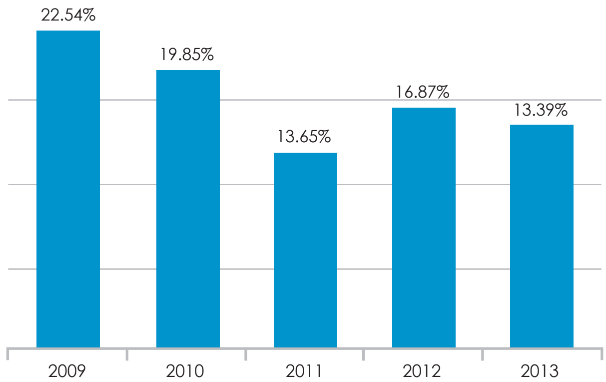
Total costs (excluding finance costs) (R'm)



Profit for the year (R'm)



Return on assets %



2. OPERATING PERFORMANCE continued...

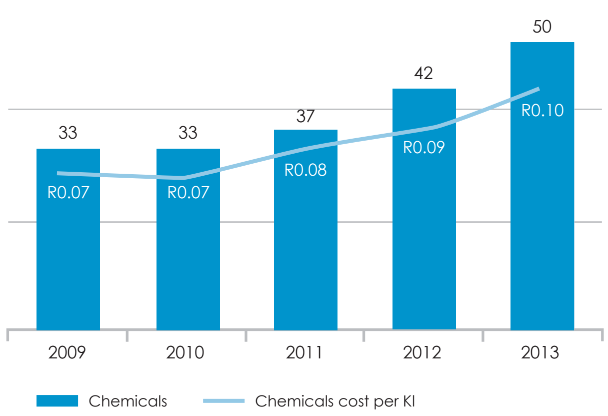
2.1. OVERVIEW OF OPERATING PERFORMANCE continued...

2.1.2. MAIN COST DRIVERS INCLUDED IN COST OF SALES

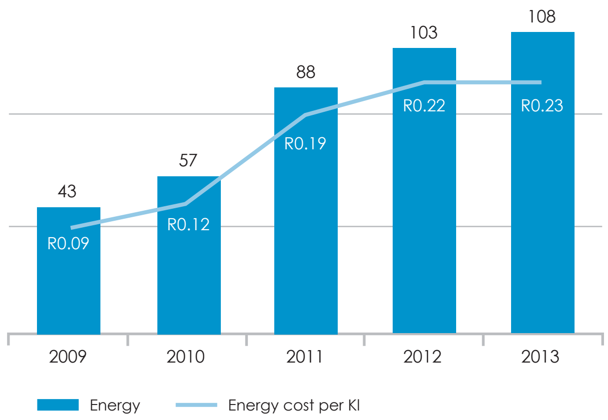
The main cost drivers being chemicals, energy, maintenance, raw water and staff costs account for 72% (2012: 62%) of cost of sales and have increased by 41% since the prior year due to the inclusion of the CUC in raw water costs. Excluding the CUC main cost drivers have increased 8% year on year.

Chemicals increased by 21% due to price increases and higher usage as a result of deteriorating raw water quality, while energy costs increased by 4% due to a combination of a tariff increase and reduced pumping requirements. Maintenance costs increased by 5% and staff costs by 11%.

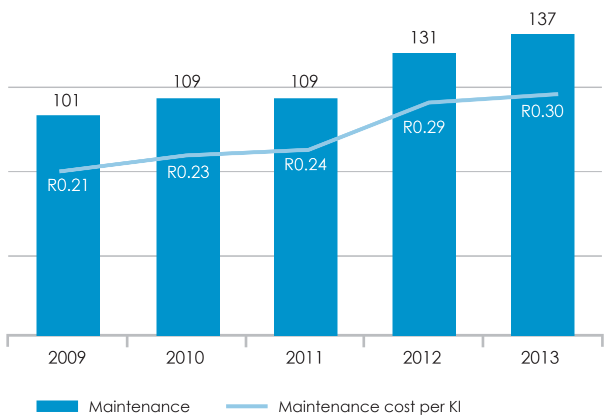
Chemicals (R'm)



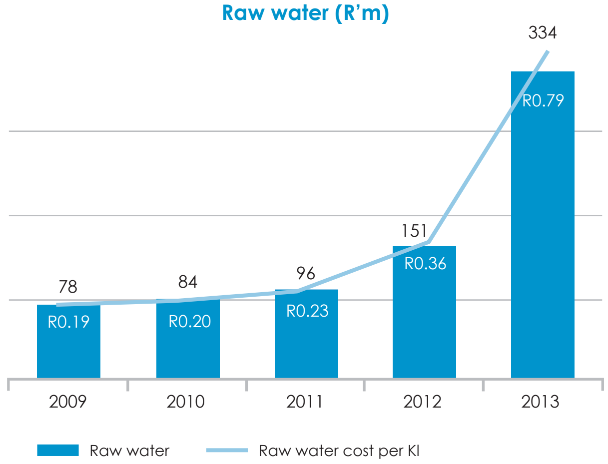
Energy (R'm)



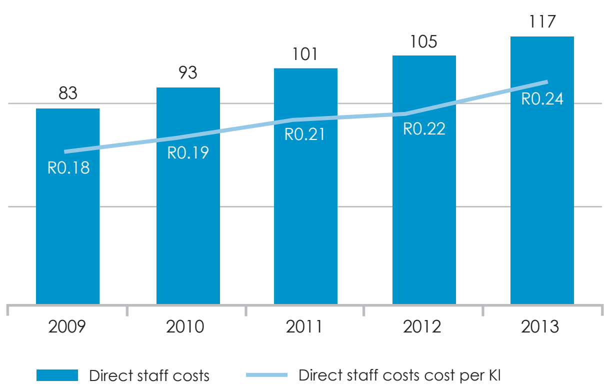
Maintenance (R'm)



Raw water (R'm)



Direct staff costs (R'm)



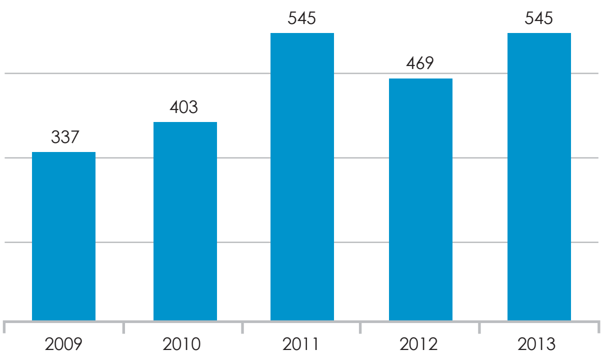
2. OPERATING PERFORMANCE continued...

2.1. OVERVIEW OF OPERATING PERFORMANCE continued...

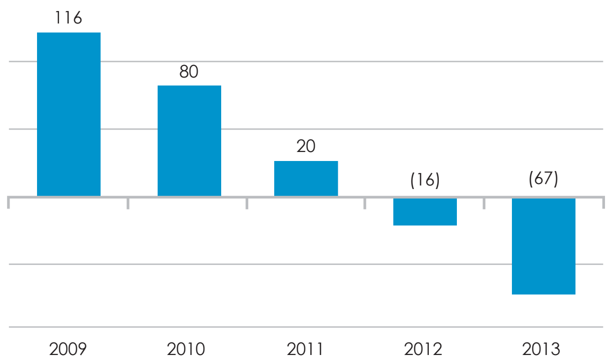
2.1.3 OTHER OPERATING AND ADMINISTRATION COSTS AND NET FINANCE INCOME

Other operating and administration costs increased by 16%, primarily due to higher retirement benefit costs as a result of recognising actuarial losses of R77m (2012: R54m). Net finance income increased significantly due to higher investments and lower debt levels.

Other operating & admin costs (R'm)



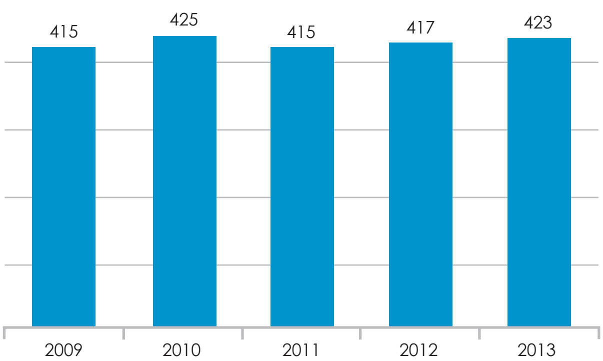
Net finance costs (income) (R'm)



2.2. BULK WATER VOLUME SALES ANALYSIS

The trend of positive volume growth continued in the current year, the group's major customer Ethekwini Metropolitan Municipality accounted for 1% of total 1.4% growth. The reduction in "other customers" was due to the transfer of customers to the relevant Water Service Authority, Umgunugundlovu District Municipality.

Treated water sold (Kl'm)



Volume - by customer and % change

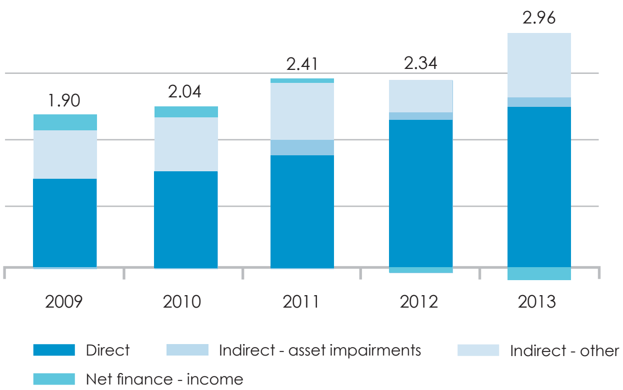
	2009		2010		2011		2012		2013	
	Kl'000	%	Kl'000	%	Kl'000	%	Kl'000	%	Kl'000	%
Ethekwini	326,232	3.4%	328,504	0.7%	310,994	(5.3%)	311,434	0.1%	315,669	1.4%
Other customers	89,200	1.4%	96,856	8.6%	103,882	7.3%	105,561	1.6%	107,122	1.5%
Msunduzi	56,525	(2.1%)	58,501	3.5%	63,938	9.3%	64,909	1.5%	64,668	(0.4%)
Umgungundlovu	10,572	13.4%	11,219	6.1%	11,112	(1.0%)	11,195	0.8%	14,772	31.9%
Siza	3,828	1.4%	4,171	9.0%	4,476	7.3%	4,488	0.3%	4,352	(3%)
Ugu	6,019	8.0%	7,871	30.8%	7,923	0.7%	8,203	3.5%	9,012	9.9%
iLembe	8,569	3.5%	11,692	36.4%	11,569	(1.1%)	12,514	8.2%	13,244	5.8%
Sisonke	822	2.5%	901	9.6%	921	2.2%	929	0.9%	936	0.7%
Other	2,865	16.7%	2,501	(12.7%)	3,943	57.7%	3,323	(15.7%)	138	(95.9%)
Total	**415,432**	**3.0%**	**425,360**	**2.4%**	**414,876**	**(2.5%)**	**416,995**	**0.5%**	**422,791**	**1.4%**

2. OPERATING PERFORMANCE continued...

2.3. BULK WATER COST PER KILOLITRE (Kl)

The average cost of bulk water per kl increased by 26% in the current year, from R2.34 to R2.96 driven primarily by the increased raw water costs due to the capital unit charges on the Spring Grove Dam and higher retirement benefit costs. The capital unit charges accounted for R0.408 or 14% of the total bulk water cost per Kl.

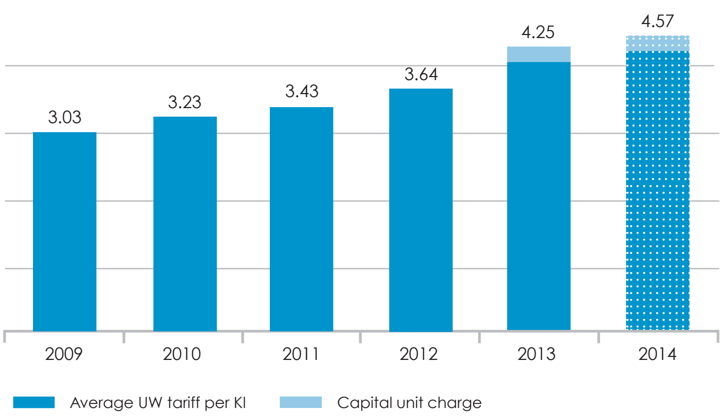
Cost per Kl of bulk water (R.c)



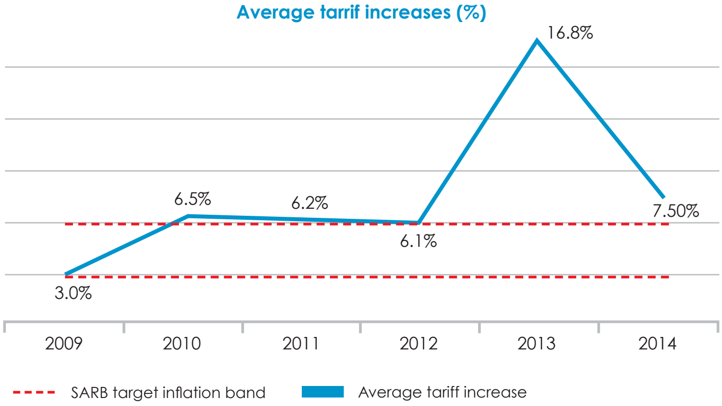
3. BULK WATER TARIFF

The average tariff increase of 16.8% in 2013 arose from the inclusion of the capital unit charge on the Spring Grove Dam of R0.408, whilst the Umgeni Water bulk water tariff component increase was 5.6%. The tariff increase for the next financial year, effective 1 July 2014, has been approved at an effective tariff increase of 7.5%. The tariff for 2013/2014 will not adversely affect Umgeni Water's gearing levels or impact on its financial sustainability in the short term.

Average tarrif per Kl (R.c)



Average tarrif increases (%)

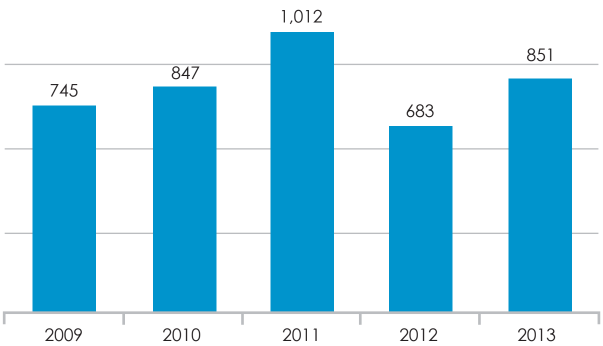


4. CASH FLOW ANALYSIS

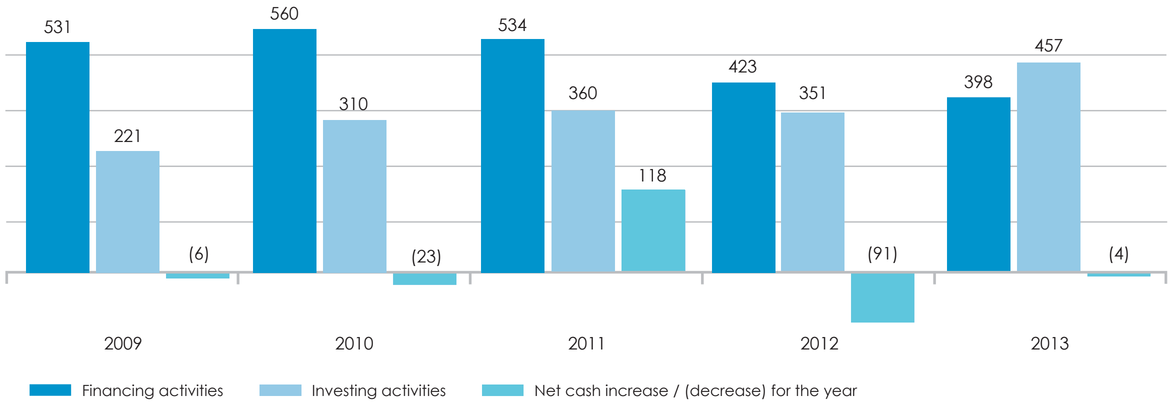
The group continues to maintain strong operating cash flows which has allowed for the repayment of debt and funding of capital expenditure.

Cash generated from operations totalled R851m (2012: R683m), an increase of R168m on the prior year. The increase is mostly attributable to working capital changes arising from accounts payable. During the year R167m (2012: R131m) rural bulk infrastructure grants were received in support of the social component of the capital infrastructure programme. The net cash from operating activities was utilised as follows: R624m in investing activities before grant funding and R398m in financing activities. Cash used in financing activities consisted of R122m debt repayment, R291m placed in financial investments and R14m net interest received.

Cashflow from operations (R'm)



Utilisation of cashflows from operations (R'm)



5. CAPITAL PROJECTS

The capital expenditure programme is based on Umgeni Water's infrastructure master plan which is aligned to the KZN bulk water supply strategy and is estimated at R5,4bn including escalation for the next 5 years. Details of the projects included in work in progress and commissioned during the year can be found in notes 10.1 and 10.2 of the financial statements.

The capital expenditure commitments for the next five years will be funded through a combination of R1,7bn available cash investments and operating cash flows, R930m from rural bulk infrastructure grants and R300m drawdown from a secured EIB loan facility.

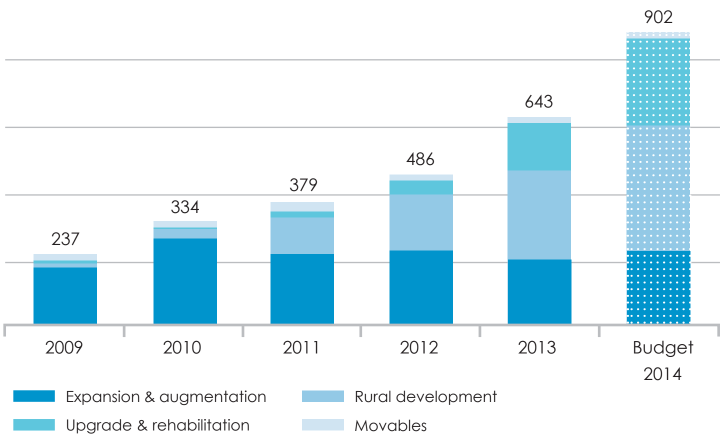
For further details on the funding requirements, refer to section 7.

5. CAPITAL PROJECTS continued...

5.1. CAPITAL EXPENDITURE

During the year Umgeni Water's capital expenditure totalled R643m (2012: R486m) against a target of R881m (2012: R590m).

Capital expenditure - Group (R'm)



5.2. RURAL DEVELOPMENT PROJECTS

In response to customer water demands and the need to eliminate water service delivery backlogs, a capital expenditure programme of about R4,1bn has been planned for rural development, with a specific allocation of R2,1bn for the period 2014 to 2018, representing 50% 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 rural development projects which cannot be recovered through the existing tariff structure. The social component carried by Umgeni Water is reflected in the statement of comprehensive income as impairments. These impairments are recognised during the construction period and reflected in work in progress on a progressive basis.

Rural Development projects funding & impairments June 2013

Project	System	Total Project value*	Funding split: Rural bulk infrastructure grant funding	Funding split: UW funding	2013 Impairment
		R'000	R'000	R'000	%
Greater Eston & Richmond	Upper Umgeni	538,262	196,547 *37%*	341,715 *63%*	28%
Greater Mpofana Phase 1	Mooi	349,815	62,324 *18%*	287,491 *82%*	7%
Lower Thukela BWS Phase 1	Lower Thukela	1,607,667	708,688 *44%*	898,978 *56%*	0%
Maphumulo BWS Scheme (Phase 1 & 2)	Umpper Mvoti	469,832	99,000 *21%*	370,832 *79%*	45%
Mhlabatshane BWS Scheme	South Coast	253,965	108,955 *43%*	145,011 *57%*	51%
uMshwathi BWS	Wartburg System	894,079	517,775 *58%*	376,304 *42%*	0%
Total		**4,113,620**	**1,693,289** *41%*	**2,420,331** *59%*	

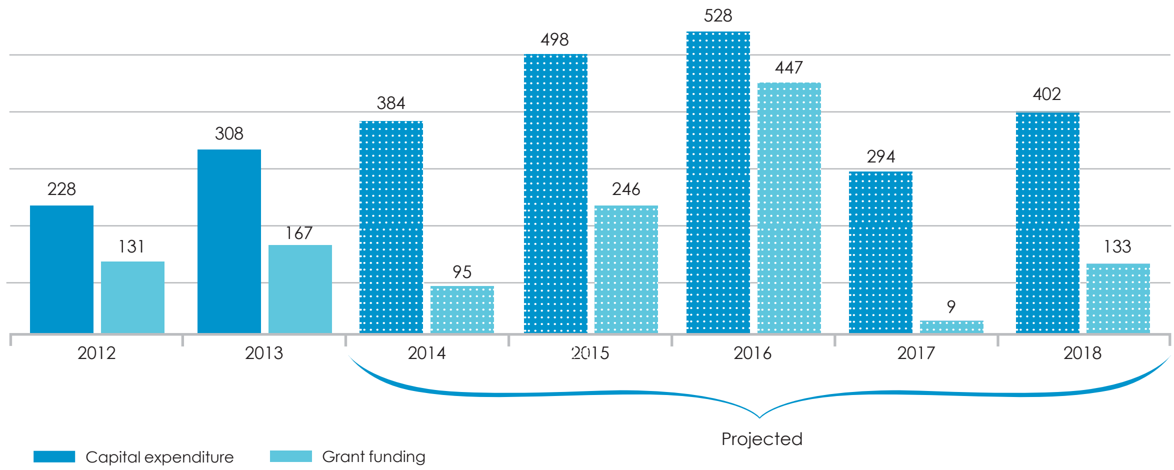
*Total project value includes interest and escalation

5. CAPITAL PROJECTS continued...

5.2. RURAL DEVELOPMENT PROJECTS continued...

The accumulated cost of capital work in progress for rural development projects was R532m (2012: R397m) and the current year impairment losses totalled R76m (2012: R72m). During the current year rural bulk infrastructure grants of R167m were received (2012: R131m). Further details can be found in note 10.1 of the annual financial statements.

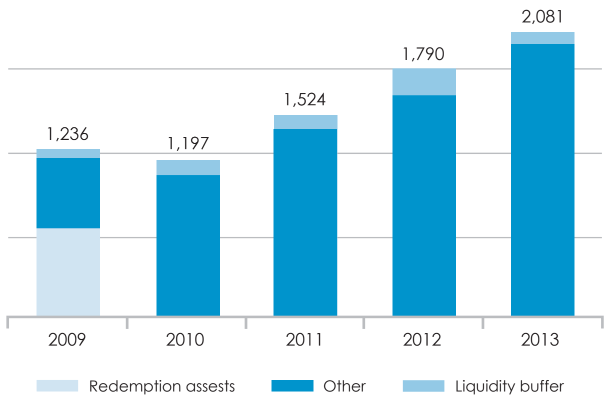
Capital expenditure on rural development projects and grant funding (R'm)



6. INVESTMENTS

Total financial investments increase by R291m in the current year to R2,081m. This is mainly attributable to lower than budgeted spend in capital expenditure amounting to R238m (2012: R104m) and rural bulk infrastructure grant funding received against of capital expenditure.

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. UW targets a gearing ratio of 0.67 and maintains a target interest rate structure of 70% fixed and 30% floating. As at 30 June 2013 a debt: equity ratio of 0.31 (2012: 0.40) was achieved primarily as a result of the increase in equity by R583m whilst the interest rate structure was 74% fixed and 26% floating (2012: 72% fixed and 28% floating).

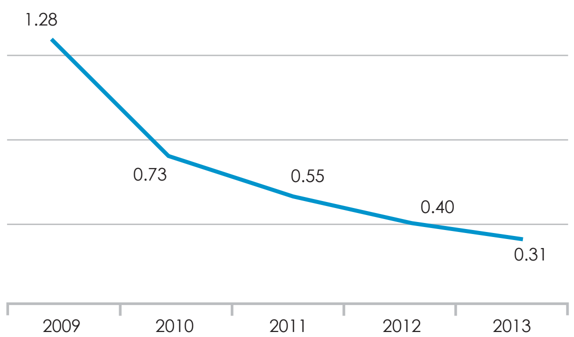
The gross weighted average cost of capital decreased to 9.23% (2012: 9.34%) due primarily to the reset of the floating rate loan at a rate lower than the prior year.

There was no new debt issued during the current year.

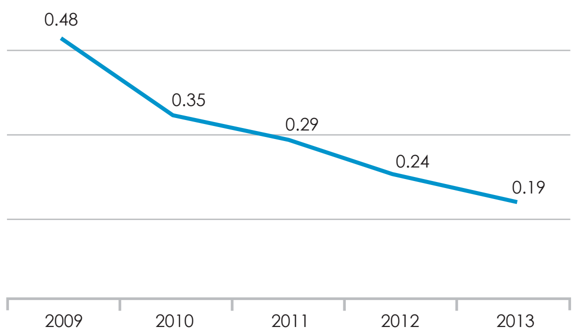
7. DEBT MANAGEMENT continued...

	Group 2013 R'm	Group 2012 R'm
Long-term	1,026	1,136
Short-term	109	121
Total Debt	1,135	1,257
Decrease in Funding	(122)	(116)

Debt: Equity (ratio)



Debt: Assets (ratio)



7.1. FUNDING REQUIREMENTS

Umgeni Water will continue to fund its requirements in the most cost effective way while diversifying its sources of funding. Umgeni Water's funding plans encompass:

- Issuing through its DMTN programme:
  - new bonds for long-term funding requirements;
  - commercial paper and other short-term notes for short to medium-term needs;
- utilising development funding; and
- bank loans.

Detailed cash flow forecasts have been prepared for the next five years, taking into account the group's R5,4bn planned capital expenditure and are detailed in the table that follows.

Funding Requirements

	Short-term	Medium-term			Long-term
Financial Year	2014	2015	2016	2017	2018
	R'm	R'm	R'm	R'm	R'm
Operational cash flows	641	666	690	723	762
CapEx - Gross (escalated)	(976)	(1,203)	(1,261)	(986)	(928)
Net operating cash shortfall after capex	(335)	(537)	(571)	(263)	(166)
CapEx - Grants: confirmed	47	203	275	-	-
CapEx - Grants: to be confirmed	48	43	172	9	133
Net financing activities	111	(206)	(217)	(175)	(261)
Annual funding requirements	(129)	(497)	(341)	(429)	(294)
Net (funding) investing requirements					
Opening balance call investments	1,741	1,613	1,115	774	345
Closing balance	1,612	1,116	774	345	51

7. DEBT MANAGEMENT continued...

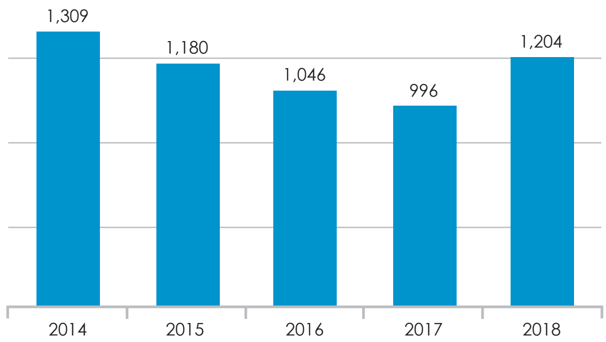
7.1. FUNDING REQUIREMENTS continued...

The funding requirements in the short to medium term will be funded primarily through the existing R1,741m call investments and drawdown from an EIB loan facility and in the long term via a bond issuance in 2017 and 2018 through the DMTN programme. The cumulative funding requirement will result in projected debt levels which are still within the targeted debt: equity ratio of 0.67. Further details of the various sources of funding available to Umgeni Water can be found in note 32 of the financial statements.

7.2. PROJECTED BORROWING LEVEL

The projected borrowing levels are within the borrowing limits approved to 2014.

Projected borrowing level (R'm)



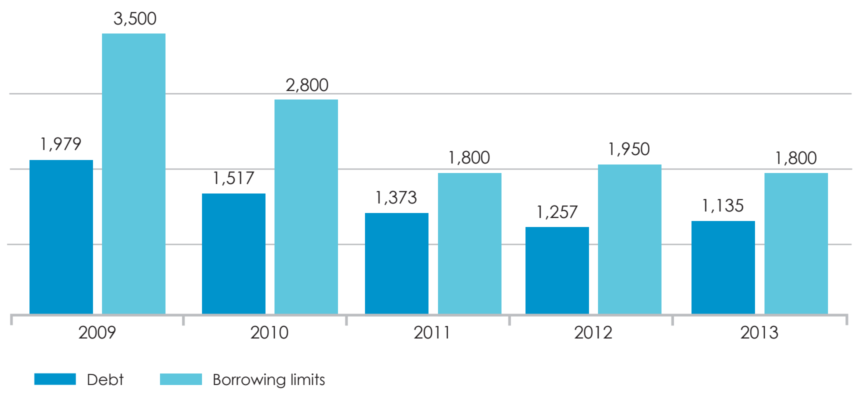
7.3. BORROWING LIMITS

The borrowing limits for the period 2012 to 2014 have been approved by National Treasury with the concurrence of the Minister of Water and Environmental Affairs. The borrowing limit is applicable to the value of gross borrowings, collateral & guarantees exposure and may not exceed the approved unconditional limit.

	Unconditional	Conditional	Total borrowing limit
	R'm	R'm	R'm
2012	1,950	-	1,950
2013	1,800	-	1,800
2014	1,750	-	1,750

Utilisation of the borrowing limit as at 30 June 2013 was as follows:	
Actual gross borrowings	R1,135m
Collateral and guarantees	R0,001m
Total actual borrowings	R1,136m
Borrowing limit	R1,800m
Underutilisation	R 664m

Debt and borrowing limits (R'm)



7. DEBT MANAGEMENT continued...

7.4. CREDIT RATINGS

Umgeni Water's national credit ratings as issued by Fitch Ratings Agency are reflected at AA (long-term) and F1+ (short-term). There was a downgrading of the long-term rating from AA+ to AA in the current financial year due to a recalibration of the national ratings.

8. RETIREMENT BENEFIT OBLIGATIONS

Defined benefit pension plan

In terms of IAS19, the group's retirement benefit plan is in an under-funded position of R208m (2012: R162m) and in terms of the approved accounting policy R131m (2012: R54m) has been reflected in the statement of financial position in order to account for this liability. Further details are disclosed in note 28 to the financial statements.

Retirement Medical Aid

This scheme is currently unfunded and the group has recognised its full past service liability in the statement of financial position at the actuarial valuation of R295m (2012: R259m).

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 and mitigating strategies are analysed in note 32 on financial risk management to the financial statements and the Corporate Risk Management Framework on page 96 - 99 of the annual report.

10. ACCOUNTING POLICIES AND CHANGES IN ESTIMATES

The adoption of the new and revised standards and interpretations issued by the International Accounting Standards Board and the International Reporting Interpretations Committee effective for the current year, as noted in the accounting policies, have not led to any significant changes in the group's accounting policies.

The revised standard on employee benefits, IAS 19, will have an impact on the defined benefit pension plan as the group currently applies the corridor method of recognising actuarial gains and losses. During the prior year the group changed its estimate with regards to recognising actuarial losses over a three year smoothing period in anticipation of adopting IAS19 revised in 2014. As at 30 June 2013 unrecognised actuarial losses on the defined benefit pension plan totalled R77m (2012: R108m). The group is in the process of assessing the impact of this revised standard on the financial statements.

During the year, Umgeni Water conducted an operational review and physical verification of its assets which has resulted in changes in the expected usage of certain items of property, plant and equipment. As a result there have been changes in the remaining useful lives of assets. The effect of these changes on actual depreciation expense in the current year has been a credit of R8,2m, with an expected increase in the depreciation charge of R2,2m for 2014.

11. FUTURE PROSPECTS

The focus will be to continue as a financially viable entity whilst making financial resources available that enable the organisation to embark on a drive towards expansion of water services, growth and rural development.

Five-year Key Performance Indicators

	2013	2012	2011	2010	2009	2013-2012 Movement
Performance criteria/indicators						
Total revenue (R'm)	2,082	1,847	1,661	1,633	1,492	12.69%
Profit from operations/revenue	0.25	0.31	0.27	0.38	0.43	(19.35%)
Total expenditure/revenue	0.73	0.71	0.74	0.68	0.67	2.96%
Cost of sales/revenue	0.50	0.46	0.40	0.38	0.37	8.70%
Net finance costs/revenue	(0.01)	(0.01)	0.01	0.05	0.08	0.00%
Bulk water business segment						
Treated water volume sold (Kl'000)	422,791	416,995	414,876	425,361	415,432	1.39%
Raw water volume sold (Kl'000)	595	787	550	487	524	(24.37%)
Total water sold (Kl'000)	423,386	417,782	415,426	425,848	415,956	1.34%
Bulk water tariff 1 (Rc/Kl)	3.901	3.694	3.482	3.279	3.078	5.60%
Capital unit charge Spring Grove Dam (Rc/Kl)	0.408	-	-	-	-	100.00%
Total bulk water tariff (Rc/Kl)	4.309	3.694	3.482	3.279	3.078	16.65%
Bulk water tariff 2 (Rc/Kl)	3.825	3.622	3.414	3.215	3.019	5.60%
Capital unit charge Spring Grove Dam (Rc/Kl)	0.408	-	-	-	-	100%
Total bulk water tariff (Rc/Kl)	4.233	3.622	3.414	3.215	3.019	16.87%
WRC levy (Rc/Kl)	0.041	0.041	0.041	0.039	0.035	0.00%
Total cost/volume sold (Rc/Kl)(1)	2.96	2.34	2.41	2.40	1.90	26.28%
Kl'000 sold per employee(1)	433	448	455	459	451	(3.13%)
Operating risk indicators						
Working ratio Operating costs (excl depreciation and amortisation) divided by revenue	0.71	0.66	0.62	0.52	0.48	7.58%
Rate of return on assets Profit from operations divided by assets (excl investments)	13.39%	16.87%	13.65%	19.85%	22.54%	(20.63%)
Gross profit margin ratio Gross profit divided by revenue	49.91%	53.61%	60.15%	61.98%	63.49%	(6.91%)
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	37	30	41	52	39	21.90%
Financial risk indicators						
Current ratio Current assets divided by current liabilities	3.21	3.28	2.37	2.39	0.99	(0.02%)
Interest cover Profit from operations divided by finance costs	7.71	6.78	3.90	2.68	2.40	0.14%
Interest cover before interest capitalised Profit from operations divided by finance costs before interest capitalised	4.52	4.53	3.10	2.38	2.34	0.01%
Net debt : equity ratio(2) Net interest-bearing debt divided by capital and reserves	-	-	-	0.15	0.48	0.00%
Debt : equity ratio Total interest-bearing debt divided by capital and reserves	0.31	0.40	0.55	0.73	1.28	(23.96%)
Debt : asset ratio Total interest-bearing debt divided by total assets	0.19	0.24	0.29	0.35	0.48	(20.68%)

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

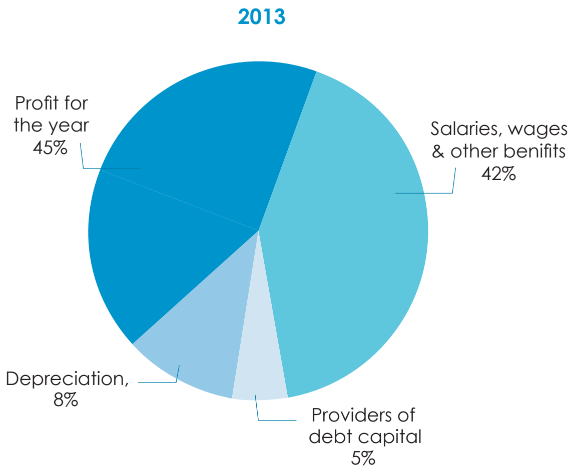
(2) Net debt is total interest bearing debt less investments.

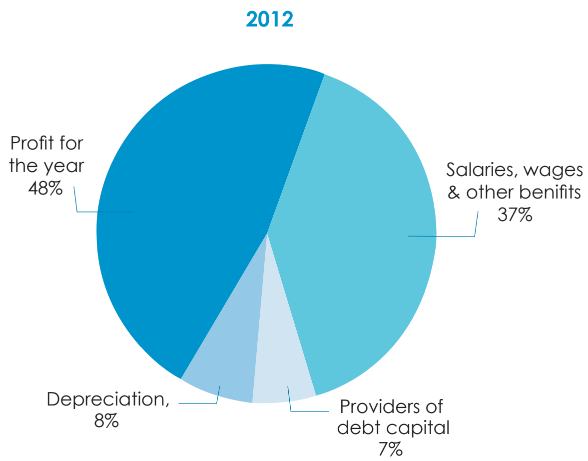
Five-year Financial Performance

	2013	2012	2011	2010	2009
	R'000	R'000	R'000	R'000	R'000
Financial position					
Capital and reserves	3,691,228	3,107,777	2,516,445	2,088,004	1,547,292
Net debt	(945,624)	(533,193)	(151,269)	320,152	743,008
Assets excluding investments	3,826,892	3,398,317	3,260,658	3,111,025	2,848,068
Total interest-bearing debt	1,135,381	1,257,137	1,372,793	1,517,448	1,978,904
Total investments	2,081,005	1,790,330	1,524,062	1,197,295	1,237,897
Total assets	5,907,897	5,188,647	4,784,720	4,308,322	4,083,964
Financial performance					
Revenue	2,081,615	1,847,151	1,660,912	1,633,043	1,492,688
Cost of sales	(1,042,691)	(856,808)	(661,843)	(620,856)	(545,011)
Gross Profit	1,038,924	990,343	999,069	1,012,187	947,677
Other income (expenses)	18,814	52,109	(9,366)	8,529	31,707
Other operating and administration expenses	(545,288)	(469,197)	(544,639)	(403,216)	(337,338)
Profit from operations	512,450	573,255	445,064	617,500	642,046
Net finance income (costs)	67,519	15,546	(19,923)	(79,773)	(116,296)
Share of profit from associate	3,482	2,531	3,300	2,985	1,264
Profit before taxation	583,451	591,332	428,441	540,712	527,014
Taxation	-	-	-	-	-
Profit for the year	583,451	591,332	428,441	540,712	527,014
Cash flow					
Net cash from operating activities	850,944	683,230	1,012,358	846,621	745,278
Net cash used in investing activities	(456,450)	(350,889)	(360,368)	(310,422)	(220,516)
Net cash generated	394,494	332,341	651,990	536,199	524,762
Net cash used in financing activities	(398,461)	(422,854)	(534,168)	(559,629)	(530,700)
Net decrease (increase) for the year	3,967	90,513	(117,822)	23,430	5,938
Net cash utilised	(394,494)	(332,341)	(651,990)	(536,199)	(524,762)

Value Added Statement

	2013	2012	2011	2010	2009
	R'000	R'000	R'000	R'000	R'000
Gross revenue	2,081,615	1,847,151	1,660,912	1,633,043	1,492,688
Paid to suppliers for materials & services	(932,209)	(724,643)	(777,106)	(604,262)	(479,295)
Value added	1,149,406	1,122,508	883,806	1,028,781	1,013,393
Income from investments	134,026	100,135	94,267	150,568	151,193
Total wealth created	1,283,432	1,222,643	978,073	1,179,349	1,164,586
Salaries, wages and other benefits	537,553	453,241	348,352	327,111	296,718
Providers of debt capital	66,507	84,589	114,190	230,341	267,489
Depreciation	95,921	93,481	87,090	81,185	73,365
Profit for the year	583,451	591,332	428,441	540,712	527,014
Total wealth distributed	1,283,432	1,222,643	978,073	1,179,349	1,164,586





Employee Statistics

	2013	2012	2011	2010	2009	2013-2012 Movement
Number of employees as at year-end	976	931	912	926	921	4.83%
Gross revenue per employee (R'000)	2,133	1,984	1,821	1,764	1,621	7.50%
Value added per employee (R'000)	1,178	1,206	969	1,111	1,100	(2.32%)
Wealth created per employee (R'000)	1,315	1,313	1,072	1,274	1,264	0.13%

Statement of Directors Responsibilities and Approval of the Financial Statements

The directors are required by the Public Finance Management Act to keep full and proper records of the financial affairs of Umgeni Water and its subsidiaries (the group) and to prepare financial statements which fairly present the state of affairs of Umgeni Water and the group, its financial results, cash flows, its performance against predetermined objectives for the year and its financial position at the end of the year.

The financial statements set out in this report have been prepared in accordance with International Financial Reporting Standards as approved by National Treasury in terms of section 79 of the Public Finance Management Act No.1 of 1999, as amended, and in the manner required by the Water Services Act No. 108 of 1997. The financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgements and estimates and are prepared on a going concern basis.

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

To enable the directors to meet their responsibilities, the Board sets standards and management implement systems of internal control aimed at reducing the risk of error or loss in a cost-effective manner. These standards include policies, procedures, proper division of responsibilities within a clearly defined framework and effective accounting procedures to ensure an acceptable level of risk. Both management and internal audit monitor controls and actions are taken to correct deficiencies as they are identified.

The focus of risk management in the group is on identifying, assessing, managing and monitoring all known forms of risk across the group. While operating risks cannot be fully eliminated, the group strives to minimise these risks by ensuring that appropriate infrastructure, controls, systems and ethical behavior are applied and managed within predetermined procedures and constraints.

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

The Audit Committee has evaluated Umgeni Water and the group's financial statements and has recommended their approval to the Board. The Audit Committee's approval is set out on page 117.

The directors have reviewed the group's forecast financial performance for the year to 30 June 2014 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 or has access to adequate resources to continue as a going concern for the foreseeable future.

Approval of Financial Statements

The financial statements set out on pages 120 to 173 were approved by the Board of directors on 30 September 2013, and thus signed on their behalf by:

A. Mahlalutye

Mr Andile Mahlalutye
Chairman of the Board

Cyril Gamede
Chief Executive

Report of the Audit Committee

Report of the Audit Committee in terms of regulation 27.1 of the Public Finance Management Act No. 1 of 1999, as amended

The Audit Committee reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter, and has discharged all of its responsibilities contained therein.

In the conduct of its duties, the Audit Committee has, inter alia, reviewed the following:

- Internal control, risk management and compliance with legal and regulatory provisions:
  - the effectiveness of the internal control systems;
  - the risk areas of the entity's operations covered in the scope of internal and external audits;
  - the effectiveness of the system of and process of risk management including the following specific risks:
    - financial reporting;
    - internal financial controls;
    - fraud risks relating to financial reporting; and
    - information technology risks relating to financial reporting;
  - the effectiveness of the entity's compliance with legal and regulatory provisions.

- Financial information and finance function:
  - the adequacy, reliability and accuracy of financial information provided by management and other users of such information; and
  - the experience, expertise and resources of the finance function.

- Internal and external audit:
  - accounting and auditing concerns identified as a result of internal and external audits;
  - the effectiveness of internal audit;
  - the activities of internal audit, including its annual work programme, co-ordination with the external auditor, the reports of significant investigations and the responses of management to specific recommendations; and
  - the independence and objectivity of the external auditor.

The Audit Committee is of the opinion, based on the information and explanations given by management and internal audit and discussions with the independent external auditors on the result of their audits, that the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the financial statements, and accountability for assets and liabilities is maintained.

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.

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 2013 and, based on the information provided to the Audit Committee, considers that they comply, in all material respects, with the requirements of the Public Finance Management Act No. 1 of 1999, as amended, and International Financial Reporting Standards. The Audit Committee concurs with the Board of directors that the adoption of the going concern premise in the preparation of the financial statements is appropriate. The Audit Committee has therefore recommended, at their meeting held on 28 August 2013, the adoption of the financial statements by the Board of directors.

Professor I Vally
Audit Committee Chair
28 August 2013

Report of the Auditor-General to Parliament and the Minister of Water and Environmental Affairs on Umgeni Water

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying consolidated and separate financial statements of Umgeni Water, set out on pages 120 - 173 which comprise the consolidated and separate statement of financial position as at 30 June 2013, the consolidated and separate statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the consolidated financial statements

2. The Board of directors which constitutes the accounting authority is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards (IFRSs) 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 management 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 and separate financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2001) (PAA), the *General Notice* issued in terms thereof and 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 consolidated and separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 and separate financial statements present fairly, in all material respects, the financial position of Umgeni Water and its subsidiaries as at 30 June 2013, and their financial performance and cash flows for the year then ended in accordance with IFRS and the requirements of the PFMA and the Companies Act of South Africa.

Other reports required by the Companies Act

7. As part of my audit of the financial statements for the year ended 30 June 2013, I have read the Directors' report, and the Audit Committee's report for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the Board of directors. Based on my review of these reports, I have not identified material inconsistencies between these 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

8. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

9. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 46 - 53 of the annual report.
10. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury Framework for managing programme performance information.

11. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
12. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Compliance with laws and regulations

13. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters.
14. I did not identify any instances of material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA.

Internal control

15. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. I did not identify any deficiencies in internal control which we considered sufficiently significant for inclusion in this report.

Auditor-General

Pietermaritzburg
30 September 2013

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 2013.

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 waste water.

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 and 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; and
- Companies Act No. 71 of 2008 (Subsidiaries).

At this stage there's no clear ruling on whether Umgeni Water as a state owned enterprise is required to comply fully with the Companies Act No. 71 of 2008. We have however committed to adopt and comply with legislation in term of the provisions and regulations regarding accounting records, financial statements and other matters which may have an impact on the annual financial statements.

CORPORATE GOVERNANCE AND RISK MANAGEMENT

The Board supports the Code of Governance Principles as set out in King III. The Board has reviewed compliance with King III and is in the process of aligning its processes, policies and procedures to be in line with the required principles.

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 26 - 33, and risk management on pages 96 - 99.

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 34 - 37 of the annual report.

Members of the Board and Executive Committee's emoluments are disclosed in the remuneration report on page 123 in terms of regulation 28.1 of the PFMA.

COMPANY SECRETARY AND REGISTERED ADDRESS

The Company Secretary is Mr Mulalo Razwanini. His registered address and that of the registered office during his term of office in the current financial year were as follows:

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

AUDITORS

The Auditor General has been re-appointed as the external auditor for the current financial year.

TARIFF POLICY

Section 34 of the Water Services Act No.108 of 1997 states that the water tariff must allow for the following:

- repayment and servicing of debt;
- recovery of capital, operational and maintenance costs;
- reasonable provision for depreciation of assets;
- recovery of costs associated with the repayment of capital from revenues (including subsidies) over time; and
- reasonable provision for future capital requirements and expansion.

Thus in setting its tariff policy Umgeni Water has committed to the following underlying principles:

- the promotion of the efficient and sustainable use of water;
- the equitable access to water supply services, whereby the basic water service should be affordable; and
- the solvency and sound financial management of Umgeni Water.

In implementing the tariff policy Umgeni Water uses a 30 year tariff model which is based on the cash flow methodology underpinned by a financially viable tariff. As a result of this cash flow methodology the organisation is able to manage its debt level which is the ultimate output of this model.

The annual tariff review process is in terms of the requirements of Section 42 of the Municipal Finance Management Act and Circular 23 issued by National Treasury. This process encompasses the principle of consultation and transparency and aims to assist Umgeni Water's stakeholders with their long term planning.

The tariff increase for 2013/2014 effective 1 July 2013 has been approved at 8.3% for all Water Service Authorities plus a capital unit charge of R0.408 charged on behalf of DWA for the Spring Grove Dam. The directors, after full analysis of its projected cash flows, are of the opinion that the tariff for 2013/2014 is appropriate and will not adversely affect Umgeni Water's gearing levels or its financial sustainability.

Price per kilolitre	2012	2013	2014
Bulk Tariff 1			
Base tariff	R 3.482	R 3.694	R 3.901
Tariff increase	R 0.212	R 0.207	R 0.324
Sub total	R3.694	R3.901	R4.225
Capital unit charge Spring Grove Dam	-	R 0.408	R 0.408
New Tariff	**R3.694**	**R4.309**	**R4.633**
% increase	6.1%	16.6%	7.5%
Bulk Tariff 2-Ethekwini Metropolitan Municipality			
Base tariff	R 3.414	R 3.622	R 3.825
Tariff increase	R 0.208	R 0.203	R 0.317
Sub total	R3.622	R3.825	R4.142
Capital unit charge Spring Grove Dam	-	R 0.408	R 0.408
New Tariff	**R3.622**	**R4.233**	**R4.550**
% increase	6.1%	16.9%	7.5%

FINANCIAL PERFORMANCE

Profit for the year of R583m reflects a 1.3% decrease year on year due mainly to an increase in direct costs of 21.7% and other operating and administrative costs of 16.2% and a reduction in other income by 63.9%.

Revenue reflected growth of 12.7% due to a combination of an increase of 1.4% in potable bulk water volume sales and an average tariff increase of 16.8% which includes the capital unit charge for Spring Grove Dam. Section 30 revenue decreased by 17.5% mainly due to delays in the Greater Mbizana project due to floods. Direct costs of production increased by 21.7% due to increases in chemicals, staff costs, and raw water costs. Raw water costs have increased by 121.9% in the current year due to the capital unit charge on Spring Grove Dam which accounts for R173m of the total raw water costs. Overall the gross profit margins decreased by 4%. Other operating and administration expenses increased by 16.2%, primarily due to increases in the actuarial loss on the defined pension plan. Net finance income increased by 347% in the current year.

Cash generated from operating activities increased by 24.6% to R851m (2012: R683m). The increase is due primarily to a reduction in working capital requirements.

The net cash used in investing activities was R456m (2012: R351m). The amount spent on capital projects (PPE & intangible assets) totalled R643m (2012: R486m), whilst grant funding received towards capital expenditure was R167m (2012: R131m).

Debt of R122m (2012: R116m) was repaid, while R291m (2012: R286m) was placed in financial investments and R14m net interest received (2012: R22m net interest paid).

The total interest bearing debt has reduced by R122m to R1,135m (2012: R1,257m) resulting in a reduction of the gearing level to 0.31 (2012: 0.40) whilst the interest cover ratio was 4.52 (2012: 4.53).

Refer to the financial review and financial statements for full details of financial performance.

CAPITAL EXPENDITURE AND COMMITMENTS

Capital expenditure for the year amounted to R640m (2012: R482m) for property, plant and equipment and R3m (2012: R4m) for intangible assets (software). The group's capital commitments are set out in note 10.3 of the financial statements and the funding thereof is discussed in the financial review on page 110.

Impairments to property, plant and equipment totalled R76m (2012: R72m). Impairment to existing assets included in buildings and infrastructure was R0,3m (2012: R5m) and work in progress R75,7m (2012: R67m). The impairments during the current year related primarily to rural development infrastructure. Refer to note 10 of the financial statements for further details on impairments.

SUBSIDIARY AND ASSOCIATE COMPANIES

There were no changes to subsidiary and associate companies during the year. Further details are set out in note 13 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.

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 R10,4m (2012: R9,0m). Management also apply a qualitative aspect to all errors found.

FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure for the year was R0,051m (2012:R0,5m). Further details are set out in note 31 of the financial statements.

IRREGULAR EXPENDITURE

Irregular expenditure totalling R0,4m (2012: R1,9m) 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 30 of the financial statements.

FRAUD & FINANCIAL MISCONDUCT

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

Disciplinary proceedings have been instituted, employees will be charged, and criminal proceedings instituted 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 46 - 53.

REMUNERATION COMMITTEE

The Human Resources and Remuneration Committee assists the Board in applying:

(a) the policy set by the Department of Water and Enviromental Affairs for the remuneration of the directors and the Chief Executive (CE); and

(b) the remuneration policy approved by the Board for the Executives.

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 2018
Ms M Gevers	GM Finance	01 March 2003	01 March 2011	Contract ends 30 September 2013
Mr S Gillham	GM Engineering and Scientific Services	01 February 2012	n/a	01 February 2017
Ms P Gwala	GM Corporate Service	01 December 2008	n/a	01 December 2013
Mr ESM Msweli	GM Operations	01 October 2011	n/a	01 October 2016
Mr P Jonas	n/a	01 January 2003	permanent	Retired 31 January 2012
Mr MD Mokotedi	n/a	01 July 2011	n/a	Resigned 31 July 2011
Mr M Msiwa	n/a	01 February 2003	01 September 2006	Contract ended 31 August 2011

DIRECTORS' AND EXECUTIVES' EMOLUMENTS

					2013	2012
	R'000	R'000	R'000	R'000	R'000	R'000
	Fees for services/ salary	Allowances & Bonuses	Expense allowances	Retirement contributions	Total	Total
Non-Executive Board Members						
Ms N Afolayan	278	-	9	-	287	311
Mr GDJ Atkinson	327	-	20	-	347	371
Ms NB Chamane	362	-	13	-	375	360
Ms TMV Dube	300	-	8	-	308	286
Mr VG Gounden	189	-	6	-	195	60
Ms J John[N1]	-	-	-	-	-	6
Ms M Lesoma (Vice Chairman)[N7]	6	-	-	-	6	191
Mr A Mahlalutye (Chairman)	450	-	9	-	459	641
Ms ZB Mathenjwa	315	-	5	-	320	377
Mr T Nkhahle	285	-	5	-	290	338
Mr S Nxedlana	234	-	17	-	251	190
Mr VG Reddy	354	-	9	-	363	330
Ms TC Shezi	304	-	11	-	315	296
Mr IAS Vally	339	-	14	-	353	416
Mr T Zulu	173	-	7	-	180	97
Total Non Executive Board Members	**3,916**	**-**	**133**	**-**	**4,049**	**4,270**
Executive Board Member						
Mr C Gamede (CE)[N3]	2,211	-	182	-	2,393	-
Mr M Msiwa[N4]	-	-	-	-	-	1,368
Total - Parent	**6,127**	**-**	**315**	**-**	**6,442**	**5,638**
Msinsi Holdings (Pty) Ltd						
Non-Executive Board Members	78	-	-	-	78	68
Total Subsidiaries	**78**	**-**	**-**	**-**	**78**	**68**
Total Group	**6,205**	**-**	**315**	**-**	**6,520**	**5,706**
Exco Members						
Ms M Gevers[N2]	1,514	312	157	324	2,307	2,321
Mr S Gillham	970	186	252	215	1,622	508
Ms P Gwala	1,218	178	144	199	1,740	1,747
Mr P Jonas[N5]	-	-	-	-	-	1,505
Mr MD Mokotedi[N6]	-	-	-	-	-	117
Mr ESM Msweli	1,200	140	232	191	1,763	1,103
Total Exco	**4,902**	**816**	**785**	**929**	**7,432**	**7,301**

N1: Resigned 30 August 2011
N2: Acting Chief Executive from 1 September 2011 to 17 August 2012
N3: Appointed on 20 August 2012
N4: Chief Executive, contract ended and retired 31 August 2011
N5: Retired 31 January 2012
N6: Appointed 1 July 2011 and resigned on 31 July 2011
N7: Resigned 01 April 2012

Statements of Comprehensive Income
For the year ended 30 June 2013

		Group		Parent	
		2013	2012	2013	2012
	Note	R'000	R'000	R'000	R'000
Revenue	5	2,081,615	1,847,151	2,068,668	1,835,075
Cost of sales		(1,042,691)	(856,808)	(1,042,691)	(856,808)
Changes in water inventory	17.2	616	211	616	211
Chemicals		(50,452)	(41,786)	(50,452)	(41,786)
Depreciation		(76,653)	(73,925)	(76,653)	(73,925)
Energy		(107,884)	(103,391)	(107,884)	(103,391)
Maintenance		(137,456)	(130,804)	(137,456)	(130,804)
Raw water		(334,171)	(150,598)	(334,171)	(150,598)
Section 30 activities		(184,123)	(235,157)	(184,123)	(235,157)
Staff costs		(117,203)	(105,291)	(117,203)	(105,291)
Other direct operating expenses		(35,365)	(16,067)	(35,365)	(16,067)
Gross profit		**1,038,924**	**990,343**	**1,025,977**	**978,267**
Other income	6	18,814	52,109	18,665	51,960
Other operating and administration expenses		(545,288)	(469,197)	(531,089)	(454,924)
Profit from operations	7	**512,450**	**573,255**	**513,553**	**575,303**
Net finance income		67,519	15,546	67,552	15,512
Interest income	8	134,026	100,135	134,029	100,079
Finance costs	9	(66,507)	(84,589)	(66,477)	(84,567)
Share of profit from associate		3,482	2,531	-	-
Profit for the year		**583,451**	**591,332**	**581,105**	**590,815**
Other comprehensive income		-	-	-	-
Other comprehensive income for the year		**-**	**-**	**-**	**-**
Total comprehensive income for the year		**583,451**	**591,332**	**581,105**	**590,815**
Profit attributable to:					
Equity holders of the parent		583,451	591,332		
Total comprehensive income attributable to:					
Equity holders of the parent		583,451	591,332		

Statements of Financial Position
For the year ended 30 June 2013

	Note	Group 2013 R'000	Group 2012 R'000	Parent 2013 R'000	Parent 2012 R'000
ASSETS					
Non-current assets		**3,481,722**	**3,143,293**	**3,472,121**	**3,133,724**
Property, plant and equipment	10	3,443,935	3,097,613	3,441,872	3,095,504
Intangible assets	11	9,374	9,753	9,374	9,753
Biological assets	12	4,089	4,898	-	-
Investments in subsidiaries and associates	13	6,005	6,110	2,556	3,548
Investments	14	5,179	9,995	5,179	9,995
Other financial assets	15	13,140	14,924	13,140	14,924
Assets held for sale	16	**-**	**13,500**	**-**	**13,500**
Current assets		**2,426,175**	**2,031,854**	**2,418,927**	**2,026,907**
Investments	14	2,075,826	1,780,335	2,075,826	1,780,335
Inventories	17	11,029	9,002	11,029	8,965
Trade and other receivables	18	304,099	205,734	299,445	202,428
Interest and premium receivable	19	27,610	25,205	27,610	25,205
Bank and cash	20.1	7,611	11,578	5,017	9,974
Total assets		**5,907,897**	**5,188,647**	**5,891,048**	**5,174,131**
EQUITY AND LIABILITIES					
Capital and reserves		**3,691,228**	**3,107,777**	**3,679,113**	**3,098,008**
Capital	21	442,847	442,847	442,847	442,847
Accumulated profit		3,248,381	2,664,930	3,236,266	2,655,161
Non-current liabilities		**1,461,793**	**1,461,073**	**1,461,793**	**1,461,073**
Long-term debt	22	1,025,930	1,136,306	1,025,930	1,136,306
Other non-current liabilities	23	10,558	12,471	10,558	12,471
Post-retirement benefit obligations	28	425,305	312,296	425,305	312,296
Current liabilities		**754,876**	**619,797**	**750,142**	**615,050**
Short-term debt	22	109,451	120,831	109,451	120,831
Provisions	24	45,380	65,185	44,263	63,331
Accounts payable	25	568,649	399,121	565,032	396,228
Interest payable		31,396	34,660	31,396	34,660
Total equity and liabilities		**5,907,897**	**5,188,647**	**5,891,048**	**5,174,131**

Statements of Changes In Equity
For the year ended 30 June 2013

	Group - Attributable to equity holders of the parent		
	Capital	Accumulated profit	Total
	R'000	R'000	R'000
Balance as at 30 June 2011	**442,847**	**2,073,598**	**2,516,445**
Movement for the year			
Total comprehensive income	-	591,332	591,332
Profit for the year	-	591,332	591,332
Other comprehensive income	-	-	-
Balance as at 30 June 2012	**442,847**	**2,664,930**	**3,107,777**
Movement for the year			
Total comprehensive income	-	583,451	583,451
Profit for the year	-	583,451	583,451
Other comprehensive income	-	-	-
Balance as at 30 June 2013	**442,847**	**3,248,381**	**3,691,228**

	Parent		
	Capital	Accumulated profit	Total
	R'000	R'000	R'000
Balance as at 30 June 2011	**442,847**	**2,064,346**	**2,507,193**
Movement for the year			
Total comprehensive income	-	590,815	590,815
Profit for the year	-	590,815	590,815
Other comprehensive income	-	-	-
Balance as at 30 June 2012	**442,847**	**2,655,161**	**3,098,008**
Movement for the year			
Total comprehensive income	-	581,105	581,105
Profit for the year	-	581,105	581,105
Other comprehensive income	-	-	-
Balance as at 30 June 2013	**442,847**	**3,236,266**	**3,679,113**

Statements of Cash Flows
For the year ended 30 June 2013

	Note	Group 2013 R'000	Group 2012 R'000	Parent 2013 R'000	Parent 2012 R'000
OPERATING ACTIVITIES					
Cash receipts from customers		1,974,773	1,876,987	1,974,773	1,876,987
Cash paid to suppliers and employees		(1,123,829)	(1,193,757)	(1,122,556)	(1,192,266)
Net cash from operating activities	20.2	850,944	683,230	852,217	684,721
INVESTING ACTIVITIES					
Proceeds on disposals of assets		15,635	1,112	15,636	1,112
Grant funding	10	167,080	131,056	167,080	131,056
Additions to property, plant and equipment	10	(640,207)	(481,668)	(639,465)	(481,208)
Additions to intangible assets	11	(2,990)	(3,947)	(2,990)	(3,947)
Proceeds on disposal of biological assets		550	-	-	-
Increase of inter-company borrowings		3,482	2,558	993	1,302
Net cash used in investing activities		(456,450)	(350,889)	(458,746)	(351,685)
FINANCING ACTIVITIES					
Long-term borrowings repaid	22	(121,756)	(115,656)	(121,756)	(115,656)
Increase in investments		(290,675)	(286,085)	(290,675)	(286,085)
Interest received		130,662	107,008	130,602	106,952
Proceeds on disposal of available for sale investments		-	421	-	421
Finance costs paid		(116,692)	(128,542)	(116,599)	(128,520)
Net cash used in financing activities		(398,461)	(422,854)	(398,428)	(422,888)
CASH AND CASH EQUIVALENTS					
Net decrease for the year		(3,967)	(90,513)	(4,957)	(89,852)
At beginning of year		11,578	102,091	9,974	99,826
At end of year	20.1	7,611	11,578	5,017	9,974

Segmental Report
For the year ended 30 June 2013

Umgeni Water has two reportable segments:

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

(ii) Other activities as defined by Section 30 of the Water Services Act No. 108 of 1997. This business segment consists of non-regulated activities which are mainly defined as services that complement bulk water service provision such as laboratory services, water quality monitoring and environmental management and where Umgeni Water acts as an implementing agent for any sphere of government for projects related to water service delivery.

Additional information on the major customers per segment are included in notes 18, 29 and 32.

	Group			
	Primary activities			
	Bulk water	Waste water	Other activities	Total
For the year ended 30 June 2013	Kl'000	Kl'000	Kl'000	Kl'000
Treated water volume sold	422,791	300	-	423,091
Raw water volume sold	595	-	-	595
	R'000	R'000	R'000	R'000
Revenue	1,798,690	54,985	227,940	2,081,615
Cost of sales	(806,283)	(40,055)	(196,353)	(1,042,691)
Changes in water inventory	616	-	-	616
Chemicals	(44,142)	(6,129)	(181)	(50,452)
Depreciation	(74,265)	(2,388)	-	(76,653)
Energy	(95,397)	(10,055)	(2,432)	(107,884)
Maintenance	(126,223)	(8,076)	(3,157)	(137,456)
Raw water	(334,171)	-	-	(334,171)
Section 30 activities	-	-	(184,123)	(184,123)
Staff costs	(103,372)	(8,417)	(5,414)	(117,203)
Other direct operating expenses	(29,329)	(4,990)	(1,046)	(35,365)
Gross profit	992,407	14,930	31,587	1,038,924
Other income	15,053	3,612	149	18,814
Other operating and administration expenses	(517,367)	(9,221)	(18,700)	(545,288)
Impairments and write-offs	(75,978)	(56)	(96)	(76,130)
Depreciation	(15,111)	(325)	(755)	(16,191)
Staff costs	(172,859)	-	(19,763)	(192,622)
Other expenses	(253,419)	(8,840)	1,914	(260,345)
Profit from operations	490,093	9,321	13,036	512,450
Interest income	134,026	-	-	134,026
Finance costs	(60,665)	(5,811)	(31)	(66,507)
Share of profit from associate	-	-	3,482	3,482
Profit for the year	563,454	3,510	16,487	583,451
Capital expenditure	623,722	19,475	-	643,197
Segment assets	3,515,341	86,452	155,615	3,757,408
Interest in associate	-	-	6,005	6,005
Investments	1,955,005	-	126,000	2,081,005
Unallocated				63,479
Consolidated total assets				5,907,897
Segment liabilities	1,109,557	25,824	123,458	1,258,839
Unallocated				957,830
Consolidated total liabilities				2,216,669

Segmental Report continued...
For the year ended 30 June 2013

	Group			
	Primary activities			
	Bulk water	Waste water	Other activities	Total
For the year ended 30 June 2012	Kl'000	Kl'000	Kl'000	Kl'000
Treated water volume sold	416,995	300	-	417,295
Raw water volume sold	787	-	-	787
	R'000	R'000	R'000	R'000
Revenue	1,519,724	51,032	276,395	1,847,151
Cost of sales	(576,707)	(35,463)	(244,638)	(856,808)
Changes in water inventory	211	-	-	211
Chemicals	(37,185)	(4,468)	(133)	(41,786)
Depreciation	(71,595)	(2,330)	-	(73,925)
Energy	(93,359)	(8,732)	(1,300)	(103,391)
Maintenance	(120,100)	(8,701)	(2,003)	(130,804)
Raw water	(150,598)	-	-	(150,598)
Section 30 activities	-	-	(235,157)	(235,157)
Staff costs	(92,168)	(8,101)	(5,022)	(105,291)
Other direct operating expenses	(11,913)	(3,131)	(1,023)	(16,067)
Gross profit	**943,017**	**15,569**	**31,757**	**990,343**
Other income	47,819	3,610	680	52,109
Other operating and administration expenses	(421,251)	(8,655)	(39,291)	(469,197)
Impairments and write-offs	(72,013)	-	-	(72,013)
Depreciation	(14,104)	(466)	(1,078)	(15,648)
Staff costs	(149,380)	-	(21,785)	(171,165)
Other expenses	(185,754)	(8,189)	(16,428)	(210,371)
Profit (loss) from operations	**569,585**	**10,524**	**(6,854)**	**573,255**
Interest income	100,135	-	-	100,135
Finance costs	(78,702)	(5,859)	(28)	(84,589)
Share of profit from associate	-	-	2,531	2,531
Profit (loss) for the year	**591,018**	**4,665**	**(4,351)**	**591,332**
Capital expenditure	484,506	1,109	-	485,615
Segment assets	3,166,286	85,654	61,160	3,313,100
Interest in associate	-	-	6,110	6,110
Investments	1,716,330	-	74,000	1,790,330
Unallocated				79,107
Consolidated total assets				**5,188,647**
Segment liabilities	1,219,172	29,863	81,799	1,330,834
Unallocated				750,036
Consolidated total liabilities				**2,080,870**

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 accounting policies are applicable to both the group and parent company except were otherwise stated. The following principal accounting policies were applied by the group for the year ended 30 June 2013.

2. BASIS OF PREPARATION AND MEASUREMENT

a) 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.

b) 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;
- the defined benefit plan obligation is measured at the projected unit credit method; and
- available-for-sale financial assets are measured at fair value.

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.

c) Functional and presentation currency

These consolidated financials are presented in rands, which is the group's functional and presentation currency. All financial information presented in rands has been rounded to the nearest thousand.

d) Use of estimates and judgements

Critical judgements in applying the group's accounting policies

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, 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.

Management has made the following judgements in the process of applying the group's accounting policies that potentially have the most significant effect on the amounts recognised in the financial statements:

- Other provisions
  Other provisions included in note 24 is based on the uncertainty of revenue previously recognised.

- Right of use financial agreement
  The judgement applied to the amortisation of the right of use financial asset included in note 15.1. is 9 years. This was based on the repayment period at the time of raising the financial asset in 2010.

- Held-to-maturity financial assets
  The directors have reviewed the entity's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed its positive intention and ability to hold those assets to maturity. The carrying amount of the held-to-maturity financial assets is R5m (2012: R10m).

2. BASIS OF PREPARATION AND MEASUREMENT continued...

d) Use of estimates and judgements continued...

Key sources of estimation uncertainty

- Value-in-use calculations for impairment of property, plant and equipment
  The recoverable amount of rural 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 10 for further details on impairments of property, plant & equipment.

- Fair value of financial instruments
  Financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. Details of the assumptions used and of the results of sensitivity analysis regarding these assumptions are provided in the financial risk management section in note 32.2.3

- 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 2013. Refer to note 12 for further detail on biological assets.

- Defined benefit plans
  The key assumptions relating to the defined benefit plan sensitivity analysis are disclosed in note 28.

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.

e) 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:

IAS 19 Employee Benefits (Revised) (Effective 1 January 2013)

The amended IAS 19 includes the following requirements:

- actuarial gains and losses are recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in the plan assets in profit or loss, which is currently allowed under IAS 19; and
- expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The group is in the process of assessing the impact of the revised standard on the financial statements. The elimination of the corridor method in recognising actuarial gains and losses will have an impact on the group's financial statements in the year of adoption. In preparation for the adoption of IAS 19R, the group has recognised actuarial losses over a 3 year period from 2012 to 2014 rather than over the estimated average remaining working life of employees. In the current year the cumulative unrecognised actuarial gains and losses on the defined benefit plan was R77m (2012:R108m).

IAS 27 Separate financial statements (Effective 1 January 2013) (revised)

IAS 27 was revised and it supersedes the previous IAS 27 (2008). The revised IAS 27 carries forward the existing accounting and disclosure requirements for separate financial statements, with minor clarifications. The adoption of the revised IAS 27 is not expected to have a significant impact on the group's financial statements.

IAS 28 Investments in associates and joint ventures (effective 1 January 2012)

IAS 28 was revised and it supersedes the previous IAS 28 (2008). The revised IAS 28 carries forward the existing accounting and disclosure requirements with limited amendments. The adoption of the revised IAS 28 is not expected to have a significant impact on the group's financial statements.

2. BASIS OF PREPARATION AND MEASUREMENT continued...

e) Standards, interpretations and amendments to published standards that are not yet effective continued...

IFRS 7 Financial Instruments : Disclosures amendments to IFRS 7 (Effective 1 January 2013)
These amendments require an entity to disclose information about rights of set-off and related arrangements (e.g., collateral agreements). Disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set off in accordance with IAS 32. These amendments are applied retrospectively. The standard is not expected to have a significant impact on the group's financial statements.

IFRS 10 Consolidated financial statements, IAS 27 Separate financial statements (Effective 1 January 2013)
IFRS 10 is a new standard that replaces the consolidation requirements in SIC-12 Consolidation - Special Purpose entities and IAS 27 Consolidated and separate financial statements. The standard builds on existing principles by identifying the concept of control as the determining factor as to whether or not an entity should be included within the consolidated financial statements of the parent company and provide additional guidance to assist in the determination of control where this is difficult to assess. The standard is not expected to have a material impact on the group's financial statements.

IFRS 11 Joint arrangements, IAS 28 Investments in associates and Joint ventures (Effective 1 January 2013)
IFRS 11 is a new standard that deals with the accounting for joint arrangements and focuses on the rights and obligations of the arrangements, rather than its legal form. The standard requires a single method for accounting for interests in jointly controlled entities. IFRS 11 has superseded IAS 31 Interests in joint ventures which has been withdrawn. The standard is not expected to have a material impact on the group's financial statements.

IFRS 12 Disclosure of interests in other entities (Effective 1 January 2013)
IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The adoption of the new standard will increase the level of disclosure provided for the entity's interests in subsidiaries, joint arrangements, associates and structured entities. The standard will not have a material impact on the group's financial statements.

IFRS 13 Fair value measurement (Effective 1 January 2013)
IFRS 13 introduces a single source of guidance on fair value measurement for both financial and non-financial assets and liabilities by defining fair value, establishing a framework for measuring fair value and setting out disclosure requirements for fair value measurements. The group is still determining the impact of the standard on the financial statements.

IAS 32 Offsetting financial assets and financial liabilities - amendments to IAS 32 (Effective 1 January 2014)
The amendments to IAS32 were issued to address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial instruments: presentation. The amendments clarify the meaning of currently has a legally enforceable right to set-off; and that some gross settlement systems may be considered equivalent to net settlement. The amendments will not have a significant impact on the group.

IFRS 9 Financial instruments - classification and measurement (Effective 1 January 2015)
IFRS 9 addresses the initial measurement and classification of financial assets and financial liabilities, and replaces the relevant sections of IAS 39 Financial instruments: Recognition and measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Under IFRS 9, the classification and measurement requirements for financial liabilities are the same as per IAS 39, except for two aspects. The first aspect relates to fair value changes for financial liabilities (other than financial guarantees and loan commitments) designated at fair value through profit or loss, that are attributable to the changes in the credit risk of the liability. The second aspect relates to derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured. The group is still determining the impact of the standard on the financial statements.

IFRS 9 has also been amended to include the derecognition requirements from IAS 39. These requirements have remained unchanged but additional disclosure requirements relating to the disclosure of transfers of financial assets have been included in IFRS 7.

2. BASIS OF PREPARATION AND MEASUREMENT continued...

f) Adoption of new and revised standards

During the current year the following accounting standards, interpretations and amendments to accounting standards which are relevant to Umgeni Water were adopted:

IAS 1 Presentation of items of other comprehensive income - amendments to IAS 1 (Effective 1 July 2012)

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that would be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment results in a change in presentation and will have no impact on the recognition or measurement of items in the financial statements. It is applicable retrospectively. The amendments will not have a material impact on the group's financial statements.

Improvements to IFRSs

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.

3. 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.

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 income statement.

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

BUSINESS COMBINATIONS

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

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 comprehensive income 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 comprehensive income.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued...

BUSINESS COMBINATIONS continued...

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

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 where Umgeni Water has the power to govern the financial and operating policies of the acquired entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the group. All material inter-company balances and transactions are eliminated. In the parent financial statements, the parent accounts for investments in subsidiaries at cost.

Associates

An associate is an entity over which the group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The financial results of associates are included in the group's results according to the equity method from acquisition date until disposal date. Under the equity method, the investment in associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the group's share of profit or loss of the associate after the acquisition date. The group's share of profits or losses is recognised in the statement of comprehensive income 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 comprehensive income as part of equity accounted earnings of that associate.

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

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

Where a group entity transacts with an associate of the group, unrealised profits and losses are eliminated to the extent of the group's interest in the relevant associate. In the parent financial statements, the parent accounts for investments in associates at cost.

OPERATING SEGMENTS AND SEGEMENT REPORTING

The group has two reportable segments:
- the primary segment as defined by section 29 of the Water Services Act no. 108 of 1997; and
- other activities as defined by Section 30 of the Water Services Act No. 108 of 1997.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued...

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 on page 138.

Servitudes are considered an integral part of the asset and are essential to the operation of the asset and therefore forms part of the cost of the relevant asset.

Borrowing costs are capitalised on qualifying assets in accordance with the relevant accounting policy on finance costs.

When property, plant and equipment comprise major components with different useful lives, these components are accounted for as separate items. Expenditure incurred to replace or modify a significant component of plant is capitalised and any remaining carrying amount of the component replaced is written off in the statement of comprehensive income. All other expenditure are charged to the statement of comprehensive income.

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 comprehensive income.

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)
Buildings and Infrastructure	
Buildings	40
Dams and weirs	45
Pipelines	30-45
Pump stations	10-30
Reservoirs and intake works	45
Tunnels	45
Water treatment works	10-45
Waste water works	10-45
Equipment and vehicles	
Plant & equipment, furniture & fittings	5
Vehicles	5
Computers	3-5

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.

Fair value

The fair value of finance lease receivables and finance lease liabilities is determined by discounting the future cash flows with respect to the finance lease at the interest rate implicit in the lease.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued...

LEASES continued...

In the capacity of a lessor

Finance lease

Amounts due from lessees under finance leases are recorded as receivables at the amount of the group's net investment in the leases.

Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the group's net investment outstanding in respect of the leases.

Finance lease receivables are assessed for impairment and derecognised in accordance with the requirements for financial assets.

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

Finance lease

Assets held under finance leases are recognised as assets of the group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. The corresponding rental obligations and net finance charges, are included in other short term and other long term payables respectively.

The interest element of the finance cost is charged to profit or loss within finance cost over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Finance lease liabilities are derecognised in accordance with the derecognition requirements for financial liabilities.

The property plant and equipment acquired under finance leases are depreciated or amortised over the shorter of the useful life of the asset and the lease term.

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.

INVESTMENT PROPERTY

Investment property is property held either to earn rentals or for capital appreciation or both but not for sale in the ordinary course of business, use in production or supply of goods or services or for administrative purposes. Investment property is measured at cost, less subsequent depreciation and impairment.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. Cost of a self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

INTANGIBLE ASSETS (OTHER THAN GOODWILL)

Research and development

Research expenditure is charged to the statement of comprehensive income 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;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued...

INTANGIBLE ASSETS (OTHER THAN GOODWILL) continued...

Research and development continued...

- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

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

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

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.

Other intangible assets

Intangible assets are initially recognised at cost if acquired separately or internally generated, or at fair value if acquired as part of a business combination. If assessed as having an indefinite useful life, it is not amortised but tested for impairment annually and impaired if necessary. If assessed as having a finite useful life, it is amortised over its useful life using a straight-line basis, and tested for impairment if there is an indication that it may be impaired.

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 comprehensive income when the asset is derecognised.

NON-CURRENT ASSETS OR DISPOSAL GROUPS HELD-FOR-SALE

Non-current assets or disposal groups are classified as held-for-sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification except to the extent that there is a delay caused by events or circumstances beyond the group's control and there is sufficient evidence that the group remains committed to its plan to sell the asset (or disposal group).

Where a disposal group held-for-sale will result in the loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held-for-sale, regardless of whether a non-controlling interest in the former subsidiary is to be retained after the sale.

Upon classification of a non-current asset or disposal group as held-for-sale it is reviewed for impairment. The impairment charged to the statement of comprehensive income is the excess of the carrying value of the non-current asset or disposal group over its expected fair value less costs to sell.

Non-current assets (and disposal groups) classified as held-for-sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell. No depreciation or amortisation is provided on non-current assets from the date they are classified as held for sale.

If a non-current asset or disposal group is classified as held-for-sale, but the criteria for classification as held-for-sale is no longer met, the disclosure of such non-current asset as held-for-sale is ceased. On ceasing classification, the

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued...

NON-CURRENT ASSETS OR DISPOSAL GROUPS HELD-FOR-SALE continued...

non-current assets are reflected at the lower of:

- the carrying amount before classification as held-for-sale adjusted for any depreciation or amortisation that would have been recognised had the asset not been classified as held-for-sale; and
- the recoverable amount at the date the classification as held-for-sale ceases.

The recoverable amount is the amount at which the asset would have been recognised after the allocation of any impairment loss arising on the cash generating unit as determined in accordance with the group's policy on the impairment of non-financial assets.

Any adjustments required to be made on reclassification are recognised in the statement of comprehensive income on reclassification, and included in income from continuing operations.

Where the disposal group was also classified as a discontinued operation, the subsequent classification as held-for-use also requires that the discontinued operation be included in continuing operations. Comparative information relating to the classification as a discontinued operation is restated accordingly.

BIOLOGICAL ASSETS

Game stock and plantations are measured at their fair value less estimated point-of-sale costs. The fair value of biological assets are determined annually based on market prices of similar age, genies, and genetic merit. All changes in fair values are recognised in the statement of comprehensive income 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. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset, or cash-generating unit, is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit, is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss, other than for goodwill, subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, not exceeding the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash generating unit, in prior years.

A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

INVENTORIES

Inventories are stated at the lower of the weighted average cost and net realisable value. Obsolete, redundant and slow-moving inventories are identified and written down to the estimated net realisable value.

Net realisable value is the estimate of the selling price in the ordinary course of business, less the estimated costs of completion, selling and distribution expenses.

UMGENI WATER CAPITAL AND GRANT FUNDING

Capital grants for infrastructure received by Umgeni Water after 1 July 2000 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.

Capital grants received prior to 1 July 2000 are shown on the statement of financial position as Umgeni Water capital and included under capital.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued...

EMPLOYEE BENEFITS

Retirement benefit costs - Provident fund

Contributions to the defined contribution retirement benefit plan for the provident fund are recognised as an expense when employees have rendered service entitling them to the contributions.

Retirement benefit costs - Pension fund

For the defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses are recognised using the allowed "corridor approach" over a 3 year period from 2012 to 2014, thereafter will be 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 actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus 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 every year. Actuarial gains and losses are recognised immediately through profit/loss in the year in which they arise.

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. Remuneration of employees is charged to the statement of comprehensive income. The group recognises a liability for leave and performance bonuses which is included in provisions and accrues for other short-term employee benefits.

PROVISIONS

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

Onerous contracts

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

FINANCIAL GUARANTEE CONTRACTS

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

FINANCIAL ASSETS

The group classifies its financial assets into the following categories:

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

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Management re-evaluates such designation at least at each reporting date.

Financial assets are recognised on transaction date when the group becomes party to the contracts and thus obtains rights to receive economic benefits and are derecognised when those rights no longer exist. Financial assets are stated initially on transaction date at fair value including transaction costs.

Held-to-maturity assets

Held-to-maturity financial assets and loans and receivables are subsequently stated at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition date and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest income in statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued...

FINANCIAL ASSETS continued...

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 carrying value which is deemed to be fair value.

Available-for-sale financial assets

Available-for-sale financial assets are subsequently stated at fair value at reporting date. Unrealised gains and losses arising from revaluation of available-for-sale financial assets are recognised as other comprehensive income and included in the investment revaluation reserve. On disposal or impairment of available-for-sale financial assets, cumulative unrealised gains and losses previously recognised in other comprehensive income are included respectively in determining the profit or loss on disposal of, or impairment charge relating to, that financial asset, which is recognised in the statement of comprehensive income.

The fair values of financial assets are based on quoted prices in an active market at the close of business on the reporting date. If the market for a financial asset is not active, the entity establishes the fair value in accordance with the valuation technique which adopts a constant spread approach.

Premiums or discounts arising from the difference between the fair value of a financial asset and the amount receivable at maturity date are charged to the statement of comprehensive income based on the effective interest rate method.

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 uncollectible, 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.

For available-for-sale financial investments, the group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in their fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued...

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 comprehensive income 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/financial liability and of allocating interest income/expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts/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/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.

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 waste water.

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

Sale of services

Revenue from the sale of services is recognised in the period in which the services are rendered. Sale of 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.

Sale 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 (refer below construction contracts).

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.

Construction contracts

Contract 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, contract revenue and contract costs are recognised in profit or loss by reference to the stage of completion of the contract.

The stage of completion is assessed by reference to the completion of a physical proportion of the work or surveys of the work performed. When an outcome of a construction contract cannot be estimated reliably, contract revenue

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued...

REVENUE continued...

Construction contracts continued...

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.

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 (Pty) 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 (Pty) Ltd and associates.

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

Current tax

The tax currently payable is based on taxable income for the year. Taxable income differs from profit as reported in the statement of comprehensive income 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 comprehensive income in the period in which they are incurred.

4. CHANGE IN ESTIMATE

During the year, Umgeni Water conducted an operational review and physical verification of its assets which has resulted in changes in the expected usage of certain items of property, plant and equipment. As a result there have been changes in the remaining useful lives of assets. The effect of these changes on actual and expected depreciation expense, included in the cost of the assets, in the current and future year respectively, is as follows:

	Group & Parent	
	2013	2014
	R'000	R'000
(Decrease) increase in depreciation expense	(8,230)	2,237

	Group		Parent	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
5. REVENUE				
Sale of goods	1,853,675	1,570,756	1,853,675	1,570,756
Water sales	1,625,909	1,519,724	1,625,909	1,519,724
Capital unit charge Spring Grove Dam	172,781	-	172,781	-
Waste water	54,985	51,032	54,985	51,032
Rendering of services - Other activities	227,940	276,395	214,993	264,319
- Household and school sanitation	759	1,621	759	1,621
- Water Infrastructure	107,792	145,074	107,792	145,074
- Scientific and environmental	39,629	61,443	39,629	61,443
- Operating and Maintenance:				
- Department of Water Affairs	35,466	38,657	35,466	38,657
- Other	17,295	15,626	17,295	15,626
- National Treasury Internship Graduate Programme and other	26,999	13,974	14,052	1,898
Included in revenues arising from water sales are revenues of approximately R1,337m (2012: 1,128m) from sales to the group's largest customer. (Refer to note 29)				
Total revenue	2,081,615	1,847,151	2,068,668	1,835,075
6. OTHER INCOME				
Sundry income*	16,265	50,260	16,160	50,155
Rental income	2,549	1,849	2,505	1,805
Total other income	18,814	52,109	18,665	51,960

* 2012 includes reversal of prior years' accrual for raw water of R41m which had prescribed.

	Group		Parent	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
7. PROFIT FROM OPERATIONS				
Profit from operations is stated after taking the following items into account:				
Asset impairments and write-offs	76,130	72,013	76,025	72,013
- Buildings & infrastructure impairments (refer to note 10)	357	4,962	357	4,962
- Capital work-in-progress impairments (refer to note 10)	75,677	67,051	75,677	67,051
- other asset impairments and write-offs (reversals)	96	-	(9)	-
Amortisation	6,175	5,582	6,175	5,582
- Right of use agreement (refer to note 15)	2,806	2,846	2,806	2,846
- Intangible assets (refer to note 11)	3,369	2,736	3,369	2,736
Auditors remuneration	1,886	1,585	1,639	1,381
- Audit fees - current year	1,817	1,586	1,570	1,382
- Audit fees - prior year (over) under provision	69	(1)	69	(1)
Board members' emoluments (refer pg 123)	4,127	4,338	4,049	4,270
Depreciation (refer to note 10)	95,921	93,481	95,179	92,621
- Buildings and infrastructure	79,626	76,647	79,626	76,647
- Equipment and vehicles	16,295	16,834	15,553	15,974
Doubtful debts provision (refer to note 18)	12,376	15,952	12,376	15,952
Fair value adjustment of biological assets (refer to note 12)	273	838	-	1,492
Maintenance	153,524	146,658	152,335	145,287
- Direct costs	137,456	130,804	137,456	130,804
- Indirect costs	16,068	15,854	14,879	14,483
Operating lease payments	1,416	1,279	606	573
Profit on disposal of property, plant and equipment	(420)	(1,029)	(466)	(1,076)
Retirement benefits	158,607	132,585	158,607	132,585
- Post retirement medical aid (refer to note 28.3)	41,252	48,997	41,252	48,997
- Pension - defined benefit (refer to note 28.2)	117,355	83,588	117,355	83,588
Salaries and other staff costs	378,946	339,617	360,436	321,430
- Direct	117,203	105,291	117,203	105,291
- Indirect	192,622	171,165	174,112	152,978
- Maintenance	62,504	57,165	62,504	57,165
- Operating & Maintenance: Dams	6,617	5,996	6,617	5,996
Number of employees at 30 June				
Permanent	885	808	812	731
Fixed term contracts	91	106	91	106
Trainees*	-	17	-	17
Total number of employees	**976**	**931**	**903**	**854**

*From 2013 trainees are not included in staff costs. These costs are included in training costs and trainees do not form part of the permanent establishment.

	Group 2013 R'000	Group 2012 R'000	Parent 2013 R'000	Parent 2012 R'000
8. INTEREST INCOME				
Interest received - investments	132,194	98,150	132,194	98,150
Interest received - other financial assets (refer to note 15)	1,022	1,196	1,022	1,196
Interest received - other	810	789	813	733
Total interest income	**134,026**	**100,135**	**134,029**	**100,079**

	Group 2013 R'000	Group 2012 R'000	Parent 2013 R'000	Parent 2012 R'000
9. FINANCE COSTS				
Bank overdrafts and other	2,225	3,093	2,225	3,093
Bonds	64,200	64,258	64,200	64,258
Loans	46,937	59,288	46,907	59,266
Less: borrowing costs capitalised (refer to note 10)	(46,855)	(42,050)	(46,855)	(42,050)
Interest was capitalised to work-in-progress at the gross weighted average cost of capital. Gross weighted average cost of capital 9.23% (2012: 9.34%).				
Total finance costs	66,507	84,589	66,477	84,567

10. PROPERTY, PLANT AND EQUIPMENT

	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
Year ended 30 June 2013							
Carrying amount 1 July 2012	3,543	2,610,211	38,407	443,343	3,095,504	2,109	3,097,613
Cost	3,543	3,357,385	136,730	737,487	4,235,145	10,308	4,245,453
Accumulated impairments	-	(40,608)	-	(153,111)	(193,719)	-	(193,719)
Accumulated grant funding	-	-	-	(141,033)	(141,033)	-	(141,033)
Accumulated depreciation	-	(706,566)	(98,323)	-	(804,889)	(8,199)	(813,088)
Additions	-	-	23,926	615,539	639,465	742	640,207
Grant funding	-	-	-	(167,080)	(167,080)	-	(167,080)
Borrowing costs capitalised	-	-	-	46,855	46,855	-	46,855
Disposals/Asset write-offs	-	(1,413)	(246)	-	(1,659)	(46)	(1,705)
Cost	-	(10,117)	(49,416)	-	(59,533)	(1,077)	(60,610)
Accumulated depreciation	-	8,704	49,170	-	57,874	1,031	58,905
Depreciation charge	-	(79,626)	(15,553)	-	(95,179)	(742)	(95,921)
Impairment	-	(357)	-	(75,677)	(76,034)	-	(76,034)
Commissioning	-	328,666	-	(328,666)	-	-	-
Cost	-	414,870	-	(414,870)	-	-	-
Accumulated impairment	-	(86,204)	-	86,204	-	-	-
Total property, plant and equipment	3,543	2,857,481	46,534	534,314	3,441,872	2,063	3,443,935
Cost	3,543	3,762,138	111,240	985,011	4,861,932	9,973	4,871,905
Accumulated impairments	-	(127,169)	-	(142,584)	(269,753)	-	(269,753)
Accumulated grant funding	-	-	-	(308,113)	(308,113)	-	(308,113)
Accumulated depreciation	-	(777,488)	(64,706)	-	(842,194)	(7,910)	(850,104)
Total property, plant and equipment	3,543	2,857,481	46,534	534,314	3,441,872	2,063	3,443,935

10. PROPERTY, PLANT AND EQUIPMENT continued...

	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
Year ended 30 June 2012							
Carrying amount 1 July 2011	2,562	2,357,078	43,252	464,100	2,866,992	2,556	2,869,548
Cost	2,562	3,022,643	149,789	560,137	3,735,131	9,915	3,745,046
Accumulated impairments	-	(35,646)	-	(86,060)	(121,706)	-	(121,706)
Accumulated grant funding	-	-	-	(9,977)	(9,977)	-	(9,977)
Accumulated depreciation	-	(629,919)	(106,537)	-	(736,456)	(7,359)	(743,815)
Additions	-	-	11,166	470,042	481,208	460	481,668
Grant funding	-	-	-	(131,056)	(131,056)	-	(131,056)
Borrowing costs capitalised	-	-	-	42,050	42,050	-	42,050
Disposals/Asset write-offs	-	-	(37)	-	(37)	(47)	(84)
Cost	-	-	(24,225)	-	(24,225)	(67)	(24,292)
Accumulated depreciation	-	-	24,188	-	24,188	20	24,208
Transfers	981	-	-	-	981	-	981
Cost	981	-	-	-	981	-	981
Accumulated depreciation	-	-	-	-	-	-	-
Depreciation charge	-	(76,647)	(15,974)	-	(92,621)	(860)	(93,481)
Impairment	-	(4,962)	-	(67,051)	(72,013)	-	(72,013)
					-	-	-
Commissioning	-	334,742	-	(334,742)	-	-	-
Total property, plant and equipment	**3,543**	**2,610,211**	**38,407**	**443,343**	**3,095,504**	**2,109**	**3,097,613**
Cost	3,543	3,357,385	136,730	737,487	4,235,145	10,308	4,245,453
Accumulated impairments	-	(40,608)	-	(153,111)	(193,719)	-	(193,719)
Accumulated grant funding	-	-	-	(141,033)	(141,033)	-	(141,033)
Accumulated depreciation	-	(706,566)	(98,323)	-	(804,889)	(8,199)	(813,088)
Total property, plant and equipment	**3,543**	**2,610,211**	**38,407**	**443,343**	**3,095,504**	**2,109**	**3,097,613**

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

Equipment and vehicles consists of: motor vehicles, computer hardware and furniture & 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 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. 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.

10. PROPERTY, PLANT AND EQUIPMENT continued...

Rural development projects - summary of impairments

	Discount factor (gross WACC)	Approved total project cost	Recoverable amount (value in use) 2013	Estimated Impairment 2013	Estimated Impairment 2012	Accumulated Impairment 2012	Impairment 2013	Accumulated Impairment 2013
	%	R'000	R'000	%	%	R'000	R'000	R'000
Buildings & infrastructure								
Ngcebo bulk water supply scheme (Phase 1)	9.35%	55,838	-	100%	100%	38,613	-	38,613
Maphumulo BWS Scheme (Phase 1)	9.31%	412,144	140,411	45%	46%	60,345	25,859	86,204
Sub-total buildings & infrastructure		**467,982**	**140,411**			**98,958**	**25,859**	**124,817**
Work in progress								
Greater Eston	9.23%	243,968	45,808	28%	77%	26,828	2,512	29,340
Richmond	9.23%	294,294	147,144	28%	17%	5,014	12,130	17,144
Lower Thukela BWS	9.23%	1 607,667	982,928	0%	20%	7,201	(7,201)	-
Maphumulo BWS Scheme (Phase 2)	9.31%	57,688	19,654	45%	46%	8,447	3,657	12,104
Greater Mphofana (Phase 1)	9.23%	349,815	261,416	7%	0%	-	552	552
Mhlabatshane BWS Scheme	9.23%	253,965	15,795	51%	32%	45,276	38,168	83,444
Sub-total work in progress		**2,807,397**	**1,472,745**			**92,766**	**49,818**	**142,584**
Total		**3,275,379**	**1,613,156**			**191,724**	**75,677**	**267,401**

10. PROPERTY, PLANT AND EQUIPMENT continued...

10.1. CAPITAL WORK IN PROGRESS

		Group				
		Cost	Accumulated grant funding	Accumulated impairment losses	Total 2013	Total 2012
		R'000	R'000	R'000	R'000	R'000
Major projects:	System					
Hazelmere to Bifurcation Pipeline Augmentation (700dia x 10km)	Hazelmere	-	-	-	-	36,108
Honolulu to Mvoti Balancing Reservoir Pipeline (800dia x 7km)	Hazelmere	91,483	-	-	91,483	80,408
Mapaphetwa WW: Upgrade Plant (5.0 Ml/d) (incl reservoir)	Lower Umgeni	51,870	-	-	51,870	44,125
South Coast Augmentation Booster Pump Station	South Coast	-	-	-	-	80,297
61 pipeline extension (Richmond Offtake to Umlaas Road)	Upper Umgeni	116,495	-	-	116,495	52,321
Hazelmere WW Upgrade	Hazelmere	30,682	-	-	30,682	1,016
Hazelmere WW: Raw Water Pipeline	Hazelmere	14,247	-	-	14,247	1,397
East Coast Desalination Plants	Lower Umgeni	10,119	-	-	10,119	1,728
Darvill WWW: Plant Capacity Increase (85Ml/d) (MBR - 10Ml/d in 3-5yrs)	Upper Umgeni	7,115	-	-	7,115	-
Other projects	Various	9,475	-	-	9,475	6,697
Sub-total augmentation		331,486	-	-	331,486	304,097
Greater Mpofana regional scheme	Mooi	7,878	-	(552)	7,326	5,366
Mhlabatshane bulk water supply	South Coast	163,615	(108,955)	(83,444)	(28,784)	(12,744)
Maphumulo bulk water supply (Phase 1)	Upper Mvoti	-	-	-	-	71,955
Maphumulo bulk water supply (Phase 2)	Upper Mvoti	26,897	-	(12,104)	14,793	8,801
Greater Eston	Upper Umgeni	104,787	(95,126)	(29,340)	(19,679)	(8,107)
Lower Thukela	Lower Thukela	106,692	(63,995)	-	42,697	28,805
Richmond pipeline	Upper Umgeni	61,230	(40,037)	(17,144)	4,049	8,524
uMshwathi Bulk Water Supply Scheme (Wartburg Phase 1 - 3)	Upper Mvoti	60,950	-	-	60,950	-
Sub-total development		532,049	(308,113)	(142,584)	81,352	102,600
Hazelmere System		15,950	-	-	15,950	3,735
Ixopo System		374	-	-	374	170
Lower Umgeni System		15,488	-	-	15,488	5,936
South Coast System		4,332	-	-	4,332	1,635
Upper Umgeni System		24,948	-	-	24,948	16,894
Sub-total upgrade		61,092	-	-	61,092	28,370
Sub-total major projects		924,627	(308,113)	(142,584)	473,930	435,067
Other projects		60,384	-	-	60,384	8,276
Total costs including capitalised interest		985,011	(308,113)	(142,584)	534,314	443,343

10. PROPERTY, PLANT AND EQUIPMENT continued...

10.2. PROPERTY, PLANT & EQUIPMENT CAPITALISED

		Group Total 2013 R'000	Group Total 2012 R'000
Summary of major projects capitalised by system, including interest are as follows:	System		
Avondale to Honolulu pipeline (Phase 1)	Hazelmere	298	1,437
Hazelmere to Bifurcation Pipeline Augmentation (700dia x 10km)	Hazelmere	69,261	-
Umzinto link (Ellingham Reservoir to Umzinto WW)	South Coast	1,560	664
61 Pipeline DV Harris to Worlds View	Upper Umgeni	5	307
South Coast Ph. 2a (Park Rynie to Kelso)	South Coast	387	36,153
Bruyns Hill Reservoir upgrade (6Ml)	Upper Umgeni	16	6,935
57 Pipeline Augmentation (Umlaas Road to Point M)	Upper Umgeni	487	134,587
61 pipeline extension (ED2 to Richmond Offtake)	Upper Umgeni	2,310	74,649
Zinkwazi WTP Upgrade	Hazelmere	4,208	-
South Coast Augmentation Booster Pump Station	South Coast	89,572	-
South Coast Ph.1 (Toti to Umkomaas & to Scottburgh)	South Coast	289	-
Sub-total augmentation		168,393	254,732
Ndwedwe Reservoirs (1 & 2)	Hazelmere	-	431
Ngcebo bulk water supply scheme (Phase 1)	Upper Mvoti	-	4,962
Manyavu Pipeline	Upper Umgeni	48	22,131
Maphumulo BWS (Phase 1)	Upper Mvoti	192,163	-
Sub-total development		192,211	27,524
Hazelmere System		8,556	9,987
Head Office Infrastructure System		576	6,883
Lower Umgeni System		26,283	19,540
South Coast System		70	6,747
Upper Umgeni System		9,057	7,788
Ixopo System		4,934	-
Sub-total upgrade		49,476	50,945
Other projects		4,790	1,541
Immoveable assets capitalised		414,870	334,742
Total property, plant & equipment capitalised		414,870	334,742

10. PROPERTY, PLANT AND EQUIPMENT continued...

	Group		Parent	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
10.3. 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	1,048,778	475,730	1,048,778	475,730
- authorised but not contracted for	1,343,472	1,724,150	1,343,472	1,724,150
Total capital commitments	2,392,250	2,199,880	2,392,250	2,199,880
Estimated capital expenditure to be incurred as follows:				
- Within one year	1,057,322	776,825	1,057,322	776,825
- Two to five years	1,135,307	948,674	1,135,307	948,674
- More than five years	199,621	474,381	199 621	474,381
	2,392,250	2,199,880	2,392,250	2,199,880

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

11. INTANGIBLE ASSETS

	Group 2013 R'000	Group 2012 R'000	Parent 2013 R'000	Parent 2012 R'000
Software				
Carrying amount 1 July	9,753	8,542	9,753	8,542
Cost	28,397	42,671	28,397	42,671
Accumulated amortisation	(18,644)	(34,129)	(18,644)	(34,129)
Additions	2,990	3,947	2,990	3,947
Disposals/Asset write-offs	-	-	-	-
Cost	-	(18,221)	-	(18,221)
Accumulated depreciation	-	18,221	-	18,221
Amortisation	(3,369)	(2,736)	(3,369)	(2,736)
Total intangible assets	9,374	9,753	9,374	9,753
Cost	31,387	28,397	31,387	28 397
Accumulated amortisation	(22,013)	(18,644)	(22,013)	(18,644)
Total intangible assets	9,374	9,753	9,374	9,753

12. BIOLOGICAL ASSETS

	Group 2013 R'000	Group 2012 R'000	Parent 2013 R'000	Parent 2012 R'000
12.1. PLANTATIONS	-	-	-	-
Opening carrying amount	-	1,492	-	1,492
Fair value adjustment	-	(1,492)	-	(1,492)

In 2012 the plantations were assessed as having a nil value. In the current year there have been no changes in external and internal indicators to suggest a revision in the fair value.

	Group 2013 R'000	Group 2012 R'000	Parent 2013 R'000	Parent 2012 R'000
12.2. GAME	4,089	4,898	-	-
Opening carrying amount	4,898	4,244	-	-
Disposals	(536)	-	-	-
Fair value adjustment	(273)	654	-	-

The carrying amount was based on an estimated 460 (2012: 488) game, the most significant categories being Buffalo, White Rhino and Zebra. The fair values of game are based on market related prices. During the year the group sold 1 Rhino, 7 Giraffe, and 20 Nyala.

	Group 2013 R'000	Group 2012 R'000	Parent 2013 R'000	Parent 2012 R'000
Total biological assets	4,089	4,898	-	-

13. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	Group 2013 R'000	Group 2012 R'000	Parent 2013 R'000	Parent 2012 R'000
Investments in subsidiaries and associates	6,005	6,110	-	-
Cost	2,590	2,695	-	-
Share of post-acquisition reserves	3,415	3,415	-	-
Loans to (from) subsidiaries	-	-	2,556	3,548
Msinsi Holdings (Pty) Ltd	-	-	3,233	1,512
Umgeni Water Services (Pty) Ltd	-	-	(677)	2,036
Total investments in subsidiaries and associates	**6,005**	**6,110**	**2,556**	**3,548**

Investments in subsidiaries			Proportion of ownership interest		Proportion of voting power held	
Subsidiary	Principle Activity	Place of incorporation	2013	2012	2013	2012
			%	%	%	%
Umgeni Water Services (Pty) Ltd	Water Services	RSA	100	100	100	100
Msinsi Holdings (Pty) Ltd	Land and environmental management	RSA	100	100	100	100

The above entities remained subsidiaries throughout the year.

Umgeni Water Services (Pty) Ltd has an estimated assessed loss of R6,6m (2012: R6,6m) which is available to be carried forward and set off against future taxable income. A deferred tax asset has not been recognised as it is not probable that taxable profits will be available in the future against which the tax loss can be utilised. During the year the subsidiary was assessed for impairment. While the subsidiary itself is no longer trading, its investment in Durban Water Recycling (Pty) Ltd allows for the company to remain profitable in the current and future years and hence it is not considered to be an impaired asset.

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

Investments in associate of Umgeni Water Services (Pty) Ltd			Proportion of ownership interest		Proportion of voting power held	
Associate	Principle Activity	Place of incorporation	2013	2012	2013	2012
			%	%	%	%
Durban Water Recycling (Pty) Ltd	Water Recycling	RSA	18.5	18.5	18.5	18.5

Umgeni Water Services (Pty) Ltd has significant influence over Durban Water Recycling (Pty) Ltd through the exercise of voting power rights due to representation on the board of directors and is thus accounted for as an associate. Durban Water Recycling (Pty) Ltd's financial year end is 31 December. There have been no material transactions or events since then to the reporting date of the group except for total dividends of R18,8m declared by the board of Durban Water Recycling on 24 May 2013.

13. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES continued...

	Carrying amount		Directors' valuation	
	2013	2012	2013	2012
	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	-	105	-	105
Net investment	6,005	6,110	6,005	6,110

	2013	2012
	R'000	R'000
Summarised financial information of associates:		
Total non-current assets of associates	44,260	49,550
Total non-current liabilities of associates	22,647	29,998
Total current assets of associates	45,516	49,655
Total current liabilities of associates	15,845	22,913
Total capital and reserves	51,283	46,293
Total revenue of associates	62,244	58,182
Share of profit for the year of associates	3,482	2,531

	Group		Parent	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
14. INVESTMENTS				
14.1. LONG TERM INVESTMENTS	5,179	9,995	5,179	9,995
Held-to-maturity	5,179	9,995	5,179	9,995
Held-to-maturity investments represents the loan 56 asset that matures on the 30 June 2014.				
14.2. SHORT TERM INVESTMENTS	2,075,826	1,780,335	2,075,826	1,780,335
Loans and receivables	2,075,826	1,780,335	2,075,826	1,780,335
Loans receivables represent money market funded investments.				
Refer to note 32 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	2,081,005	1,790,330	2,081,005	1,790,330

14. INVESTMENTS continued...

	Group 2013 R'000	Group 2012 R'000	Parent 2013 R'000	Parent 2012 R'000
14.1.1. ANALYSIS OF HELD TO MATURITY FINANCIAL ASSETS				
Opening balance	9,995	14,468	9,995	14,468
Receipt of capital and interest	(4,816)	(4,473)	(4,816)	(4,473)
Closing balance	5,179	9,995	5,179	9,995
14.1.2. ANALYSIS OF AVAILABLE FOR SALE ASSETS				
Opening balance	-	408	-	408
Disposal	-	(408)	-	(408)
Closing balance	-	-	-	-

15. OTHER FINANCIAL ASSETS

Other financial assets are classified as loans and receivables, the carrying amount approximates its fair value.

	Group 2013 R'000	Group 2012 R'000	Parent 2013 R'000	Parent 2012 R'000
15.1. RIGHT OF USE AGREEMENT	13,140	14,924	13,140	14,924
Opening balance	14,924	16,574	14,924	16,574
Amortisation	(2,806)	(2,846)	(2,806)	(2,846)
Interest income	1,022	1,196	1,022	1,196

The Right of use agreement is with a customer for the use of the 57 pipeline. It is amortised over 9 years at interest rates associated with the related funding of the asset.

	Group 2013 R'000	Group 2012 R'000	Parent 2013 R'000	Parent 2012 R'000
Total other financial assets	13,140	14,924	13,140	14,924

16. ASSETS HELD-FOR-SALE

	Group 2013 R'000	Group 2012 R'000	Parent 2013 R'000	Parent 2012 R'000
Shongweni Dam	-	13,500	-	13,500

Shongweni Dam has been disposed off in the current year for R16,4m.

	Group 2013 R'000	Group 2012 R'000	Parent 2013 R'000	Parent 2012 R'000
Total assets held-for-sale	-	13,500	-	13,500

17. INVENTORIES

	Group 2013 R'000	Group 2012 R'000	Parent 2013 R'000	Parent 2012 R'000
17.1. STORES	9,051	7,640	9,051	7,603
Pipe inventories	652	707	652	707
Maintenance spares	1,926	1,877	1,926	1,877
Chemicals	3,414	2,476	3,414	2,476
Miscellaneous	3,059	2,580	3,059	2,543
17.2. WATER INVENTORY				
Water inventory consists of closing inventory of raw and treated water.	1,978	1,362	1,978	1,362
Total inventories	11,029	9,002	11,029	8,965

18. TRADE AND OTHER RECEIVABLES

	Group 2013 R'000	Group 2012 R'000	Parent 2013 R'000	Parent 2012 R'000
Trade receivables	242,309	198,096	242,309	198,096
Less: provision for doubtful debts	(5,651)	(5,939)	(5,651)	(5,939)
Opening balance	(5,939)	(2,245)	(5,939)	(2,245)
Written off during the year	89	-	89	-
(Provided for) during the year	199	(3,694)	199	(3,694)
Sub-total trade receivables	**236,658**	**192,157**	**236,658**	**192,157**
Grant funding receivable	56,872	-	56,872	-
Less: provision for doubtful debts	(13,665)	-	(13,665)	-
Opening balance	-	-	-	-
Written off during the year	-	-	-	-
Provided for during the year	(13,665)	-	(13,665)	-
Sub-total grant funding receivable	**43,207**	**-**	**43,207**	**-**
Sundry debtors	36,216	30,084	31,562	26,778
Less: provision for doubtful debts	(11,982)	(16,507)	(11,982)	(16,507)
Opening balance	(16,507)	(4,249)	(16,507)	(4,249)
Written off during the year	3,435	-	3,435	-
Reversed (Provided for) during the year	1,090	(12,258)	1,090	(12,258)
Sub-total sundry debtors	**24,234**	**13,577**	**19,580**	**10,271**
Total trade and other receivables	**304,099**	**205,734**	**299,445**	**202,428**

Trade debtors comprise bulk water and waste water sales to municipalities of which eThekwini Metropolitan Municipality and Msunduzi Local Municipality comprise a significant proportion - 89.9% (2012: 90%) of sales.

Trade debtors are granted credit terms of 30 days from date of invoice to settle outstanding debts. The average credit period, at financial year-end, is 37 days (2012: 30 days).

	Group & Parent			
	Amount due R'000	Provision R'000	Total 2013 R'000	Total 2012 R'000
Customer				
eThekwini Metropolitan Municipality	126,911	-	126,911	99,685
Ilembe District Municipality	5,504	-	5,504	4,448
Msunduzi Local Municipality	31,857	-	31,857	30,736
Ugu District Municipality	12,401	(1,298)	11,103	6,325
uMgungundlovu District Municipality	6,125	-	6,125	4,039
Sisonke District Municipality	1,104	-	1,104	601
Siza Water	3,632	-	3,632	2,989
Other bulk customers	98	(22)	76	2,322
Trade receivables - primary activities	187,632	(1,320)	186,312	151,145
Trade receivables - secondary activities	54,677	(4,331)	50,346	41,012
Total trade receivables	**242,309**	**(5,651)**	**236,658**	**192,157**

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 32.

	Group 2013 R'000	Group 2012 R'000	Parent 2013 R'000	Parent 2012 R'000
19. INTEREST AND PREMIUM RECEIVABLE				
Interest and premiums have been accrued for where investments have earned interest, but have not been received at year-end.	27,610	25,205	27,610	25,205
Interest and premium receivable relating to current investments are classified as loans and receivables, the carrying amount approximates fair value.				
Total interest and premium receivable	**27,610**	**25,205**	**27,610**	**25,205**
20.1. BANK AND CASH				
Cash and cash equivalents consist of:				
Bank and cash on hand	7,611	11,578	5,017	9,974
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 27.				
Total bank and cash	**7,611**	**11,578**	**5,017**	**9,974**
20.2. RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH GENERATED FROM OPERATING ACTIVITIES				
Profit for the year	583,451	591,332	581,105	590,815
Interest income	(134,026)	(100,135)	(134,029)	(100,079)
Finance costs	66,507	84,589	66,477	84,567
Adjusted for non-cash items:				
Fair value adjustment of biological assets	273	838	-	1,492
Profit on disposal of shares	-	(12)	-	(12)
Profit on disposal of biological assets	(12)	-	-	-
Asset impairments and write-offs	76,130	72,013	76,025	72,013
Amortisation - financial assets	2,806	2,846	2,806	2,846
Amortisation - amount owing to customer	(3,572)	(3,572)	(3,572)	(3,572)
Amortisation - intangible asset	3,369	2,736	3,369	2,736
Depreciation	95,921	93,481	95,179	92,621
Profit on disposal of property, plant and equipment	438	(1,029)	392	(1,076)
Increase in provisions and non-current liabilities	94,860	93,071	95,598	92,800
Increase in doubtful debts provision	12,376	15,952	12,376	15,952
Profit on disposal of non-current asset held for sale	(858)	-	(858)	-
Profit from associate	(3,482)	(2,531)	-	-
Operating surplus before working capital changes	**794,181**	**849,579**	**794,868**	**851,103**
Working capital changes	**56,763**	**(166,349)**	**57,349**	**(166,382)**
Increase in accounts receivable	(110,739)	(6,859)	(109,392)	(7,205)
Increase in inventory	(2,026)	(145)	(2,063)	(182)
Increase (decrease) in accounts payable	169,528	(159,345)	168,804	(158,995)
Net cash from operating activities	**850,944**	**683,230**	**852,217**	**684,721**
21. CAPITAL				
Capital consists primarily of contributions made by the Department of Water Affairs	442,847	442,847	442,847	442,847
Total capital	**442,847**	**442,847**	**442,847**	**442,847**

	Group 2013 R'000	Group 2012 R'000	Parent 2013 R'000	Parent 2012 R'000
22. DEBT				
Long-term	1,025,930	1,136,306	1,025,930	1,136,306
Short-term	109,451	120,831	109,451	120,831
Debt consists of interest bearing liabilities held at amortised cost and are unsecured.				
Total debt	1,135,381	1,257,137	1,135,381	1,257,137

22.1. ANALYSIS OF DEBT HELD AT AMORTISED COST

	Terms of repayment	Weighted average interest rate as at 30 June 2013	Group 2013 R'000	Group 2012 R'000	Parent 2013 R'000	Parent 2012 R'000
Bank loans			535 381	657 137	535 381	657 137
Fixed rate	semi annual	8.69%	235 381	307 137	235 381	307 137
Variable	semi annual	7.11%	300 000	350 000	300 000	350 000
Bonds	semi annual					
Fixed rate (net of discount)	coupon	10.70%	600 000	600 000	600 000	600 000
Total debt			1 135 381	1 257 137	1 135 381	1 257 137

Refer to note 32 financial risk management and financial instruments for maturity profile and fair value of debt.

	Group 2013 R'000	Group 2012 R'000	Parent 2013 R'000	Parent 2012 R'000
Reconciliation of movement in debt for the year				
Balance at the beginning of the year	1,257,137	1,372,793	1,257,137	1,372,793
Loans repaid	(121,756)	(115,656)	(121,756)	(115,656)
Balance at the end of the year	1,135,381	1,257,137	1,135,381	1,257,137

Umgeni Water has a financial structure that underlies loan 56 and in terms of the final settlement thereof, it has made a deposit with and ceded it in favour of Rand Merchant Bank, for future settlement and with right of set-off against an equal liability. Accordingly these assets and liabilities of R263m (2012: R291m) have been offset and are not reflected in the financial statements. This structure unwinds in September 2014.

	Group 2013 R'000	Group 2012 R'000	Parent 2013 R'000	Parent 2012 R'000
23. OTHER NON-CURRENT LIABILITIES				
Amounts owing to customer	10,558	12,471	10,558	12,471
Amounts owing to a customer in terms of a settlement agreement, held at amortised cost which approximates fair value.				
Total other non-current liabilities	10,558	12,471	10,558	12,471

24. PROVISIONS

	Leave pay R'000	Legal claims R'000	Bonus R'000	Other R'000	Total 2013 R'000	Total 2012 R'000
Group						
Opening balance	23,652	6,244	13,254	22,035	65,185	70,759
Provided during the year	5,968	8,361	14,337	-	28,666	21,892
Utilised during the year	(8,463)	(6,969)	(11,004)	(22,035)	(48,471)	(27,466)
Closing balance	**21,157**	**7,636**	**16,587**	**-**	**45,380**	**65,185**
Parent						
Opening balance	22,441	6,244	13,254	21,392	63,331	69,123
Provided during the year	5,590	8,361	14,337	-	28,288	20,334
Utilised during the year	(7,991)	(6,969)	(11,004)	(21,392)	(47,356)	(26,126)
Closing balance	**20,040**	**7,636**	**16,587**	**-**	**44,263**	**63,331**

The leave pay provision is based on the number of days leave due to employees at financial year end times 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 at the Board's discretion in line with the Performance Management Scheme.

Other provision is a provision of R21m which is being held for tax structured loans which was prescribed in the prior year. All provisions are raised in the ordinary course of business and no material unutilised provisions were written back.

25. ACCOUNTS PAYABLE

	Group 2013 R'000	Group 2012 R'000	Parent 2013 R'000	Parent 2012 R'000
Trade accounts payable	281,504	169,815	279,888	168,236
Accruals	70,706	60,202	69,788	59,941
Amounts due to related parties:				
Water purchases accrual - DWA	40,600	52,540	40,600	52,540
Sundry creditors	19,954	14,462	18,871	13,409
Section 30 customer advances	123,458	81,799	123,458	81,799
SARS - VAT	32,427	20,303	32,427	20,303
Total accounts payable	**568,649**	**399,121**	**565,032**	**396,228**

Trade accounts payable and accruals comprise amounts outstanding for trade purchases.

Trade and other payables are carried at amortised cost and the carrying amount approximates fair value. These are normally settled within 30 days from date of statement.

	Group		Parent	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
26. OPERATING LEASE ARRANGEMENTS				
At the reporting date, the group had no outstanding commitments under non-cancellable operating leases.				
The group as the lessor - rental income				
The group owns a number of properties from which rental income of R2,5m (2012: R1,8m) was earned.				
At the reporting date, the group had contracted with tenants for the following future minimum lease payments.	4,020	4,304	4,020	4,304
0 - 1 year	1,522	1,797	1,522	1,797
1 - 5 years	2,498	2,423	2,498	2,423
> 5 years	-	84	-	84
Total operating lease arrangements	4,020	4,304	4,020	4,304
27. CONTINGENT LIABILITIES				
Collateral				
Collateral security has been given to certain financial institutions in respect of mortgage loans advanced to employees under the home ownership scheme.	8	8	8	8
Guarantees				
Guarantees have been given by certain financial institutions in respect of payments to utility service providers.	822	1,022	822	1,022
Total contingent liabilities	830	1,030	830	1,030
28. POST-RETIREMENT BENEFIT OBLIGATIONS				
All the Umgeni Water retirement benefit plans are governed by the Pension Funds Act (No. 24 of 1956) of South Africa. All full-time employees are compelled to belong to either the defined benefit or the defined contribution plan.				
Summary of net liabilities for post-retirement benefit obligations:				
Defined benefit plan (refer note 28.2.)	130,644	53,790	130,644	53,790
Post-retirement healthcare benefits (refer note 28.3.)	294,661	258,506	294,661	258,506
Total post-retirement benefit obligations	425,305	312,296	425,305	312,296
28.1. DEFINED BENEFIT CONTRIBUTION				
The total cost charged to income represents the group's portion of the contribution payable to this scheme. At reporting date all amounts due and payable to this scheme had been paid.	14,946	12,096	13,458	10,681

28. POST-RETIREMENT BENEFIT OBLIGATIONS continued...

28.2. DEFINED BENEFIT PLAN

The Umgeni Water Retirement Fund was established with effect from 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 2013. 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:

	Group & Parent				
	2013	2012	2011	2010	2009
	%	%	%	%	%
Key assumptions used in the actuarial valuation were as follows:					
Discount rate	8.20%	7.75%	8.75%	9.25%	9.50%
Expected return on plan assets	8.20%	9.00%	10.00%	10.25%	10.50%
Expected rate of salary increases	7.00%	6.00%	6.75%	6.75%	7.00%
Future pension increase	4.00%	3.33%	3.83%	4.60%	4.00%
	R'000	R'000	R'000	R'000	R'000
Amounts recognised in profit/loss in respect of the defined benefit plan are as follows:					
Current service cost	28,640	26,002	16,985	16,789	17,625
Interest on obligation	50,140	47,656	39,086	37,346	39,525
Actuarial loss	77,105	54,002	578	1,423	1,141
Expected return on plan assets	(41,915)	(44,072)	(37,991)	(32,693)	(32,313)
Past service cost	3,385	-	-	-	-
Total included in staff costs in statement of comprehensive income	**117,355**	**83,588**	**18,658**	**22,865**	**25,978**
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	776,267	620,993	471,980	414,533	375,903
Fair value of plan assets	(568,267)	(458,986)	(433,431)	(363,417)	(296,983)
Under funded status	208,000	162,007	38,549	51,116	78,920
Unrecognised net actuarial losses	(77,356)	(108,217)	(38,549)	(38,763)	(62,536)
Net liability in statement of financial position	**130,644**	**53,790**	**-**	**12,353**	**16,384**
Movement in the net liability recognised in the statement of financial position is as follows:					
Net liability at start of year	53,790	-	12,353	16,384	14,057
Net expense recognised in the statement of comprehensive income	117,355	83,588	18,658	22,865	25,978
Company contributions	(40,501)	(29,798)	(31,011)	(26,896)	(23,651)
Net liability at end of year	**130,644**	**53,790**	**-**	**12,353**	**16,384**

28. POST-RETIREMENT BENEFIT OBLIGATIONS continued...

28.2. DEFINED BENEFIT PLAN continued...

	Group & Parent				
	2013	2012	2011	2010	2009
	R'000	R'000	R'000	R'000	R'000
Movements in the defined benefit obligation for the year:					
Defined benefit obligation at beginning of year	620,993	471,980	414,533	375,903	368,499
Current service cost	28,640	26,002	16,985	16,789	17,625
Member contributions	8,485	6,926	6,774	6,596	6,216
Interest cost	50,140	47,656	39,086	37,346	39,525
Actuarial loss (gain)	76,660	126,415	1,691	3,042	(32,903)
Benefits paid	(6,156)	(52,164)	(1,380)	(18,734)	(21,827)
Risk premiums	(5,880)	(5,822)	(5,709)	(6,409)	(1,232)
Defined benefit obligation at end of year	772,882	620,993	471,980	414,533	375,903
Movements in the present value of plan assets in the following periods were as follows:					
Fair value of plan assets at beginning of year	458,986	433,431	363,417	296,983	295,917
Expected return on plan assets	41,915	44,072	37,991	32,693	32,313
Member contributions	8,485	6,926	6,774	6,596	6,216
Employer contributions	40,501	29,798	31,011	26,896	23,651
Actuarial gain (loss)	30,416	2,745	1,327	25,392	(38,055)
Benefits paid	(6,156)	(52,164)	(1,380)	(18,734)	(21,827)
Risk premiums	(5,880)	(5,822)	(5,709)	(6,409)	(1,232)
Fair value of plan assets at end of year	568,267	458,986	433,431	363,417	296,983
Actual Return on Assets	72,331	46,817	39,318	58 085	(5,742)
	%	%	%	%	%
The major category of plan assets, and the expected rate of return at the end of the reporting period for each category, are as follows:					
Cash	10.64%	10.69%	13.03%	16.41%	17.56%
Equity	44.46%	49.99%	51.23%	51.87%	58.97%
Bonds	13.72%	12.90%	10.11%	7.64%	3.64%
Property	5.98%	5.93%	6.11%	5.73%	5.27%
International	23.85%	19.24%	18.62%	17.04%	12.21%
Other	1.35%	1.25%	0.90%	1.31%	2.35%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

The group expects to make a contribution of R41m to the defined benefit plan during the next financial year.

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

28. POST-RETIREMENT BENEFIT OBLIGATIONS continued...

28.2. DEFINED BENEFIT PLAN continued...

Sensitivity Factor	Central Assumption	Accrued Liability: Increase %	Increase R'000	Decrease %	Decrease R'000
1% change in discount rate	8.20%	(16.10%)	(124,818)	20.7%	160,422
1% change in inflation rates	6.00%	18.30%	142,151	(14.8%)	(115,262)

28.3. POST-RETIREMENT HEALTHCARE BENEFITS

The scheme is unfunded and the group has recognised its full past service liability. Actuarial valuations are done annually. The effective date of the most recent valuation is 30 June 2013.

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

Key assumptions used in the actuarial valuation, were as follows:

	Group & Parent 2013	2012	2011	2010	2009
	%	%	%	%	%
Discount rate	8.50%	8.25%	8.75%	9.00%	9.25%
Expected rate of increase in medical indices	8.20%	7.75%	7.75%	7.50%	8.00%
	R'000	R'000	R'000	R'000	R'000
Amounts recognised in profit/loss in respect of the post-retirement healthcare costs are as follows:					
Current service cost	7,944	7,096	6,042	5,838	5,303
Interest on obligation	21,082	18,520	15,762	14,032	10,375
Actuarial loss	12,226	23,381	18,763	7,776	8,962
Total included in staff costs in statement of comprehensive income	41,252	48,997	40,567	27,646	24,640
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	258,506	214,098	177,389	153,088	131,162
Net expense recognised in the statement of comprehensive income	41,252	48,997	40,567	27,646	24,640
Company contributions	(5,097)	(4,589)	(3,858)	(3,345)	(2,714)
Liability at end of year	294,661	258,506	214,098	177,389	153,088

28. POST-RETIREMENT BENEFIT OBLIGATIONS continued...

28.3. POST-RETIREMENT HEALTHCARE BENEFITS continued...

	Group & Parent				
	2013	2012	2011	2010	2009
	R'000	R'000	R'000	R'000	R'000
Movements in the post-retirement healthcare obligation in the following periods were as follows:					
Projected benefit obligation at beginning of year	258,506	214,098	177,389	153,088	131,162
Current service cost	7,944	7,096	6,042	5,838	5,303
Interest cost	21,082	18,520	15,762	14,032	10,375
Actuarial loss	12,226	23,381	18,763	7,776	8,962
Employer contributions	(5,097)	(4,589)	(3,858)	(3,345)	(2,714)
Projected benefit obligation at end of year	**294,661**	**258,506**	**214,098**	**177,389**	**153,088**

The group expects to make a contribution of R7m to the post retirement medical aid during the next financial year.

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

	Accrued Liability				
Sensitivity Factor	Central Assumption	Increase		Decrease	
		%	R'000	%	R'000
1% change in medical aid inflation rates	8.20%	21.40%	63,153	(16.6%)	(48,943)
1 year change in expected retirement age	60 years	(4.00%)	(11,809)	4.1%	12,105
1% change in discount rate	8.50%	(16.40%)	(48,324)	21.5%	63,462

The information presented above is as per the latest valuation, which was performed on 30 June 2013.

29. RELATED PARTIES

The group is wholly owned by its shareholder, the Department of Water Affairs. Umgeni Water is a schedule 3B public entity in terms of the Public Finance Management Act.

Government related parties include national departments (including the shareholder), constitutional institutions (schedule 1 of the Public Finance Management Act), public entities (schedule 2 and 3 of the Public Finance Management Act) and local government (including municipalities). The list of public entities in the national sphere of government is provided by National Treasury on its website www.treasury.gov.za. It also provides the names of subsidiaries of the public entities.

Related parties also comprise subsidiaries of Umgeni Water, and associates of the group and post retirement benefit plans for the benefit of the employees. It 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). Disclosure of related party transactions with key management personnel is included in the Remuneration Report on page 123. For disclosures regarding the post retirement benefit plan, refer to note 28.

IAS 24 Related Party disclosures provides government related entities an exemption which eliminates the requirements to disclose information that is costly to gather and of less value to users. The group applies the exemption in respect of its relationship with government related entities at national and local levels of government.

All related party transactions are carried within normal trade conditions. The following transactions were carried out with related parties:

	Group 2013 R'000	Group 2012 R'000	Parent 2013 R'000	Parent 2012 R'000
29. RELATED PARTIES continued...				
Revenue: Sale of goods and services				
Bulk water and waste water				
Local government (includes municipalities)*	1,779,107	1,540,747	1,779,107	1,540,747
Section 30				
Local government (includes municipalities)	24,467	23,584	24,287	23,584
National Department	184,610	1,898	184,610	1,898
Cost of sales				
Raw water purchases				
National Department	334,171	150,598	334,171	150,598
Section 30				
Local government (includes municipalities)	17,327	15,751	17,327	15,751
National Department	175,019	223,609	175,019	223,609
Other operating and administration expenses				
Subsidiaries and associates	-	-	14,789	13,396
Finance costs				
Subsidiaries and associates	-	-	-	(9)
Finance Income				
Subsidiaries and associates	-	-	76	45
Grant funding for rural development projects				
National Department	167,080	131,056	167,080	131,056
Payments in advance				
Local government (includes municipalities)	(5)	(5)	(5)	(5)
National departments	(9)	(9)	(9)	(9)
Loans to (from) entities				
Subsidiaries and associates	-	-	2,556	3,548
Right of use agreement				
Local government (includes municipalities)	13,140	14,924	13,140	14,924
Revenue in advance				
Local government (includes municipalities)	(12,471)	-	(14,159)	-

* Included in local government is sales to the groups largest customer Ethekwini Metro Municipality of R1,337m (2012: R1,128m)

30. IRREGULAR EXPENDITURE

	Group 2013 R'000	Group 2012 R'000	Parent 2013 R'000	Parent 2012 R'000
Opening balance 1 July	-	-	-	-
Add: irregular expenditure relating to current year	442	1,939	442	1,939
Less: amounts condoned by appropriate authority	(442)	(1,939)	(442)	(1,939)
Closing balance	-	-	-	-

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

Details of irregular expenditure condoned

Incident	Condoned by (condoning authority)
Supply chain management policy not adhered to.	Bid Adjudication Committee in terms of the irregular expenditure procedure.

	Group		Parent	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
31. FRUITLESS AND WASTEFUL EXPENDITURE				
Opening balance 1 July	-	-	-	-
Fruitless and wasteful expenditure relating to current year	51	499	51	499
Less: amounts condoned by appropriate authority	(50)	(499)	(50)	(499)
Less: amounts transferred to receivable	(1)	-	(1)	-
Closing balance	-	-	-	-
Analysis of fruitless and wasteful expenditure				
Fines and penalties	(6)	(1)	(6)	(1)
Interest paid	(45)	(498)	(45)	(498)
Total fruitless & wasteful expenditure	(51)	(499)	(51)	(499)

Fines and Penalties

No disciplinary steps required as penalties were incurred for late payment of vehicle licenses.

Interest paid

For interest paid, no disciplinary steps taken, however 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.

32. FINANCIAL RISK MANAGEMENT AND FINANCIALS INSTRUMENTS

32.1. CAPITAL RISK MANAGEMENT

Umgeni Water's objective for managing capital is to enhance shareholder (The Executive Authority) value by providing efficient and reliable water services to customers at the lowest economic cost while reducing debt, remaining financially self sufficient and generating sufficient surplus to meet the required capital expenditure programme and thus sustaining future development of the business and its ability to continue as a going concern. This objective has remained consistent with the prior years.

As a government business enterprise, Umgeni Water strives towards a target optimal capital structure, which is made up of a combination of financial liabilities (refer note 22) and capital and reserves as disclosed in the Statement of Changes in Equity on page 126. This structure is agreed annually between Umgeni Water and its Executive Authority (The Department of Water and Environmental Affairs) in the shareholders compact and is managed in terms of the targeted debt to equity ratio and Umgeni Water's tariff policy.

	Group		Parent	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
32.1.1. 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	3,248,381	2,664,930	3,236,266	2,655,161
Total	3,691,228	3,107,777	3,679,113	3,098,008
Total interest bearing debt	1,135,381	1,257,137	1,135,381	1,257,137

32. FINANCIAL RISK MANAGEMENT AND FINANCIALS INSTRUMENTS continued...

32.1. CAPITAL RISK MANAGEMENT continued...

32.1.2. 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 comprehensive income.

	Group & Parent	
	2013	2012
	R'000	R'000
Gross Debt (Refer note 22)	1,135,381	1,257,137
Interest Rate Structure		
Fixed	74%	72%
Floating	26%	28%

	Group		Parent	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
Gearing Ratio	0.31	0.40	0.31	0.41

(b) Asset 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 a 3-year period prior to the settlement of a bond:
- 10% of the capital redemption value provided for 3 years before maturity;
- 40% provided for 2 years before maturity;
- 75% provided for 1 year before maturity; and
- the balance of 25% is funded during the year of maturity.

(c) Managing debt within approved borrowing limits

The borrowing limits for Umgeni Water for the period 2012 to 2014 have been approved by the Minister of Water and Environmental Affairs with the concurrence of the Finance Minister as follows:

	2012	2013	2014
	R'000	R'000	R'000
Borrowing Limit	1,950,000	1,800,000	1,750,000

32. FINANCIAL RISK MANAGEMENT AND FINANCIALS INSTRUMENTS continued...

32.1. CAPITAL RISK MANAGEMENT continued...

32.1.2. DEBT MANAGEMENT continued...

(c) Managing debt within approved borrowing limits continued...

Managing debt within the approved borrowing limits involves monitoring of existing debt against the limits and continual evaluation of future cash flows and funding requirements.

	Group	
	2013	2012
	R'000	R'000
Utilisation of borrowing limits		
Borrowing limit	1,800,000	1,950,000
Gross borrowings (refer to note 22)	(1,135,381)	(1,257,137)
Collateral and guarantees (refer to note 27)	(830)	(1,030)
Unutilised borrowing limits	**663,789**	**691,833**

(d) Maintaining an external credit rating

The ability of Umgeni Water to raise debt at competitive interest rates is significantly dependant on the external credit rating issued by a Ratings Agency. The credit rating is maintained through protection of operating cashflows by anticipating adverse market and business conditions and continuous monitoring of strategies devised to counteract the adverse market conditions.

Umgeni Water's credit ratings are F1+ short-term re-affirmed per previous rating and AA long-term which is downgraded from the previous rating of AA+, due to the national ratings being revised following a recalibration of the South African national scale.

32.2. 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
- and market risk (interest rate risk)

32.2.1. 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.

32. FINANCIAL RISK MANAGEMENT AND FINANCIALS INSTRUMENTS continued...

32.2. FINANCIAL RISK MANAGEMENT continued...

32.2.1. CREDIT RISK continued...

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	Group		Parent	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
a) Investments	2,081,005	1,790,330	2,081,005	1,790,330
b) Trade and other receivables (excluding provision for bad debts)	335,397	228,180	330,743	224,874
c) Cash and cash equivalents (excluding petty cash)	7,554	11,525	4,988	9,948

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 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 AA 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.

Management does not expect any counterparty to fail to meet its obligations and hence no investment has been impaired, during the current and prior years.

Maximum credit risk exposure to Umgeni Water

The table below shows the credit limits and carrying values of assets attributable to the counterparties at reporting date using the Fitch Rating Agency credit rating symbols.

Financial Instruments			Group & Parent	
Counterparty	Rating	Credit Limit	2013	2012
		R'000	R'000	R'000
Held to maturity			**5,179**	**9,995**
First Rand Bank Limited	AA/F1+	1,000	5,179	9,995
Loans and Receivables			**2,075,826**	**1,780,335**
ABSA Bank Limited	AA+/F1+	1,000	410,862	461,862
First Rand Bank Limited	AA/F1+	1,000	789,000	20,000
Standard Bank of South Africa Limited	AA/F1+	1,000	126,500	608,500
Nedbank Limited	AA-/F1+	1,000	638,500	493,000
Corporation for Public Deposits	Government Guarantee	3,000	110,964	196,973
Total			**2 081,005**	**1,790,330**

32. FINANCIAL RISK MANAGEMENT AND FINANCIALS INSTRUMENTS continued...

32.2. FINANCIAL RISK MANAGEMENT continued...

32.2.1. CREDIT RISK continued...

b) Trade and other receivables

The management of credit risk in relation to trade and other receivables is summarised as follows:

- Umgeni Water aims to minimise loss caused by default of customers through specific policies and procedures; and
- compliance with these policies and procedures are the responsibility of the General Manager Finance and Financial Manager. Monitoring of compliance with these policies is carried out by internal audit. All known risks are required to be fully disclosed and accounted for and are provided for as doubtful debts.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are bulk or commercial customers, their aging profile and existence of previous financial difficulties.

The average credit period allowed is 30 days from invoice date. Interest is charged at prime rate on debtors over 30 days from date of invoice. Trade receivables over 30 days are provided for based on estimated irrecoverable amounts from the sale, determined by reference to past default experience.

Monitoring exposure

Umgeni Water monitors exposures on an on-going basis utilising various reporting tools and flagging potential risks which are reported to National Treasury in terms of Section 41 of the Municipal Finance Management Act. The following reports are used to monitor credit risk:

- age analysis reports; and
- status report for significant overdue debtors.

The maximum exposure to credit risk for trade and other receivables at the reporting date by type of counter party is as follows:

	Group		Parent	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
Gross Amounts				
Bulk	181,856	147,021	181,856	147,021
Waste water	5,776	5,000	5,776	5,000
Other activities	147,765	76,159	143,111	72,853
Total (excluding provision for bad debts)	**335,397**	**228,180**	**330,743**	**224,874**

The group's most significant customer, Ethekweni muncipality accounts for R127m of the trade and receivables carrying amount at 30 June 2013. (2012: R100m)

Impairment Losses

Refer to note 18 for impairment of trade and other receivables.

	Group & Parent	
	2013	2012
	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:	52,407	32,806
30 days	30,840	14,739
60 days	14,935	2,973
90 days	47	8,284
120+ days	6,585	6,810

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.

32. FINANCIAL RISK MANAGEMENT AND FINANCIALS INSTRUMENTS continued...

32.2. FINANCIAL RISK MANAGEMENT continued...

32.2.1. CREDIT RISK continued...

c) Cash and cash equivalents

The Group held cash and cash equivalents of R8m at 30 June 2013 (2012: R12m) of the following which represents the maximum credit exposure on these assets.

		Group		Parent	
Counterparty	Rating	2013	2012	2013	2012
		R'000	R'000	R'000	R'000
Cash		7,554	11,525	4,989	9,948
First Rand Bank Limited	AA/F1+	5,554	2,647	2,988	1,071
Standard Bank of South Africa Limited	AA/F1+	2,000	8,878	2,000	8,877
Total		7,554	11,525	4,989	9,948

The remaining balance of 57 (2012: 53) for the group and 28 (2012: 26) for the parent represents petty cash in Rands per thousand for which there is no credit risk attached.

Guarantees

At 30 June 2013 the Group had R0,8m (2012: R1m) of guarantees outstanding and this represents the maximum exposure to the Group.

32.2.2. LIQUIDITY RISK

Liquidity risk is the risk that the group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

Mitigation approach

To mitigate liquidity risk, Umgeni Water:

- monitors the level of expected cash inflows on trade and other receivables together with the expected cash outflows on trade and other payables;
- has short-term funding facilities to meet on-going cash requirements for which facility options are in place with four banks (FNB, Standard, ABSA, Nedbank);
- has a Domestic Medium Term Note (DMTN) Programme has been established allowing for longer dated debt such as bonds to be issued with relative ease;
- has provided for a R200m cash buffer investment to cater for a delay in payments by its customers;
- has a redemption strategy framework, which provides guidelines for managing the risks associated with refinancing large debt maturities; and
- has borrowing limits approved by National Treasury.

32.2.2.1. LIQUIDITY RISK INHERENT IN CONTRACTUAL CASH FLOWS

The table that follows details the group's expected maturity for its financial assets. These tables have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where Umgeni Water anticipates that the cash flow will occur in a different period.

32. FINANCIAL RISK MANAGEMENT AND FINANCIALS INSTRUMENTS continued...

32.2. FINANCIAL RISK MANAGEMENT continued...

32.2.2. LIQUIDITY RISK continued...

32.2.2.1. LIQUIDITY RISK INHERENT IN CONTRACTUAL CASH FLOWS continued...

	Group						
	Weighted average effective interest rate %	< 1 month R'000	1-3 months R'000	3 months - 1 year R'000	1-5 years R'000	>5 years R'000	Total R'000
Financial Assets							
2013							
Fixed interest rate instruments	8.14%	7,862	-	5,178	-	-	13,040
Variable interest rate instruments	5.38%	614,532	1,031,850	449,133	-	-	2,095,515
Trade and other Receivables		-	280,118	23,981	-	-	304,099
Total		622,394	1,311,968	478,292	-	-	2,412,654
2012							
Fixed interest rate instruments	7.94%	7,862	-	5,478	5,478	-	18,818
Variable interest rate instruments	5.87%	455,060	667,601	710,872	-	-	1,833,533
Trade and other Receivables		-	188,093	17,641	-	-	205,734
Total		462,922	855,694	733,991	5,478	-	2,058,085

The group and parent figures remain the same with the exception of parent trade and other receivables maturity of 3 months - 1 year of R19,327 (2012: R14,335) in Rands per thousand.

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.

	Group						
	Weighted average effective interest rate %	< 1 month R'000	1-3 months R'000	3 months - 1 year R'000	1-5 years R'000	>5 years R'000	Total R'000
Financial Liabilities							
2013							
Fixed interest rate instruments	10.13%	-	69,776	74,401	438,632	818,583	1,401,392
Variable interest rate instruments	7.11%	-	235,705	34,747	246,256	52,748	569,456
Trade and other payables		-	6,364	427,863	-	-	434,227
Total		-	311,845	537,011	684,888	871,331	2,405,075
2012							
Long term debt	10.07%	-	70,379	90,362	500,987	900,402	1,562,130
Short term debt	7.59%	-	38,741	37,269	270,597	114,444	461,051
Trade and other payables		-	2,416	262,607	-	-	265,023
Total		-	111,536	390,238	771,584	1,014,846	2,288,204

The group and parent figures remain the same with the exception of parent trade and other payables maturity of 3 months - 1 year of R426,767 (2012: R261,028) in Rands per thousand.

32. FINANCIAL RISK MANAGEMENT AND FINANCIALS INSTRUMENTS continued...

32.2. FINANCIAL RISK MANAGEMENT continued...

32.2.2. LIQUIDITY RISK continued...

32.2.2.2. PRIMARY SOURCES OF FUNDING AND UNUSED FACILITIES

The primary sources of funding to meet Umgeni Water's requirements are revenue, cash inflows from maturing financial assets purchased, debt issued in the market and other loans. The following sources of funding are available to Umgeni Water to meet its short, medium and long-term funding requirements and will supplement the primary liquidity sources under stress conditions:

(a) Domestic Medium Term Note Programme (DMTN)
Umgeni Water has established a Domestic Medium Term Note Programme to issue bonds to meet long term capital expenditure funding requirements.

The programme has an authorised amount of R3 billion, and is a useful funding tool in terms of the following:
- refining the duration of the stock of debt;
- refining the fixed to floating ratio of the debt book;
- meeting short-term liquidity requirements; and
- filling gaps in the debt maturity profile.

The UG21 was issued at a total nominal value of R600m under the DMTN Programme on 02 March 2010 at a fixed rate of 10.70%.

(b) General banking facilities
Umgeni Water has the following committed and uncommitted bank facilities available:

	Group & Parent	
	Committed	Uncommitted
	R'000	R'000
Type of facility		
Working capital facility	50,000	-
General Banking facility	50,020	99,980

(c) Bank loans
This method of funding allows Umgeni Water to refinance short-term debt with the view of achieving greater asset/liability matching.

32.2.3. INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates cause a reduction/increase in net profit for Umgeni Water. Umgeni Water is exposed to interest rate risk as funds are borrowed at both fixed and floating interest rates. Borrowings issued at floating interest rates exposes Umgeni Water to cashflow interest rate risk.

Mitigation approach
The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings: 70% fixed to 30% floating interest rate profile.

	Group & Parent		
	Recommended Ratio	2013	2012
	%	%	%
Ratio of fixed to floating interest rate			
Fixed	70%	74%	72%
Floating	30%	26%	28%

32. FINANCIAL RISK MANAGEMENT AND FINANCIALS INSTRUMENTS continued...

32.2. FINANCIAL RISK MANAGEMENT continued...

32.2.3. INTEREST RATE RISK continued...

At reporting date the interest rate profile of the group's interest bearing financial instruments was as follows:

	Group & Parent	
	2013	2012
	R'000	R'000
Fixed rate instruments		
Financial assets	13,041	17,857
Financial liabilities	835,381	907,137
	848,422	924,994
Variable rate instruments		
Financial assets	2,067,964	1,772,473
Financial liabilities	300,000	350,000
	2,367,964	2,122,473

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 2013 would decrease/increase by R0,7m (2012: R0,00037m).

32.3. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

32.3.1. ACCOUNTING CLASSIFICATION

	Group		Parent	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
CATEGORIES OF FINANCIAL INSTRUMENTS				
Financial Assets				
Held-to-maturity	5,179	9,995	5,179	9,995
Loans and receivables	2,428,286	2,037,776	2,421,038	2,032,866
Other investments	2,075,826	1,780,335	2,075,826	1,780,335
Other financial assets	13,140	14,924	13,140	14,924
Trade and other receivables	304,099	205,734	299,445	202,428
Interest and premium receivable	27,610	25,205	27,610	25,205
Cash and cash equivalents	7,611	11,578	5,017	9,974
Financial Liabilities				
Held-at-amortised cost	1,611,562	1,569,291	1,610,466	1,567,712
Long-term debt	1,025,930	1,136,306	1,025,930	1,136,306
Other non current liabilities	10,558	12,471	10,558	12,471
Accounts payable	434,227	265,023	433,131	263,444
Short-term debt	109,451	120,831	109,451	120,831
Interest payable	31,396	34,660	31,396	34,660

32. FINANCIAL RISK MANAGEMENT AND FINANCIALS INSTRUMENTS continued...

32.3. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES continued...

32.3.2. FAIR VALUES OF FINANCIAL INSTRUMENTS

The financial assets and financial liabilities of Umgeni Water are not traded in active liquid markets therefore the fair value of these financial instruments is determined in accordance with generally accepted pricing models based on discounted cashflow analysis using prices from observable current market transactions for similar instruments.

Except as detailed below, the directors' consider the carrying amounts of the financial assets and financial liabilities recorded at amortised cost in the financial statements to approximate their fair value.

	Group & Parent		Group & Parent	
	2013		2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	R'000	R'000	R'000	R'000
Financial liabilities				
Bank loans	535,381	550,643	657,137	687,277
Bond at fixed interest rate	600,000	653,666	600,000	659,089
Total	**1,135,381**	**1,204,309**	**1,257,137**	**1,346,366**