FINANCIAL REVIEW

13.1 INTRODUCTION

Umgeni Water achieved sound financial performance in 2018 as a result of its resilient and agile operating systems that allowed for swift recovery from the drought. The strengthening of the balance sheet provides the financial resources that are required to implement critical mega infrastructure projects that will ensure water resource security in the medium to long term as well as assist customers to meet future water demands and eliminate the water service delivery backlogs in the province of KwaZulu-Natal.

Operating profits were 70% higher at R1 007m (2017: R593m), while gross profit margins increased by 6% and profits for the year by 59% predominantly due to the 6% sales volumes growth combined with a 15% bulk water tariff increase. The recovery of the operating profit margins alleviates the pressure on the financial loan covenant interest cover ratio which was under stress in the previous year. As a result capital expenditure had to be constrained as new funding was deferred to 2020 to allow for the recovery in operating profits so as not to risk any breaches to the interest cover ratio. Cost of sales increased by 1% due to lower section 30 activities and other administrative expenses reduced by 7% mainly as a result of impairment reversals on rural development infrastructure. Net finance income was 19% higher year on year as finance costs continue to be capitalised on qualifying assets whilst finance income has increased in line with the increase in investments.

Umgeni Water measures its financial performance in terms of its achievement against financial indicators which are aligned to the organisation's strategic objectives and are included in the Performance Against Umgeni Water Strategy and Shareholder Compact Indicators 2017/2018 of this Annual Report, pages 60-67.

SPRING GROVE DAM

FINANCIAL REVIEW

13.2 OPERATING PERFORMANCE

13.2.1 OVERVIEW OF OPERATING PERFORMANCE

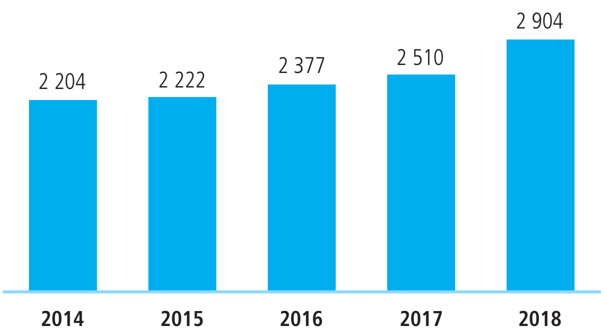
13.2.1.1 YEAR ON YEAR CHANGES OF GROUP OPERATING PERFORMANCE

Bulk water revenue increased by 22% due to the 15% bulk water tariff increase combined with a 6% sales volumes growth, whilst the bulk water direct operating costs increased by 12% arising from the main cost drivers. The reduction in section 30 activities is due to the completion of projects. The 19% increase in wastewater is due to annual price increases in line with contractual agreements with customers which allows for upgrades and improvements to wastewater treatment works.

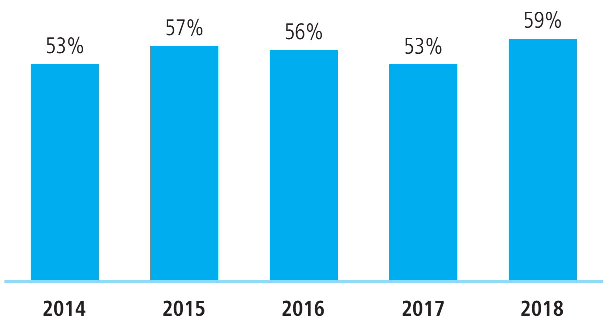
Other operating and administrative expenses decreased by 7% as a result of reversals of impairments on rural development infrastructure primarily due to rural bulk infrastructure grants received.

	2018 R'm	% Change	2017 R'm
Revenue	**2 904**	**16**	**2 510**
Water	2 666	22	2 187
Wastewater	172	19	145
Section 30	66	(63)	178
Cost of sales	**(1 192)**	**1**	**(1 179)**
Water	(1 051)	12	(937)
Wastewater	(97)	10	(88)
Section 30	(44)	(71)	(154)
Gross profit	**1 712**	**29**	**1 331**
GP%	*59%*	*6%*	*53%*
Other income	14	(56)	32
Other operating and administration expenses	(719)	(7)	(770)
Profit from operations	**1 007**	**70**	**593**
Net finance income	176	19	148
Share of profit from associate	5	-	5
Profit before tax	**1 188**	**59**	**746**

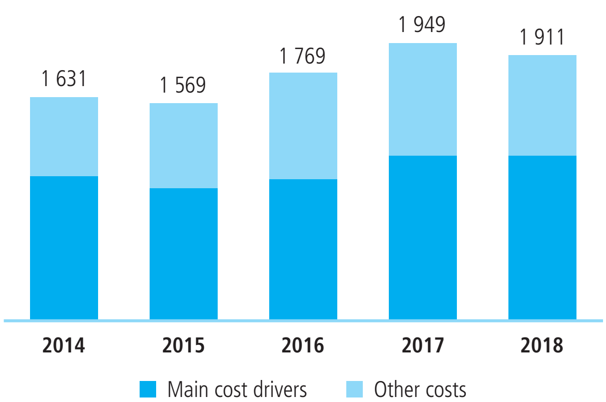
Revenue (R'm)



Gross Profit (%)



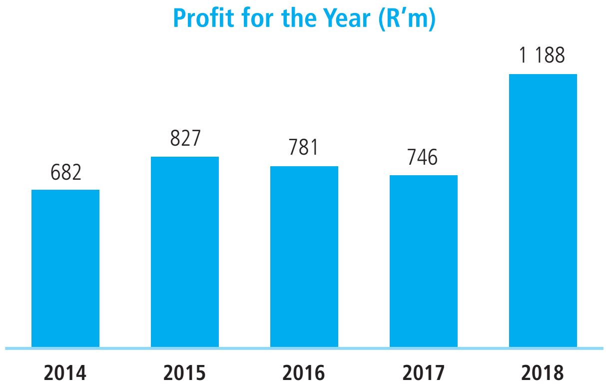
Total Costs (Excluding Finance Costs) (R'm)

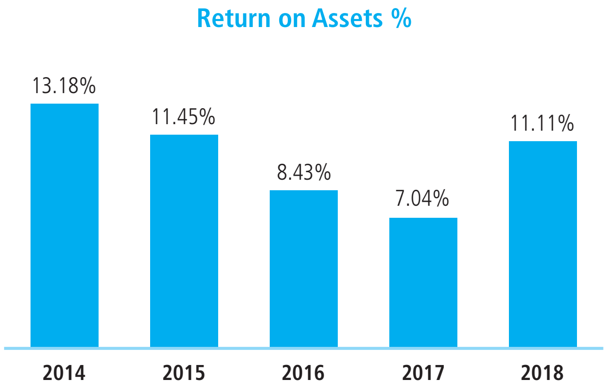


13.2 OPERATING PERFORMANCE (continued)

13.2.1 OVERVIEW OF OPERATING PERFORMANCE (continued)

13.2.1.1 YEAR ON YEAR CHANGES OF GROUP OPERATING PERFORMANCE (continued)





13.2.1.2 MAIN COST DRIVERS INCLUDED IN COST OF SALES

The main cost drivers for direct operating costs are chemicals, energy, maintenance, raw water and staff costs which account for 79% (2017: 72%) of cost of sales. Bulk water cost of sales increased by 12% driven by the increases in the main cost drivers.

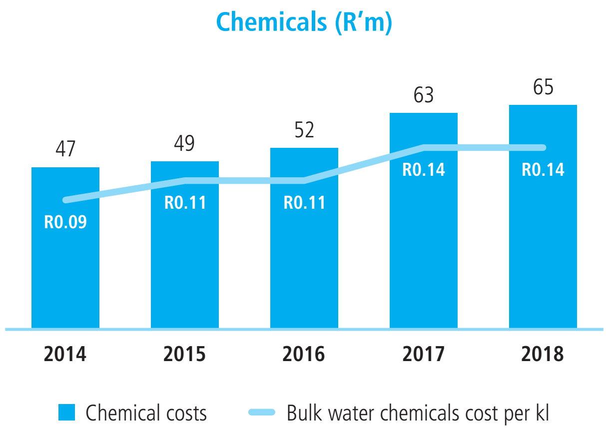
Energy costs were 13% higher year on year mainly due to the new Lower Thukela Bulk Water Supply Scheme which was commissioned in September 2017, the large user charges introduced by Msunduzi Local Municipality and an average energy price increase of 4%. Overall pumping reduced as compared to the prior year as some of the major pumps underwent maintenance during the year and river flooding as a result of the rains did not allow for conducive conditions to pump.

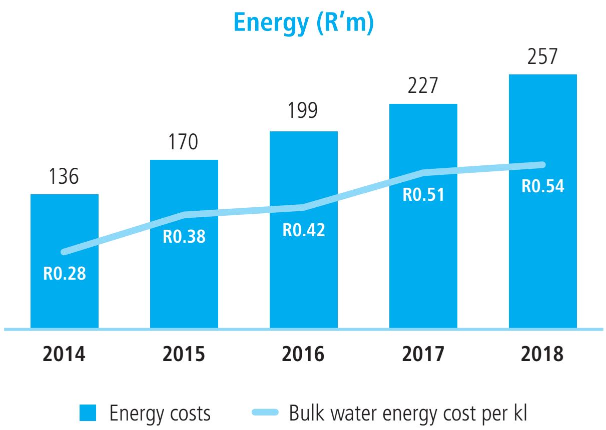
Staff costs increased by 7% mainly due to the average salary increases of 8% and an increase in the staff establishment to support newly commissioned schemes offset by lower provisions for incentive bonuses in accordance with the performance management policy.

Raw water costs increased by 16%. The average raw water tariff increase was 8% for the Mgeni system and 9% for the Hazelmere system, whilst volumes extracted from the Mgeni system which is the main source of supply were 6% higher.

Maintenance costs were 10% higher in line with the asset maintenance requirements to ensure that vital assets continue to operate to produce potable bulk water in compliance with all relevant water compliance standards and in terms of the bulk water supply agreements with customers.

Chemical costs increased by 3% primarily due to increased usage resulting from higher dosing requirements to treat poor raw water quality, offset by lower average pricing due to changes in the dosing mix of chemicals which was required to obtain the appropriate potable water quality levels.



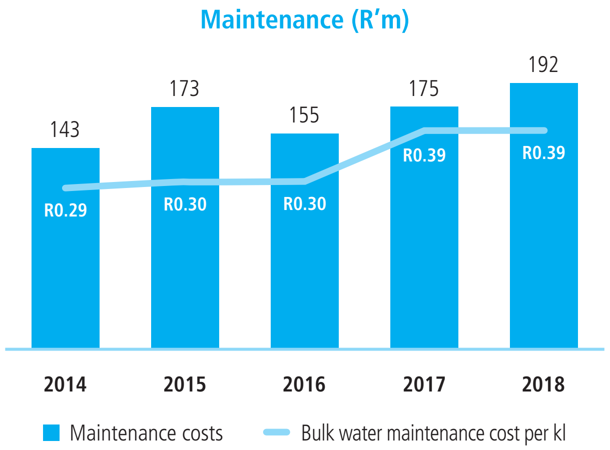


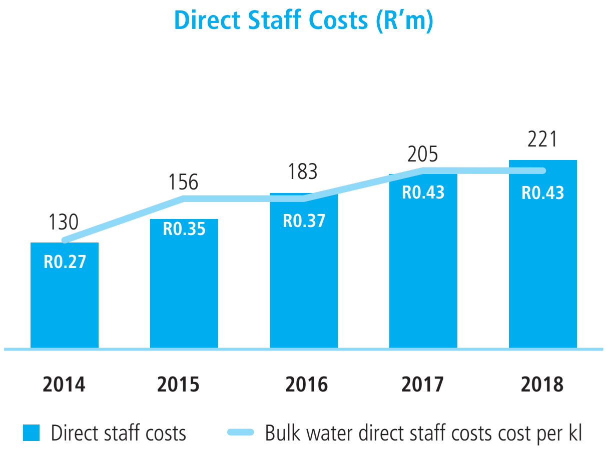
FINANCIAL REVIEW

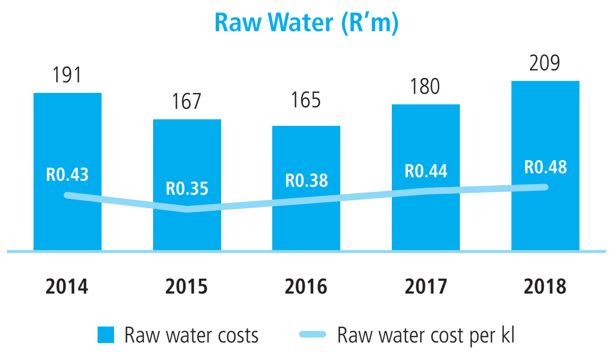
13.2 OPERATING PERFORMANCE (continued)

13.2.1 OVERVIEW OF OPERATING PERFORMANCE (continued)

13.2.1.2 MAIN COST DRIVERS INCLUDED IN COST OF SALES (continued)



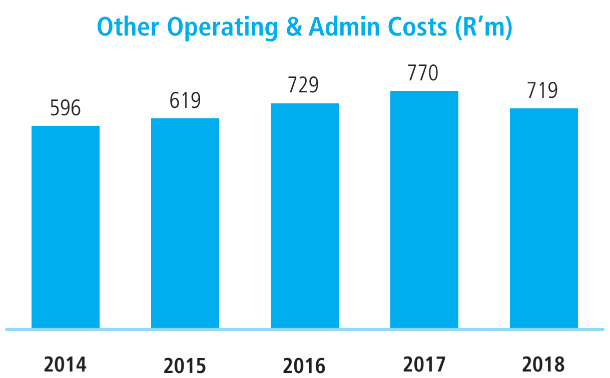


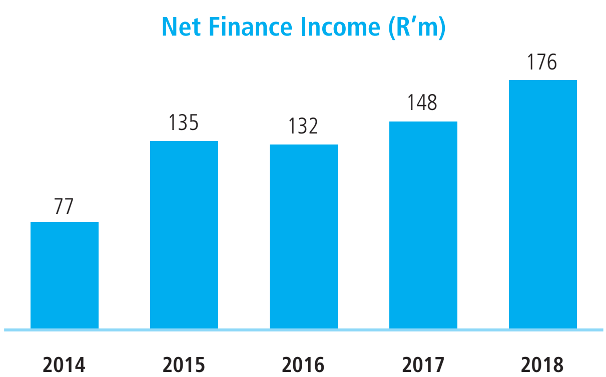


13.2.1.3 OTHER OPERATING AND ADMINISTRATION EXPENSES AND NET FINANCE INCOME

Other operating and administration costs decreased by 7% primarily due to the reversal of impairments on rural development infrastructure of R118m (2017: R42m impairment expense) as a result of rural bulk infrastructure grant funding received.

Net finance income was 19% higher directly associated with the increase in interest income on investments. Interest income totalled R178m (2017: R150m) while finance costs after borrowing costs capitalised was R2m (2017: R1m). Borrowing costs capitalised to qualifying assets were R202m (2017: R211m).

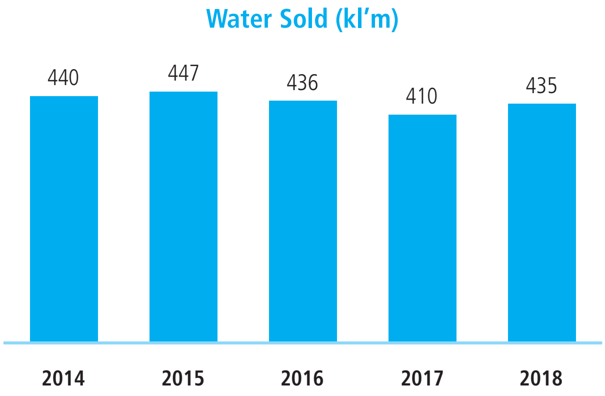




13.2 OPERATING PERFORMANCE (continued)

13.2.2 BULK WATER SALES VOLUME ANALYSIS

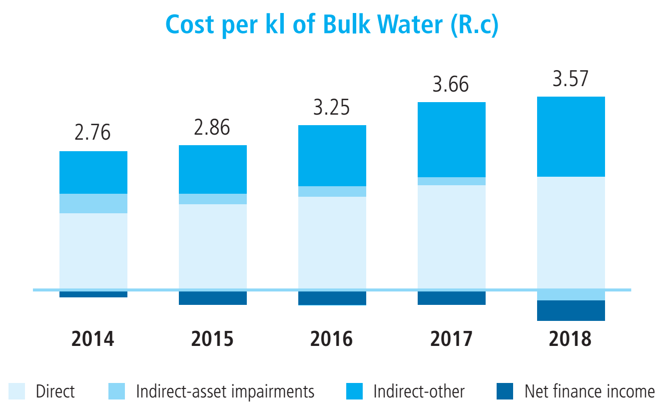
Bulk water sales volumes grew by 6% in the current year as the drought subsided and water supply constraints with customers were lifted during the period under review.



	Volume by Customer and % Change									
	2014		2015		2016		2017		2018	
	kl'000	%	kl'000	%	kl'000	%	kl'000	%	kl'000	%
eThekwini MM	327 011	3.6%	331 347	1.3%	320 151	(3.4%)	299 045	(6.6%)	314 523	5.2%
Other customers	112 533	5.1%	115 201	2.4%	115 575	0.3%	110 843	(4.1%)	120 045	8.3%
Msunduzi LM	66 991	3.6%	70 362	5.0%	69 944	(0.6%)	62 513	(10.6%)	68 433	9.5%
uMgungundlovu DM	15 052	1.9%	15 041	(0.1%)	19 417	29.1%	18 475	(4.8%)	18 797	1.7%
Semcorp Siza Water	4 767	9.5%	4 438	(6.9%)	3 338	(24.8%)	3 360	0.6%	3 458	2.9%
Ugu DM	9 890	9.7%	10 317	4.3%	11 295	9.5%	12 916	14.4%	13 981	8.2%
iLembe DM	14 810	11.8%	14 060	(5.1%)	10 790	(23.3%)	12 716	17.9%	14 182	11.5%
Harry Gwala DM	862	(7.9%)	837	(2.9%)	661	(21.0%)	743	12.5%	1 066	43.4%
Other	161	16.0%	146	(8.9%)	130	(9.5%)	119	(8.5%)	129	8.2%
Total	**439 544**	**4.0%**	**446 548**	**1.6%**	**435 726**	**(2.4%)**	**409 887**	**(5.9%)**	**434 568**	**6.0%**

13.2.3. BULK WATER COST PER KILOLITRE (KL)

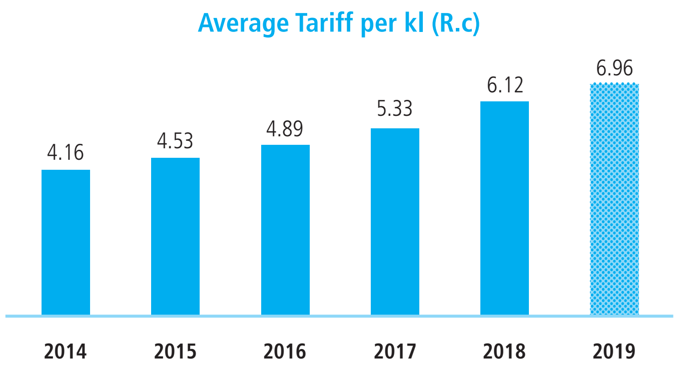
The cost of bulk water per kl decreased by 2% mainly due to increased bulk water sales volumes as well as lower total costs arising from the reversal of impairments and higher net finance income.



FINANCIAL REVIEW

13.3 BULK WATER TARIFF

The average Umgeni Water bulk water tariff increase for 2017/2018 was 15% and the bulk water tariff increase for the next financial year, effective 1 July 2018, has been approved at 13.7% after taking into consideration the capital infrastructure programme together with the funding requirements and operating cash flows required to repay debt.

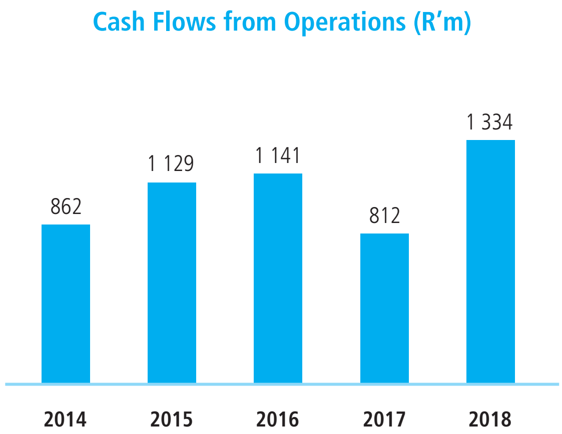


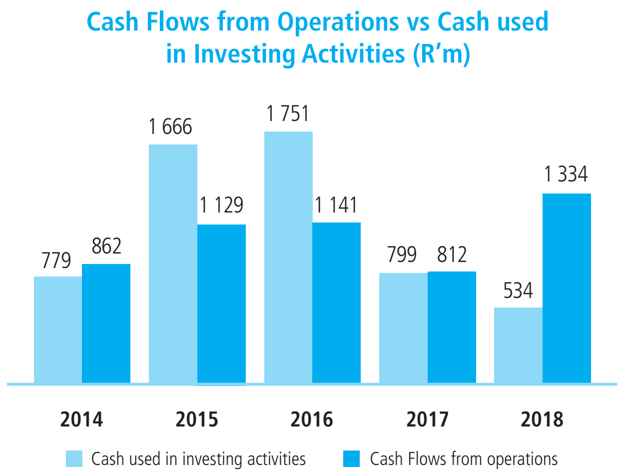
13.4 CASH FLOW ANALYSIS

Operating cash flows were 64% higher at R1 334m (2017: R812m), primarily due to the 6% sales volumes growth and 15% bulk water tariff increase combined with reduced working capital requirements.

Cash used in investing activities were R534m (2017: R799m) consisting of R972m (2017: R1 126m) additions to property, plant & equipment offset by R455m (2017: R371m) rural bulk infrastructure grant funding received for development projects.

Cash used in financing activities was R798m (2017: R32m) which consisted of R79m (2017: R79m) loan repayments and R78m (2017: R110m) net interest paid whilst investments increased by R641m as a result of reduced capital expenditure and rural bulk infrastructure grants received.





13.5 CAPITAL PROJECTS

The capital expenditure programme is based on Umgeni Water's infrastructure master plan which is aligned to the KZN provincial and local strategic priorities to meet regional water demands. The capital expenditure programme is estimated at R9 759m for the next 5 years as per the Corporate Business Plan for 2019 which is 56% higher than the previous year with two key mega-infrastructure projects that have now been accelerated due to the need for water resources. The Mkhomazi Water Project - bulk water components which total R6 132m of which R1 757m has been included in the five year period and Lower Mkomazi Bulk Water Supply Scheme which totals R2 894m of which R2 400m has been included in the five year period. Details of the major projects in progress can be found in the infrastructure section of this Annual Report on page 78.

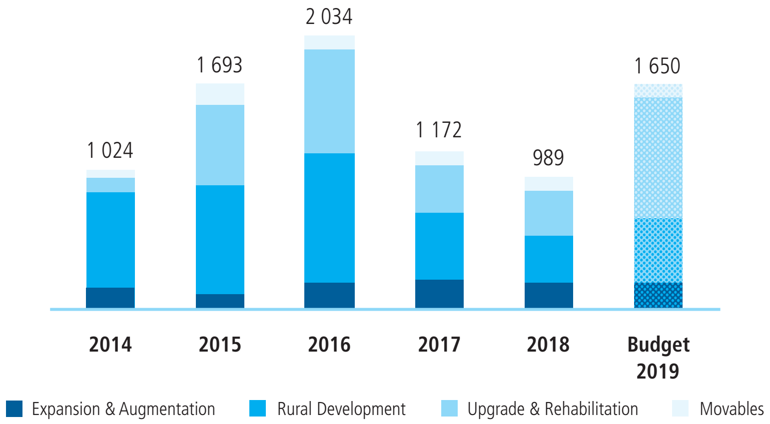
The capital expenditure commitments for the next five years will be funded through a combination of available cash investments and operating cash flows, regional bulk infrastructure grants and new debt of approximately R2.8bn.

For further details on the funding requirements, refer to section 7.1.

13.5.1 CAPITAL EXPENDITURE

During the year capital expenditure including intangible assets totalled R989m (2017: R1 172m). Details of major projects are included in the infrastructure section of this Annual Report on page 78.

Capital Expenditure - Group (R'm)



13.5.2 DEVELOPMENT PROJECTS

In response to customer water demands and the need to eliminate water service delivery backlogs, a specific allocation of R2 811m for development projects has been made for the period 2019 to 2023.

Due to their developmental nature, there is a need for government support via subsidy or grant funding for part of the social component of the development projects which cannot be recovered through the existing tariff structure. The social component carried by Umgeni Water is reflected in the statement of profit and loss as impairments. These impairments are recognised during the construction period and reflected in work in progress on a progressive basis.

Developmental Projects Funding & Impairments June 2018

			Projected Funding Split				
Project	**System**	***Total Projected Cost**	**Regional Bulk Infrastructure Grant Funding**	**UW Funding**	**Total Project Cost June 2018**	**2018 Impairment**	
		R'000	**R'000**	**R'000**	**R'000**	%	**R'000**
Impendle	Upper Umgeni	614 304	-	614 304	5 119	19%	603
			0%	100%			
Greater Mpofana Phase 1	Mooi	858 126	441 935	416 191	465 191	19%	(50 544)
			52%	48%			
Mhlabatshane Sub-Regional Scheme Phase 2 (Mzimkhulu River)	South Coast	878 389	-	878 389	9 685	39%	3 765
			0%	100%			
TOTAL		2 350 818	441 935	1 908 883	479 995		(46 176)
			19%	81%			

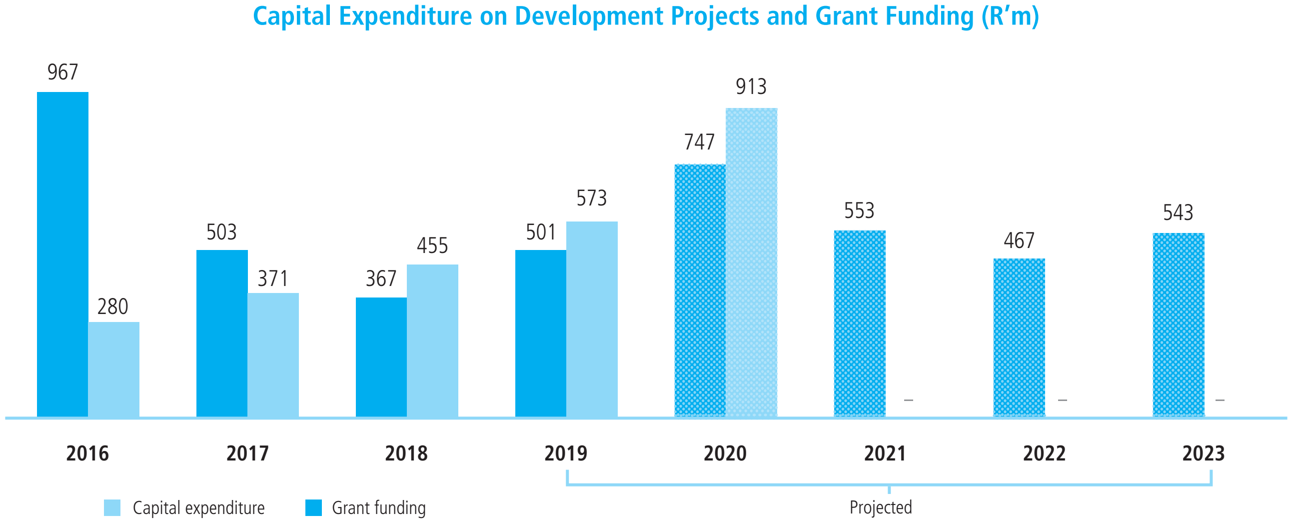
* Total projected cost includes interest and escalation

Impairment reversal on development infrastructure commissioned and included under buildings and infrastructure totalled R72m (2017: R3m impairment expense). Further details on impairments are included in note 9 of the Financial Statements.

FINANCIAL REVIEW

13.5 CAPITAL PROJECTS (continued)

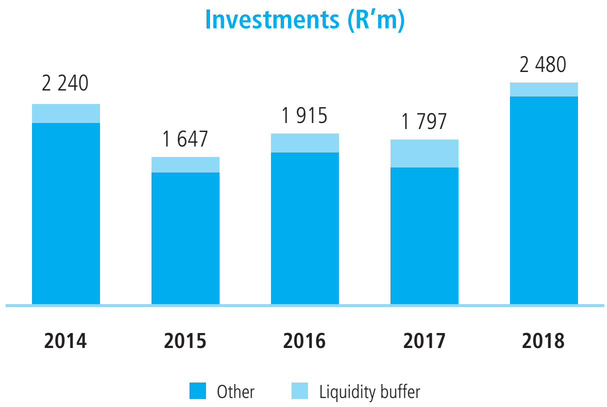
13.5.2 DEVELOPMENT PROJECTS (continued)



The projected capital expenditure is per the approved 2019 business plan, whilst the projected grant funding is per the latest approved RBIG funding schedule received from the Department of Water and Sanitation in June 2018.

13.6 INVESTMENTS

Financial investments totalled R2 480m (2017: R1 797), a 38% increase due to reductions in capital expenditure and rural bulk infrastructure grant funding received.



13.7 DEBT MANAGEMENT

Debt Management is a key focus area at Umgeni Water and is integral to the delivery of sustainable financial business solutions. Umgeni Water targets a debt: equity ratio of 0.67 and an interest rate structure of 70% fixed and 30% variable.

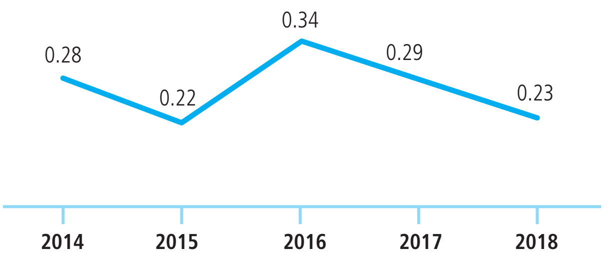
The debt: equity ratio improved by 21% to 0.23 (2017: 0.29) while the interest rate structure is 90% fixed and 10% variable (2017: 86% fixed and 14% variable). The high fixed rate structure is as a result of the two bonds in issue (UG21 and UG26) which comprise 82% of the total interest bearing liabilities. The gross weighted average cost of capital was 10.61% (2017: 10.59%).

During the year R79m collectively was repaid towards the DBSA and EIB loans.

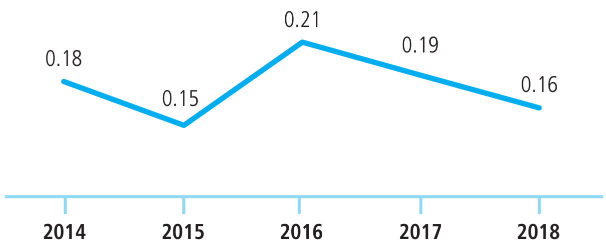
13.7 DEBT MANAGEMENT (continued)

	2018 R'm	2017 R'm
Debt		
Long-term	1 793	1 872
Short-term	79	79
Total Debt	**1 872**	**1 951**
Decrease in debt	(79)	(78)

Debt: Equity (ratio)



Debt: Assets (ratio)



13.7.1 FUNDING REQUIREMENTS

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

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

As per the Corporate Business Plan for 2019 the detailed cash flow forecasts have been prepared for the next five years, taking into account the group's R9 759m planned capital expenditure (unescalated) and is detailed in the table that follows:

FUNDING REQUIREMENTS Financial Year (R'm)	Short Term	Medium Term			Long Term
	2019	2020	2021	2022	2023
	R'm	R'm	R'm	R'm	R'm
Operational Cash Flows	1 355	1 703	1 945	2 204	2 483
CAPEX – Gross (Escalated)	(1 648)	(2 843)	(2 211)	(2 068)	(2 923)
Net Operating and CAPEX Cash Flow	(293)	(1 140)	(267)	136	(440)
CAPEX – Grants: Confirmed	573	913	108	-	-
Financing Activities - Capital					
Existing Debt	(79)	(29)	(29)	(25)	(25)
UG21 repayment	-	-	(600)	-	-
New Debt	-	1 500	1 213	(87)	(87)
Financing Activities – Net Finance Costs					
Existing Financial Instruments	(115)	(46)	280	101	63
New Debt	-	(178)	(329)	(319)	(309)
Funding Requirements	86	1 020	376	(193)	(797)
Redemption Portfolio	-	-	363	-	(7)
Redemption Portfolio – Interest earned	-	-	259	-	-
Net Incremental Funding requirement per annum	86	1 020	997	(193)	(804)
Net (Funding) Investing Requirements					
Opening Balance Available Investments	1 047	1 133	2 153	3 150	2 957
Closing Balance	**1 133**	**2 153**	**3 150**	**2 957**	**2 153**

FINANCIAL REVIEW

13.7 DEBT MANAGEMENT (continued)

13.7.1 FUNDING REQUIREMENTS (continued)

The funding requirements in the short to medium term will be funded via operating cash flows, the utilisation of existing financial investments, grant funding and new debt of R2 800m of which R1 500m is to be issued in 2020 and R1 300m in 2021. Further details of the various sources of funding available to Umgeni Water can be found in note 30 of the Financial Statements.

13.7.2 BORROWING LIMITS

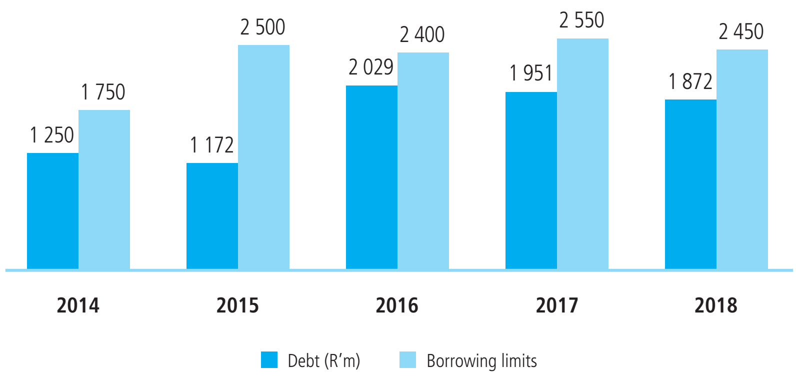
The borrowing limits for the period 2016 to 2019 have been approved by the Minister of Water and Sanitation with the concurrence of the Minister of Finance. The borrowing limit is applicable to the value of gross borrowings, collateral & guarantees exposure and may not exceed the approved limits. The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

	Total Amount	Conditional	Unconditional
	R'm	R'm	R'm
2016	2 400	-	2 400
2017	2 850	300	2 550
2018	2 750	300	2 450
2019	2 700	300	2 400

Utilisation of the borrowing limit as at 30 June 2018 was as follows:

Actual gross borrowings	R1 872m
Collateral and guarantees	R 7m
Total actual borrowings	R1 879m
Borrowing limit	R2 450m
Underutilisation	**R 571m**

Debt & borrowing limits (R'm)

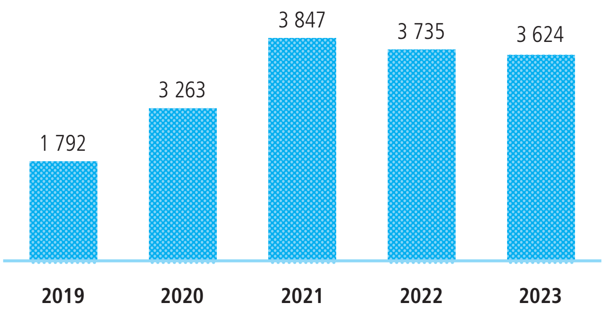


13.7 DEBT MANAGEMENT (continued)

13.7.3 PROJECTED BORROWING LEVEL

Umgeni Water expects to remain within the approved borrowing limits for the 5 year projected period 2019 to 2023 and will closely monitor the borrowing levels and capital expenditure costs in line with the approved borrowing limits.

Project Borrowing Level (R'm)



13.7.4 CREDIT RATINGS

Fitch Ratings agency re-affirmed Umgeni Water's long-term and senior unsecured ratings at AA+ and short-term rating at F1+ in July 2017. The affirmation reflects stability in Umgeni Water's stand-alone profile due to cost effective tariffs and relatively stable funds from operations. There was also positive pronouncement from Standard and Poor's during the recalibration of the national and regional scale mapping table in June 2018, resulting in Umgeni Water's national scale rating being upgraded from AAA- to AAA for long-term while short-term remained unchanged at A-1+.

13.8 RETIREMENT BENEFIT OBLIGATIONS

DEFINED BENEFIT PENSION PLAN

In terms of IAS19, the group's retirement benefit plan is in an under-funded position of R168m (2017: R172m) and in terms of the approved accounting policy the full amount has been recognised in the statement of financial position in order to account for this liability. Further details are disclosed in note 26 of the Financial Statements.

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 R387m (2017: R397m). Further details are disclosed in note 26 of the Financial Statements.

13.9 FINANCIAL RISKS

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

The major risks to the organisation and the mitigating strategies are analysed in note 30 on Financial Risk Management to the Financial Statements and the Corporate Risk Management Framework on page 113 to 116 of this Annual Report.

13.10 FUTURE PROSPECTS

Looking ahead the focus will be to maintain financial resilience and build financial resources via the strength of the balance sheet that is essential to implement the key water resource infrastructure projects in the next 5 years as well as implementing the corporate strategy of enabled and innovative growth. Umgeni Water will continue to support the water sector by being a valuable player in the full water value chain and in this regard will partner with both the Executive Authority and customers in pursuit of reducing water service delivery backlogs in KZN.

GROUP FIVE-YEAR KEY PERFORMANCE INDICATORS

	2018	2017	2016	2015	2014	2017-2018 Movement
Performance criteria/indicators						
Total revenue (R'm)	2 904	2 510	2 377	2 223	2 204	15.70%
Profit from operations/revenue	0.35	0.24	0.27	0.31	0.27	45.83%
Total expenditure/revenue	0.66	0.72	0.69	0.65	0.71	(8.33%)
Cost of sales/revenue	0.41	0.47	0.44	0.43	0.47	(12.77%)
CAPEX spend (R'm) (including intangibles)	989	1 172	2 034	1 693	1 024	(15.61%)
Bulk water business segment						
Treated water volume sold (kl'000)	434 568	409 887	435 726	446 548	439 542	6.02%
Raw water volume sold (kl'000)	419	619	630	574	574	(32.31%)
Total water sold (kl'000)	434 987	410 506	436 356	447 122	440 116	5.86%
Bulk water tariff 1 (Rc/kl)	6.207	5.397	4.951	4.593	4.225	15.01%
Bulk water tariff 2 (Rc/kl)	6.084	5.290	4.853	4.502	4.142	15.01%
WRC levy (Rc/kl)	0.065	0.062	0.057	0.054	0.049	4.84%
Total bulk cost/volume sold (Rc/kl) (1)	3.57	3.66	3.25	2.86	2.76	(2.46%)
Kl'000 sold per employee (1)	353	357	396	449	431	(1.12%)
Operating risk indicators						
Working ratio Operating costs (excl depreciation and amortisation) divided by revenue	0.56	0.70	0.68	0.64	0.69	(20.00%)
Rate of return on assets Profit from operations divided by assets (excl investments)	11.11%	7.04%	8.43%	11.45%	13.18%	4.07%
Gross profit margin ratio	58.97%	53.02%	56.22%	57.25%	53.05%	5.95%
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	47	41	41	41	39	14.63%
Financial risk indicators						
Current ratio Current assets divided by current liabilities	2.75	2.36	2.10	2.48	3.55	16.53%
Interest cover before interest capitalised Profit from operations divided by finance costs before interest capitalised	4.94	2.80	4.50	5.93	5.12	76.43%
Debt : equity ratio Total interest-bearing debt divided by capital and reserves	0.23	0.29	0.34	0.22	0.28	(20.69%)
Debt : asset ratio Total interest-bearing debt divided by total assets	0.16	0.19	0.21	0.15	0.18	(15.79%)

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

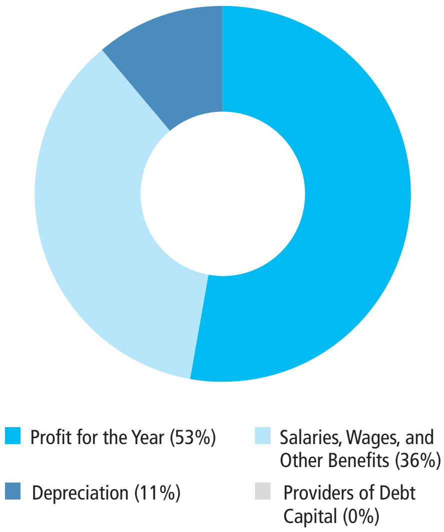
GROUP FIVE-YEAR KEY PERFORMANCE INDICATORS (continued)

	2018	2017	2016	2015	2014
	R'000	R'000	R'000	R'000	R'000
Financial position					
Capital and reserves	8 088 510	6 823 327	5 983 758	5 239 108	4 416 184
Net debt	(608 582)	153 834	114 345	(474 916)	(990 325)
Assets excluding investments	9 058 543	8 426 434	7 642 701	5 999 900	4 565 172
Total interest-bearing debt	1 871 912	1 950 724	2 029 388	1 171 764	1 250 029
Total investments	2 480 494	1 796 890	1 915 042	1 646 680	2 240 354
Total assets	11 539 037	10 223 324	9 557 743	7 646 580	6 805 526
Financial performance					
Revenue	2 903 723	2 509 520	2 377 324	2 222 565	2 204 140
Cost of sales	(1 191 532)	(1 178 925)	(1 040 846)	(950 054)	(1 034 890)
Gross Profit	**1 712 191**	**1 330 595**	**1 336 478**	**1 272 511**	**1 169 250**
Other income	13 746	32 503	36 881	33 871	28 778
Other operating and administration expenses	(719 175)	(770 098)	(728 800)	(619 147)	(596 217)
Profit from operations	**1 006 762**	**593 001**	**644 559**	**687 235**	**601 811**
Net finance income	176 188	148 202	132 269	135 152	76 991
Share of profit from associate	5 285	4 995	4 427	4 602	3 627
Profit before taxation	**1 188 235**	**746 198**	**781 255**	**826 988**	**682 429**
Taxation	(76)	(101)	(65)	-	-
Profit for the year	**1 188 159**	**746 097**	**781 190**	**826 989**	**682 429**
Cash flow					
Net cash from operating activities	1 334 123	812 225	1 140 609	1 128 715	861 767
Net cash used in investing activities	(534 449)	(799 158)	(1 751 245)	(1 666 383)	(778 880)
Net cash generated (utilised)	**799 674**	**13 067**	**(610 636)**	**(537 668)**	**82 887**
Net cash (used in) from financing activities	(798 499)	(32 035)	616 588	542 908	(57 805)
Net (increase) decrease for the year	(1 175)	18 969	(5 952)	(5 240)	(25 082)
Net cash (utilised) generated	**(799 674)**	**(13 067)**	**610 636**	**537 668**	**(82 887)**

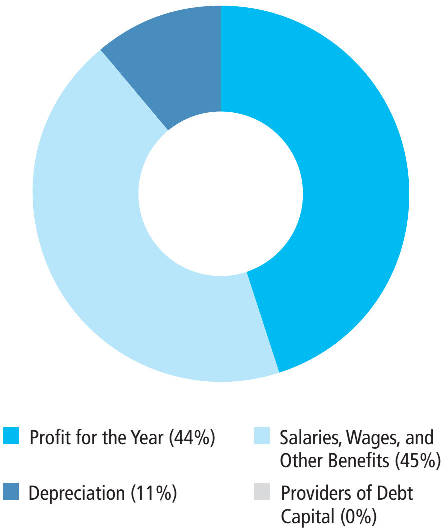
VALUE ADDED STATEMENT

	2018 R'000	2017 R'000	2016 R'000	2015 R'000	2014 R'000
Gross revenue	2 903 723	2 509 520	2 377 324	2 222 565	2 204 140
Paid to suppliers for materials & services	(838 489)	(969 874)	(906 129)	(794 708)	(964 126)
Value added	**2 065 234**	**1 539 646**	**1 471 195**	**1 427 857**	**1 240 014**
Income from investments	177 907	149 601	133 454	137 857	122 546
Total wealth created	**2 243 140**	**1 689 247**	**1 604 649**	**1 565 714**	**1 362 560**
Salaries, wages and other benefits	806 799	765 151	658 277	597 270	525 240
Providers of debt capital	1 719	1 399	1 185	2 705	45 555
Depreciation	246 464	176 601	163 997	138 750	109 336
Profit for the year	1 188 159	746 097	781 190	826 989	682 429
Total wealth distributed	**2 243 140**	**1 689 247**	**1 604 649**	**1 565 714**	**1 362 560**

2018



2017



EMPLOYEE STATISTICS

	2018	2017	2016	2015	2015	2017-2018 Movement
Number of employees as at year-end	1 231	1 150	1 101	996	1 020	7.04%
Gross revenue per employee (R'000)	2 359	2 182	2 159	2 231	2 161	8.10%
Value added per employee (R'000)	1 678	1 339	1 336	1 434	1 216	14.23%
Wealth created per employee (R'000)	1 822	1 469	1 457	1 572	1 336	24.04%

STATEMENT OF DIRECTORS' RESPONSIBILITIES AND APPROVAL OF THE FINANCIAL STATEMENTS

The Directors are responsible for the integrity and preparation and fair presentation of the Financial Statements of Umgeni Water and its subsidiaries (the group). The Directors are required by the Public Finance Management Act No.1 of 1999, as amended, to keep full and proper records of the financial affairs of the group and its performance against predetermined objectives at the end of the year.

The Financial Statements set out in this report have been prepared in accordance with International Financial Reporting Standards (IFRS) as approved by National Treasury in terms of section 79 of the Public Finance Management Act No.1 of 1999 and in the manner required by the Water Services Act No. 108 of 1997. The preparation of Financial Statements in conformity with IFRS requires management to consistently apply appropriate accounting policies, supported by reasonable and prudent judgements and estimates. The financials have been prepared on a going concern basis under the supervision of the Acting Chief Financial Officer, Ms. Marsha Phillips CA(SA).

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

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

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

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

The Audit Committee has evaluated Umgeni Water and the group's Financial Statements and has recommended its approval to the Board. The Audit Committee's recommendation is set out on page 134.

The Directors have reviewed the group's forecast financial performance for the year to 30 June 2019 as well as the longer term business plans and, in light of this review and the current financial position, they are satisfied that the group has access to adequate resources to continue as a going concern for the foreseeable future.

In the opinion of the Directors, based on the information available to date, the Financial Statements fairly present the financial position of Umgeni Water and the group as at 30 June 2018 and the results of its operations and cash flow information for the year then ended.

Approval of Financial Statements

The Financial Statements set out on pages 140-197 were approved by the Board on 19 September 2018.

Ms. Ziphozethu Mathenjwa
Chairperson of the Board

Mr. Thami Hlongwa CA(SA)
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; and
  - the effectiveness of the entity's compliance with legal and regulatory provisions.
- Financial information and finance function:
  - the adequacy, reliability and accuracy of financial information provided by management and other users of such information; and
  - the experience, expertise and resources of the finance function.
- Internal and external audit:
  - accounting and auditing concerns identified as a result of internal and external audits;
  - the effectiveness of internal audit;
  - the activities of internal audit, including its annual work programme, co-ordination with the external auditor, the reports of significant investigations and the responses of management to specific recommendations; and
  - the independence and objectivity of the external auditor.

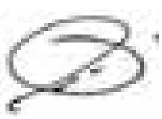
The Audit Committee is of the opinion, based on the information and explanations given by management and internal audit and discussions with the independent external auditors on the result of their audits, that:

- the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the Financial Statements, and accountability for assets and liabilities is maintained;
- the expertise, resources and experience of the finance function are adequate;
- the system and process of risk management and compliance processes are adequate;
- the effectiveness of the combined assurance function is adequate and the internal audit charter was approved by the audit committee; and
- is satisfied with the independence and objectivity of the external auditors.

Nothing significant has come to the attention of the Audit Committee to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review. The Audit Committee is satisfied that the Financial Statements are based on appropriate accounting policies, supported by reasonable and prudent judgements and estimates.

In line with the principles of combined assurance as outlined in King IV report on Corporate Governance, Umgeni Water has developed a combined assurance model which provides a co-ordinated approach to all assurance activities.

The Audit Committee has evaluated the Financial Statements of Umgeni Water and the group for the year ended 30 June 2018 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 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 12 September 2018, the adoption of the Financial Statements by the Board.



Ms. Zodwa Manase
Audit Committee Chair

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON UMGENI WATER

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

OPINION

1. I have audited the consolidated and separate financial statements of Umgeni Water and its subsidiaries set out on pages 140-197, which comprise the consolidated and separate statement of financial position as at 30 June 2018, the consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Umgeni Water as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act No.71 of 2008) (Companies Act).

BASIS FOR OPINION

3. I conducted my audit in accordance with the International Standards on Auditing (ISAS). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of this auditor's report.

4. I am independent of the entity in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

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

KEY AUDIT MATTERS

6. Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of my audit of the consolidated and separate financial statements as a whole and in forming my opinion, and I do not provide a separate opinion or conclusion on these matters.

Key audit matter	How the matter was addressed in the audit
Property, Plant and Equipment – Progressive Impairments Progressive impairments comprise and arises from assets that are development infrastructure and Capital Work in Progress. Management performs an impairment test on the recoverability of these assets should an impairment indicator arise as required by International Financial Reporting Standards (IFRS) IAS 36. Management uses the value in use (VIU) method to determine the recoverable amount of a cash generating unit which is subjective in nature due to significant judgements having to be made of future sales volume demand per scheme, discount rates and future cash flows. Accordingly, the impairment tests of progressive impairments are considered to be a key audit matter.	We focussed our testing on the key assumptions made and the reasonability of data used by management. Our procedures included: ○ Evaluating the determination of the cash generating units ○ We evaluated the model used in determining the value in use of the cash generating units, as well as assessing the key assumptions used such as: - Sales volumes - Discount Rate - Future cash flows ○ Performed walkthrough and specific testing on value in use and impairment calculations and data used in such calculations. ○ Performing a sensitivity analysis around the key assumptions used in the models.
Appointment of the new accounting authority Since September 2017 an interim accounting authority was appointed by the former executive authority.	Correspondence received from the department indicates that the executive authority has commenced the process of appointing a fully-fledged accounting authority.

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON UMGENI WATER (continued)

EMPHASIS OF MATTER PARAGRAPH

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

GOING CONCERN

8. Disclosed in note 32 to the consolidated and separate financial statements is the status of the establishment of a single provincial water board in Kwa-Zulu Natal.

RESPONSIBILITIES OF THE ACCOUNTING AUTHORITY RESPONSIBLE FOR THE FINANCIAL STATEMENTS

9. The board members of Umgeni Water, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with IFRS and the requirements of the PFMA and the Companies Act, and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

10. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the Umgeni Water's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

AUDITOR-GENERAL'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

11. My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

12. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

INTRODUCTION AND SCOPE

13. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

14. My procedures address the reported performance information, which must be based on the approved performance planning documents of the entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

15. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected strategic objectives presented in the annual performance report of the entity for the year ended 30 June 2018:

Objectives	Pages in the annual performance report
Strategic objective 2: Increase customer and stakeholder value	63-64
Strategic objective 3: Increase mobilisation of funds	64
Strategic objective 4: Increase financial sustainability	64-65
Strategic objective 5: Improve financial ratios	65
Strategic objective 6: Improve service delivery systems	65-66
Strategic objective 7: Improve and increase infrastructure assets	66
Strategic objective 8: Increase water resource sustainability	66-67
Strategic objective 9: Increase skills and competency	67

16. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

17. I did not raise any material findings on the usefulness and reliability of the reported performance information for the above-mentioned strategic objectives:

OTHER MATTER

18. I draw attention to the matter below.

ACHIEVEMENT OF PLANNED TARGETS

19. The annual performance report on pages 60-67 contains information on the achievement of planned targets for the year.

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

INTRODUCTION AND SCOPE

20. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

21. The material findings on compliance with specific matters in key legislations are as follows:

EXPENDITURE MANAGEMENT

22. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R32 976 000 as disclosed in note 28 to the annual financial statements, as required by section 51(1)(b) of the PFMA. The majority of the irregular expenditure disclosed in the financial statements was caused by payment of performance bonuses not made in terms of the approved policy.

OTHER INFORMATION

23. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the accounting authority's report, the audit committee's report and the company secretary's certificate as required by the Companies Act. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.

24. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

25. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

26. If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

INTERNAL CONTROL DEFICIENCIES

27. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below is limited to the significant internal control deficiency that resulted in the finding on the compliance with legislation included in this report.

LEADERSHIP

28. The accounting authority did not exercise its fiduciary responsibility to prevent irregular expenditure.

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON UMGENI WATER (continued)

OTHER REPORTS

29. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

AUDIT RELATED SERVICES AND SPECIAL AUDITS

30. Agreed upon procedures report in terms of SRS 4400 was issued to the Department of Water and Sanitation in respect of the expenses incurred by Umgeni Water on the Working for Water Umgeni Water Natural Resource Management Project, for the period 1 April 2017 to 31 March 2018.

INVESTIGATIONS

31. As at year end the investigation onto allegations of undelivered goods to the sites was in progress. A number of investigations on allegations emanating from the hotline register were completed as at year end.

Auditor-General

Pietermaritzburg
28 September 2018

AUDITOR-GENERAL
SOUTH AFRICA

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON UMGENI WATER (continued)

ANNEXURE – AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements, and the procedures performed on reported performance information for selected objectives and on the entity's compliance with respect to the selected subject matters.

FINANCIAL STATEMENTS

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor's report, I also:
   - Identify and assess the risks of material misstatement of the consolidated and separate financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
   - obtain an understanding of internal control relevant to the audit 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 of entity's internal control
   - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board members, which constitutes the accounting authority.
   - Conclude on the appropriateness of the board members, which constitutes the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Umgeni Water and its subsidiaries ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause the entity to cease continuing as a going concern
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
   - Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

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. The contracting period of the previous Board had expired as at 30 June 2017. A Board was appointed on an interim basis by the Minister of Water and Sanitation effective 28 September 2017. The Board was still in place at the time of approval of the Financial Statements while the appointment process of the permanent Board was still underway.

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 is to provide water services (water supply and sanitation services) to other water services institutions within its area of operation.

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 also provides other support services to water services institutions in order to promote co-operation in the provision of water services.

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 (PFMA) No. 1 of 1999, as amended; and
- Public Audit Act, 25 of 2004.

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

CORPORATE GOVERNANCE AND RISK MANAGEMENT

The reporting period marked the official adoption of the King IV Report on Corporate Governance for South Africa 2016 (King IV). The organisation's policies, procedures and processes are continuously reviewed to ensure alignment with King IV and the Board provides the required oversight and is pleased with the commitment that prevails at all spheres of the organisation in as far as compliance with King IV is concerned. Where the organisation has not fully complied with a certain principle of King IV, a rational reason and explanation for such deviation exists and is provided where required.

The Board is responsible for monitoring the risk management process. For further details on Corporate Governance and risk management refer to the chapter on Corporate Governance detailed on pages 40-53 and Risk Management on pages 113-116.

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 48-50 of this Annual Report.

Members of the Board and Executive Committee's emoluments are disclosed in the remuneration report on pages 144-145 in terms of regulation 28.1 of the PFMA.

COMPANY SECRETARY AND REGISTERED ADDRESS

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

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

DIRECTORS' REPORT (continued)

AUDITORS

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

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

The annual tariff review process is carried out in terms of the requirements of Section 42 of the Municipal Finance Management Act No.56 of 2003 and Circular 23 issued by National Treasury. This process encompasses the principle of consultation and transparency and aims to assist Umgeni Water's stakeholders with their long term planning.

Umgeni Water bulk water tariff increase for 2018/2019 effective 1 July 2018 has been approved at 13.7% for all Water Service Authorities. The Directors, after full analysis of its projected cash flows, are of the opinion that the tariff for 2018/2019 is appropriate and will not adversely affect Umgeni Water's gearing levels or its financial sustainability.

PRICE PER KILOLITRE	2017	2018	2019
Bulk Tariff 1: Water Service Authorities			
Base tariff	R4.951	R5.397	R6.207
Tariff increase	R0.446	R0.810	R0.850
Umgeni Water bulk tariff	**R5.397**	**R6.207**	**R7.057**
% increase	*9.0%*	*15.0%*	*13.7%*
Capital unit charge Spring Grove dam	R0.484	R0.518	R0.552
uMkomazi Bulk Water Supply Scheme charge	R0.108	R0.124	R0.141
New Tariff	**R5.989**	**R6.849**	**R7.750**
% increase	*10.7%*	*14.4%*	*13.2%*
Bulk Tariff 2: eThekwini Metropolitan Municipality			
Base tariff	R4.853	R5.290	R6.084
Tariff increase	R0.437	R0.794	R0.834
Umgeni Water bulk tariff	**R5.290**	**R6.084**	**R6.918**
% increase	*9.0%*	*15.0%*	*13.7%*
Capital unit charge Spring Grove dam	R0.484	R0.518	R0.552
uMkomazi Bulk Water Supply Scheme charge	R0.106	R0.122	R0.138
New Tariff	**R5.880**	**R6.724**	**R7.608**
% increase	*10.7%*	*14.4%*	*13.1%*
Bulk Tariff 3: Sembcorp Siza Water			
Base tariff	R6.518	R7.105	R8.171
Tariff increase	R0.587	R1.066	R1.119
Umgeni Water bulk tariff	**R7.105**	**R8.171**	**R9.290**
% increase	*9.0%*	*15.0%*	*13.7%*
Capital unit charge Spring Grove dam	R0.484	R0.518	R0.552
uMkomazi Bulk Water Supply Scheme charge	R0.142	R0.163	R0.186
New Tariff	**R7.731**	**R8.852**	**R10.027**
% increase	*10.8%*	*14.5%*	*13.3%*

DIRECTORS' REPORT (continued)

FINANCIAL PERFORMANCE

The group results reflect a 59.2% increase in profits for the year which totalled R1 188m (2017: R746m). This increase is primarily associated with the recovery from the drought which has negatively impacted on the financial resources of the organisation in the past two financial years. Bulk water revenue was up by 21.9% as a result of a 6.0% bulk water sales volume growth combined with a 15% bulk water tariff increase, whilst direct operating costs increased by 1.1% due to lower section 30 activities and other administrative expenses reduced by 6.6% mainly due to impairment reversals.

Impairment reversals on property, plant and equipment were R118m (2017: R42m). The impairment reversal on buildings and infrastructure was R72m which was predominantly due to the rural bulk infrastructure grant received on the Maphumulo Bulk Water Supply Scheme. The impairment reversals on capital work in progress were R46m. Refer to note 9 of the Financial Statements for further details on impairments.

Operating cash flows were R1 334m (2017: R812m), an increase of 64.3% year on year as a result of the recovery from the drought combined with reduced working capital requirements. Net cash used in investing activities was R534m (2017: R790m) after the receipt of rural bulk infrastructure grants of R455m (2017: R371m) and net cash used in financing activities was R799m (2017: R32m).

Capital expenditure on property, plant and equipment totalled to R972m (2017: R1 126m), a 13.7% reduction. Expenditure on intangible assets (software) totalled to R17m (2017: R46m). The group's capital commitments are set out in note 9.1 of the Financial Statements and the funding thereof is discussed in the financial review on page 127.

Loan covenants remain un-breached at financial year end and Umgeni Water remained within its approved borrowing limits of R2 450m.

Full details of the financial results of the group and company are set out in the Financial Statements and summarised in the financial review on pages 118-129.

SUBSIDIARY AND ASSOCIATE COMPANIES

Umgeni Water is the sole shareholder of both Umgeni Water Services SOC Limited and Msinsi Holdings SOC Limited.

There were no changes to subsidiary and associate companies during the year. Further details are set out in note 12 of the Financial Statements.

EVENTS AFTER THE REPORTING PERIOD

No material events have taken place in the affairs of the group between the end of the financial year and the date of this report.

GOING CONCERN

The directors, having considered all the relevant information, have satisfied themselves that the group is in a sound financial position and that it has adequate access to sufficient borrowing facilities to meet its foreseeable cash requirements. There are adequate resources to continue operating for the foreseeable future and it is therefore appropriate to adopt the going concern basis in preparing the financial statements.

In the previous two financial reports the Directors reported that the Executive Authority of Umgeni Water has initiated a process towards the establishment of a single provincial water board in KwaZulu-Natal. This process was envisaged to culminate in a merger between Umgeni Water and Mhlathuze Water, with the former absorbing the latter. This process was initially envisaged to be concluded during the 2016/2017 financial year, however due to a number of strategic steps that need to be taken to inform the final decision making process (which includes parliamentary processes, legislative processes and financial commitments confirmed for National Treasury) this was not achieved. With the changes in the National Executive, the new Minister of Water and Sanitation has resolved not to go ahead with this process and a court order has been issued to this effect.

The accounting authority believes that the new executive authority's decision positions the entity in a clear and positive going concern position for the 2017/2018 financial year and going forward; and removes the uncertainties that would have prevailed due to the envisaged merger.

DIRECTORS' REPORT (continued)

INFORMATION REQUIRED BY THE PUBLIC FINANCE MANAGEMENT ACT NO.1 OF 1999, AS AMENDED

MATERIALITY FRAMEWORK

In terms of Section 28.3.1 of the regulations of the PFMA, for the purposes of materiality and significance, the accounting authority has developed and agreed a framework of acceptable levels of materiality and significance established at 0.5% of gross revenue which equates to R14.4m (2017: R13m). Management also applies a qualitative aspect to all errors found.

FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure incurred for the year was R0.004m (2017: R5.2m) which arose as a result of penalties incurred. Further details are set out in note 29 of the Financial Statements.

IRREGULAR EXPENDITURE

Irregular expenditure totalling R33m (2017: R9.8m) arose primarily as a result of non-compliance to the performance policy amendment not fully complied with in terms of the delegations. Management has instituted preventative and corrective measures as considered appropriate to improve controls and processes. Further details are set out in note 28 of the Financial Statements.

FRAUD & FINANCIAL MISCONDUCT

There were no instances of fraud; corruption and financial misconduct in the current financial year.

All allegations reported through the hotline were duly investigated as per the Hotline Protocol and are properly documented to record actions and none led to fraud or financial misconduct.

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 page 60-67 of this Annual Report.

REMUNERATION REPORT

REMUNERATION COMMITTEE

The Human Resources and Remuneration Committee assisted the Board during the year in applying:

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

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

REMUNERATION STRUCTURE

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

- Guaranteed amount:
  The guaranteed amount comprises a fixed cash portion and compulsory benefits such as medical aid and retirement.
- Short term incentive bonus:
  The short term incentive bonus rewards the achievement of individual predetermined performance objectives and targets.
- Long term incentive bonus:
  The long term incentive bonus is designed to attract, retain and reward the Chief Executive, Executives and Senior Managers at grade level 4 for meeting the organisational objectives set by the Board and the Shareholder.

DIRECTORS' AND EXECUTIVES' EMOLUMENTS

	Fees for Services/Salary	Allowances and Bonuses	Expense allowances	Retirement contributions	2018 Total	2017 Total
	R'000	R'000	R'000	R'000	R'000	R'000
Non-Executive Board Members						
Ms. N. Afolayan [N1]	-	-	-	-	-	320
Mr. G.D.J. Atkinson [N1]	-	-	-	-	-	324
Ms. N.B. Chamane [N3]	350	-	7	-	357	395
Ms. T.M.V. Dube [N1]	-	-	-	-	-	338
Mr. V.G. Gounden [N1]	-	-	-	-	-	252
Mr. A. Mahlalutye (Chairperson) [N1]	-	-	-	-	-	554
Ms. Z.B. Mathenjwa (Chairperson) [N3]	551	-	10	-	561	374
Mr. T. Nkhahle [N1]	-	-	-	-	-	372
Mr. V.G. Reddy [N1]	341	-	4	-	345	373
Ms. T.C. Shezi [N1]	-	-	-	-	-	368
Mr. I.A.S. Vally [N1]	-	-	-	-	-	374
Mr. T. Zulu [N1]	-	-	-	-	-	359
Dr. I.B. Mkhize [N3]	60	-	-	-	60	-
Ms. M. Ndlovu [N3]	51	-	-	-	51	-
Adv. F. Hashatse [N3]	293	-	7	-	300	-
Mr. M.P.K. Tshivhase [N3]	345	-	4	-	349	-
Mr. M.D. Dikoko [N3]	299	-	4	-	302	-
Ms. Z.P. Manase [N3]	258	-	7	-	265	-
Mr. S. Shabalala	37	-	-	-	37	-
Total Non-Executive Board Members	**2 585**	**-**	**41**	**-**	**2 626**	**4 403**
Executive Board Members						
Mr. C. Gamede (CE) [N2]	-	4 335	-	-	4 335	17 691
Mr. T. Hlongwa (Acting CE) [N4]	1 904	12 569	70	-	14 543	-
Total - Parent	**4 489**	**16 904**	**111**	**-**	**21 504**	**22 093**
Msinsi Holdings SOC Ltd.						
Non-Executive Board Members	346	-	-	-	346	296
Total Subsidiaries	**346**	**-**	**-**	**-**	**346**	**296**
Total Group	**4 835**	**16 904**	**111**	**-**	**21 850**	**8 545**
Exco Members						
Mr. M. Cele	1 635	756	-	-	2 391	1 920
Mr. S. Gillham	1 630	662	111	359	2 762	9 890
Mr. T. Hlongwa [N4]	-	-	-	-	-	2 644
Ms. M. Moleko	1 677	718	28	-	2 424	2 269
Ms. M. Phillips [N6]	791	751	97	174	1 814	-
Total Exco	**5 733**	**2 887**	**237**	**533**	**9 390**	**16 723**

LONG TERM INCENTIVE BONUS

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

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

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

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

Conditions met were approved by the Board in September 2017, as a result the following long term incentive bonuses have accrued to Executives:

Name	Designation	Opening Balance 1 July 2017	Accrued 2018	Sub-total 30 June 2018	Utilised 2018	Total provided 30 June 2018
		R'000	R'000	R'000	R'000	R'000
Mr. C. Gamede N2	Chief Executive	-	3 159	3 159	(3 159)	-
Mr. S. Gillham	Executive: Engineering & Scientific Services	-	3 315	3 315	-	3 315
Mr. T. Hlongwa N4	Chief Financial Officer	7 644	3 845	11 489	(11 489)	-
Ms. M. Moleko	Executive: Corporate Services	7 644	3 868	11 511	-	11 511
Mr. M. Cele	Executive: Operations	7 644	3 868	11 511	-	11 511
Long Term incentive bonus provided		**22 932**	**18 055**	**40 986**	**(14 648)**	**26 338**

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 N2	Chief Executive	20 August 2012	n/a	n/a
Mr. M. Cele	Executive: Operations	03 November 2014	n/a	02 November 2019
Mr. S. Gillham	Executive: Engineering and Scientific Services	01 February 2012	01 February 2017	01 February 2019
Mr. T. Hlongwa	Chief Financial Officer	01 July 2013	n/a	01 July 2018 N4
Ms. M. Moleko	Executive: Corporate Services	01 January 2014	n/a	01 January 2019

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

SUBSIDIARY EXECUTIVES

Executives	Designation	Date first appointed by the Board	Msinsi Holdings SOC Limited	Umgeni Water Services SOC Limited
Mr S Gillham	Non-Executive Director	15 March 2012	√	N/A
Mr T Hlongwa	Non-Executive Director	16 April 2014 N5	√	√
Ms Moleko	Non-Executive Director	16 April 2014	N/A	√

N1: Term ended 30 June 2017.

N2: Contract terminated on 30 June 2017. The bonus payments are in line with the approved performance policy for meeting the pre-determined objectives and paid in terms of the settlement agreement with Mr. C. Gamede.

N3: Interim board member for the 2017/18 financial year. Note: for Ms. M. Ndlovu, Dr. I.B Mkhize and Mr. S. Shabalala were appointed to perform the Group Audit Committee functions during the Transitional Governance Period. During that period, they were remunerated by Umgeni Water at the prevailing rate. They were also remunerated by the Subsidiary (Msinsi Holdings) for work carried out in their director capacities in the Subsidiary. Their remuneration from the subsidiary is disclosed in the remuneration disclosure for the Subsidiary. Mr. S. Shabalala was also remunerated in line with his role as the Ethics Committee Chairperson.

N4: Mr. T. Hlongwa was appointed as the Accounting Authority on 07 August 2017 by the Minister of Water and Sanitation; and later appointed as the Acting Chief Executive in October 2017 by the Interim Board. Mr. T. Hlongwa was appointed as the Chief Executive (on a five year fixed term contract) by the Interim Board in February 2018 and assumed the role effective from 1 July 2018.

N5: Appointment date for both Msinsi Holdings SOC Limited and Umgeni Water Services SOC Limited.

N6: Ms. M. Phillips is the Financial Manager who was appointed as the Acting CFO from 07 August 2017.

STATEMENTS OF PROFIT AND LOSS

FOR THE YEAR ENDED 30 JUNE 2018

		Group		Parent	
	Note	2018	2017	2018	2017
		R'000	R'000	R'000	R'000
Revenue	4	2 903 723	2 509 520	2 888 951	2 496 605
Cost of sales		(1 191 532)	(1 178 925)	(1 191 532)	(1 178 925)
Changes in water inventory		438	823	438	823
Chemicals		(65 453)	(62 516)	(65 453)	(62 516)
Depreciation		(166 858)	(133 698)	(166 858)	(133 698)
Energy		(257 361)	(226 894)	(257 361)	(226 894)
Maintenance		(192 480)	(174 586)	(192 480)	(174 586)
Raw water		(209 126)	(180 160)	(209 126)	(180 160)
Section 30 activities		(41 602)	(150 942)	(41 602)	(150 942)
Staff costs		(220 675)	(205 421)	(220 675)	(205 421)
Other direct operating expenses		(38 415)	(45 531)	(38 415)	(45 531)
Gross profit		**1 712 191**	**1 330 595**	**1 697 419**	**1 317 680**
Other income	5	13 746	32 503	12 268	34 532
Other operating and administration expenses		(719 175)	(770 097)	(703 651)	(749 027)
Profit from operations	6.1	**1 006 762**	**593 001**	**1 006 036**	**603 185**
Net finance income		176 188	148 202	176 717	148 076
Interest income	7	177 907	149 601	178 081	149 431
Finance costs	8	(1 719)	(1 399)	(1 364)	(1 355)
Share of profit from associate	12	5 285	4 995	-	-
Profit before taxation		**1 188 235**	**746 198**	**1 182 753**	**751 261**
Taxation	6.2	(76)	(101)	-	-
Profit for the year		**1 188 159**	**746 097**	**1 182 753**	**751 261**

STATEMENTS OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Profit for the year	1 188 159	746 097	1 182 753	751 261
Other comprehensive income:				
Items that will not be reclassified to profit and loss:				
Remeasurement of gains and losses - retirement plans	82 070	93 472	82 070	93 472
Total other comprehensive income for the year	**1 270 229**	**839 569**	**1 264 823**	**844 733**

STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2018

		Group		Parent	
	Notes	2018	2017	2018	2017
		R'000	R'000	R'000	R'000
ASSETS					
Non-current assets		**8 859 177**	**8 152 485**	**8 843 403**	**8 133 886**
Property, plant and equipment	9	8 324 248	7 774 146	8 305 810	7 752 927
Intangible assets	10	121 802	133 140	121 596	132 913
Biological assets	11	3 224	4 244	-	-
Subsidiaries and associates	12	6 005	6 005	12 099	13 096
Investments	13	403 898	230 175	403 898	230 175
Other financial assets	14	-	4 774	-	4 774
Current assets		**2 679 861**	**2 070 839**	**2 655 923**	**2 054 843**
Investments	13	2 076 596	1 566 715	2 076 596	1 566 715
Other financial assets	14	2 404	-	2 404	-
Inventories	15	18 955	15 735	18 955	15 735
Trade and other receivables	16	511 862	427 887	504 098	420 456
Interest receivable	17	43 952	35 585	43 952	35 585
Bank and cash	18.1	26 092	24 917	9 918	16 352
Total assets		**11 539 038**	**10 223 324**	**11 499 326**	**10 188 729**
EQUITY AND LIABILITIES					
Capital and reserves		**8 088 510**	**6 823 327**	**8 054 997**	**6 790 174**
Capital	19	442 847	442 847	442 847	442 847
OCI Reserve		70 720	(11 350)	70 720	(11 350)
Accumulated profit		7 574 943	6 391 830	7 541 430	6 358 677
Non-current liabilities		**2 477 721**	**2 523 549**	**2 476 710**	**2 522 537**
Long-term debt	20	1 792 901	1 871 914	1 791 890	1 870 902
Other non-current liabilities	21	95 868	43 110	95 868	43 110
Provisions	22	34 102	39 120	34 102	39 120
Post-retirement benefit obligations	26	554 850	569 405	554 850	569 405
Current liabilities		**972 807**	**876 448**	**967 619**	**876 018**
Short-term debt	20	79 011	78 810	79 011	78 810
Provisions	22	120 200	113 727	116 311	110 473
Accounts payable	23	717 568	626 453	716 269	629 277
Interest payable		56 028	57 458	56 028	57 458
Total equity and liabilities		**11 539 038**	**10 223 324**	**11 499 326**	**10 188 729**

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

	Group - Attributable to equity holders of the parent			
	Capital	OCI Reserve	Accumulated profit	Total
	R'000	R'000	R'000	R'000
Balance as at 30 June 2016	**442 847**	**(104 822)**	**5 645 733**	**5 983 758**
Movement for the year				
Total comprehensive income	-	93 472	746 097	839 569
Profit for the year	-	-	746 097	746 097
Other comprehensive income	-	93 472	-	93 472
Balance as at 30 June 2017	**442 847**	**(11 350)**	**6 391 830**	**6 823 327**
Movement for the year				
Total comprehensive income	-	82 070	1 183 113	1 265 183
Profit for the year	-	-	1 188 159	1 188 159
Dividend declared			(5 046)	(5 046)
Other comprehensive income	-	82 070	-	82 070
Balance as at 30 June 2018	**442 847**	**70 720**	**7 574 943**	**8 088 510**

	Parent			
	Capital	OCI Reserve	Accumulated profit	Total
	R'000	R'000	R'000	R'000
Balance as at 30 June 2016	**442 847**	**(104 822)**	**5 607 416**	**5 945 441**
Movement for the year				
Total comprehensive income	-	93 472	751 261	844 733
Profit for the year	-	-	751 261	751 261
Other comprehensive income	-	93 472	-	93 472
Balance as at 30 June 2017	**442 847**	**(11 350)**	**6 358 677**	**6 790 174**
Movement for the year				
Total comprehensive income	-	82 070	1 182 753	1 264 823
Profit for the year	-	-	1 182 753	1 182 753
Other comprehensive income	-	82 070	-	82 070
Balance as at 30 June 2018	**442 847**	**70 720**	**7 541 430**	**8 054 997**

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

		Group		Parent	
	Notes	2018	2017	2018	2017
		R'000	R'000	R'000	R'000
OPERATING ACTIVITIES					
Cash receipts from customers		2 820 651	2 475 551	2 800 594	2 462 141
Cash paid to suppliers and employees		(1 486 528)	(1 663 326)	(1 476 988)	(1 643 878)
Net cash from operating activities	18.2	**1 334 123**	**812 225**	**1 323 606**	**818 263**
INVESTING ACTIVITIES					
Proceeds on disposals of assets		392	1 845	392	1 845
Receipt of grants	9	454 741	371 056	454 741	371 056
Additions to property, plant and equipment	9	(972 292)	(1 126 025)	(971 111)	(1 118 301)
Additions to intangible assets	10	(17 290)	(46 240)	(17 089)	(45 917)
Proceeds on disposal of biological assets		-	206	-	-
Decrease of investments in subsidiaries		-	-	997	1 730
Net cash used in investing activities		**(534 449)**	**(799 158)**	**(532 070)**	**(789 587)**
FINANCING ACTIVITIES					
Long-term borrowings repaid	20	(78 811)	(78 619)	(78 811)	(78 619)
(Increase) decrease in investments		(641 316)	156 296	(641 316)	156 296
Interest received		126 860	103 989	127 034	103 819
Finance costs paid		(205 232)	(213 702)	(204 877)	(213 658)
Net cash used in financing activities		**(798 499)**	**(32 035)**	**(797 970)**	**(32 162)**
CASH AND CASH EQUIVALENTS					
Net increase (decrease) for the year		1 175	(18 969)	(6 434)	(3 486)
At beginning of year		24 917	43 885	16 352	19 838
At end of year	18.1	**26 092**	**24 917**	**9 918**	**16 352**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

1. GENERAL INFORMATION

Umgeni Water is a water board established in terms of Section 28 of the Water Services Act, (Act 108 of 1997) and a national government business entity as per Schedule 3B of the Public Finance Management Act (Act 1 of 1999), as amended, domiciled in South Africa. The address of its registered office and principal place of business and principal activities of the organisation are described in the Directors' Report. The consolidated financial statements comprise that of the entity and its subsidiaries (collectively 'the group' and individually 'group entities'). The accounting policies are applicable to both the group and parent entity except were otherwise stated. The following principal accounting policies were applied by the group for the year ended 30 June 2018.

2.1. BASIS OF PREPARATION AND MEASUREMENT

STATEMENT OF COMPLIANCE

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

BASIS OF PREPARATION OF FINANCIAL RESULTS

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

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

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

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

CURRENT AND NON-CURRENT CLASSIFICATION OF ASSETS AND LIABILITIES

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

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

FUNCTIONAL AND PRESENTATION CURRENCY

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

USE OF ESTIMATES AND JUDGEMENTS

CRITICAL 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.

There were no significant judgements in the process of applying the group's accounting policies.

2.1. BASIS OF PREPARATION AND MEASUREMENT (continued)

KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

RESIDUAL VALUES AND USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

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

FAIR VALUE OF BIOLOGICAL ASSETS

The carrying amounts of biological assets are recognised at fair value. The fair values of game were determined with reference to market prices as at 30 June 2018. Refer to note 11 for further detail on biological assets.

DEFINED BENEFIT PLANS

The key assumptions relating to the defined benefit plan sensitivity analysis are disclosed in note 26.

No further key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date exist, that management may have assessed as having a significant risk of causing material adjustment to the carrying amounts of the assets and liabilities within the next financial year.

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

The following new standards, interpretations and amendments to existing standards which are relevant to the group but not yet effective, have not been adopted in the current year:

IFRS 16 LEASES EFFECTIVE 1 JANUARY 2019

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

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

The new standard requires lessors and lessees to make more extensive disclosures than previously required under IAS 17.

The group does not expect the adoption of the standard to have a significant impact on the Financial Statements as leases held by the group are not material.

2.1. BASIS OF PREPARATION AND MEASUREMENT (continued)

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

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

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.

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

The group has assessed its financial assets and financial liabilities against IFRS 9. The financial assets currently classified under loans and receivables and held-to-maturity financial assets will be classified as financial assets held at amortised cost under IFRS 9. The adoption of IFRS 9 does not have significant impact on total assets and total liabilities.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS EFFECTIVE DATE 1 JANUARY 2018

IFRS 15 Revenue from Contracts with Customers replaces IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers. It applies to all entities that enter into contracts to provide goods or services to their customers, unless the contracts are in the scope of other IFRSs, such as IAS 17 Leases.

The underlying principle is that an entity will recognise revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. An extensive disclosure is required under this standard.

The group does not expect the adoption of the standard to have a significant impact on total revenue.

ADOPTION OF NEW AND REVISED STANDARDS

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

IMPROVEMENTS TO IFRS

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

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION OF FINANCIAL RESULTS

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

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ELIMINATION OF INTER-COMPANY TRANSACTIONS

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

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

BUSINESS COMBINATIONS

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

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

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

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

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

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

SUBSIDIARIES

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

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

The group has two subsidiaries which are wholly owned and further details are included in note 12 of the Financial Statements.

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

SUBSIDIARIES (continued)

The assets, liabilities, income, expenses and cash flows of subsidiaries are consolidated from the date of acquisition, being the date on which the group obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved when the group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the group controls an investee if and only if the group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the group has less than a majority of the voting or similar rights of an investee, the group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the group's voting rights and potential voting rights.

The group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the group obtains control over the subsidiary and ceases when the group loses control of the subsidiary.

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

ASSOCIATES

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

The group has an associate via its subsidiary Umgeni Water Services SOC Ltd. Further details on the associate are included in note 12 of the Financial Statements.

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

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

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

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ASSOCIATES (continued)

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

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

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

OPERATING SEGMENTS AND SEGMENT REPORTING

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

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

PROPERTY, PLANT & EQUIPMENT

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

Costs include expenditure that is directly attributable to the acquisition of the asset. Works under construction are stated at cost less accumulated impairment losses and grant funding. Cost includes the cost of materials, direct labour, allocated portion of direct project overheads and any costs incurred which is directly attributable to bringing it to its present location and condition. Work-in-progress is commissioned on date of significant completion net of grant funding in accordance with the accounting policy on grant funding.

Servitudes are considered an integral part of the asset and are essential to the operation of the asset and therefore forms part of the cost of the relevant asset. Borrowing costs are capitalised on qualifying assets in accordance with the relevant accounting policy on finance costs.

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

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

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

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

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROPERTY, PLANT & EQUIPMENT (continued)

ASSET CATEGORY	ESTIMATED USEFUL LIFE (YEARS)	ESTIMATED RESIDUAL VALUE
Buildings and infrastructure		
Buildings	40	2%
Dams and weirs	45	90%
Pipelines	30-45	2%
Pump stations	10-30	2%-60%
Reservoirs and intake works	45	2%
Tunnels	45	90%
Water treatment works	10-45	2%-70%
Wastewater treatment works	10-45	2%-70%
Works Roads	15-30	2%
Fences and gates	15	2%
Temporary and timber structures	25	2%
Equipment and vehicles		
Plant and equipment, furniture and fittings	5	10%
Vehicles	5	10%
Computers	3-5	10%
ERP Hardware	5	10%
ERP Software	5	10%

LEASES

CLASSIFICATION

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

IN THE CAPACITY OF A LESSOR

OPERATING LEASE

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

IN THE CAPACITY OF A LESSEE

OPERATING LEASE

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

INTANGIBLE ASSETS (OTHER THAN GOODWILL)

RESEARCH AND DEVELOPMENT

Research expenditure is charged to the statement of profit and loss when incurred. Development expenditure relating to the production of new or substantially improved products is capitalised if the following conditions are met:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INTANGIBLE ASSETS (OTHER THAN GOODWILL) (continued)

RESEARCH AND DEVELOPMENT (continued)

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

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

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.

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

BIOLOGICAL ASSETS

Game stock are measured at their fair value less estimated point-of-sale costs. The fair value of biological assets is determined annually based on market prices of similar age, genies, and genetic merit after considering its highest and best use. All changes in fair values are recognised in the statement of profit and loss in the period in which they arise.

IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date, the group reviews the carrying amounts of its non-financial assets other than inventories and deferred tax to determine whether there is any indication that the carrying value may not be recoverable and whether those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value-in-use. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset, or cash-generating unit, is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit, is reduced to its recoverable amount.

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IMPAIRMENT OF NON-FINANCIAL ASSETS (continued)

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

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

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

INVENTORIES

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

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

UMGENI WATER CAPITAL AND GRANT FUNDING

Capital grants for infrastructure received by Umgeni Water are reflected against property, plant and equipment. The grant is recognised in profit or loss over the remaining useful life of the depreciable asset as a reduced depreciation expense.

Government grants towards staff re-training are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

EMPLOYEE BENEFITS

RETIREMENT BENEFIT COSTS - PROVIDENT FUND

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

RETIREMENT BENEFIT COSTS - PENSION FUND

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

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

OTHER RETIREMENT BENEFITS

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

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

EMPLOYEE BENEFITS (continued)

SHORT-TERM EMPLOYEE BENEFITS

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

PROVISIONS

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

FINANCIAL ASSETS

The group classifies its financial assets into the following categories:

- held-to-maturity financial assets; and
- loans and receivables.

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 the 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 the statements of profit and loss.

LOANS AND RECEIVABLES

TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these are measured at amortised cost using the effective interest method less any impairment losses.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand. Cash and cash equivalents are measured at amortised cost which is deemed to be fair value.

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.

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IMPAIRMENT OF FINANCIAL ASSETS (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of a doubtful debts allowance account. When a trade receivable is uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit and loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

DERECOGNITION OF FINANCIAL ASSETS

The entity derecognises a financial asset only when:

- The contractual rights to the cash flows from the asset expire; or
- It transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity; or
- Retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

FINANCIAL LIABILITIES

Financial liabilities are initially recognised at the transaction date when the group becomes party to a contract, at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Premiums or discounts arising from the difference between the fair value of financial liabilities raised and the amount repayable at maturity date are charged to the statement of profit and loss as finance costs based on the effective interest rate method.

TRADE AND OTHER PAYABLES

Trade payables are not interest bearing and are stated at their nominal value.

DERECOGNITION OF FINANCIAL LIABILITIES

The group derecognises financial liabilities when, and only when, the group's obligations are discharged, cancelled or they expire.

EFFECTIVE INTEREST METHOD

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or cash payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period.

OFFSET

Financial assets and financial liabilities are only offset if there is a currently enforceable legal right to offset and there is an intention either to settle on a net basis or to realise the asset and settle the liability simultaneously.

FAIR VALUE OF FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

A number of the group's financial instruments require the disclosure of fair value even though these assets are not measured at fair value.

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

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

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

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

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE

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

SALE OF GOODS

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

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

RENDERING OF SERVICES

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

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

OTHER REVENUE

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

COST OF SALES

Cost of sales includes the costs of raw water and all other direct operating costs associated with the production processes. The costs directly attributable to sales for other activities, as defined in Section 30 of the Water Services Act (Act 108 0f 1997), are disclosed as cost of sales. All other costs are considered to be administration expenses.

TAXATION

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

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

CURRENT TAX

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

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

TAXATION (continued)

DEFERRED TAX

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

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

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

INTEREST INCOME

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

FINANCE COSTS

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

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

3. OPERATING SEGMENTS AND SEGMENT REPORTING

Umgeni Water has two reportable segments:

(i) The primary segment as defined by section 29 of the Water Services Act No. 108 of 1997 which is made up of bulk water and wastewater 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, 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 16.

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

3. OPERATING SEGMENTS AND SEGMENT REPORTING (continued)

		Group			
		Primary activities			
		Bulk water	Waste water	Other activities	Total
		kl'000	kl'000	kl'000	kl'000
For the year ended 30 June 2018					
Treated water volume sold		434 568	29 301	-	463 869
Raw water volume sold		419	-	-	419
		R'000	R'000	R'000	R'000
Revenue		2 666 074	171 762	65 887	2 903 723
Cost of sales		(1 051 352)	(96 523)	(44 292)	(1 191 532)
Changes in water inventory		438	-	-	438
Chemicals		(59 585)	(5 868)	-	(65 453)
Depreciation		(164 403)	(2 455)	-	(166 858)
Energy		(235 600)	(21 761)	-	(257 361)
Maintenance		(170 330)	(20 647)	(2 138)	(192 480)
Raw water		(209 126)	-	-	(209 126)
Section 30 activities		-	-	(41 602)	(41 602)
Staff costs		(187 035)	(33 145)	(495)	(220 675)
Other direct operating expenses		(25 711)	(12 647)	(57)	(38 415)
Gross profit		**1 614 722**	**75 239**	**21 595**	**1 712 191**
Other income		8 573	3 695	1 478	13 746
Other operating and administration expenses		(678 088)	(23 742)	(17 345)	(719 175)
Profit from operations		**945 207**	**55 192**	**6 363**	**1 006 762**
Interest income		178 081	411	(585)	177 907
Finance costs		(1 775)	-	56	(1 719)
Share of profit from associate		-	-	5 285	5 285
Profit before tax		**1 121 513**	**55 603**	**11 119**	**1 188 235**
Taxation	6, 2	-	-	(76)	(76)
Profit for the year		**1 121 513**	**55 603**	**11 043**	**1 188 159**
Capital expenditure		**800 588**	**187 612**	**1 382**	**989 582**
Segment assets		7 557 792	1 289 008	111 112	8 957 912
Interest in associate		-	-	6 005	6 005
Investments		2 336 923	-	143 571	2 480 494
Unallocated					94 627
Consolidated total assets					**11 539 038**
Segment liabilities		1 871 912	-	122 354	1 994 266
Unallocated					1 456 262
Consolidated total liabilities					**3 450 528**

3. OPERATING SEGMENTS AND SEGEMENT REPORTING (continued)

	Group			
	Primary activities			
	Bulk water	Waste water	Other activities	Total
	kl'000	kl'000	kl'000	kl'000
For the year ended 30 June 2018				
Treated water volume sold	409 887	28 568	-	438 455
Raw water volume sold	619	-	-	619
	R'000	R'000	R'000	R'000
Items that will not be reclassified to profit and loss:	2 186 687	144 708	178 125	2 509 520
	(937 002)	(88 182)	(153 741)	(1 178 925)
Changes in water inventory	823	-	-	823
Chemicals	(57 294)	(5 222)	-	(62 516)
Depreciation	(131 435)	(2 263)	-	(133 698)
Energy	(208 402)	(18 492)	-	(226 894)
Maintenance	(155 257)	(17 191)	(2 138)	(174 586)
Raw water	(180 160)	-	-	(180 160)
Section 30 activities	-	-	(150 942)	(150 942)
Staff costs	(174 564)	(30 405)	(452)	(205 421)
Other direct operating expenses	(30 713)	(14 609)	(209)	(45 531)
Gross profit	**1 249 685**	**56 526**	**24 384**	**1 330 595**
Other income	25 975	4 057	2 471	32 503
Other operating and administration expenses	(675 565)	(15 542)	(78 991)	(770 098)
Profit from operations	**600 095**	**45 041**	**(52 135)**	**593 001**
Interest income	149 431	-	170	149 601
Finance costs	(1 290)	(66)	(43)	(1 399)
Share of profit from associate	-	-	4 995	4 995
Profit before tax	**748 236**	**44 975**	**(47 013)**	**746 198**
Taxation	-	-	(101)	(101)
Profit for the year	**748 236**	**44 975**	**(47 114)**	**746 097**
Capital expenditure	**958 499**	**204 201**	**9 566**	**1 172 266**
Segment assets	7 100 294	1 095 329	139 550	8 335 173
Interest in associate	-	-	6 005	6 005
Investments	1 654 032	-	142 858	1 796 890
Unallocated				85 255
Consolidated total assets				**10 223 324**
Segment liabilities	1 947 188	3 536	134 342	2 085 066
Unallocated				1 314 931
Consolidated total liabilities				**3 399 997**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

4. REVENUE

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Sale of goods	2 837 836	2 331 395	2 837 836	2 331 395
Water sales	2 666 074	2 186 687	2 666 074	2 186 687
Wastewater	171 762	144 708	171 762	144 708
Rendering of services - Other activities	65 887	178 125	51 115	165 210
Water Infrastructure	16 192	116 305	16 192	116 305
Scientific and environmental	17 845	20 136	17 845	20 136
Operating and Maintenance	3 565	6 391	3 565	6 391
Other	28 285	35 293	13 513	22 378
Included in revenues arising from water sales are revenues of approximately R1 914m (2017: R1 1582m) from sales to the Group's largest customer. (Refer to note 27)				
Total revenue	**2 903 723**	**2 509 520**	**2 888 951**	**2 496 605**

5. OTHER INCOME

	Group 2018 R'000	Group 2017 R'000	Parent 2018 R'000	Parent 2017 R'000
Sundry income	10 020	28 723	9 152	31 498
Rental income	3 726	3 780	3 116	3 034
Total other income	**13 746**	**32 503**	**12 268**	**34 532**

Sundry income comprises primarily: Operational grants, insurance proceeds and penalties on contracts.

6.1 PROFIT FROM OPERATIONS

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Profit from operations is stated after taking the following items into account:				
Asset impairments and write-offs	(77 314)	57 872	(77 122)	57 872
- Buildings & infrastructure impairments (refer to note 9)	(71 807)	2 741	(71 807)	2 741
- Buildings & infrastructure write-offs (refer to note 9)	12 236	-	12 236	-
- Capital work-in-progress impairments (refer to note 9)	(46 177)	39 144	(46 177)	39 144
- Other asset impairments and write-offs	28 434	15 987	28 626	15 987
Amortisation of intangible assets (refer to note 10)	31 390	11 857	31 168	11 559
- Right of use agreement (refer to note 14)	2 762	2 754	2 762	2 754
- Intangible assets (refer to note 10)	28 628	9 103	28 406	8 805
Auditors' remuneration	2 391	3 714	1 981	2 839
- Audit fees - current year	2 391	3 363	1 981	2 488
- Audit fees - prior year (over) under provision	-	351	-	351
Board members' emoluments (refer pg 144)	2 972	4 699	2 626	4 403
Depreciation	246 464	176 601	242 694	173 150
- Buildings and infrastructure (refer to note 9)	172 182	139 742	172 182	139 742
- Equipment and vehicles (refer to note 9)	74 282	36 859	70 512	33 408
Doubtful debts provision	24 088	47 206	24 088	47 206
Fair value adjustment of biological assets (refer to note 11)	562	788	-	-
Legal fees	11 652	4 941	11 583	4 816
Maintenance	214 182	199 192	212 695	190 043
- Direct costs	192 480	174 586	192 480	174 586
- Indirect costs	21 702	24 606	20 215	15 457
Operating lease payments	642	1 023	405	805
Profit on disposal of property, plant and equipment	(200)	(1 026)	(392)	(1 026)
Profit on disposal of biological assets	-	(327)	-	-
Retirement benefits	104 547	105 594	104 547	105 594
- Post retirement medical aid (refer to note 26.3)	51 926	47 307	51 926	47 307
- Pension - defined benefit (refer to note 26.2)	52 621	58 287	52 621	58 287
Salaries and other staff costs	699 555	659 557	664 973	625 570
- Direct	220 675	205 421	220 675	205 421
- Indirect	371 710	354 753	337 128	320 766
- Maintenance	107 170	99 383	107 170	99 383
Number of employees at 30 June	No.	No.	No.	No.
Permanent	1 039	996	922	880
Fixed term contracts	192	154	192	154
Total number of employees	**1 231**	**1 150**	**1 114**	**1 034**

6.2 TAXATION

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Taxation arose from a 100% owned subsidiary Umgeni Water Services (SOC) Ltd				
Taxation expense	76	101	-	-
Reconciliation of taxation				
Accounting profit	5 519	5 305	-	-
Permanent differences	(5 246)	(4 945)	-	-
Dividend received	(5 285)	(4 995)	-	-
Disallowed expenses	39	50	-	-
Taxable income	273	360	-	-
Taxation expense	**76**	**101**	**-**	**-**

7. INTEREST INCOME

	Group 2018 R'000	Group 2017 R'000	Parent 2018 R'000	Parent 2017 R'000
Interest received - investments	173 757	148 819	173 757	148 819
Interest received - other financial assets (refer to note 14)	392	612	392	612
Interest received - other	3 758	170	3 932	-
Total interest income	**177 907**	**149 601**	**178 081**	**149 431**

8. FINANCE COSTS

	Group 2018 R'000	Group 2017 R'000	Parent 2018 R'000	Parent 2017 R'000
Bank overdrafts and other	437	1 325	437	1 325
Bonds	169 949	64 200	169 949	64 200
Loans	33 418	146 410	33 063	146 366
Less: borrowing costs capitalised (refer to note 9)	(202 085)	(210 536)	(202 085)	(210 536)
Interest was capitalised to work-in-progress at the gross weighted average cost of capital of 10.61%. (2017: 10.59%)				
Total finance costs	**1 719**	**1 399**	**1 364**	**1 355**

9. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and infrastructure	Equipment and vehicles	Capital work in progress	Total parent	Subsidiaries	Group
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Year ended 30 June 2018							
Carrying Amount 1 July 2017	3 543	3 849 439	186 487	3 713 458	7 752 927	21 219	7 774 146
Cost	3 543	5 998 959	330 967	4 762 259	11 095 728	37 311	11 133 039
Accumulated impairments	-	(580 087)	-	(138 466)	(718 553)	-	(718 553)
Accumulated grant funding	-	(320 710)	-	(910 335)	(1 231 045)	-	(1 231 045)
Accumulated depreciation	-	(1 248 723)	(144 480)	-	(1 393 203)	(16 092)	(1 409 295)
Additions	-	-	41 005	930 106	971 111	1 181	972 292
Grant funding	-	-	-	(454 741)	(454 741)	-	(454 741)
Borrowing costs capitalised	-	-	-	202 085	202 085	-	202 085
Disposals/Asset write-offs	-	(12 236)	(2 287)	(26 339)	(40 862)	(192)	(41 054)
Cost	-	(40 214)	(5 825)	(26 339)	(72 378)	(344)	(72 722)
Accumulated depreciation	-	27 978	3 538	-	31 516	152	31 668
Transfers	-	69	(69)	-	-	-	-
Cost	-	151	(151)	-	-	-	-
Accumulated depreciation	-	(82)	82	-	-	-	-
Depreciation charge	-	(172 182)	(70 512)	-	(242 694)	(3 770)	(246 464)
							-
Impairment reversal	-	71 807	-	46 177	117 984	-	117 984
Commissioning	-	1 976 584	-	(1 976 584)	-	-	-
Cost	-	3 265 561	-	(3 265 561)	-	-	-
Accumulated grant funding	-	(1 288 977)	-	1 288 977	-	-	-
Accumulated impairment	-	-	-	-	-	-	-
Total property, plant and equipment	**3 543**	**5 713 481**	**154 624**	**2 434 162**	**8 305 810**	**18 438**	**8 324 248**
Cost	3 543	9 224 457	365 996	2 602 550	12 196 546	38 148	12 234 694
Accumulated impairments	-	(508 280)	-	(92 289)	(600 569)	-	(600 569)
Accumulated grant funding	-	(1 609 687)	-	(76 099)	(1 685 786)	-	(1 685 786)
Accumulated depreciation	-	(1 393 009)	(211 372)	-	(1 604 381)	(19 710)	(1 624 091)
Total property, plant and equipment	**3 543**	**5 713 481**	**154 624**	**2 434 162**	**8 305 810**	**18 438**	**8 324 248**

9. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land	Buildings and infrastructure	Equipment and vehicles	Capital work in progress	Total parent	Subsidiaries	Group
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Year ended 30 June 2017							
Carrying Amount 1 July 2016	3 543	3 800 931	84 359	3 137 340	7 026 173	16 946	7 043 119
Cost	3 543	5 808 001	197 655	3 775 941	9 785 140	29 587	9 814 727
Accumulated impairments	-	(577 346)	-	(99 322)	(676 668)	-	(676 668)
Accumulated grant funding	-	(320 710)	-	(539 279)	(859 989)	-	(859 989)
Accumulated depreciation	-	(1 109 014)	(113 296)	-	(1 222 310)	(12 641)	(1 234 951)
Additions	-	-	137 422	980 879	1 118 301	7 724	1 126 025
Grant funding	-	-	-	(371 056)	(371 056)	-	(371 056)
Borrowing costs capitalised	-	-	-	210 536	210 536	-	210 536
Disposals/Asset write-offs	-	-	(1 839)	(14 148)	(15 987)	-	(15 987)
Cost	-	-	(4 047)	(14 148)	(18 195)	-	(18 195)
Accumulated depreciation	-	-	2 208	-	2 208	-	2 208
Transfers	-	42	(47)	-	(5)	-	(5)
Cost	-	9	(63)	-	(54)	-	(54)
Accumulated depreciation	-	33	16	-	49	-	49
Depreciation charge	-	(139 742)	(33 408)	-	(173 150)	(3 451)	(176 601)
							-
Impairment	-	(2 741)	-	(39 144)	(41 885)	-	(41 885)
Commissioning	-	190 949	-	(190 949)	-	-	-
Cost	-	190 949	-	(190 949)	-	-	-
Accumulated grant funding	-	-	-	-	-	-	-
Accumulated impairment	-	-	-	-	-	-	-
Total property, plant and equipment	3 543	3 849 439	186 487	3 713 458	7 752 927	21 219	7 774 146
Cost	3 543	5 998 959	330 967	4 762 259	11 095 728	37 311	11 133 039
Accumulated impairments	-	(580 087)	-	(138 466)	(718 553)	-	(718 553)
Accumulated grant funding	-	(320 710)	-	(910 335)	(1 231 045)	-	(1 231 045)
Accumulated depreciation	-	(1 248 723)	(144 480)	-	(1 393 203)	(16 092)	(1 409 295)
Total property, plant and equipment	**3 543**	**3 849 439**	**186 487**	**3 713 458**	**7 752 927**	**21 219**	**7 774 146**

9. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

A schedule of land and buildings is available for inspection at the registered office of Umgeni Water. The group has an agreement with its major customer to operate and maintain the South Coast Booster pump station with the option for the customer to acquire the pump station at the end of it useful life of 14 years. The pump station has a carrying amount of R74m and is used by the customer to guarantee supply to a portion of its operational areas.

The impairment losses arose from projects relating to rural development infrastructure where the recoverable amount is less than the carrying amount. The recoverable amount is the estimated value in use using the weighted average cost of capital as at 30 June 10.61% (2017: 10.59%). 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.

SUMMARY OF IMPAIRMENTS: BUILDINGS & INFRASTRUCTURE	Accumulated Impairment 30 June 2017	Impairment 30 June 2018	Accumulated Impairment 30 June 2018
	R'000	R'000	R'000
Greater Eston	572	(528)	44
Maphumulo Bulk Water Supply Scheme (Phase 1)	184 577	(70 175)	114 402
Richmond Pipeline	1 812	(1 636)	176

SUMMARY OF IMPAIRMENTS: WORK-IN-PROGRESS	Progressive Impairment 2017	Progressive Impairment 2018	Accumulated Impairment 30 June 2017	Impairment 30 June 2018	Accumulated Impairment 30 June 2018
	%	%	R'000	R'000	R'000
Greater Mphofana (Phase 1)	46%	19%	138 036	(50 544)	87 492
Impendle Bulk Water Supply Scheme	100%	19%	386	603	989
Mhlabashane Bulk Water Supply Scheme	n/a	39%	-	3 765	3 765

9.1. CAPITAL COMMITMENTS

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Commitments in respect of capital expenditure for the expansion, augmentation and upgrades of pipelines, water work and wastewater works:				
- contracted for but not provided for in the Financial Statements; and	811 792	947 551	811 619	946 604
- authorised but not contracted for.	1 743 125	1 585 868	1 743 125	1 585 868
Total capital commitments	**2 554 917**	**2 533 419**	**2 554 744**	**2 532 472**
The proposed capital expenditure will be financed through internally generated funds, borrowings and grants.				
Estimated capital expenditure to be incurred as follows:				
- Within one year	1 154 985	1 058 258	1 154 812	1 057 311
- Two to five years	1 216 503	1 106 030	1 216 503	1 106 030
- More than five years	183 429	369 131	183 429	369 131
	2 554 917	**2 533 419**	**2 554 744**	**2 532 472**

10. INTANGIBLE ASSETS

	Intangible Asset	Work in progress	Parent Total	Subsidiary	Group
	R'000	R'000	R'000	R'000	R'000
As at 30 June 2018					
SOFTWARE					
Carrying Amount 1 July	**117 863**	**15 050**	**132 913**	**227**	**133 140**
Cost	158 599	15 050	173 650	721	174 371
Accumulated amortisation	(40 736)	-	(40 736)	(494)	(41 231)
Additions	-	17 089	17 089	201	17 290
Commissioning	26 881	(26 881)	-	-	-
Amortisation	(28 406)	-	(28 406)	(222)	(28 628)
Total intangible assets	**116 338**	**5 258**	**121 596**	**206**	**121 802**
Cost	185 480	5 258	190 739	922	191 661
Accumulated amortisation	(69 142)	-	(69 142)	(716)	(69 858)
Total intangible assets	**116 338**	**5 258**	**121 596**	**206**	**121 802**
As at 30 June 2017					
SOFTWARE					
Carrying Amount 1 July	**12 076**	**83 725**	**95 801**	**201**	**96 002**
Cost	44 007	83 725	127 733	398	128 131
Accumulated amortisation	(31 931)	-	(31 932)	(197)	(32 129)
Additions	-	45 917	45 917	323	46 240
Commissioning	114 592	(114 592)	-	-	-
Amortisation	(8 805)	-	(8 805)	(298)	(9 103)
Total intangible assets	**117 863**	**15 050**	**132 913**	**227**	**133 140**
Cost	158 599	15 050	173 650	721	174 371
Accumulated amortisation	(40 736)	-	(40 736)	(494)	(41 231)
Total intangible assets	**117 863**	**15 050**	**132 913**	**227**	**133 140**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

11. BIOLOGICAL ASSETS

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
GAME	**3 224**	**4 244**	**-**	**-**
Opening carrying amount	4 244	4 911	-	-
Additions	-	1 519	-	-
Disposals	(458)	(457)	-	-
Write off of animals poached	-	(940)	-	-
Fair value adjustment	(562)	(788)	-	-
The carrying amount was based on an estimated 503 (2017: 581) game, the most significant categories being Buffalo, White Rhino and Zebra. The fair values of game are based on market related prices and is therefore classified as level 2 fair values in terms of IFRS 13. These assets are not restricted nor are they pledged as security.				
Total biological assets	**3 224**	**4 244**	**-**	**-**

12. SUBSIDIARIES AND ASSOCIATES

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
12.1. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES	**6 005**	**6 005**	**-**	**-**
Cost	2 590	2 590	30 000	30 000
Accumulated impairment	-	-	(30 000)	(30 000)
Share of post-acquisition reserves	3 415	3 415	-	-
12.2. LOANS TO SUBSIDIARIES AND ASSOCIATES	**-**	**-**	**12 099**	**13 096**
Msinsi Holdings SOC Limited	-	-	12 099	13 041
Umgeni Water Services SOC Limited	-	-	-	55
The loan with Umgeni Water Services has no set date for repayment and bears no interest. The loan with Msinsi Holdings SOC Limited is unsecured and bears interest at 7.34% per annum. The loan is expected to be paid by 2026.				
Total subsidiaries and associates	**6 005**	**6 005**	**12 099**	**13 096**

Investments in Subsidiaries			Proportion of ownership interest		Proportion of voting power held	
Subsidiary	**Principal activity**	**Place of incorporation**	**2018 %**	**2017 %**	**2018 %**	**2017 %**
Umgeni Water Services SOC Limited	Water services	RSA	100	100	100	100
Msinsi Holdings SOC Limited	Land and environmental management	RSA	100	100	100	100

The above entities remained subsidiaries throughout the year.

During the prior year Umgeni Water impaired its investment in Msinsi SOC Limited by R6 424m as it expected to be in a net loss position in the next 5 years. The impairment was reassessed in 2018 based on value-in-use calculations using the projected operating cash flows of Msinisi and the weighted average cost of capital as at 30 June 2018 of 10.612%. Umgeni Water continues to provide financial support to Msinsi Holdings SOC Limited to ensure that the company continues to trade in the foreseeable future without any disruption in its business. Msinsi SOC Limited has an investment of 16.67% in Powaprops 31 (Proprietary) Limited. The investment has been fully impaired in 2013.

12. SUBSIDIARIES AND ASSOCIATES (continued)

12.2. LOANS TO SUBSIDIARIES AND ASSOCIATES (continued)

Investments in Associate of Umgeni Water Services SOC Limited

Associate	Principal activity	Place of incorporation	Proportion of ownership interest 2018 %	Proportion of ownership interest 2017 %	Proportion of voting power held 2018 %	Proportion of voting power held 2017 %
Durban Water Recycling (Pty) Limited	Water recycling	RSA	18.5	18.5	18.5	18.5

Umgeni Water Services SOC Limited has significant influence over Durban Water Recycling (Pty) Limited through the exercise of voting power rights due to representation on the Board of Directors and is thus accounted for as an associate. Durban Water Recycling (Pty) Limited's financial year end is 31 December. There have been no material transactions or events since then to the reporting date of the group except for total dividends of R28m declared by the Board of Durban Water Recycling in June 2018.

	Carrying amount		Directors' valuation	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Investment in associate of Umgeni Water Services (Pty) Limited				
Durban Water Recycling (Pty) Limited	6 005	6 005	6 005	6 005
Investment held by Msinsi Holdings (Pty) Limited				
Powaprops 31 (Pty) Limited	-	-	-	-
Net Investment	**6 005**	**6 005**	**6 005**	**6 005**

	2018	2017
	R'000	R'000
Summarised financial information of associates:		
Total non-current assets of associates	20 140	24 473
Total non-current liabilities of associates	6 056	9 527
Total current assets of associates	58 651	56 711
Total current liabilities of associates	11 708	12 200
Total capital and reserves	61 028	59 456
Total revenue of associates	85 055	80 224
Share of profit for the year of associates	5 285	4 995

13. INVESTMENTS

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
13.1. LONG TERM INVESTMENTS	**403 898**	**230 175**	**403 898**	**230 175**
Held-to-maturity	317 898	230 175	317 898	230 175
Loans and receivables	86 000	-	86 000	-

Held to maturity investments represents the sinking fund redemption asset that matures in March 2021 for the UG21. Refer to note 30 Financial Risk Management and Financial Instruments for maturity profile and fair value of the long term investments.

13. INVESTMENTS (continued)

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
13.2. SHORT TERM INVESTMENTS	**2 076 596**	**1 566 715**	**2 076 596**	**1 566 715**
Loans and receivables	2 076 596	1 566 715	2 076 596	1 566 715
Loans and receivables represent money market funded investments.				
Refer to note 30 Financial Risk Management and Financial Instruments for interest rates and maturity profile of investments. The carrying amount of investments approximates its fair value.				
Total investments	**2 480 494**	**1 796 890**	**2 480 494**	**1 796 890**
13.1.1 ANALYSIS OF HELD-TO-MATURITY FINANCIAL ASSETS				
Opening Balance	230 175	150 142	230 175	150 142
Receipt of capital and interest	87 723	80 033	87 723	80 033
Closing Balance	**317 898**	**230 175**	**317 898**	**230 175**

14. OTHER FINANCIAL ASSETS

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Opening balance	4 774	6 916	4 774	6 916
Amortisation	(2 762)	(2 754)	(2 762)	(2 754)
Interest income	392	612	392	612
The financial asset is in respect of an agreement with a customer being granted the right of use of the 57 pipeline.				
It is amortised over 9 years from May 2010 at an interest rate associated with the related funding of the asset.				
The current year's balance is classified as short-term as the asset will be fully amortised at the end of the next financial year.				
Total other financial assets	**2 404**	**4 774**	**2 404**	**4 774**

15. INVENTORIES

	Group		Parent	
	2018	2017	2018	2017
15.1. STORES	**16 590**	**13 809**	**16 590**	**13 809**
Pipe inventories	754	612	754	612
Maintenance spares	1 416	1 216	1 416	1 216
Chemicals	6 527	5 512	6 527	5 512
Miscellaneous	7 893	6 469	7 893	6 469
15.2. WATER INVENTORY	**2 365**	**1 926**	**2 365**	**1 926**
Water inventory consists of closing inventory of raw and treated water.				
Total inventories	**18 955**	**15 735**	**18 955**	**15 735**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

16. TRADE AND OTHER RECEIVABLES

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Trade receivables	495 695	407 697	495 695	407 697
Less: provision for doubtful debts	(90 517)	(66 429)	(90 517)	(66 429)
Opening Balance	(66 429)	(31 678)	(66 429)	(31 678)
Written off during the year	-	12 455	-	12 455
Provided for during the year	(24 088)	(47 206)	(24 088)	(47 206)
Sub-total trade receivables	**405 178**	**341 268**	**405 178**	**341 268**
Sundry debtors	106 700	86 635	98 920	79 188
Less: provision for doubtful debts	(16)	(16)	-	-
Sub-total sundry debtors	**106 683**	**86 618**	**98 920**	**79 188**
Total trade and other receivables	**511 862**	**427 887**	**504 098**	**420 456**

Trade debtors comprise bulk water and wastewater sales to municipalities of which eThekwini Municipality and Msunduzi Municipality comprise a significant proportion 87.95% (2017: 87.10%) 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 47 Days (2017: 41 days).

	Amount due	Provision	Total 2018	Total 2017
	R'000	R'000	R'000	R'000
Customer				
eThekwini Metropolitan Municipality	267 041	-	267 041	195 695
iLembe District Municipality	61 504	(26 992)	34 512	24 789
Msunduzi Local Municipality	53 897	-	53 897	42 215
Ugu District Municipality	23 567	(9 328)	14 239	10 098
uMgungundlovu District Municipality	26 346	-	26 346	12 271
Harry Gwala District Municipality	6 100	(4 996)	1 104	4 257
Sembcorp Siza Water	28 770	(25 174)	3 596	6 871
Other bulk customers	292	(181)	111	175
Trade receivables - primary activities	467 517	(66 671)	400 846	296 371
Trade receivables - secondary activities	28 178	(23 846)	4 332	44 897
Total trade receivables	**495 695**	**(90 517)**	**405 178**	**341 268**

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

17. INTEREST RECEIVABLE

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Interest and premiums have been accrued for where investments have earned interest, but have not been received at year-end. Interest and premium receivable relating to investments are classified as loans and receivables, the carrying amount approximates fair value.	43 952	35 585	43 952	35 585
Total interest receivable	**43 952**	**35 585**	**43 952**	**35 585**

18.1. BANK AND CASH

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Cash and cash equivalents consist of:				
Bank and cash on hand	26 092	24 917	9 918	16 352
The carrying amount of bank and cash is held at amortised cost and approximates its fair value.				
The group's outstanding guarantees are disclosed under note 25.				
Total bank and cash	**26 092**	**24 917**	**9 918**	**16 352**

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

	Group 2018 R'000	Group 2017 R'000	Parent 2018 R'000	Parent 2017 R'000
Profit for the year	1 188 159	746 097	1 182 753	751 261
Interest income	(177 907)	(149 601)	(178 081)	(149 431)
Finance costs	1 719	1 399	1 364	1 355
Adjusted for non-cash items:				
Fair value adjustment of biological assets	562	788	-	-
Write off of biological assets	472	-	-	-
Profit on disposal of biological assets	-	(1 013)	-	-
Impairment of investment in subsidiary	-	-	-	6 424
Asset impairments and writeoffs	(77 122)	57 053	(77 122)	57 053
Amortisation - financial assets	2 762	2 754	2 762	2 754
Amortisation - amount owing to customer	(3 572)	(3 572)	(3 572)	(3 572)
Amortisation - intangible asset	28 628	9 103	28 406	8 805
Depreciation	246 464	176 601	242 694	173 150
Profit on disposal of property, plant and equipment	(200)	(1 026)	(392)	(1 026)
Increase in provisions and non-current liabilities	125 297	153 149	124 664	153 307
Increase in doubtful debts provision	13 411	37 350	13 411	37 350
Income Tax expense	76	101	-	-
Share of profit from associate	(5 285)	(4 995)	-	-
Tax paid	(140)	(105)	-	-
Operating surplus before working capital changes	**1 343 324**	**1 024 081**	**1 336 887**	**1 037 430**
Working capital changes	**(9 201)**	**(211 856)**	**(13 281)**	**(219 167)**
Increase in accounts receivable	(96 112)	(67 804)	(97 053)	(65 425)
Increase/(decrease) in accounts payable	90 131	(143 039)	86 992	(152 728)
Increase in inventory	(3 220)	(1 014)	(3 220)	(1 014)
Net cash from operating activities	**1 334 123**	**812 225**	**1 323 606**	**818 263**

19. CAPITAL

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Capital consists primarily of contributions made by the Department of Water and Sanitation	442 847	442 847	442 847	442 847
Total capital	**442 847**	**442 847**	**442 847**	**442 847**

20. DEBT

	Group 2018 R'000	Group 2017 R'000	Parent 2018 R'000	Parent 2017 R'000
Long-term	1 792 901	1 871 914	1 791 890	1 870 902
Short-term	79 011	78 810	79 011	78 810
Debt consists of interest bearing liabilities. Bonds are held at cost whilst bank loans and foreign loans are at amortised cost and are unsecured.				
Total debt	**1 871 912**	**1 950 724**	**1 870 901**	**1 949 712**

20.1 ANALYSIS OF DEBT HELD AT AMORTISED COST

	WEIGHTED AVERAGE INTEREST RATE AS AT 30 JUNE 2018	Group 2018 R'000	Group 2017 R'000	Parent 2018 R'000	Parent 2017 R'000
Bank loans		63 159	117 131	63 159	117 131
Fixed rate	5.00%	13 159	17 131	13 159	17 131
Variable	9.20%	50 000	100 000	50 000	100 000
Bonds		1 535 000	1 535 000	1 535 000	1 535 000
UG21 - Fixed rate	10.70%	600 000	600 000	600 000	600 000
UG26 - Fixed rate	11.31%	935 000	935 000	935 000	935 000
Foreign loans		272 742	297 581	272 742	297 581
Fixed rate	9.08%	137 258	149 194	137 258	149 194
Variable	8.03%	135 484	148 387	135 484	148 387
Other		1 011	1 012	-	-
Total debt		**1 871 912**	**1 950 724**	**1 870 901**	**1 949 712**

Refer to note 30 Financial Risk Management and Financial Instruments for maturity profile and fair value of debt.

Reconciliation of movement in debt for the year	Group 2018 R'000	Group 2017 R'000	Parent 2018 R'000	Parent 2017 R'000
Balance at the beginning of the year	1 949 712	2 028 330	1 949 712	2 028 330
Loans repaid	(78 811)	(78 618)	(78 811)	(78 618)
Loans raised	1 011	1 012	-	-
Balance at the end of the year	**1 871 912**	**1 950 724**	**1 870 901**	**1 949 712**

21. OTHER NON-CURRENT LIABILITIES

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Amounts received in advance	95 868	43 110	95 868	43 110
Amount received in advance relates to Mkomasi Bulk Water supply charge for water resource infrastructure which will be amortised to revenue over the life of the asset.				
Total other non-current liabilities	**95 868**	**43 110**	**95 868**	**43 110**

22. PROVISIONS

	Leave pay	Legal claims	Bonus	Sub-total current provisions	Non-current Incentive bonus provision	Total 2018	Total 2017
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Group							
Opening balance	32 047	10 072	71 608	113 727	39 120	152 847	113 826
Provided during the year	7 397	1 685	82 343	91 425	26 185	117 609	117 223
Utilised during the year	(8 432)	(4 209)	(72 311)	(84 952)	(31 203)	(116 155)	(78 203)
Closing balance	**31 012**	**7 548**	**81 640**	**120 200**	**34 102**	**154 301**	**152 847**
Parent							
Opening balance	30 095	10 072	70 306	110 473	39 120	149 593	110 411
Provided during the year	6 243	1 685	80 856	88 784	26 185	114 968	113 597
Utilised during the year	(7 671)	(4 209)	(71 066)	(82 946)	(31 203)	(114 149)	(74 416)
Closing balance	**28 667**	**7 548**	**80 096**	**116 311**	**34 102**	**150 413**	**149 593**

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

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

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

The non-current incentive bonus provision is raised in terms of Umgeni Water's Performance Policy and is based on a five year performance period. Refer to the remuneration report on page 145 for further detail.

All provisions are raised in the ordinary course of business and no material unutilised provisions were written back.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

23. ACCOUNTS PAYABLE

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Trade accounts payable	253 479	281 681	251 504	277 122
Accruals	172 728	150 279	171 266	148 723
Amounts due to related parties:				
◦ Water purchases accrual - DWS	85 318	22 799	85 318	22 799
◦ Sundry creditors	54 875	28 111	57 013	37 114
Section 30 customer advances	122 354	134 342	122 354	134 342
Current portion of non current liabilities	-	3 152	-	3 152
South African Revenue Services (SARS)	28 814	6 089	28 814	6 025
Total accounts payable	**717 568**	**626 453**	**716 269**	**629 277**

Trade accounts payable and accruals comprise amounts outstanding for trade purchases. Section 30 advances comprise amounts received from customers in advance in terms of the contractual agreements and primarily relate to implementing agent agreements.

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

24. 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, where an insignificant portion of the property is rented out. The rental income of R3.1m (2017: R3.0m) was earned. Rentals are received from staff and tele-communications companies.

	Group 2018 R'000	Group 2017 R'000	Parent 2018 R'000	Parent 2017 R'000
At the reporting date, the group had contracted with tenants for the following future minimum lease payments.	4 677	6 367	4 677	6 367
0 - 1 year	684	646	684	646
1 - 5 years	3 017	3 704	3 017	3 704
> 5 years	976	2 017	976	2 017
Total operating lease arrangements	**4 677**	**6 367**	**4 677**	**6 367**

25. CONTINGENT LIABILITIES

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Dispute between Umgeni Water and Raminet Technologies on SAP ERP customisation Raminet Technologies inherited from EOH Mthombo (Pty) Ltd via a cession agreement the operating and maintenance contract for the SAP ERP as well as the close-out of project related deliverables relating to the system enhancement and change requests. Umgeni Water has disputed the claims relating to these and as at the reporting date the matter was not yet resolved and will be proceeding to mediation.	143 005	-	143 005	-
SARS During the previous financial year Umgeni Water received an assessment of R19m from SARS on an Input VAT claim on a bad debt write off relating to the reticulation debtors which were handed over to Msunduzi Municipality. The matter has been resolved and a settlement reached in 2018.	-	19 627	-	19 627
Guarantees Guarantees have been given by certain financial institutions in respect of payments to utility service providers.	7 369	822	7 369	822
Total contingent liabilities	**150 374**	**20 449**	**150 374**	**20 449**

26. POST-RETIREMENT BENEFIT OBLIGATIONS

All the Umgeni Water retirement benefit plans are governed by the Pension Funds Act (No. 24 of 1956) of South Africa. All full-time employees are compelled to belong to either the defined benefit or the defined contribution plan.

	Group & Parent	
	2018	2017
	R'000	R'000
Summary of net liabilities for post-retirement benefit obligations:		
Defined benefit plan (refer to note 26.2)	167 518	172 087
Post-retirement healthcare benefits (refer to note 26.3)	387 332	397 318
Total post-retirement benefit obligations	**554 850**	**569 405**

26.1 DEFINED BENEFIT CONTRIBUTION

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
The total cost charged to income represents the group's portion of the contribution payable to this scheme. At reporting date all amounts due and payable to this scheme had been paid.	28 175	27 148	25 478	24 846

26. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)

26.2 DEFINED BENEFIT PLAN

The Umgeni Water Retirement Fund was established on 1 December 1985 and was closed to new members with effect from 6 February 2007.

The scheme is funded and actuarially valued every year. The effective date of the most recent valuation is 30 June 2018. 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		
	2018	2017	2016
	%	%	%
Key assumptions used in the actuarial valuation were as follows:			
Discount rate	9.80%	9.90%	9.60%
Expected rate of salary increases	7.30%	7.90%	8.20%
Future pension increase	4.20%	4.60%	4.80%
	R'000	R'000	R'000
Amounts recognised in profit/loss in respect of the defined benefit plan are as follows:			
Current service cost	33 384	36 376	36 939
Interest on obligation	94 924	94 365	86 304
Expected return on plan assets	(75 687)	(72 454)	(69 163)
Total included in staff costs in statement of profit and loss	**52 621**	**58 287**	**54 080**
Amounts recognised in other comprehensive income in respect of the defined benefit plan are as follows:			
Net actuarial (gain) loss	(31 712)	(64 111)	20 277
Total included in statement of other comprehensive income	**(31 712)**	**(64 111)**	**20 277**
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	954 189	943 151	961 604
Fair value of plan assets	(786 671)	(771 064)	(758 847)
Net liability in statement of financial position	**167 518**	**172 087**	**202 757**
Movement in the net liability recognised in the statement of financial position is as follows:			
Net liability at start of year	172 087	202 757	160 590
Net expense recognised in the statement of profit and loss	52 621	58 287	54 080
Net expense (income) recognised in the statement of other comprehensive income	(31 712)	(64 111)	20 277
Company contributions	(25 478)	(24 846)	(32 190)
Net liability at end of year	**167 518**	**172 087**	**202 757**

26. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)

26.2 DEFINED BENEFIT PLAN (continued)

	Group & Parent		
	2018	2017	2016
	R'000	R'000	R'000
Movements in the defined benefit obligation for the year:			
Defined benefit obligation at beginning of year	943 151	961 604	897 740
Current service cost	33 384	36 376	36 939
Member contributions	8 595	8 273	7 974
Interest cost	94 924	94 365	86 304
Actuarial (gain) loss	(78 694)	(116 121)	(24 450)
Benefits paid	(41 740)	(36 114)	(36 749)
Risk premiums	(4 018)	(3 943)	(4 970)
Expenses	(1 413)	(1 289)	(1 184)
Defined benefit obligation at end of year	**954 189**	**943 151**	**961 604**
Movements in the present value of plan assets in the current period were as follows:			
Fair value of plan assets at beginning of year	771 064	758 847	737 150
Interest on plan assets	75 687	72 454	69 163
Member contributions	8 595	8 273	7 974
Employer contributions	25 478	24 846	32 190
Actuarial gain	(46 982)	(52 010)	(44 727)
Benefits paid	(41 740)	(36 114)	(36 749)
Risk premiums	(4 018)	(3 943)	(4 970)
Expenses	(1 413)	(1 289)	(1 184)
Fair value of plan assets at end of year	**786 671**	**771 064**	**758 847**
Actual Return on Assets	28 705	20 444	24 436
Key assumptions used in the actuarial valuation were as follows:			
The major categories of plan assets and the expected rate of returns at the end of the reporting period are as follows:			
	%	%	%
Cash	6.20%	11.01%	12.37%
Equity	39.44%	37.27%	40.49%
Bonds	21.71%	20.33%	18.49%
Property	5.71%	5.81%	4.21%
International	24.14%	24.33%	23.49%
Other	2.80%	1.25%	0.95%
Total	**100.00%**	**100.00%**	**100.00%**

Percentages reflected in 2018 are based on June 2018 asset composition.

26. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)

26.2 DEFINED BENEFIT PLAN (continued)

The group expects to make a contribution of R24m to the defined benefit plan during the next financial year.

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

	Accrued Liability				
	Central Assumption	Increase		Decrease	
		%	R'000	%	R'000
Sensitivity Factor					
1% change in discount rate	9.80%	(13.50%)	(128 417)	16.90%	161 467
1% change in inflation rates	6.30%	14.00%	133 518	(12.20%)	(116 374)
1% change in salary increase rate	7.30%	8.20%	78 423	(7.80%)	(74 574)

26.3 POST-RETIREMENT HEALTHCARE BENEFITS

	Group & Parent		
	2018	2017	2016
	%	%	%
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 2018.			
Employees who joined Umgeni Water after 28 February 2002 cannot elect to join this scheme.			
Key assumptions used in the actuarial valuation, were as follows:			
Discount rate	10.30%	10.90%	9.80%
Expected rate of increase in medical indices	8.80%	10.00%	9.40%
	R'000	R'000	R'000
Amounts recognised in profit and loss in respect of the post-retirement healthcare costs are as follows:			
Current service cost	9 270	9 650	8 984
Interest on obligation	42 656	37 657	31 650
Total included in staff costs in statement of profit and loss	**51 926**	**47 307**	**40 634**
Amounts recognised in other comprehensive income in respect of the post-retirement healthcare costs are as follows:			
Actuarial loss (gain)	(50 358)	(29 361)	16 263
Total included in statement of other comprehensive income	**(50 358)**	**(29 361)**	**16 263**
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	397 318	389 527	341 150
Net expense recognised in the statement of profit and loss	51 926	47 307	40 634
Company contributions	(11 554)	(10 155)	(8 520)
Net (income) expense recognised in the statement of other comprehensive income	(50 358)	(29 361)	16 263
Liability at end of year	**387 332**	**397 318**	**389 527**

26. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)

26.3 POST-RETIREMENT HEALTHCARE BENEFITS (continued)

	Group & Parent		
	2018	2017	2016
	R'000	R'000	R'000
Movements in the post-retirement healthcare obligation in the current period were as follows:			
Projected benefit obligation at beginning of year	397 318	389 527	341 150
Current service cost	9 270	9 650	8 984
Interest cost	42 656	37 657	31 650
Actuarial (gain) loss	(50 358)	(29 361)	16 263
Employer contributions	(11 554)	(10 155)	(8 520)
Projected benefit obligation at end of year	**387 332**	**397 318**	**389 527**

The group expects to make a contribution of R13.4m 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				
	Central Assumption	Increase		Decrease	
		%	R'000	%	R'000
Sensitivity Factor					
1% change in medical aid inflation rates	8.80%	16.80%	65 011	(13.50%)	(52 412)
1 year change in expected retirement age	60 years	(3.70%)	(14 203)	3.50%	13 699
1% change in discount rate	10.30%	(13.20%)	(51 209)	16.6%	64 483

The information presented above is as per the latest valuation, which was performed on 30 June 2018.

The risks faced by the company as a result of the post-employment retirement benefits obligation are as follows:
- Inflation: the risk that future CPI Inflation is higher than expected and uncontrolled;
- longevity: the risk that pensioners live longer than expected and thus their pension benefit is payable for longer than expected;
- open-ended, long-term liability: the risk that the liability may be volatile in the future and uncertain;
- future changes in legislation: the risk that changes to legislation with respect to the post-employment liability may increase the liability for the company;
- future changes in the tax environment: the risk that changes in the tax legislation governing employee benefits may increase the liability for the company;
- perceived inequality by non eligible employees: the risk of dissatisfaction of employees who are non eligible for a post-employment healthcare subsidy; and
- administration: administration of this liability poses a burden to the company.

27. RELATED PARTIES

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

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

Related parties also comprise subsidiaries of Umgeni Water, and associates of the group and post retirement benefit plans for the benefit of the employees. For disclosures regarding the post retirement benefit plan, refer to note 26. Related parties also includes key management personnel of Umgeni Water or its shareholder and close family members of the related parties.

Key management personnel for Umgeni Water includes the group's Board of Directors and the Executive Management (EXCO) and their remuneration is disclosed in the Remuneration Report on page 144.

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

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

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Revenue: Sale of goods and services				
Bulk water and wastewater				
Local government (includes municipalities)*	2 811 072	2 161 847	2 811 072	2 161 847
Revenue: Section 30				
Local government (includes municipalities)	16 292	99 123	16 292	99 123
National Department	19 542	55 876	19 542	55 876
Cost of sales				
Raw water purchases				
National Department	209 126	180 160	209 126	180 160
Section 30				
Local government (includes municipalities)	16 200	96 339	16 200	96 339
National Department	17 757	52 639	17 757	52 639
Other operating and administration expenses				
Subsidiaries and associates	-	-	40 180	37 000
Finance Income				
Subsidiaries and associates	-	-	840	931
Work-in-progress: Grant funding for rural development projects				
National Department	454 741	371 056	454 741	371 056

27. RELATED PARTIES (continued)

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Loans to entities				
Subsidiaries and associates	-	-	12 099	13 096
Investments in subsidiaries				
Subsidiaries and associates	6 005	6 005	-	-
Other payables				
Subsidiaries and associates	-	-	7 881	8 862
Revenue in advance: Local government and municipalities	-	3 152	-	3 152
Raw water purchases accrual (National Department)	85 318	22 799	85 318	22 799
Right of use agreement				
Local government (includes municipalities)	2 404	4 774	2 404	4 774
Revenue in advance				
Local government (includes municipalities)	95 868	43 110	95 868	43 110

* Included in local government is sales to the group's largest customer of R1 914m (2017: R1 582m)

28. IRREGULAR EXPENDITURE

	Group 2018 R'000	Group 2017 R'000	Parent 2018 R'000	Parent 2017 R'000
Opening balance 1 July	10 982	-	9 394	-
Add: irregular expenditure relating to current year	13 826	4 479	13 561	2 891
Add: prior year irregular expenditure identified in current year	20 143	6 882	20 143	6 882
Less: amounts condoned by appropriate authority	(11 710)	(379)	(10 122)	(379)
Amounts awaiting condonement	**33 241**	**10 982**	**32 976**	**9 394**

Details of irregular expenditure – current and prior year:

All incidents relate to expenditure which arose as a result of non compliance to the performance policy and supply chain management policy.

Disciplinary steps/criminal proceedings were not instituted as the expenditure was incurred in support of the business requirements and the amounts awaiting condonement will be assessed by the relevant condoning authorities.

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.
Performance policy amendment not fully complied with in terms of delegation of authority.	The Board of Umgeni Water has approved the policy change however the payments resulting in irregular expenditure is under investigation by the Board and consequently was not condoned as at the date of this report.

29. FRUITLESS AND WASTEFUL EXPENDITURE

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Opening balance 1 July	5 230	-	5 226	-
Fruitless and wasteful expenditure relating to the current year	316	5 232	4	5 226
Less: amounts condoned by appropriate authority	(4)	(2)	-	-
Less: amounts transferred to receivable	(15)	-	-	-
Amounts awaiting condonement	**5 527**	**5 230**	**5 230**	**5 226**
Analysis of fruitless and wasteful expenditure				
Remuneration from 20th August 2017 to 19th August 2019	5 226	5 226	5 226	5 226
20th August 2017 to 19th August 2018	2 613	2 613	2 613	2 613
20th August 2018 to 19th August 2019	2 613	2 613	2 613	2 613
Fines and penalties	4	-	4	-
Interest paid	297	6	-	-
Total fruitless and wasteful expenditure	**5 527**	**5 232**	**5 230**	**5 226**

Details of fruitless and wasteful expenditure

Incident	Details
Remuneration paid in terms of a settlement agreement of R5.2m relating to prior year.	The Board entered into a settlement agreement with the Chief Executive as at 30th June 2017, which included the settlement of remuneration to the contract extension period to August 2019.
Penalties and interest amounting to R0.3m.	Interest and penalties was incurred on late payment of accounts during the year.

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

30.1.1 CAPITAL MANAGEMENT

Capital and reserves is consistent with the prior year and consists of:

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Capital	442 847	442 847	442 847	442 847
Accumulated profit	7 574 943	6 391 830	7 541 430	6 358 677
Other comprehensive income	70 720	(11 350)	70 720	(11 350)
Total	**8 088 510**	**6 823 327**	**8 054 997**	**6 790 174**
Total interest bearing debt	1 871 912	1 950 724	1 870 901	1 949 712

30.1.2 DEBT MANAGEMENT

Debt management strategies

Umgeni Water's treasury strategy focuses on solvency and debt management through the cash flow tariff model, after taking into account the long-term business plans, water demand curves, and future capital expenditure. The liability curve and debt redemption is then actively managed:

(a) by targeting an optimal debt level;

(b) by asset liability matching, through a redemption strategy framework which pro-actively manages liquidity and refinancing risk associated with large debt maturities such as bonds;

(c) within approved borrowing limits; and

(d) by maintaining an external credit rating.

(a) Optimal debt level

Umgeni Water strives to be within an optimal debt level by not exceeding a gearing ratio of 0.67 and maintains a target debt interest rate structure of 70% fixed and 30% floating which aims to minimise volatility of both the tariff and statement of profit and loss.

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Gross Debt (Refer note 20)	1 871 912	1 950 724	1 870 901	1 949 712
Interest Rate Structure				
Fixed	90%	86%	90%	86%
Floating	10%	14%	10%	14%
Gearing Ratio	0.23	0.29	0.23	0.29

(b) Asset and liability management

Asset and liability matching focuses on two components:

- The first being the matching of maturity dates of financial assets and liabilities whereby financial assets will be used to repay debt on its maturity. This will typically be applied in a redemption strategy.
- The second component is whereby surplus cash (cash after operating expenditure and interest cost) is matched to debt redemption or specific funding requirements.

Taking the business environment and market conditions into account, the following framework is used in managing the redemption portfolio build-up over the years preceding the redemption of the bond. Prior to redemption, the entity must have provided for at least:

- 10% of the capital value required in the year of redemption;
- 40% provided for 2 years before redemption;
- 75% provided for 1 year before maturity; and
- the balance of 25% is funded during the year of maturity.

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

30.1.2 DEBT MANAGEMENT (continued)

(c) Managing debt within approved borrowing limits

The borrowing limits for Umgeni Water for the period 2017 to 2019 are as follows:

	2019	2018	2017
	R'000	R'000	R'000
Borrowing Limit			
Unconditional	2 400 000	2 450 000	2 550 000
Conditional	300 000	300 000	300 000
Total	**2 700 000**	**2 750 000**	**2 850 000**

	Parent	
	2018	2017
Utilisation of borrowing limits		
Borrowing limit	2 450 000	2 550 000
Gross borrowings (refer to note 20)	(1 870 901)	(1 949 712)
Collateral and guarantees (refer to note 25)	(7 369)	(822)
Unutilised borrowing limits	**571 730**	**599 476**

(d) Maintaining an external credit rating

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

Umgeni Water's national credit ratings are as follows:

Rating Agency	Review date	Details	Long-term rating	Short-term rating
Standard & Poors	29/06/2018	Recalibration of National scales	zaAAA	zaA-1
FitchRatings	13/07/2017	Affirmed rating	AA+(zaf)	F1+(zaf)

30.2. FINANCIAL RISK MANAGEMENT

Umgeni Water's exposure to risk, its objectives, policies and processes for managing the risk and the methods used to measure it have been consistently applied in the years presented, unless otherwise stated. The Corporate Treasury function provides services to the business, co-ordinates access to domestic financial markets, monitors and manages the financial risks relating to the operations of Umgeni Water through the short, medium and long-term funding strategy, and highlights the risk implications of various financial transactions.

The use of financial derivatives is governed by Umgeni Water's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. Umgeni Water does not enter into or trade Financial Instruments, including derivative Financial Instruments, for speculative purposes. The principal financial risks to which Umgeni Water is exposed as a result of its Financial Instruments are:

- credit risk (which includes counterparty risk);
- liquidity risk; and
- market risk (interest rate risk).

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

30.2. FINANCIAL RISK MANAGEMENT (continued)

30.2.1 CREDIT RISK

Credit risk is the risk of financial loss to the group if a customer or other counterparty to a financial instrument fails to meet its contractual obligations.

Credit risk arises principally from the group's receivables and investment securities. Credit risk concentration will result in Umgeni Water being exposed to counter party failure. This has the potential to impact on the organisation's ability to remain within its optimal debt level.

Exposure to credit risk

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

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
a) Investments	2 480 494	1 796 890	2 480 494	1 796 890
b) Trade and other receivables (excluding provision for bad debts)	602 395	494 332	594 615	486 885
c) Cash and cash equivalents (excluding petty cash)	26 008	24 865	9 896	16 329

A) INVESTMENTS

According to its Investment Policy Umgeni Water will manage credit risk by:

- conducting transactions only with counter parties and issuers who satisfy soundly based and acceptable assessment processes, and only after formal limits have been set;
- same-day settlement limits will be set wherever possible and/or strict settlement procedures set and adhered to; and
- continuous monitoring of the credit quality of counterparties.

Concentration of credit risk is managed by setting credit limits at counterparty-specific level. The credit limit calculation is based on 5% of shareholders funds but subject to a maximum limit of R1 000m as approved by the Board, and limited to parties where 5% of shareholders funds exceeds R100m. The group limits its exposure to credit risk by investing only with counterparties with a long-term rating of A and short-term rating of F1 and better. Utilisation of the credit limit is measured in terms of risk weighting except in the case of zero coupon bonds where credit limit utilisation is based on current market value.

Given the credit ratings of counterparties, management does not expect any counterparty to fail to meet its obligations and hence no investment has been impaired, during the current and prior years.

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

30.2. FINANCIAL RISK MANAGEMENT (continued)

30.2.1 CREDIT RISK (continued)

Maximum credit risk exposure to Umgeni Water:

The table below shows Umgeni Water's credit exposure to the approved counterparties in context of the credit limits assigned to each counterparty and the carrying value of the investment placed with each counterparty. The credit ratings reflected are as at reporting date and in terms of the S&P rating agency definitions.

		Group & Parent		
Counterparty	**S&P Rating**	**Credit Limit**	**2018**	**2017**
		R'000	**R'000**	**R'000**
FINANCIAL INSTRUMENTS				
Held-to-maturity			317 898	230 175
Nedbank Limited	zaAA-/zaA-1+	1 000 000	317 898	230 175
Loans and receivables			2 162 596	1 566 715
ABSA Bank Limited	zaAA-/zaA-1+	1 000 000	411 764	163 905
First Rand Bank Limited	zaAA-/zaA-1+	1 000 000	754 040	168 950
Standard Bank of South Africa Limited	zaAA-/zaA-1+	1 000 000	100 000	106 500
Nedbank Limited	zaAA-/zaA-1+	1 000 000	548 698	640 390
Investec Limited	zaAA-/zaA-1+	300 000	4 451	94 014
Nedgroup Money Market Fund Limited	AA+	300 000	100 000	100 000
Investec Money Market Fund Limited	AA+	300 000	-	100 000
Stanlib Money Market Fund Limited	AA+	300 000	189 959	143 000
Corporation for Public Deposits	Government Guarantee	3 000 000	53 684	49 955
Total			**2 480 494**	**1 796 890**

B) TRADE AND OTHER RECEIVABLES

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

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

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

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

Monitoring exposure

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

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

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

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

30.2. FINANCIAL RISK MANAGEMENT (continued)

30.2.1 CREDIT RISK (continued)

B) TRADE AND OTHER RECEIVABLES (continued)

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Gross Amounts (excluding provision for bad debts)				
Bulk	467 517	330 737	467 517	330 737
Wastewater	22 757	17 639	22 757	17 639
Other activities	112 122	145 956	104 342	138 509
Total amounts (excluding provision for bad debts)	**602 395**	**494 332**	**594 615**	**486 885**

The group's most significant customer accounts for R267m of the trade and receivables carrying amount at 30 June 2018. (2017: R196m).

Impairment Losses

Refer to note 16 for impairment of trade and other receivables.
There were no financial assets past due or impaired and whose terms have been renegotiated.

	Group & Parent	
	2018	2017
	R'000	R'000
Analysis of the ageing of financial assets (trade receivables) which are past due but have not been impaired:	50 045	22 109
30 days	24 479	12 804
60 days	9 161	9 161
90 days	985	18
120+ days	15 420	126

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.

C) CASH AND CASH EQUIVALENTS

		Group		Parent	
Counterparty	**Rating**	2018	2017	2018	2017
		R'000	R'000	R'000	R'000
Cash		26 008	24 865	9 896	16 329
First Rand Bank Limited	zaAA-/zaA-1+	16 112	8 536	-	-
ABSA Bank Limited	zaAA-/zaA-1+	9 896	16 329	9 896	16 329
Total		**26 008**	**24 865**	**9 896**	**16 329**

The remaining balance of 84 (2017: 51) for the Group and 22 (2017: 23) for the parent represents petty cash in Rands per thousand for which there is no credit risk attached.

Guarantees

At 30 June 2018 the group had R7.3m (2017:R0.8m) of guarantees outstanding and this represents the maximum exposure to the Group.

Collateral

At 30 June 2018 the group has no collateral held as security.

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

30.2. FINANCIAL RISK MANAGEMENT (continued)

30.2.2 LIQUIDITY RISK

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

Mitigation approach

To mitigate liquidity risk, Umgeni Water:

- monitors the level of expected cash inflows on trade and other receivables together with the expected cash outflows on trade and other payables;
- has short-term funding facilities to meet on-going cash requirements for which facility options are in place with four banks (FNB, Standard, ABSA, Nedbank);
- has a Domestic Medium Term Note (DMTN) Programme that 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.

30.2.2.1 LIQUIDITY RISK INHERENT IN CONTRACTUAL CASH FLOWS

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

	Group						
	Weighted average effective interest rate	<1 month	1-3 months	3 months-1 year	1-5 years	>5 years	Total
		R'000	R'000	R'000	R'000	R'000	R'000
Financial Assets							
2018							
Fixed interest rate instruments*	9.21%	(5 241)	(10 483)	(47 172)	495 172	-	432 276
Variable interest rate instruments	7.69%	783 294	310 771	946 650	224 940	-	2 265 654
Trade and other Receivables	n/a	-	463 009	48 853	-	-	511 862
Total		**778 053**	**763 297**	**948 330**	**720 112**	**-**	**3 209 792**
2017							
Fixed interest rate instruments*	9.21%	(5 241)	(10 483)	(47 172)	432 276	-	369 379
Variable interest rate instruments	7.91%	793 608	339 665	332 344	190 654	-	1 656 272
Trade and other Receivables	n/a	-	375 850	52 037	-	-	427 887
Total		**788 367**	**705 032**	**337 209**	**622 930**	**-**	**2 453 538**

* Negative up to 1 year due to the reverse annuity which matures in 2021 to meet the redemption requirements for the UG21 Bond.

The group and parent figures remain the same with the exception of parent trade and other receivables maturity of 3 months -1 year R41 089 in Rands per thousand for the current year.

The following tables summarise 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.

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

30.2. FINANCIAL RISK MANAGEMENT (continued)

30.2.2 LIQUIDITY RISK (continued)

30.2.2.1 LIQUIDITY RISK INHERENT IN CONTRACTUAL CASH FLOWS (continued)

	Group						
	Weighted average effective interest rate	<1 month	1-3 months	3 months-1 year	1-5 years	>5 years	Total
		R'000	R'000	R'000	R'000	R'000	R'000
Financial Liabilities							
2018							
Fixed interest rate instruments	10.84%	-	86 138	113 754	1 246 070	1 354 783	2 800 745
Variable interest rate instruments	8.34%	-	-	76 740	84 817	90 798	252 355
Trade and other payables	n/a	26 837	540 450	150 281	-	-	717 568
Total		**26 837**	**626 588**	**340 774**	**1 330 887**	**1 445 582**	**3 770 668**
2017							
Fixed interest rate instruments	10.86%	-	86 604	113 337	1 320 420	1 480 325	3 000 686
Variable interest rate instruments	8.91%	-	-	82 779	141 646	111 690	336 116
Trade and other payables	n/a	105 723	349 498	171 231	-	-	626 453
Total		**105 723**	**436 102**	**367 347**	**1 462 066**	**1 592 015**	**3 963 254**

The group and parent figures remain the same with the exception of parent trade and other payables maturity of <1 month R17 657, 3 months - 1 year of R548 331 (2017: R359 524) and 3 months - 1 year R150 281 in Rands per thousand.

30.2.2.2 PRIMARY SOURCE OF FUNDING AND UNUSED FACILITIES

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

(a) Domestic Medium Term Note Programme (DMTN)

Umgeni Water has established a Domestic Medium Term Note Programme to issue bonds to meet long term capital expenditure funding requirements.
The programme has an authorised amount of R4 000m, and is a useful funding tool in terms of the following:

- refinancing the duration of the stock of debt;
- refinancing the fixed to floating ratio of the debt book;
- meeting short-term liquidity requirements; and
- filling gaps in the debt maturity profile.

The UG21 was issued at a total nominal value of R600m on 02 March 2010 at a fixed rate of 10.70% and the UG21 was issued at a total nominal value of R935m at a fixed rate of 11.31% on 09 March 2016, both under the DMTN Programme. The unutilised portion of the programme as at the 30 June 2018 is R2 465m.

(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	20 000	49 980
General Banking facility	50 020	-

(c) Bank Loans

This method of funding allows Umgeni Water to refinance short-term debt into longer-term debt with the view of achieving greater asset/liability matching.

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

30.2. FINANCIAL RISK MANAGEMENT (continued)

30.2.3 INTEREST RATE RISK

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

Mitigation approach

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

		Group & Parent	
	Recommended Ratio	2018	2017
		R'000	R'000
RATIO OF FIXED TO FLOATING INTEREST RATE			
Fixed	70%	90%	86%
Floating	30%	10%	14%

	Group & Parent	
At reporting date the interest rate profile of the group's interest bearing Financial Instruments is as follows:	2018	2017
	R'000	R'000
Fixed rate instruments		
Financial assets	317 898	230 175
Financial liabilities	(1 685 417)	(1 701 325)
Net position	**(1 367 519)**	**(1 471 150)**
Variable rate instruments		
Financial assets	2 162 596	1 566 715
Financial liabilities	(185 484)	(248 387)
Net position	**1 977 112**	**1 318 328**

Sensitivity Analysis

A sensitivity analysis to a change in interest rates has been performed based on the exposure to interest rates for both derivative 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 2018 would decrease/increase by R2.4m (2017: R2.6m).

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

30.4. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

The following tables show the carrying values and the fair value of financial assets and liabilities, including the fair value hierarchy. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of the fair value.

	Group		Parent	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
CARRYING VALUES				
CATEGORIES OF FINANCIAL INSTRUMENTS				
Financial Assets				
Held-to-maturity	317 898	230 175	317 898	230 175
Loans and receivables	2 744 501	2 055 103	2 644 353	2 039 108
Other investments	2 162 596	1 566 715	2 162 596	1 566 715
Trade and other receivables	511 862	427 887	427 887	420 456
Interest and premium receivable	43 952	35 585	43 952	35 585
Cash and cash equivalents	26 092	24 917	9 918	16 352
Financial Liabilities				
Held at amortised cost	2 741 376	2 677 743	2 739 066	2 679 557
Long and short-term debt	1 871 912	1 950 724	1 870 901	1 949 712
Other non current liabilities	95 868	43 110	95 868	43 110
Accounts payable	717 568	626 453	716 269	629 277
Interest payable	56 028	57 458	56 028	57 458

Except as detailed below, the Directors' consider the carrying values of the financial assets and financial liabilities recorded at amortised cost in the Financial Statements to be a reasonable approximation of their fair values.

	Fair Value Hierarchy Level	Group		Parent	
		2018	2017	2018	2017
		R'000	R'000	R'000	R'000
FAIR VALUES					
CATEGORIES OF FINANCIAL INSTRUMENTS					
Held to maturity financial assets	Level 2	340 151	269 569	340 151	269 569
Long and short-term debt	Level 2	(1 988 391)	(2 113 113)	(1 988 391)	(2 113 113)

Financial Instruments not measured at fair value

Financial Instrument	Valuation Technique	Significant Unobservable Inputs
Held to maturity financial assets	Discounted cash flow analysis using prices from observable current market transactions for similar instruments.	N/A
Long-term and short term debt	Discounted cash flow analysis using prices from observable current market transactions for similar instruments.	N/A

31. SUBSEQUENT EVENTS

No other material event has occurred between the accounting date and the date of this report.

32. 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.

In the previous two financial reports the Directors reported that the Executive Authority of Umgeni Water has initiated a process towards the establishment of a single provincial water board in KwaZulu-Natal. This process was envisaged to culminate in a merger between Umgeni Water and Mhlathuze Water, with the former absorbing the latter. This process was initially envisaged to be concluded during the 2016/2017 financial year, however due to a number of strategic steps that need to be taken to inform the final decision making process (which includes parliamentary processes, legislative processes and financial commitments confirmed for National Treasury) this was not achieved. With the changes in the National Executive, the new Minister of Water and Sanitation has resolved not to go ahead with this process and a court order has been issued to this effect.

The accounting authority believes that the new executive authority's decision positions the entity in a clear and positive going concern position for the 2017/2018 financial year and going forward; removes the uncertainties that would have prevailed due to the envisaged merger.