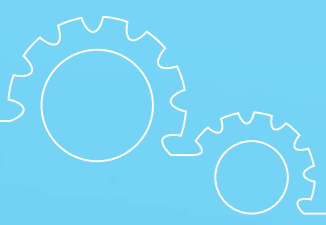




**ANNUAL
REPORT
2022/23**





VISION

Global Leader in the sustainable provision of water and related services

We strive to be an effectively run, public-oriented and socially accountable water utility, which has its heart and mind, focused on the provision of bulk water services. We will achieve leadership based on our performance and the sustainable value we co-create with our customers and stakeholders and continue to leave a positive legacy in our communities, region and country.



MISSION

To create value for our customers through providing innovative, sustainable, effective and affordable water and related services

Our business is the provision of bulk water services – both potable and wastewater – to support government service delivery to the people of South Africa and providing water for life. This includes providing all bulk water services to our customers, facilitating integrated planning in the region, supporting municipalities and contributing to water knowledge that will lead to sustainability from source-to-source.



STRATEGIC INTENT

Key Partner that enables government to deliver effective and efficient water and related services.

Umgeni Water intends to be recognised as a strategic and sustainable partner of government, co-creating value through providing bulk water and sanitation services as a catalyst for local economic development and government's developmental agenda.



BENEVOLENT INTENT
Provide water and related services to improve quality of life and enhance sustainable economic development.

Umgeni Water intends to be recognised as an organisation that has legitimate leadership and cultivates accountability. Through this people-centred approach Umgeni Water will achieve water services delivery. Bulk water services will be provided for both health and economic benefits, which contribute to addressing poverty, under-development and inequality.



Lower uMkhomazi Bulk Water Supply Scheme

STRATEGY MAP

VISION

Global leader in the sustainable provision of water and related services.

MISSION

To create value for our customers through providing innovative, sustainable, effective and affordable water and related services.

STRATEGIC INTENT

Key Partner that enables government to deliver effective and efficient water and related services in a financially sustainable manner.

BENEVOLENT INTENT

Provide water and related services by enhancing sustainable economic development to improve human dignity and quality of life.

CUSTOMER AND STAKEHOLDER PERSPECTIVE

S01: Improve Stakeholder Value

S02: Improve Customer Value

FINANCIAL PERSPECTIVE

S03: Improve Financial Sustainability

PROCESS PERSPECTIVE

S04: Improve Stakeholder Engagement

S05: Improve Governance Processes

S06: Improve Internal Efficiency and Effectiveness

S07: Increase Customers and Services

S08: Improve Product and Service Quality

ORGANISATIONAL CAPACITY PERSPECTIVE

S09: Improve Skills and Competency

S010: Improve the Use of Data and Technology

S011: Improve Work Culture

S012: Increase Supply Security

CORE VALUES

SHARED VISION

We share and keep the sustainability, strategy and mandate of Umgeni Water top of mind in all our decisions and actions

INTEGRITY

Our interactions and conduct are proof of transparent and ethical behaviour that shows respect and care for all our stakeholders

SERVICE ORIENTATION

We deliver responsive and quality services that speaks to the need of our clients and continuously build relationships that result in win-win outcomes

HIGH PERFORMANCE

We are enabled, empowered and inspired to deliver consistent quality, effective and efficient results for which we are accountable and rewarded.

INNOVATION

We challenge ourselves continuously to improve what we do, how we do it and how well we work together

ENVIRONMENTALLY SUSTAINABLE

We are committed to sustainable use of our diminishing natural resources.

SUPPLY AREA

KwaZulu-Natal has a total geographical area of 94 359 km² and is home to 12.42 million people and 2.8 million households. A total of 54 municipalities of which 14 are Water Services Authorities (WSAs): 1 Metro; 10 DMs; and 43 LMs of which 3 are WSAs.

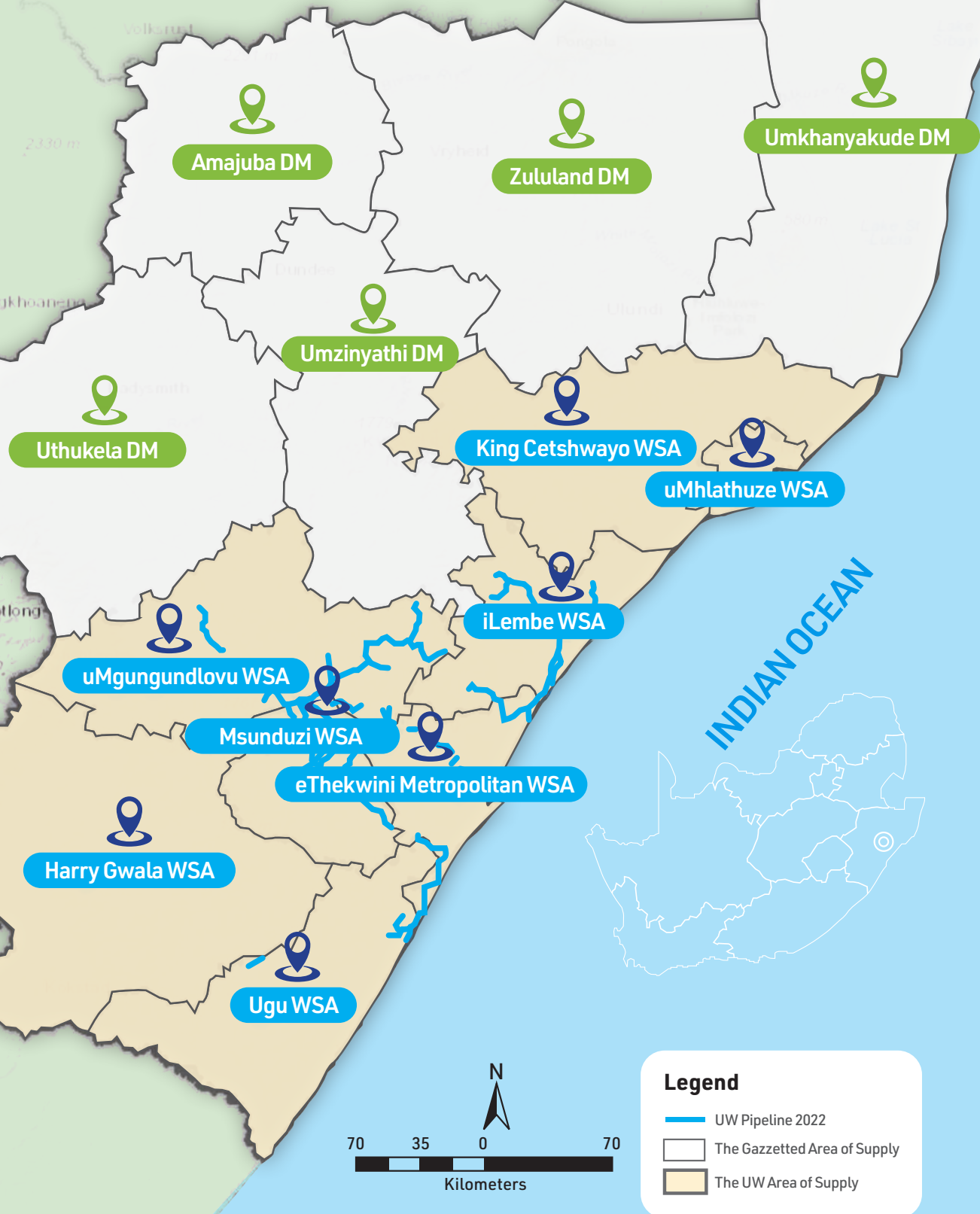


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Lower uMkhomazi
Bulk Water Supply Scheme



01 REPORT PROFILE

Umgeni Water has prepared annual reports every year since its establishment in 1974. This report covers the 12-month period from 1 July 2022 to 30 June 2023. This report also includes information about the water utility's subsidiaries.

Umgeni Water’s Annual Report complies with statutory disclosure requirements of the Public Finance Management Act (Act 1 of 1999) and Water Services Act (Act 108 of 1997), as well as relevant regulations.

In addition, Umgeni Water’s Annual Report is aligned to the requirements of King IV with regard to Integrated Reporting. Integration is achieved through the entity having an Integrated Strategy and a Value Creation Model based on the balanced scorecard in place that straddles four sustainability perspectives, together with Umgeni Water ensuring complete alignment with the government’s outcomes approach for Performance Reporting by State-Owned Entities (SOEs).

Umgeni Water has prepared annual reports every year since its establishment in 1974. This report covers the 12-month period from 1 July 2022 to 30 June 2023. This report also includes information about the water utility’s subsidiaries.

The performance content of this Annual Report shows Umgeni Water’s progress with meeting predetermined objectives and performance indicators as per the approved Corporate Plan and Shareholder Compact, and contains an audited performance scorecard for 2022/2023.

The financial content of the Annual Report contains the audited financial statements for 2022/2023. Over the years, Umgeni Water has developed and embedded in-house processes for identifying, collecting, collating, validating and storing information used in managing its performance and work to continually improve these processes.

The assurance of the Annual Report for both financial and performance information is provided by Umgeni Water’s Internal Audit and the Audit Committee of the Board. In addition, as an SOE, Umgeni Water is audited by the Auditor-General of South Africa for financial, compliance and performance information.

The scope covered by internal and external auditors is provided in the Corporate Governance chapter of this report. Core business processes, namely Potable, Wastewater Treatment and Monitoring Programmes are accredited externally in accordance with relevant internationally and nationally recognised standards.

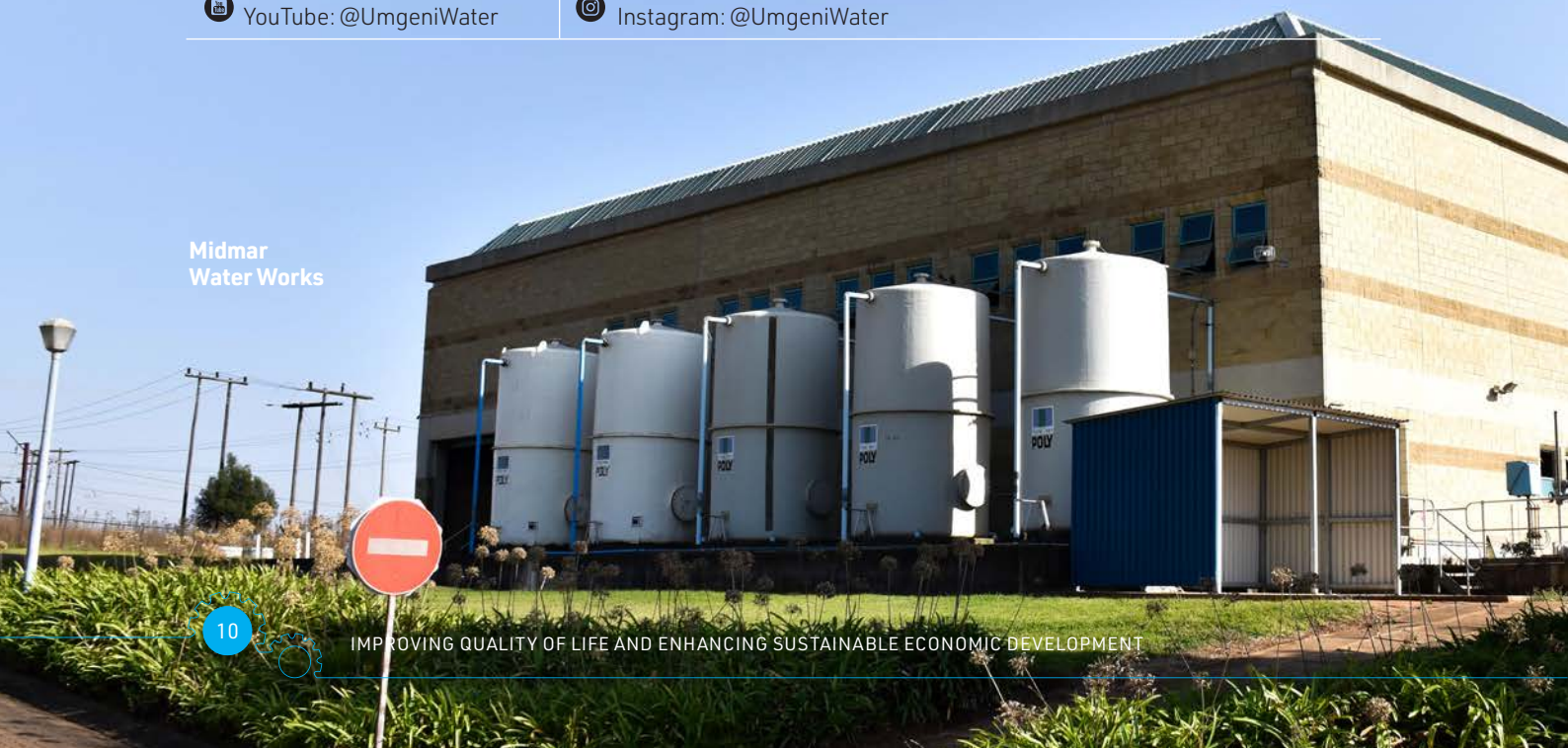
The Annual Report content is structured to provide sufficient information to all stakeholders, including customers, regulatory bodies, investors, employees and civil society, regarding Umgeni Water’s annual performance and on-going progress towards sustainable development. Specific stakeholder engagement information is contained in the Stakeholder Understanding and Support Chapter of this report, as well as throughout the report.

Additional information that concern all aspects of the report and its contents can be obtained from:

Umgeni Water’s Head Office at, 310 Burger Street, Pietermaritzburg, 3201

| | |
|---|---|
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|  Email: info@umgeni.co.za |  Website: www.umgeni.co.za |
|  Facebook: @umgeniwater |  Twitter: @umgeniwater |
|  YouTube: @UmgeniWater |  Instagram: @UmgeniWater |

Midmar Water Works





02 ORGANISATIONAL PROFILE

The annual report content is structured to provide sufficient information to all stakeholders, including customers, regulatory bodies, investors, employees and civil society regarding Umgeni Water's annual performance.

2.1 LEGISLATIVE MANDATE

Umgeni Water is an SOE, established in 1974, to provide water and related services to other water services institutions and other customers in its gazetted service area. The entity operates in accordance with the Water Services Act (Act 108 of 1997) and the Public Finance Management Act (Act 1 of 1999) among others, and is categorised as a National Government Business Enterprise. Umgeni Water reports directly to the Department of Water and Sanitation, through the Board (Accounting Authority) and through its functionaries, the Chairperson of the Board and the Chief Executive. The Minister of Water and Sanitation is the Executive Authority for Water Boards.

2.2 ACTIVITIES OF UMGENI WATER

The primary activities of Umgeni Water, as pronounced in section 29 of the Water Services Act, are to provide water services (water supply and sanitation services) to other water services institutions in its service area.

In addition, Section 30 of the Water Services Act enables Umgeni Water to undertake other activities, provided they do not impact negatively on the entity's ability to perform its primary activity. They include:

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

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

2.3 SUPPLY AREA AND CUSTOMERS (SHOWN ON MAP)

KwaZulu-Natal is the gazetted supply area of Umgeni Water and Mhlathuze Water, which straddles a total geographical area of 94 359 km² and is home to 12.42 million people and 2.8 million households.

KwaZulu-Natal comprises one Metropolitan Municipality, 10 District Municipalities and 43 Local Municipalities. A total of 14 of these municipalities are Water Services Authorities (direct retail customers) as defined in the Water Services Act.

In the reporting period, Umgeni Water focused on service delivery and largely derived revenues from seven customers:

- eThekweni Metropolitan Municipality;
- iLembe District Municipality;
- Ugu District Municipality;
- Harry Gwala District Municipality;
- uMgungundlovu District Municipality;
- Msunduzi Municipality; and
- King Cetshwayo District Municipality.

Umgeni Water's customers are spread across more than 39% of KZN's geographical area and home to more than 52% households.

Umgeni Water's infrastructure assets in support of its bulk water services business comprises:

- Approximately 930km of pipelines and 53km of tunnels;
- Fourteen impoundments;
- Forty-eight water treatment works;
- Eleven wastewater treatment works.

2.4 STRUCTURE OF UMGENI WATER

The Umgeni Water Group consists of a parent entity with two small subsidiaries.

The Executive Committee is the top management structure of Umgeni Water Parent, and for the reporting year comprised five members including the Chief Executive, the Chief Operations Officer and the Group Chiefs for Governance, Finance and Shared Services. The Chief Executive guides the day-to-day activities of the entity with powers delegated to him by the Board.

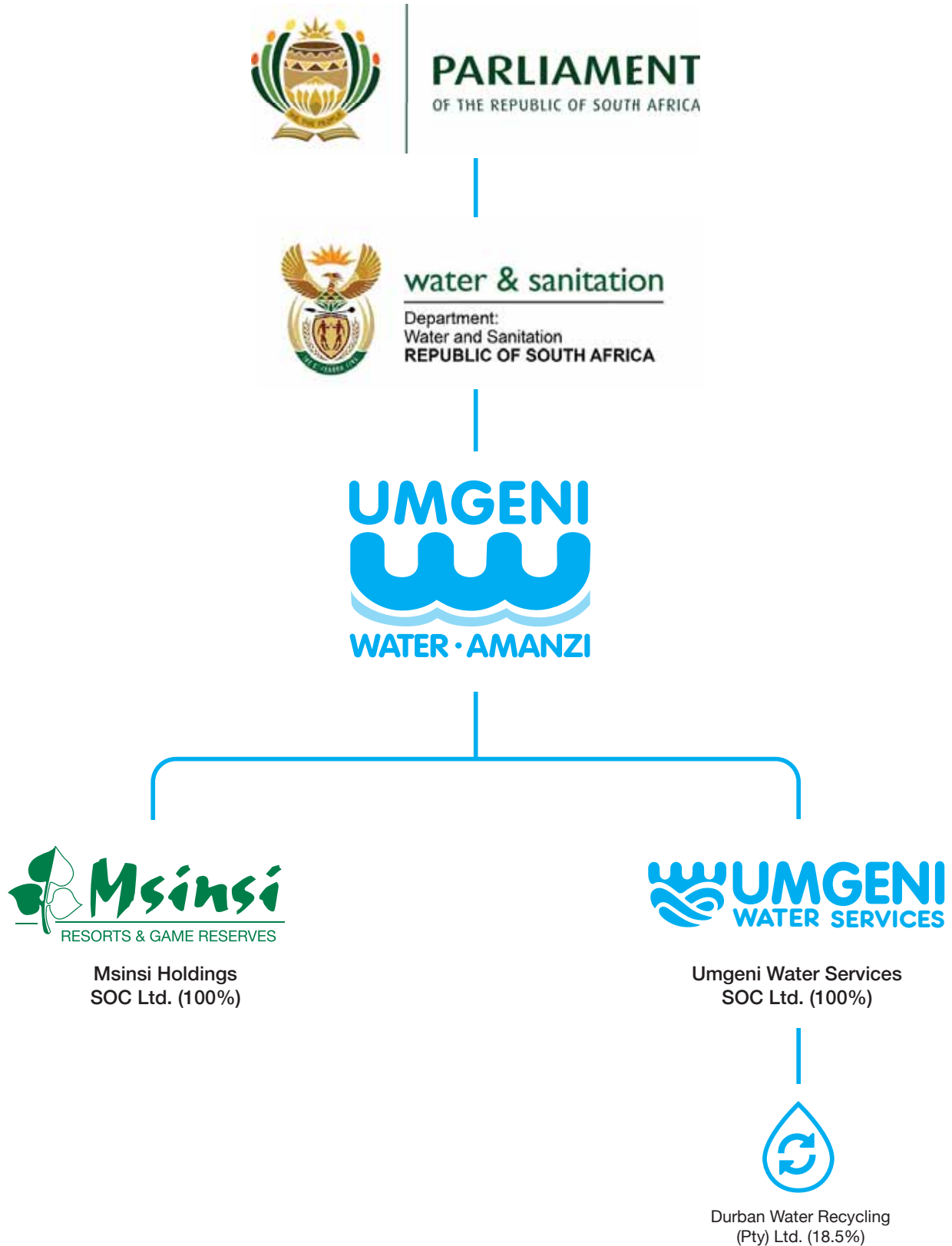
The non-executive Board is the Accounting Authority and provides strategic leadership to the Executive Committee. The Board is appointed by the Minister of Water and Sanitation.

With respect to the subsidiaries, Umgeni Water has 100% shareholding in Msinsi Holdings SOC Ltd and Umgeni Water Services SOC Ltd.

The Umgeni Water Group as at 30 June 2023 comprised:

- A head count of 1 549 employees;
- Revenue for the year of R5.3 billion with R1.2 bn net surplus generated;
- Balance sheet asset value of R14.4bn with reserves totalling R13.5bn.

STRUCTURE OF UMGENI WATER



UMGENI WATER STRATEGY OUTCOMES

Product Quality (Water and Wastewater Services)

Achieved when Umgeni Water produces “fit for purpose” water and other recovered resources (e.g. energy, nutrients, biosolids) that meet or exceed full compliance with regulatory and reliability requirements and are consistent with customer, public health, ecological, and economic needs. Products include treated drinking water, treated wastewater effluent, recycled water, storm water discharge and recovered resources.



Water Resources Sustainability

Achieved when Umgeni Water ensures the availability and sustainable management of water for its community and watershed, including water resource recovery. Understands its role in the complete water cycle, understands fit-for-purpose water reuse options, and integrates utility objectives and activities with other watershed managers and partners. Understands and plans for the potential for water



Operational Optimization

Achieved when Umgeni Water ensures ongoing, timely, cost-effective, reliable, and sustainable performance improvements in all facets of its operations in service to public health and environmental protection. Makes effective use of data from automated and smart system, and learns from performance monitoring. Minimizes resource use, loss, and impacts from day-to-day operations, and reduces all forms of waste. Maintains awareness of information and operational technology developments to anticipate and support timely adoption of improvements.



Customer Satisfaction

Achieved when Umgeni Water provides reliable, responsive, and affordable services in line with explicit, customer-derived service levels. Utilizes a mix of evolving communication technologies to understand and respond to customer needs and expectations, including receiving timely customer feedback and communicating during emergencies. Provides tailored customer service and outreach to traditional residential, commercial, and industrial customers, and understands and exercises as appropriate the opportunities presented by emergent customer groups (e.g., high strength waste producers, power companies).



Stakeholder Understanding and Support

Achieved when Umgeni Water engenders understanding and support from stakeholders (anyone who can affect or be affected by the utility), including customers, oversight bodies, community and watershed interests, and regulatory bodies for service levels, rate structures, operating budgets, capital improvement programs, and risk management decisions. Actively promotes an appreciation of the true value of water and water services, and water’s role in the social, economic, public and environmental health of the community.



Financial Viability

Achieved when Umgeni Water understands and plans for the full life-cycle cost of utility operations and value of water resources. Establishes and maintains an effective balance between long-term debt, asset values, operations and maintenance expenditures, and operating revenues. Establishes predictable rates—consistent with community expectations and acceptability—adequate to recover costs, provide for reserves, maintain support from bond rating agencies, plan and invest for future needs, and taking into account affordability and the needs of disadvantaged households. Implements sound strategies for collecting customer payments. Understands the opportunities available to diversify revenues and raise capital through adoption of new business models, including revenues from resource recovery.



Infrastructure Strategy and Performance

Achieved when Umgeni Water understands the condition of, and costs associated with, critical infrastructure assets. Plans infrastructure investments consistent with community needs, anticipated growth, system reliability goals, and relevant community priorities, building in a robust set of adaptation strategies (e.g. changing weather patterns, customer base). Maintains and enhances the condition of all assets over the long-term at the lowest possible life-cycle cost and acceptable risk consistent with customer, community, and regulator-supported service levels. Assures asset repair, rehabilitation, and replacement efforts are coordinated within the community to minimize disruptions and other negative consequences.



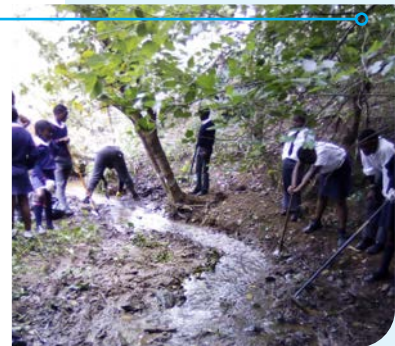
Enterprise Resiliency

Achieved when Umgeni Water ensures that utility leadership and staff work together internally and coordinate with external partners, to anticipate, respond to, and avoid problems. Proactively identifies, assesses, establishes tolerance levels for, and effectively manages a full range of business risks (including interdependencies with other services and utilities, legal, regulatory, financial, environmental, safety, physical and cyber security, knowledge loss, talent, and natural disaster-related) consistent with industry trends and system reliability goals. Plans for and actively manages around business continuity.



Community Sustainability

Achieved when Umgeni Water takes an active leadership role in promoting and organizing community sustainability improvements through collaboration with local partners (e.g., transportation departments, electrical utilities, planning departments, economic development organizations, watershed, and source water protection groups). Manages operations, infrastructure, and investments to support the economic, environmental, and social health of its community. Integrates water resource management with other critical community infrastructure, social and economic development planning to support community-wide resilience, support for disadvantaged households, community sustainability, and liability.



Employee and Leadership Development

Achieved when Umgeni Water recruits, develops, and retains a workforce that is competent, motivated, adaptive, and safety-focused. Establishes a participatory, collaborative organization dedicated to continual learning, improvement, and innovation. Ensures employee institutional knowledge is retained, transferred, and improved upon over time. Emphasizes and invests in opportunities for professional and leadership development, taking into account the differing needs and expectations of a multi-generational workforce and for resource recovery operations. Establishes an integrated and well-coordinated senior leadership team.



STRATEGIC STATEMENTS OF UMGENI WATER AND ITS FUNCTIONAL DIVISIONS

Umgeni Water:

We will lead the process of providing solutions through an innovative, vigorous growth path, to increase sustainable water supply in order to satisfy the developmental water services requirements in our region, which contribute to the government's objectives.

Board:

We will consider internal and external factors, consult with stakeholders, develop a strategy, authorise implementation, manage resources, manage risks and oversee implementation, to produce a valid and approved strategic plan, deliver on strategic objectives and provide sound corporate governance, to achieve our vision and mission in order to contribute towards the government's objectives.

Chief Executive Office:

We will position and lead the organisation, plan activities and allocate resources, implement strategy, champion corporate governance, partner with stakeholders to deliver organisational objectives, to achieve a well governed, vibrant, committed, sector-relevant and engaged organisation that delivers on its mandate.



Operations:

Provide water and related services to improve the quality of life and enhance sustainable economic development

Scientific Services:

We will undertake water sampling and laboratory analysis, assess water quality and, environmental health, catchment health, leverage technology, optimise water treatment processes, to achieve sustainability, water resources security and public health and provide innovative and optimal scientific solutions in order to meet organisational objectives

Infrastructure Development:

To be a transformational leader and key partner in the development of appropriate source to source water infrastructure in an innovative, environmentally sustainable and cost-effective manner utilising an enabled, globally recognised skills base to ensure socio-economic development.

Finance:

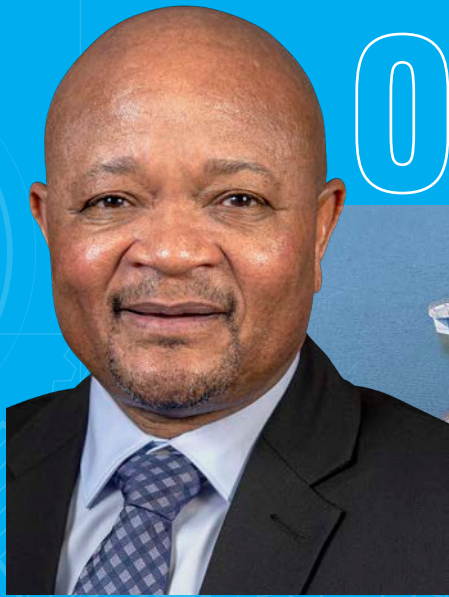
Provide agile financial resources in support of the organisation to achieve sustainable growth and competitive advantage in the provision of water and related services within the relevant governance framework.

Shared Services:

A key partner in the provision of strategic support by enabling a conducive, innovative, transformative and sustainable environment for the organisation to be recognised as a global water brand.



03 FOREWORD BY THE MINISTER



MR. SENZO MCHUNU
Minister for Water and
Sanitation

"Umgeni Water as a state-owned entity remains responsive to the Developmental Agenda of the Republic, whilst maintaining principles of good leadership and ensuring economic transformation, service delivery excellence and financial sustainability."

Acknowledging that the spatial legacy of South Africa's development, coupled with the ever growing population and economy, continues to push back against government's efforts at ensuring all citizens have access to quality affordable and reliable water, the sector remains resolute on its mandate. The efforts are paying off as the percentage of households with access to an improved source of water and sanitation has increased from 84.4% to 88.5% and 61.7% to 83.2% respectively, between 2002 and 2022. Had it not been the number of challenges the sector is experiencing, the ultimate realisation of the Constitutional right to water and sanitation for all citizens could have been much closer.

As a water scarce country with less than a global average annual rainfall, South Africa's water and sanitation woes are intensified by numerous challenges ranging from climatic variability and other human-induced impacts; inadequate water infrastructure maintenance, funding and financing; and the scarcity of sufficiently experienced professionals. To counter the effects of these challenges on the delivery of this life necessity, the Department is undertaking some legislative and structural reforms to ensure the sustainability of the sector as well as that of the resource itself. Some of the

things that the Department is working on addressing is water resources security, governance to address the debt challenges, pricing and tariffs, as well as regulation of the water services.

Good progress has been made in the implementation of a range of major projects such as the Mzimvubu Water Project in the Eastern Cape, Olifants Ebenezer Water Resource Development project in Limpopo, Vaal Gamagara in the Northern Cape, and Phase 1 of uMkhomazi Water Project in KwaZulu-Natal amongst others. These projects will contribute towards addressing water security into the future. All these major infrastructure projects and other existing ones, will still require huge investments in rehabilitation and maintenance fees. For this reason, one of the structural reforms undertaken is the establishment of the National Water Resource Infrastructure Agency which will oversee the planning, financing and implementation of all the country's large scale projects.

In fostering sustainability of the sector, the Department is providing more support to municipalities to manage the decline in water and sanitation service delivery as well as revenue collection. At the centre of the



Spring Grove Dam

decline in revenue collection is a number of factors including ineffective management, non-revenue water, weak billing and revenue collection. All these could cripple the ability of the municipalities to pay their debt, affecting the ability of the country to produce the required quality and quantity of water. This further puts more impetus on hastening the processes of ensuring the sustainability of water boards. The reconfiguration process which aims to align the boundaries of water boards to provincial boundaries, ensure full service coverage of the country, remove duplication of service provision and increase financial viability of water boards; was also meant to support municipalities with their water and sanitation service challenges.

To this end, the reconfiguration of the water boards in KwaZulu-Natal resulted in the disestablishment of the Mhlathuze Water and the transfer of its assets, liabilities and staff into Umgeni Water. We have since gazetted the new name of the resultant entity uMngeni-uThukela Water, after all due processes were followed. For this, I wish to thank the two previous Boards of the old entities for leading the organisations up to the end of their terms, and also extend a word of appreciation to the Interim Board under the leadership of Mr Mzimkhulu Msiwa for taking the baton and seeing the process to finality. Leveraging the combined economic and work force, I believe that uMngeni-uThukela Water is now in a position of readiness to deliver services to all the citizens of the Province of KwaZulu-Natal. Processes leading to the appointment of the Board for the new entity are underway. One of the first tasks for the Board when it takes office will be to immediately initiate processes leading to the appointment of a Chief Executive Officer for the entity.

UMngeni-uThukela Water, as a state-owned entity, remains responsive to the Developmental Agenda of the Republic, whilst maintaining principles of good leadership and ensuring economic transformation, service delivery excellence and financial sustainability. The Department will continue to support the entity in its efforts of ensuring that water and sanitation service provisions break the spatial disparities of the past within the Province of KwaZulu-Natal.

The entity's Executive Management, guided by the Boards of both entities successfully implemented the strategy and ensured that Umgeni and Mhlathuze Water significantly met their performance and financial targets for the year. The personnel are to be commended for the competent, steadfast and resilient manner in which they served the entities to achieve these results.

In the coming period, I commit myself and the Department to continue to provide the necessary shareholder support and political guidance to uMngeni-uThukela Water, and the entire water sector.

Mr. Senzo Mchunu
Minister Water and Sanitation
30 June 2023

04 CHAIRPERSON'S REPORT



ADV. VUSI KHUZWAYO S.C
Chairperson of the Board

"There is widespread acceptance within the organisation that commitments made by the Board that service providers would be paid within the mandatory 30 days from receipt of valid invoices."

After perusing the contents of this Annual Report in my capacity as the Accounting Authority, I am satisfied that the information contained in it, is in line with stipulations of the Public Finance Management Act No 1 of 1999 and the Water Services Act No 108 of 1997. Furthermore, Chapter 44 of the Water Services Act requires that an Annual Report's narrative on activities in the year under review must be accessible to the public. This will be met when presentations on annual performance results are done at sessions attended by stakeholders, including the media and civil society formations.

Chairperson's Report

It is my great honour to present this annual report as an account of the activities of Umgeni Water for the 2022/2023 financial year. The public, Shareholder, and indeed all our stakeholders get afforded an opportunity to interrogate our performance and how we have fared in fulfilling the mandate of delivering water provision and wastewater collection while adhering to the highest levels of governance, compliance, and ethical principles. The report outlines Umgeni Water's operating environment, underpinned by the statutory and constitutional imperatives affecting its mandate. Global, regional and local developments that had a bearing on operations, organisational financial performance and predetermined objectives are also highlighted.

Key Performance Outcomes: 2022 – 2023

While the water provision landscape posed many challenges, Umgeni Water continued to excel in the execution of its mandate. This is evidenced by the strides made to bring bulk water to previously under serviced areas of KwaZulu-Natal. In addition to increased supply to the previously under



Imvutshane Dam

The cumulative effect was a surplus of R1, 16 billion.

Prudent cost containment, reduced interest payment and reprioritisation of some projects also contributed to the positive financial position. The trend over the past six financial years points to an upward trajectory in sales, which is a strong indicator of increase in demand and consumption.

serviced areas, Umgeni Water delivered strategic value to its Shareholder (the Minister of Water and Sanitation), the Provincial Government of KwaZulu-Natal, customers and the population of KwaZulu-Natal at large.

Commitments and compliance requirements met

Our commitments, as contained in various contractual documents and the Shareholder Compact, were achieved, steering the organisation on a path of sustained positive financial performance and growth. Other significant outcomes were the ongoing implementation of infrastructure projects to meet present and future demands. The consistent compliance with potable water quality standards as prescribed by South African National Standards (SANS) 241 for drinking water quality is indicative of our unwavering commitment of serving our customers with unbridled distinction.

Key financial outcomes

In the financial year under review, our revenue grew by 7%, supported by 3% increase in sales. This is a vote of confidence

in the product and a reflection that the water treated and supplied by Umgeni Water remains affordable. The cumulative effect was a surplus of R1,16 billion. Prudent cost containment, reduced interest payment and reprioritisation of some projects also contributed to our positive financial position. The trend over the past six financial years points to an upward trajectory in sales, which is a strong indicator of an increase in demand and consumption.

Investment in new projects and maintenance

By the end of June 2023, a total of 18 water and wastewater projects were at various stages of project lifecycle and R1, 793 billion was spent on the implementation of new projects and maintenance. The dividends reaped from these initiatives were handsome, and culminated in job creation, the empowerment of Black-owned enterprises in general and Black women and youth-owned business enterprises translating to vital support to local economies. This investment will assist in enhancing the security of water supply and enable entire communities to receive a reliable supply of good quality drinking water. Expenditure of this nature was made possible through the strong financial position of the organisation and its good standing among

investors and lenders, who are keen to fund various projects. The five-year Capital Expenditure funding requirements are estimated at approximately R13 billion. The Board of Umgeni Water is convinced that the investment community will be keen to participate as funders.

Ministerial intervention gives impetus to the Upper uMkhomazi Water Project

We remain committed to play our role in the implementation of this project. In this regard, we note with appreciation the intervention by Minister Senzo Mchunu to ensure that delays to this project are resolved. This Project carries our commitment to increased water security and will, upon completion, supply water to the eThekweni, uMgungundlovu, iLembe, Ugu, Harry Gwala District Municipalities and Msunduzi Local Municipality.

The Trans Caledon Tunnel Authority (TCTA) will implement the raw water component of the project, while uMngeni-uThukela will be responsible for the raw water component. In realizing these eThekweni Municipality in particular have co-operated in doing all the necessary public consultation to let the users understand their off-take agreements and consultations required. It is due to these interventions that all the parties can meet the target start date for project construction in the 2024/25 financial year pending the finalization of the planning and design by the TCTA. Ultimately, we envisage that the project will be completed in the next five years.

Other infrastructure projects remain on track

Progress is being made with the Lower uMkhomazi Bulk Water Supply Scheme; additional phases of the uMshwathi Regional Bulk Water Supply Scheme and the Greater Mpofana Bulk Water Supply Scheme. Earthworks are being undertaken in Cragieburn, in the south of Durban, where a water works is to be constructed as part of the Lower uMkhomazi Bulk Water Supply Scheme. Earthworks are also at an advanced stage for construction of the off-channel Ngwadini storage dam in the Umkhomazi River catchment area, which will also be part of the uMkhomazi scheme.

We are pleased that we were able to repair and restore the Nagle Dam-Durban Heights Water Treatment Works Aqueduct 1 and Aqueduct 2, both of which were extensively damaged in the April 2022 floods. This means that the previously constrained raw water has begun to flow and has brought about an additional 100ML/d raw water into the system, enabling the organisation to return to levels of service as per the bulk supply agreement in eThekweni Metropolitan Municipality.

Engagements with stakeholders on crucial issues

The organisation continued to fulfil its pledge to share information with its stakeholders in a transparent manner. In this regard, the proposed bulk potable water tariff for 2022/2023 was presented to customers and other stakeholders. In addition, engagements took place separately with all customers on strategically important matters, among them the status of water resources, infrastructure projects for development to support their reticulation systems and an ongoing, and now serious, problems relating to encroachment onto servitudes that house bulk raw and potable water infrastructure.

Ministerial intervention in Ugu seeks problem solving from Umgeni Water

Engagements took place with the Minister of Water and Sanitation, Mr Senzo Mchunu; the Deputy Minister of Water and Sanitation, Mr David Mahlobo; the then Premier of KwaZulu-Natal Mr Sihle Zikalala; the MEC for Economic and various government stakeholders on water challenges in parts of the Ugu District. A War Room, established at the request of the Minister, meets weekly to track progress with implementation of solutions.

Ministerial intervention in Mbizana paves the way for Umgeni Water as implementing agent

Minister Mchunu has also intervened in Mbizana, Eastern Cape, where he directed that Umgeni Water be appointed implementing agent for the second phase of the Greater Mbizana Regional Bulk Water Supply Scheme. In the absence of proper water supply, communities in Mbizana access water from rudimentary and non-conventional schemes, among them boreholes and rain harvesting. Umgeni Water implemented Phase 1 of the Greater Mbizana Regional Bulk Water Supply Scheme, comprising construction of the Ludeke Dam, upgrade of the Nomlacu Water Works and construction of some reticulation infrastructure. Ludeke Dam is operated and managed by Umgeni Water on behalf of the Department of Water and Sanitation.

Major focus on skills development and training

Training and development of new skills were major focus areas during the year under review, in line with the employer's pledge to create opportunities for staff to become multi-skilled so that they will be able to compete on an even keel for work opportunities that may become available within the organisation or elsewhere. Training and

development opportunities were available for graduates through programmes with National Treasury and tertiary institutions.

A 30-day payment to service providers underscores fairness and respect

There is widespread acceptance within the organisation that commitments made by the Board that service providers would be paid within the mandatory 30 days from receipt of the invoice. It is for this reason that the Board has made its position clear – that Umgeni Water’s commitment is to help businesses grow to become significant players in the mainstream economy. Making payment within 30 days of receiving an invoice is one of the effective ways of promoting and supporting small, medium, and micro enterprises. It also ensures compliance with National Treasury Regulation 8.2.3 which pertains to the settlement of payment within 30 days

Matters of Contention and Challenges: 2022 - 2023

In the year under review, there were unfortunately two incidents of significant proportion that impacted negatively on Umgeni Water’s ability to supply contracted volumes of potable water to eThekweni Metro. The incidents were failure of an emergency shaft pump at the Durban Heights Water Works that augments raw water from Inanda Dam, and four days of torrential rains that caused extensive damage to two of the four Nagle Dam-Durban Heights Water Works aqueducts.

This restoration brought back an additional 100 mega litres into the system, thereby completing eradicating the deficit against the contracted daily volume of potable water. This is testament to the organisation’s unwavering commitment in being a key partner to its customers in service delivery.

Special Investigating Unit (SIU) work at Umgeni Water

As the financial year drew to a close, the Special Investigating Unit presented a synopsis of its investigation report to the National Assembly Standing Committee on Public Accounts (Scopa). This followed a Presidential proclamation to investigate allegations of irregularities in certain procurement-related matters, together with allegations of unauthorised, irregular, fruitless and wasteful expenditure. It must be stressed that the Board values its commitment to transparency and good governance; therefore when the investigation was initiated and in subsequent follow-through work, the SIU received full co-operation from Umgeni Water. It is stated unambiguously that where or if wrongdoing has been uncovered, it will not be tolerated by the Board. Legal processes will be initiated to take their course.

The response from the Board has been swift and definitive, as reflected in some of the actions and measures that have been implemented in the interim while the SIU’s final report is being awaited. These measures and actions are listed below and are intended to tighten and enhance existing controls.

- A comprehensive review of policies, procedures, and systems has been and continues to be undertaken, and
- Ongoing discussions with the SIU on introducing an intensive training in areas where weaknesses were identified and which could potentially be ambiguous or circumvented, is ongoing. Once finalised, the training programme will be closely managed by the Governance and Compliance Office to ensure it assists in adopting corrective measures. Training will be done in conjunction with the Human Resources Department of Umgeni Water and other relevant training partners.

Corporate Governance: Board Performance and Ratings: 2022 – 2023

In the period under review, Board and Board Committees’ meetings were held in accordance with the organisational Business Cycle and well attended. (Full details are provided in the Corporate Governance chapter of this Annual Report). The Board continued to fulfil its commitments as the Accounting Authority and provided leadership and strategic direction in various focus areas.

As a significant outcome in the financial year under review, Umgeni Water again received an unqualified audit opinion from the Auditor-General. There was adherence to corporate governance requirements, including compliance with the Water Services Act (Act 108 of 1997), internal policies and King IV Code of Governance Principles. Umgeni Water’s commitments as per Bulk Supply Agreements with its customers were met through consistent provision of safe drinking water without protracted supply failures occurring. Commissioning of some infrastructure enhanced assurance of supply or made it possible for municipalities to extend water services to formerly un-served or under-served areas.

Since the reinstatement of the Board, stability has been reached through the appointment of an Acting Chief Executive, as an interim arrangement while the appointment of a permanent Chief Executive is being finalised. The permanent Board broke from past practice and appointed one Acting Chief Executive to serve until the end of the financial year, instead of rotating occupancy of the position on a frequent basis. The Board decision was taken to reinforce continuity and ensure that business operations continued smoothly.

Accolades and Achievements

Umgeni Water's contribution to socio-economic development in KwaZulu-Natal was recognised by the Professional Management Review Africa Research Company when it awarded the in recognition of its vital contribution to the economy and good public health through provision of an efficient potable water service.

The partnership between Umgeni Water and the King Cetshwayo District Municipality, in which Umgeni Water is the bulk potable water service provider, was confirmed at a public function in Eshowe where an agreement was signed. King Cetshwayo District Municipality is the seventh customer of Umgeni Water.

Strategic Priorities in the Year Ahead

The impending changes to the institutional arrangement, as shared by the Minister of Water and Sanitation at an array of stakeholder engagements, will result in Mhlathuze Water being incorporated into Umgeni Water, thereby creating one water board for the entire Province of KwaZulu-Natal. The Board of Umgeni Water assures the Minister of its full co-operation and support in implementation of the project plan.

Umgeni Water is looking forward to working closely with the Ministry and colleagues from Mhlathuze Water to enable smooth transition from operating as two distinct organisations to being one organisation servicing the entire province under the new name uMngeni-uThukela Water. The reconfigured entity will continue its growth objectives in an endeavour to make its products, services and expertise available to a larger market.

In the year ahead, there will be many opportunities for the private sector to forge closer ties with the Government and State-owned entities in order to fast track positive outcomes in various service delivery initiatives. Umgeni Water foresees that it will collaborate with various forums to develop additional strategies that will support and give impetus to the economic turnaround priorities.

Opportunities for engagement with all major stakeholders at national, provincial and local government levels are now immense and this will be followed through in an effort to identify new areas for co-operation, partnerships and support. At national level, interactions will continue with the Department of Water and Sanitation on the subject of provision of additional grant funding for rural development projects that will support the Universal Access Plan for water services provision.

There will be two focus areas for interaction with Water Services Authorities:

- Sharing of details and data on the Universal Access Plan,

developed by Umgeni Water, CoGTA and the Department of Water and Sanitation, as a road map for water services provision to all citizens of KwaZulu-Natal, and

- Sharing of details about Umgeni Water's growth and expansion strategy

These interactions will allow the organisation to identify new markets and products that may be required.

A natural outcome of the District Development Model (DDM) is collaboration and partnerships across all spheres of Government as this concept is premised on the need to integrate and streamline service delivery at municipal level to bring it in line with the priorities of Government. Umgeni Water will have a role in the efficient implementation of the DDM because it is already integral to the service delivery value chain.

Other Acknowledgements

It is with a sense of appreciation the following stakeholders are also acknowledged:

- The Minister of Water and Sanitation, Mr Senzo Mchunu, for his leadership of the water sector;
- Deputy Ministers of Water and Sanitation Ms Judith Tshabalala and Mr David Mahlobo, for their leadership of the water sector;
- The Premier of KwaZulu-Natal, Ms Nomusa Dube-Ncube, for her leadership of the Province and commitment to service delivery;
- Parliament, through the Portfolio Committee on Water and Sanitation, for oversight and direction;
- The Department of Water and Sanitation for support, oversight and direction;
- Umgeni Water's customers: eThekweni Metropolitan Municipality; iLembe, Ugu, Harry Gwala, uMgungundlovu and King Cetshwayo District Municipalities, and Msunduzi Local Municipality for their support and collaborative engagements;
- Investors and financial institutions for their vote of confidence in the financial stability and sustainability of Umgeni Water and for their willingness to open discussions on funding and on matters that are aimed at promoting good governance;
- To the Board of Umgeni Water whose term ended in March 2023, the Interim Board that took over and steered the ship until the end of the reporting period, as well as the new Board of uMngeni-uThukela Water that was appointed to conclude this process as take the

organisation forward, your contribution to the strategic focus and direction of Umgeni Water is appreciated, and

- Umgeni Water Management and employees for the manner in which the organisation's strategies were executed in the year and for their dedication and hard work in realising these results.



Adv. Vusi Khuzwayo, S.C
Chairperson of the Board
31 October 2023

05 CHIEF EXECUTIVE'S REPORT



DR. SIPHO MANANA
Acting Chief Executive

"In the year under review, bulk potable water treated and supplied from the organisation's 16 water treatment works grew by 3% when compared to the previous year."



This year has been marred by devastating floods in various parts of the country, particularly in KwaZulu Natal. Resultant from the significant damage to critical infrastructure, various parts of the province were without water and sanitation services. Umgeni Water, along with other key stakeholders, participated fully in the War Room established by the DWS to assess and quantify the damage and restore services at the shortest possible time and acceptable cost. Significant progress was achieved in the restoration of water supply but less so on the sanitation side owing to the magnitude of damage to water and sanitation infrastructure. The organisation will continue to support the efforts of the War Room towards attainment of normalcy in the provision of water and sanitation services in the worst affected areas.

Supported by the Board and the Executives, the entity delivered plans, strategic initiatives, projects and programmes that yielded successful results and outcomes during the year. These are summarised at a high level per outcome in this section, with more detail provided in the various chapters of this Annual Report.

PRODUCT QUALITY

Thirteen (13) Umgeni Water bulk water supply systems showed excellent compliance with all monitored SANS 241:2015 risk categories.

The uMgungudlovu District Municipality's drinking water supply systems recorded a combined excellent performance against all the risk categories specified in SANS 241:2015.

Compliance for eleven (11) wastewater treatment works (WWTW) was assessed against the relevant licence and general authorization standards, with all eleven (11) WWTW being compliant with the set performance targets. An improvement in the overall effluent compliance at WWTW may be attributed to a number of interventions including: maintenance and process optimisation to compensate the challenges and impacts of loadshedding on the treatment process, the implementation of flow proportional chlorine dosing at some of the WWTW, the commissioning of the dewatering units at Howick WWTW and the near completion of the upgrade at Darvill WWTW.



**UMbumbulu
Pumpstation, Eston**

To maintain and enhance the condition of core infrastructure that supports customer service levels, the entity invested a total of R376 million (R271m in 2022) in maintenance of Water and Wastewater Treatment Assets during this period. Maintenance investment has been consistent over the past five years, with more than 6.6% of revenue and 3.40% of property, plant and equipment spent, thereby continuing to assure system reliability.

CUSTOMER SATISFACTION

Bulk potable water treated and supplied from 16 water treatment works systems, totalled 580 million cubic metres (1 589ML/d) for the year, a 3% increase from the previous year (562 million cubic metres or 1 540ML/d).

Bulk wastewater treated from nine wastewater treatment works over this period amounted to 31 million cubic metres (84ML/d) for the year per annum, which is at similar to the prior year (31 million cubic meters or 84ML/d).

In the year under review, there were unplanned supply disruptions of 29.14 supply days in four of the 17 supply systems. The disruptions at Hazelmere WTW were as follows: in Q1, a failure in the power supply infrastructure belonging to the City of Durban led to a disruption in supply amounting to 1.14 days. Power supply to the water treatment works was successfully restored and normal operations resumed.

A second disruption on the same system occurred in Q1 resulting from a pipeline shutdown to tie-in a refurbished pipeline that had sustained damage after the April 2022 floods disrupted supply for 1.38 days. The isolation of the live pipeline was necessary to allow connection of the newly-refurbished pipeline at Mamba Ridge. Supply was successfully restored upon completion of the operation.

The unplanned disruption at Lidgetton (7.75 days) in Q2 was as a result of flooding at the abstraction point. The Pumps were repaired and normal operation resumed. The disruption at Mpofana WTW (16.42 days) in Q2 was as a result of flooding in the raw water pump station. The Mpofana WTW and Raw Water Pump station will be decommissioned and replaced by the new Bruntville pipeline, supplying from the newly constructed Spring Grove WTW.

The unplanned disruption at Maphumulo WTW (2.45 days) in Q4 arose from a power supply disruption from the national grid to the water treatment works. Power supply to the water treatment works was successfully restored and normal operations resumed. In all such instances including planned disruptions, customers are kept informed on progress of any interventions. Umgeni Water continues to engage regularly with its customers in line with service level agreements.

STAKEHOLDER UNDERSTANDING AND SUPPORT

There were regular engagement with a wide range of stakeholders during the year. Stakeholders were interested in future assurance of supply, asset management, capital infrastructure plans and future tariff charges, as well as opportunities for growth, jobs and partnerships.

COMMUNITY AND ENVIRONMENTAL SUSTAINABILITY

Umgeni Water remains cognisant of and attentive to the impact it has on communities and environmental sustainability. The entity, therefore, strives to manage its operations, infrastructure and investments to support

socio-economic development, while using water, energy and other natural resources effectively.

Leveraging off its capital expenditure and other programmes, Umgeni Water continued to facilitate the participation of targeted enterprises in the economy. Umgeni Water's Contract Participation Goal target of $\geq 35\%$ for construction contracts, professional services projects and other operational contracts (of which 10% was to be allocated to Black women-owned businesses) and another 10% to Black local enterprises in the project footprint. All the set targets associated with this programme were met in the reporting year.

In the year under review, Umgeni Water created a total of 480 temporary jobs through its Capex Programme. In line with this, just over R20m (R22m in the previous year) was paid in wages to local labour. This further reinforces the organisation's commitment to the creation of decent job opportunities.

Infrastructure Stability

During this reporting period, 19 strategic projects targeting five water service authority customers were at various stages of planning, design and construction.

Significant progress with capital infrastructure implementation was achieved in the reporting period. Spend performance for the year was R1,809 million, of which R1,246m (R611m in 2022) was spent on bulk infrastructure augmentation, expansion, upgrades and rehabilitation projects. R463m (26%) went towards projects for rural development. Overall, 63% of target water infrastructure project milestones were met.

Details of target customers, infrastructure projects and milestones during the reporting period are as follows:

(1) uMkhomazi Bulk Water Supply Scheme Serves eThekweni Metropolitan Municipality, uMgungundlovu District Municipality, Msunduzi Local Municipality, Ugu District Municipality and iLembe District Municipality

Phase 1 of the infrastructure development includes a dam on the uMkhomazi River, raw water tunnel to Baynesfield, balancing dam, raw water pipeline, water treatment works and bulk potable storage reservoir at Baynesfield and bulk potable water pipeline to Umlaas Road. Phase 2 includes a further dam higher up on uMkhomazi River at Impendle, raw water tunnel, raw water pipeline, water treatment works capacity and reservoir storage upgrades and a second bulk potable water pipeline. The detailed feasibility study for Phase 1 was completed in 2015 and the Environmental Authorisation was obtained at the end of 2020. The process of appointing an Environmental Assessment Practitioner (EAP) who will amend the conditions in the approved Environmental Authorisation

and undertake the Water Use Licence (WUL) application was initiated in August 2021. The Political Steering Committee, comprising CoGTA, DWS, TCTA, UW and Water Users, was set in 2021 to facilitate the development of solutions regarding the funding model for the project and affordability of tariffs for Water Users. The Steering Committee continues to function on a weekly basis. The Committee's latest resolution was that the State will fund 50% of the project and the balance will be funded by water users through a capital unit charge of R 2.58 per kilolitre, which has since been approved by National Treasury. The section 33 of MFMA process is delayed due to eThekweni Metropolitan Municipality having not concluded this process. eThekweni Metropolitan Municipality has requested that in order for the Municipality to continue with the section 33 of MFMA process they require an accurate estimate of the project cost which can only be obtained after the completion of the Detailed Design. TCTA (Implementing Agent for the Raw Water Component) has indicated that they cannot proceed with the appointment of Professional Service Providers to complete the Detailed Design without users committing to the project through water user agreements. The bilaterals between Water Users, DWS, UW, CoGTA and TCTA will continue parallel to section 33 of MFMA process to resolve outstanding issues. The Minister of Water and Sanitation is continue engagements with the Minister of Finance, COGTA and the eThekweni Metropolitan Municipality leadership to finalise the signing of water user agreements.

(2) Lower uMkhomazi Bulk Water Supply Scheme Serves eThekweni Metropolitan Municipality and Ugu District Municipality, and will augment the coastal areas from Amanzimtoti to Hibberdene via the South Coast Pipeline

The planned infrastructure comprises: Phase 1: a dam at Ngwadini and two Raw Water Abstraction Systems together with pipelines, Raw Water Pump Stations and Raw Water Reservoir; Ngwadini Dam: Procurement is in progress; Detailed design has been completed for Ngwadini Abstraction Works; Construction has commenced for Goodenough Abstraction Works, with completion scheduled for March 2026. Ngwadini Dam tender was awarded on 08 February 2023, the construction of the Goodenough Abstraction Works and Pump Stations is 27% complete. The tender for the construction of the Ngwadini Abstraction Works, Pipelines, and Raw Water Reservoir was advertised in September 2023. Overall, the project is planned for completion in November 2026.

Phase 2: a 100ML/d Water Treatment Works, storage reservoir and Bulk Potable Water Pipeline. The detailed feasibility and preliminary designs were completed in 2017 and the detailed design was completed in 2021. The design documentation stage is currently in progress, after which the procurement of the various construction contract packages will follow. Project is planned for completion in June 2026. The Earthworks contract which was in preparation of the Water

Treatment Works was completed in April 2023, where R86M was spent to local SMME's and more than R3.9M was spent on local communities through temporary employment.

Water Treatment Works tender was advertised in August 2023 and will commence in the first quarter of 2024. The Water Treatment Works site will be accompanied by a "green" administration building- (4 star), the tender for which is planned to be advertised in the second quarter of 2024.

The application for amendment to the environmental authorisation is in progress.

(3) Greater Mpofana Bulk Water Supply Scheme **Serves uMgungundlovu District Municipality**

The scheme comprised of a water treatment works, two storage reservoirs and two bulk pipelines. The construction of the 20ML/d Rosetta Water Treatment Works commenced in the 2016/17 financial year and was completed in March 2021. The construction and commissioning of the 5ML/d and 12ML/d reservoirs that feed Nottingham Road and Bruntville communities is complete. The construction of the 8km long Nottingham Road Pipeline – from the Water Treatment Works to the Nottingham Road Reservoir – was completed in June 2016. The construction of the 13 km long Bruntville Pipeline was completed in June 2023. The Final integration and commissioning of the Rosetta Water Treatment Works, Bruntville and Nottingham Road Pipelines and Reservoirs, formally known as the Greater Mpofana Bulk Water Supply Scheme Phase 1 was concluded in July 2023. Phase 2 of the Greater Mpofana Bulk Water Supply Scheme – which will be a labour intensive 25 km long steel pipeline from Nottingham Road Reservoir to Lions River Reservoir and 3 Reservoirs at Zenzani Village, Lidgetton and Lions River – is currently at Detailed Feasibility/Design Development Stage, and is planned for construction in the 2024/2025 financial year.

There are proposed changes to the scope of work for the project. The appointed environmental assessment practitioner (EAP) will include the proposed scope changes for all environmental assessments required.

(4) Impendle Bulk Water Supply Scheme **Serves uMgungundlovu District Municipality and Impendle Local Municipality**

The Bulk Water Supply Scheme is designed to supply 1.6ML/d upgradeable to 3ML/d at Stepmore and a supply of 13ML/d at Nzinga upgradeable to 18.5ML/d. The detailed design for the Stepmore is 95% complete and the detailed design for the Nzinga scheme is 20% complete.

Construction of the Stepmore scheme is planned to commence in 2024, with targeted completion in the latter part of the year in 2026 and the Nzinga scheme is planned to commence in 2025, with completion in the latter part of the year 2028. The environmental approvals for Stepmore are in place. The environmental assessment practitioner has commenced with the environmental impact assessments for the Nzinga Scheme.

(5) uMshwathi Bulk Water Supply System Phase 4 (Southern Ndwedwe)

Serves iLembe District Municipality and the Southern Ndwedwe areas

The scheme will draw 22.85 ML/d bulk potable water from the existing 12ML Ozwathini Reservoir and supply by gravity to the entire Southern Ndwedwe area, under the Ndwedwe Local Municipality. The detailed design stage is currently in progress. The three work packages are at various stages of implementation. The pipe supply contract was awarded in June 2023 and work package 2 and 3 are planned to be advertised for construction by end of 2023. With construction set to commence in early 2024. Procurement for the appointment of an independent Environmental Control Officer has progressed.

(6) uMshwathi Regional Bulk Water Supply Scheme: Phase 6

Serves uMgungundlovu and iLembe District Municipality and eThekweni Metro

The project will consist of a pipeline from Bruyns Hill Reservoir to Wosiyani in Southern Ndwedwe, with an off-take supplying parts of eThekweni Metro. The capacity of the scheme is 10 ML/day and will ultimately serve 100 000 people. The project is currently in detailed design and the application for environmental authorisation is being finalised.

(7) Lower Thukela Bulk Water Supply Scheme Phase 2

Serves iLembe District Municipality, specifically areas North of the uThukela River.

The project will upgrade the existing Lower Thukela Water Treatment Works from 55ML/d to 110 ML/d, with a 7km Rising Main and a 30ML reservoir. The project is currently at the detailed design stage and wayleaves with the relevant

authorities are being approved. Both the Environmental Impact Assessment (EIA) and Water Use Licence (WUL) applications have been completed and approved. Servitude acquisition and consultation with the communities is in progress. All environmental approvals are in place.

(8) Maphumulo Bulk Water Supply Scheme Phase 3
Serves iLembe District Municipality, which includes KwaMaphumulo, Ndwedwe and KwaDukuza Local Municipalities, and will serve 150 000 people in Maqumbi, Ashville, Maphumulo, Masibambisane, KwaSizabantu and Ngcebo supply areas

Phase 3 includes the upgrade of the Water Treatment Works from 6ML/d to 12ML/d plant, raw water abstraction and booster Pump Stations. The upgrade of the Pump Stations is complete. The detailed design of the Water Treatment Works upgrade is complete and construction is planned to start in the 2023/24 financial year. The environmental authorisation was rejected and an appeal was lodged with the Appeals Directorate. A response was received from the minister and the rejection was set aside. Umgeni Water is in the process of re-negotiating with the DFFE on the requirements and process to be followed going forward.

(9) Mhlabatshane Bulk Water Supply Scheme Phase 2 – Mzimkhulu River Abstraction
Serves Ugu District Municipality and will reach and provide potable water access for over 100 000 inhabitants in 10 tribal authority areas

The infrastructure development comprises an abstraction works on the Mzimkhulu River, pump station and pipeline to deliver water to the Mhlabatshane Water Treatment Works and an upgrade of the Water Treatment Works from 4ML/d to 12ML/d supply. Environmental Assessments for licences and approvals has commenced. Design Development Report is complete and construction has been reprioritised to start in 2025. An EAP has been appointed to facilitate the application for a new EA in line with the increased capacity of the upgrade. The project team continues to engage with Eskom to ensure that Power is made available for the upgrade.

(10) Vulindlela Bulk Water Supply Scheme Upgrade
Serves Msunduzi Local Municipality

Phase 1 includes a new 20ML reservoir, 6km of pipelines (rising main and gravity pipelines), one Pump Station at Howick West Reservoir and two at Mpophomeni, 9.37km rising mains and a new 10ML Reservoir at Mpophomeni. The construction of Phase 1 has commenced. Phase 2 is planned to be advertised for construction by end of 2023. Phase 1 and 2 are planned to run concurrently with a targeted completion date of the latter part of 2025. The Environmental Assessment Practitioner has initiated an application to amend the environmental authorisation.

(11) Mpophomeni Wastewater Treatment Works
Serves uMgungundlovu District Municipality and

uMgeni Local Municipality

The infrastructure development comprised of a 6ML/d Wastewater Treatment Works and a 6km bulk sewer outfall pipeline. Construction commenced in January 2020 and is ongoing. Completion is scheduled for January 2024. Compliance monitoring is being undertaken against the environmental approvals.

(12) South Coast Pipeline Phase 3

Serves the Umdoni and Umzumbe Local Municipalities within the Ugu District Municipality

The South Coast Pipeline is intended to provide a supply of potable water to the South Coast Region via a single bulk pipeline that will stretch from the Quarry reservoir in Umkomaas to the Catalina reservoir in the town of Hibberdene. Phases 1 and 2A are complete, with Phase 2B currently undergoing construction. Phase 3 will extend the scheme from Umdoni to Mthwalume and then to Hibberdene, and will also augment Phase 1B and Phase 2A, as the existing diameters are insufficient. Phase 3 is currently at Detailed Feasibility and Preliminary Design Stage, which is planned for completion by May 2024, with construction targeted to commence in 2026. Environmental assessments have commenced.

(13) Emergency Rehab to Nagle Aqueducts 1 & 2

Serves eThekweni Metropolitan Municipality

The project comprised of repair sections of Aqueducts 1 and 2, varying from 50-100metres which was caused by the April 2022 floods. The repair brought back 180 ML/d of raw water supply to Durban Heights Water Treatment Works. The break sites were repaired in a manner that makes them more resilient to withstand future flooding events. The repair to all the break sites were completed in 12 months.

(14) Emergency Rehabilitation to Nagle Aqueduct 3 & 4

Serves eThekweni Metropolitan Municipality

- This project entails for the slip lining of the existing Pre-Stressed Concrete Pipes (PCP) on Nagle Aqueducts 3 & 4 Siphon 6 (the last siphon that passes Clermont and Reservoir Hills);
- The PCP will be slip lined using steel pipes that will essentially be slotted into the PCP so that the raw water is conveyed inside the steel pipe;
- The slip lining will ensure that the community that resides on top and around the Aqueducts will be safe in the event of a pipe burst- as the material of the pipes are PCP, in the event of a failure, the entire pipe fails catastrophically.
- The project results in additional safety to the community as well as operational resilience of infrastructure.

(15) South Coast Pipeline Phase 2B

Serves Ugu District Municipality, including Pennington, Kelso, Malangeni and Shayamoya

The pipeline is designed to supply approximately 16.7ML/d and will link Scottburgh South to Pennington and then to Malangeni Reservoir. The contract was awarded in August 2020 and construction commenced in March 2021 and practical completion for the access road was achieved in June 2023. Compliance monitoring is being undertaken against the environmental approvals.

(16) Rehabilitation of Nagle / Durban Heights / Inanda / Wiggins Systems

Serves eThekweni Metropolitan Municipality

This project is a rehabilitation of major existing assets and is split into four sub-projects as outlined:

- Emergency Rehabilitation to Aqueduct 3 & 4 Siphon 6: Slip lining will protect the Clermont community against consequences of a burst. Project has been awarded and the appointed contractor was scheduled to commence with work however the April 2022 floods had damaged Nagle Aqueducts 1 & 2. Subsequently, the Nagle Aqueducts 3 & 4 could not be handed over to the contractor and the project has been suspended until the Emergency Rehabilitation of Nagle Aqueducts 1 & 2 has been completed.
- Nagle System Auxiliary Works: Purchasing of large diameter valves to be installed on aqueducts under the Rehab. Procurement processes have been completed The rehabilitation of the Nagle Aqueducts 1 & 2 is currently underway and the anticipated completion date is December 2023
- Carbon Fibre Repairs: Repair of Nagle Aqueducts following scanning to identify affected portions will ensure longevity of the Nagle Aqueducts. Project is scheduled to only be implemented once the Emergency Rehabilitation to Nagle Aqueducts 1 & 2 as well as the slip-lining project for Nagle Aqueducts 3 & 4 Siphon 6 has been completed.
- Rehabilitation of the Degremont Filter Complexes and Nagle Aqueducts;
- PSP appointment underway for upgrade/rehabilitation of Old, New degs and pulsator clarifiers at Durban Heights.

(17) Darvill WWTW Capacity Increase

Serves Msunduzi Local Municipality

The works capacity has being upgraded from 65ML/d to 100ML/d. Practical completion has been achieved The project comprises a new inlet works, Primary and Secondary Settling Tanks, pumps and Pump Station, Reactor, Chlorination House and Anaerobic Digesters, among other components It also features a state of the

art 2ML/d Reuse Demonstration Plant. The project was significantly delayed as a result of the main contractor going into business rescue. The project was turned around and successfully completed in June 2023.

(18) Trustfeeds WWTW

Serves uMgungundlovu District Municipality and iLembe District Municipality

The infrastructure development comprises a 1 ML/d Wastewater Treatment Works; 4.5km of bulk sewer outfall pipeline and a 1.5km gravel access road. Construction of the bulk sewer outfall and access road is complete. Construction of the Wastewater Treatment Works was completed in October 2020 and handed over in December 2020. The plant automation works is currently underway and the anticipated completion date is December 2023.

(19) Umzinto Water Treatment Works Upgrade

Serves Ugu District Municipality

The project entailed a substantial upgrade to the head-of-works (inlet system) to improve capacity, efficiency and chemical dosing systems for the water treatment process. Construction has been completed and commissioning is in progress. The upgrade is expected to be fully commissioned end August 2023.

WATER RESOURCES ADEQUACY

Umgeni Water leverages water sector partnerships and collaborations to respond to the challenges facing the region including water availability, redistribution, demand management and drought and impact of climate change. Its core business function is to treat and supply bulk potable water – a business highly dependent on the availability of sustainable water resources. The reconciliation between water resource availability and water demand is, therefore, of primary importance to the entity and forms an integral part of the infrastructure planning process. Understanding what water resources are available to the entity, both current and future resources, and what factors affect the assurance level of these resources is crucial to balancing supply with customer demand and maintaining supply sustainability into the future.

The primary water sources used by the entity are located on four major water resource systems, namely, the Mgeni System (Mooi and Mgeni rivers), the North Coast System (uMdloti, iMvutshane, uThukela and uMvoti rivers), and the South Coast System (Nungwane, Mzimayi, uMuziwezinto and Mhlabatshane rivers).

In the reporting period, progress was made with the following water resource dam developments:

- The feasibility study of Smithfield Dam (DWS) which is Phase 1 of the uMkhomazi Water Project, was completed in 2015 and construction is anticipated to be completed by 2030;
- Hazelmere Dam raising (DWS) for which construction

is expected to be completed in 2022 and;

- The detailed design of Ngwadini Dam (UW) which is part of the Lower uMkhomazi Scheme, was completed in 2021, with construction completion planned for 2025.

LEADERSHIP AND EMPLOYEE DEVELOPMENT

At Umgeni Water, skills development remains an essential enabler for employees to excel in their individual and organisational roles to deliver on the entity's mandate.

As part of the continued endeavours to strengthen organisational leadership capacity; two Executives enrolled for an Executive Leadership Development Program at Gordon Business School and University of Cape Town (GetSmarter) respectively. A three multi-layered assessment was adopted focusing on key areas namely; behaviour change, attitudinal and technical skills. The outcomes of the capacity impact assessment report will be used as baseline for the design and decision-making on future Leadership Development initiatives.

A total of 13 employees have been enrolled for the Management Development Program (MDP) at the University of Kwa Zulu -Natal Extended Learning and one Executive was enrolled for the Executive Leadership Development Program with Harvard Business College. The purpose for enrolment is to equip the newly appointed managers with new set of skills and current individuals who are already occupying leadership roles within the entity with the required knowledge and ability to drive change and organisational mandate, ensure achievement of Vision 2050 and organisational sustainability. The MDP program further aims to assist with the achievement of short and long term goals of the organisation.

The Learnerships and Apprenticeships programme provided training, development and exposure to both internal and external candidates. A total of 58 apprentices were enrolled in the apprenticeship programme and received theoretical training at Amajuba TVET College and Shukela Training Centre in the Electrical, Boilermaking, Instrumentation, Motor Mechanics and Mechanical Engineering trades. During this period, learners further received practical work exposure from various operational sites within the entity as per the requirements of the programme. For this period, 9 learners in the abovementioned trades have completed their trade tests and were deemed to be competent as Artisans and appointed as junior artisans for a two-year period in order for them to gain experience that is in line with the minimum requirements of the artisan positions.

Umgeni Water assessed the skills and competency

levels of internal personnel against requirements of Draft Regulation 17 of the Water Services Act for Blue Drop and Green Drop certification and developed a multi-year training plan to fill the skills and competency gaps. The internal positions include Superintendent, Process and Quality Technicians, Senior Operator, Operator and Process Controller positions. In the reporting period a total of 380 Process Controllers were enrolled in either the Learnership Programme or in N3 Water and Waste Treatment and various courses in water and wastewater treatment.

The organisation continued to provide employees with financial support to further their studies in disciplines related to the entity's core and support business for improved performance to meet the current and future skills needs through the Assisted Education Programme (AEP). For the period under review, 37% of employees enrolled in formal qualifications that respond directly to critical and scarce skills needs. The qualifications ranges from NQF level 6 to NQF level 10, consisting of under graduate and post graduate qualifications.

OPERATIONAL RESILIENCE

Umgeni Water defines risk as all sources of uncertainty that could, affect positively or negatively, the entity's ability to achieve its strategic objectives and outcomes. Risk management at Umgeni Water is guided by an Integrated Risk Management Framework and the risk management process is aligned to strategy, which ensures a focused and integrated process of risk management in the entity.

Five out of six strategic risks (83%) have been managed to a level of equal to or above reasonable ($\geq 55\%$) overall response effectiveness

Umgeni Water continues to maintain the quality of its laboratories at a level that ensures that they provide a world-class service 365 days a year. These facilities are ISO/IEC 17025 accredited in chemistry, microbiology, hydrobiology and soil testing, and have highly skilled and dedicated technical staff.

OPERATIONAL OPTIMISATION

Water efficiencies have been ensured in the bulk business through careful water balancing per system. In the reporting period, water loss was maintained well below the entity's target level of 5%, with a total of 2% recorded for the year (2.7% in the previous year).

Energy is a crucial resource for water and wastewater treatment processes. Optimal pumping and other strategies remain inherent parts of the business mindset from planning, design and construction through to operation.

FINANCIAL VIABILITY

The entity has maintained its reputation as a financially viable entity, creating significant value for customers and shareholders. Strong results were achieved because of sound financial management in the year, notably:

- Revenue (Group) of R5.3bn was generated (R4.9bn in the previous year);
- Net surplus (Group) was R1.2bn (R1.2bn in the previous year);
- Balance sheet reserves were strengthened to R14.4bn (R13.2bn in the previous year).

The earned surplus for the year will be invested in support of the future five-year R13.95bn (not escalated) capital investment programme, as well as used for debt reduction. As at 30 June 2023, a significant portion of capital investments were already committed.

The strength of the balance sheet and access to other strategic financial resources remain vital to Umgeni Water for expanding services to new areas and implementing the strategy of enabled and innovative growth.

OUTLOOK

The entity was seized with the task of improving the robustness of its governance systems and closing identified gaps. A combination of solid enterprise-wide systems, backed by highly competent employees and robust leadership provided by the Executive Team and Board will ensure consistent improvement as the organisation moves

into a crucial era of improving the delivery of water and sanitation services for all communities of KwaZulu-Natal.

To this effect, the organisation will be undergoing significant reconfiguration to effectively position it to deliver this significant mandate with which it has been entrusted.

The outlook is positive. The many pockets of strength that will be enhanced and maintained for the purposes of moving with precision in the sustainable delivery of water and sanitation services for its customers and the people of KwaZulu-Natal. The inextricable connections of the water value chain also emphasize the need of even greater collaboration between the organisation and all relevant stakeholders in finding solutions that will make reliable provision of water and sanitation services a reality for all communities in the Province of KwaZulu-Natal.


Dr. Siphon Manana
 Acting Chief Executive
 30 June 2023



Lower Umkomazi
Bulk Water Supply Scheme





06

CORPORATE GOVERNANCE

All other Board members (with the exclusion of the Chief Executive) , are independent non-executive directors in the manner described in the King IV.

6.1 COMPOSITION AND FUNCTIONING OF THE BOARD

The Board

The Chairperson of the Board and all other Board members (with the exclusion of the Chief Executive), are independent non-executive directors in the manner described in the King IV Report on Corporate Governance (hereinafter referred to as "King IV") to ensure the independence of the two positions and the clear definition of roles and responsibilities.

All Board members execute their collective legal duty in a professional manner, with integrity and utmost good faith.

The Board has established five (5) standing committees to assist it in discharging its responsibilities, namely:

- Audit and Risk Committee
- Capital Projects, Fixed Assets and Procurement Committee
- Human Resources and Remuneration Committee
- Governance Committee
- Innovation, Technology and Information Committee

However, as of 28 March 2023, soon after the induction of the Interim Board, a decision has been taken to consolidate these Committees into three (3) during the tenure of the Interim Board. This decision may be reviewed from time to time. The new structure of the Committees is as follows:

- The Audit Committee and the Innovation, Technology and Information Committee have been combined into one committee with the oversight responsibility for audit, risk, innovation, technology and information.
- The Human Resources and Remuneration Committee has been combined with the Capital Projects, Fixed Assets and Procurement Committee forming one committees with oversight responsibility
- The Governance Committee

The list of Board and Committee members is shown in **Table 6.1**. The Board is accountable for the leadership and control of Umgeni Water. Its responsibilities include the development, review and monitoring of strategic objectives, the approval of major capital expenditure, risk management and monitoring of operational and financial performance. The government of the Republic of South Africa, represented by the Minister, and the Department of Water and Sanitation, is the sole shareholder of Umgeni Water.

The Board contracts with the Executive Authority, the Minister, through an annually approved shareholder compact. The Board will continue to actively engage with the shareholder through various forums during the year. A Board Charter (reviewed in 2021) provides a framework for fiduciary duties, responsibilities and overall functioning of the Board. The Board Charter is read in conjunction with:

Umgeni Water
has consistently
maintained
water loss levels
BELOW
5% over
the years.





Rosetta WTW

- The Public Finance Management Act (Act 1 of 1999), as amended by the Public Finance Management Amendment Act (Act 29 of 1999), hereinafter referred to as the PFMA,
 - Treasury Regulations (GG 27338) as amended from time to time,
 - The Water Services Act (Act 108 of 1997), as amended, and
 - The King Code of Governance Principles, 2016 (King IV).
- Non-executive board members receive remunerative benefits and fees as determined by the Minister on an annual basis and in line with their terms of appointment. Therefore, no Board member is involved in determining his/her own remuneration. Board Members' remuneration is fully disclosed in Umgeni Water's Annual Report.

Table 6.1 (a): Board and Committee Memberships, from 3 November 2021 to 8 March 2023.

| Board Member | Gender | Audit | REMCO | Capex | Governance | Ethics | ITI |
|----------------------------------|--------|-------|-------|-------|------------|--------|-----|
| 1. Ms Z Mathenjwa ^{1,6} | F | | | | ✓ | ✓ | |
| 2. Mr S Shabalala ³ | M | ✓ | | | ✓ | | |
| 3. Mr W Mapena ⁴ | M | | ✓ | | ✓ | | |
| 4. Ms B Zulu | F | | | ✓ | | | |
| 5. Ms N Chamane | F | | | ✓ | | | |
| 6. Mrs L Ngcobo | F | ✓ | | | | | ✓ |
| 7. Mr V Reddy | M | | ✓ | | | | |
| 8. Mr T Nkhale ² | M | | | ✓ | | | |
| 9. Mr S Badat | M | | ✓ | | | | |
| 10. Mr M Zakwe ⁵ | M | ✓ | | | | | ✓ |
| 11. Adv. S W Chamane | M | | ✓ | | | | |
| 12. Dr S Manana ⁷ | M | | ✓ | ✓ | | ✓ | ✓ |

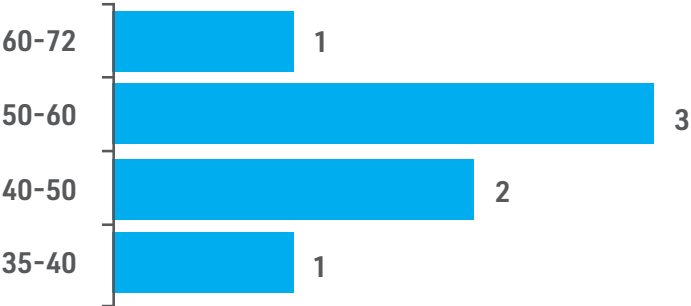
¹ Board Chairperson² Capex, Fixed Assets and Procurement Committee Chairperson³ Audit Committee Chairperson⁴ Human Resources and Remuneration Committee Chairperson⁵ Innovation, Technology and Information Committee⁶ Governance Committee Chairperson⁷ Acting Chief Executive,**Table 6.1 (b): Interim Board and Committee Memberships, with effect from 8 March 2023**

| Board Member | Gender | Board | Audit & ITI | HR & REMCO and CAPEX | Governance | Social & Ethics |
|-------------------------------|--------|-------|-------------|----------------------|------------|-----------------|
| 1. Mr M Msiwa ^{1,5} | M | ✓ | | | ✓ | ✓ |
| 2. Ms T Mhlongo ² | F | ✓ | ✓ | | - | - |
| 3. Ms K Mbonambi ³ | F | ✓ | ✓ | ✓ | ✓ | - |
| 4. Ms H Majazi | F | ✓ | | ✓ | | - |
| 5. Mr J Ndlovu ⁴ | M | ✓ | | ✓ | ✓ | |
| 6. Mr S Mkhize | M | ✓ | ✓ | | | - |
| 7. Adv L Gopaul | M | ✓ | ✓ | ✓ | | - |
| 8. Dr S Manana ⁶ | M | ✓ | | ✓ | ✓ | ✓ |

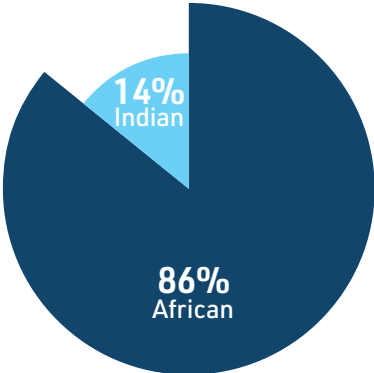
¹ Board Chairperson² Deputy Board Chairperson³ Audit and ITI Committee Chairperson⁴ REMCO and Capex, Committee Chairperson⁵ Governance Committee Chairperson⁶ Acting Chief Executive

Figure 6.1: Board Member (a) Age, (b) Race and (c) Gender Profiles (from March 2023)

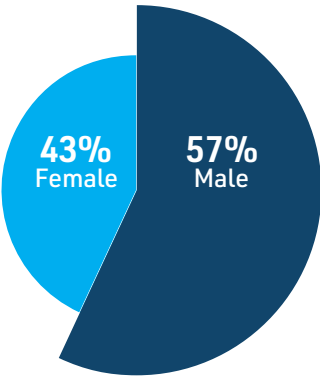
(a) Board Member Age Profile



(b) Board Member Race Profile



(c) Board Member Gender Profile



A Board Charter (reviewed in 2020) provides a framework for fiduciary duties, responsibilities and overall functioning of the Board. The Board Charter is read in conjunction with:

- The Public Finance Management Act (Act 1 of 1999), as amended by the Public Finance Management Amendment Act (Act 29 of 1999), hereinafter referred to as the PFMA;
- Treasury Regulations (GG 27338) as amended from time to time;
- The Water Services Act (Act 108 of 1997), as amended;
- The King Code of Governance Principles, 2016 (King IV).

As recommended by King IV, the Board evaluates the performance of all divisions including the Finance Division. This was planned for twice in the reporting year. In accordance with the Board Charter, the Board shall:

- Review its performance at collective and individual levels on an annual basis. Use an accepted self-evaluation tool, designed by an accredited institution to review its performance.
- The results of the evaluation should be discussed during a full Board meeting and a clear action plan to improve performance should, if so required, be developed.

The Members of the Board have skills that were put to good use in providing leadership, guidance and directing strategy in the year under review. Overall, the Board functioned at a strategic level and delivered outputs in line with its mandate.

The independent directors were determined holistically, in accordance with the indicators provided in Section 94(4)(a) and (b) of the Companies Act and the King Code. No conflicts of interest was noted in terms of the Board during the year under review.

Table 6.2(a): Interim Board Meeting Attendance 2022/23 (08 March 2023 – 30 June 2023)

| Interim Board Member | Gender | 414 th Board | 415 th Board | Special | Special | Special |
|-------------------------------|--------|-------------------------|-------------------------|--------------|--------------|--------------|
| | | 26 April 2023 | 31 May 2023 | 15 June 2023 | 23 June 2023 | 28 June 2023 |
| 1. Mr M Msiwa ¹ | M | ✓ | ✓ | # | ✓ | ✓ |
| 2. Ms T Mhlongo ² | F | ✓ | ✓ | ✓ | ✓ | ✓ |
| 3. Ms K Mbonambi ³ | F | ✓ | ✓ | ✓ | ✓ | ✓ |
| 4. Mr J Ndlovu ⁴ | M | ✓ | ✓ | ✓ | ✓ | ✓ |
| 5. Ms H Majozi | F | ✓ | ✓ | ✓ | ✓ | ✓ |
| 6. Mr S Mkhize | M | ✓ | ✓ | ✓ | ✓ | ✓ |
| 7. Adv. L Gopaul | M | ✓ | ✓ | ✓ | ✓ | ✓ |
| 8. Dr S Manana ⁵ | M | ✓ | ✓ | # | ✓ | ✓ |

- ✓ Denotes Attendance
- # Denotes absence with apology
- ¹ Board Chairperson
- ² Deputy Board Chairperson
- ³ Audit, Innovation, Technology and Information Committee Chairperson
- ⁴ Capex, Fixed Assets, Procurement, Human Resources and Remuneration Committee Chairperson
- ⁵ Acting Chief Executive

Table 6.2(b): Board Meeting Attendance 2022/23 (01 July 2022 – 08 March 2023)

| Board Member | Gender | 411 th Board | 412 th Board | 413 th Board |
|--------------------------------|--------|-------------------------|-------------------------|-------------------------|
| | | 18 Jan 2023 | 23 Nov 2022 | 18 Jan 2023 |
| 1. Ms Z Mathenjwa ¹ | F | ✓ | ✓ | ✓ |
| 2. Mr S Shabalala ² | M | ✓ | ✓ | ✓ |
| 3. Mr W Mapena ³ | M | ✓ | ✓ | ✓ |
| 4. Mr M Zakwe ⁴ | M | ✓ | ✓ | ✓ |
| 5. Ms N Chamane | F | ✓ | ✓ | ✓ |
| 6. Ms L Ngcobo | F | ✓ | ✓ | ✓ |
| 7. Ms B Zulu | F | ✓ | ✓ | ✓ |
| 8. Mr V Reddy | M | ✓ | ✓ | ✓ |
| 9. Mr S Badat | M | ✓ | ✓ | ✓ |
| 10. Mr T Nkhahle | M | ✓ | ✓ | ✓ |
| 11. Adv. S Chamane | M | ✓ | ✓ | ✓ |
| 12. Dr S Manana ⁵ | M | ✓ | ✓ | ✓ |

- ✓ Denotes Attendance
- # Denotes absence with apology
- ¹ Board Chairperson
- ² Audit Committee Chairperson
- ³ Human Resources and Remuneration Committee Chairperson
- ⁴ Innovation, Technology and Information Committee
- ⁵ Acting Chief Executive,



Greater Mpofana Bulk Water Supply Scheme

Audit and ITI Committees

The Committee consists of four (4) non-executive Board members and its chairperson was Ms Khulekelwe Mbonambi.

The Committee is mandated to exercise oversight and ensure achievement of the highest level of financial management, accounting, and reporting to the shareholder and to meet the requirements prescribed in section 51(1)(a)(ii) and 76(4)(d) of the Public Finance Management Act (Act 29 of 1999), as well as Treasury Regulations, 2005 (Chapter 27.1). The Audit Committee's oversight responsibility covers issues of ethics, and further forms a function of risk management oversight by ensuring the effectiveness, quality, integrity and reliability of Umgeni Water's risk management processes.

The scope of this Committee also includes exercising oversight and ensure strategic oversight on matters relating to the assurance that the organisation in implementing an effective innovation strategy, ICT Strategy, ICT Governance Framework and Risk & Compliance Framework.

This takes into account the recommendations in King IV, recognise the importance of innovation as well as the need for strategic focus on technology and information. The issues falling within the oversight responsibility of this Committee covers the whole Group, and as such the Committee composition includes representation of subsidiaries at non-executive level as well.

The terms of reference of the Audit Committee takes into account the recommendations in King IV, the Companies Act (Act 71 of 2008), the Public Finance Management Act (Act 29 of 1999) as amended and Treasury Regulations, 2005, to ensure alignment to best practice and legislation.

The Social and Ethics Committee and Corporate Risk Committee also report through the Audit and ITI Committee.

Table 6.3(a): Interim Audit and ITI Committee Meeting Attendance 2022/23 - (08 March 2023 – 30 June 2023)
Interim Board

| Members | 19 April 2023 | 24 May 2023 | 28 June 2023 Special |
|----------------------------|---------------|-------------|----------------------|
| Ms K Mbonambi ¹ | ✓ | ✓ | ✓ |
| Ms T Mhlongo | ✓ | ✓ | ✓ |
| Mr S Mkhize | ✓ | ✓ | ✓ |
| Adv. L Gopaul | ✓ | ✓ | ✓ |

✓ Denotes Attendance
 ≠ Denotes absence with apology
¹ Audit and ITI Committee Chairperson

Table 6.3(b): Audit Committee Meeting Attendance 2022/23 - (01 July 2022 – 08 March 2023)

| Members | Meetings | | | | |
|-----------------------------|-------------|--------------|-------------|-------------|-------------|
| | 28 Aug 2022 | 07 Sept 2022 | 05 Oct 2022 | 03 Nov 2022 | 22 Feb 2023 |
| Mr S Shabalala ¹ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr M Zakwe | ✓ | ✓ | ✓ | ✓ | ✓ |
| Ms L Ngcobo | ✓ | ✓ | ✓ | ✓ | ✓ |

✓ Denotes Attendance
 ≠ Denotes absence with apology
¹ Audit Committee Chairperson

Social and Ethics Committee

The Board acknowledges its responsibility to ensure that Umgeni Water is a fair, transparent and ethical entity and will continue to exercise oversight through its already fully functional Ethics Committee as prescribed in Section 29.1.1 of the Treasury Regulations in the PFMA as well as in line with the requirements of section 72 (4) of the Companies Act (Act No.71 of 2008).

The Social and Ethics Committee accounts to the Board through the Audit Committee. Any high-risk areas identified are managed and mitigated at that level. The Committee provides assurance to the Board that there are effective ethics management systems, institution-wide prevention of fraud and corruption and ensures that complaints are managed effectively, followed up appropriately and investigated competently.

Internal Control

The Board is accountable for the systems of internal control. Umgeni Water policies, procedures, structures and delegation of authority framework clearly define and provide appropriate levels of responsibility.

The internal control systems are designed to provide reasonable assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. Principal features of the entity's internal finance controls are:

- A system of financial planning, budgeting, and reporting which allows continuous monitoring of performance;
- A materiality and significance framework;
- Clearly-defined delegations of authority;
- The establishment of a short, medium, and long-term funding strategy;
- The tariff model which determines the financial impact of capital expenditure and the bulk water tariff on Umgeni Water's debt curve; and
- Established policies and procedures.

To assist the Board in the discharge of its responsibilities, Internal Audit undertakes an independent assessment of the internal control systems and business risks and reports to the Board through the Audit Committee. The audit plan covers major financial and commercial risks and responds to any changes emanating from Umgeni Water's integrated risk management process.

Internal Audit

Internal Audit is an independent assurance function, the purpose, authority and responsibility of which is formally defined in a charter approved by the Board in line with stipulations of the Institute of Internal Auditors. In line with the requirements of the Public Finance Management Act (PFMA) and Good Governance, the internal audit function gives the Audit Committee and management assurance on the appropriateness and effectiveness of internal controls.

The Chief Audit Executive, as custodian of the internal audit function, reports regularly to the Audit Committee and have unrestricted access to the Committee chairperson.

In Chapter 9, KPI 30, it is reported that the organization has 0 repeat and 0 unresolved findings.

Compliance with Laws and Regulations

Umgeni Water continues to enhance its compliance management system. The entity continued to use its Legal Compliance Regulatory Universe, Compliance Checklists and Compliance Monitoring/Assurance Plan for monitoring and reporting Legal Compliance. The areas of non-compliance that were flagged in the year are receiving the necessary attention.

External Audit

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

- Assessing the risks of material misstatement of the consolidated financial statements, the report on predetermined objectives and material non-compliance with laws and regulations;
- Considering internal controls relevant to Umgeni Water's preparation and fair presentation of the financial statements, the report on predetermined objectives and compliance with laws and regulations;
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management;
- Evaluating the appropriateness of systems and processes that ensure the accuracy and completeness of the financial statements, the report on predetermined objectives and compliance with laws and regulations.

The external auditors express an opinion on the consolidated financial statements and report on findings relating to their audit of the report on predetermined objectives and compliance with material matters in laws and regulations applicable to the entity.

Capital Projects, Fixed Assets and Procurement Committee Meeting Attendance 2022/23

This Committee comprised of five Non-Executive Directors and the Chief Executive. This committee was chaired by Mr Teboho Nkhahle

The Committee assists the Board with capital expenditure programme related decisions/recommends Procurement Policies to the Board for approval and approves the release of capital expenditure above executive management's delegated authority but within the Committee's delegated authority. It ensures that the organisation's supply chain policy and procedures are equitable, transparent, competitive and cost-effective. It reviews the organisation's infrastructure asset maintenance programme/performance. Contracts which exceed the Committee's Delegation of Authority are referred to the Board for approval. The Committee reviews and recommends amendments to the limits in the delegation of authority, relating to budget approvals for capital projects and procurement to enable management to expedite the implementation of projects.

Table 6.4 (a): Capital Projects, Fixed Assets and Procurement Committee Meeting Attendance 2022/23- (01 July 2022- 08 March 2023)

| Members | CAPEX Meetings | | |
|------------------------------|----------------|-------------|--------------|
| | 10 Aug 2022 | 03 Nov 2022 | 015 Feb 2023 |
| 1. Mr T Nkhahle ¹ | # | ✓ | ✓ |
| 2. Ms N Chamane | ✓ | ✓ | ✓ |
| 3. Ms B Zulu | ✓ | ✓ | ✓ |
| 4. Dr S Manana ² | ✓ | ✓ | ✓ |

✓ Denotes Attendance

≠ Denotes absence with apology

¹ REMCO and Capex Committee Chairperson

² Acting Chief Executive

Table 6.4 (b): Human Resource and Remuneration Committee Meeting Attendance 2022/23 (01 July 2022 – 08 March 2023)

| Members | Meetings | | | | |
|---------------------------|--------------|-------------|-------------|-------------|-------------|
| | 01 July 2022 | 05 Aug 2022 | 19 Aug 2022 | 12 Oct 2022 | 01 Feb 2023 |
| Mr W Mapena ¹ | ✓ | ✓ | • | ✓ | ✓ |
| Mr V Reddy | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr S Badat | ✓ | ✓ | ✓ | ✓ | ✓ |
| Adv. S Chamane | ✓ | ✓ | ✓ | ✓ | ✓ |
| Dr. S Manana ² | ✓ | ✓ | ✓ | ✓ | ✓ |

✓ Denotes Attendance

≠ Denotes absence with apology

¹ Human Resources and Remuneration Committee Chairperson

² Acting Chief Executive

Governance Committee

The Governance Committee meets twice in a financial year to conduct performance evaluations of Executive Management and the Company Secretary, as well as on an ad-hoc basis to deal with other governance related matters. The Committee comprises four Non-Executive Directors. The Chairperson of the Board Ms. Z Mathenjwa chaired the Committee.

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



Umbumbulu
Pumpstation

Innovation, Technology and Information Committee

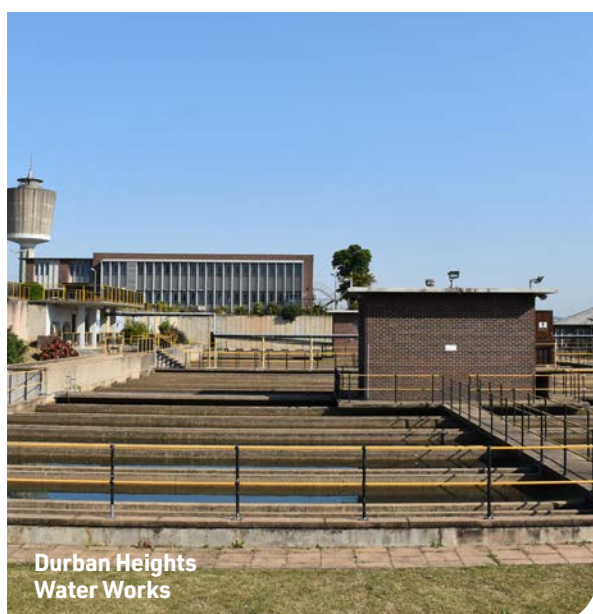
This newly constituted Committee consists of not less than three (3) non-executive Board members and its chairperson is Mr Mduduzi Zakwe. The Committee is mandated to exercise oversight and ensure strategic oversight on matters relating to the assurance that the organisation in implementing an effective innovation strategy, ICT Strategy, ICT Governance Framework and Risk & Compliance Framework.

The terms of reference of the Innovation, Technology and Information Committee take into account the recommendations in King IV, recognise the importance of innovation as well as the need for strategic focus on technology and information. The issues falling within the oversight responsibility of this Committee covers the whole Group, and as such the Committee composition includes representation of subsidiaries at non-executive level as well.

Table 6.5: ITI Meeting Attendance 2022/23

| Member | 06 Oct 2022 | 10 Nov 2022 | 10 Feb 2023 |
|----------------------------|-------------|-------------|-------------|
| Mr. M Zakwe ¹ | ✓ | • | ✓ |
| Ms. L Ngcobo | ✓ | • | ✓ |
| Ms N Radebe ² | ✓ | # | ✓ |
| Mr P Thompson ⁴ | ✓ | ✓ | ✓ |
| Ms M Ndlovu ⁵ | ✓ | ✓ | # |
| Dr S Manana ³ | ✓ | ✓ | ✓ |

✓ Denotes Attendance
 # Denotes Absence with apology
¹ITI Chairperson
²Msimi Board Member
³Acting Chief Executive
⁴UWS MD,
⁵Msimi MD



Durban Heights Water Works

Delegation of Authority

A comprehensive Delegation of Authority Framework governs the authority levels for the Board and management. These are exercised through various board and management committees. This framework assists the Board to discharge its duties with Board members' accountability and responsibility. The Board reviews the framework regularly.

Executive Committee

The Board has delegated the day-to-day running of the entity to the Chief Executive, who works with Executives, each heading a Division, to assist with this task. The Executive Committee is the highest executive decision-making structure in the entity. Central to its role is the formulation and implementation of the Board's strategy and policy direction, and ensuring that all business activities are aligned in this respect. Each Division works towards the achievement of set strategic objectives for a predetermined period. The entity's wholly-owned operating subsidiary also works, independently, towards enabling Umgeni Water to fulfil its mandate and contracted obligations.

Company Secretariat

The Group Company Secretary oversees the portfolio of secretariat, governance advisory services and plays a critical role in legal and governance advisory to the board, risk and compliance management, and attends all Board and Committee meetings as secretary as a group level which includes subsidiaries.

The Board as a whole and individual Non-Executive Directors and members of the Executive have access to the Company Secretary who is enjoined to provide guidance on how members should discharge their duties and responsibilities in the best interests of the Company. The Group Company Secretary continues to oversee the preparation and coordination of the induction and on-going training of Board members and assists the Board and its Committees in formulating annual plans, agendas, minutes, and terms of reference as warranted. The Group Company Secretary is not a Director of the Company or any of its subsidiaries and accordingly maintains an independent and arm's length relationship with the Board and the Executives.

King IV Disclosure

Below are the governance principles that King IV dictates well-governed organisations should comply with to maintain the highest levels of governance. Umgeni Water has, going forward, chosen to include this disclosure reporting in its compliance against each principle.

| King IV Principle | 2022/2023 Disclosure |
|---|---|
| 1. The governing body should lead ethically and effectively | The Board is the accounting authority on all issues relating to ethical and effective leadership, including codes of conducts and performance evaluations. The Board is accountable to the Executive Authority and accounts to Parliament for its performance which includes financial and non-financial matters. |
| 2. The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture | The Board, through the Audit Committee provides oversight on ethics matters and ensures that periodic reports are received by the Board on the work of the Ethics Committee. The terms of reference of the Ethics Committee ensures that there is a system of monitoring and reporting ethics matters and that the work of the Committee is properly planned and focused on promoting and ethical culture across the organisation. |
| 3. The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen | The Board had approved an enterprise development strategy and policy. These documents serve as the foundations of ensuring that the organisation puts systems in place to gear itself as a responsible corporate citizen. With these policies put to full implementation, the entity will become a visible caring organisation. |
| 4. The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process | The board appreciates the expectations of its stakeholders and its benevolent intent through its strategies indicates the board's awareness that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process. |
| 5. The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short, medium and long-term prospects | The Board encourages management to be transparent in all its endeavours. All key documents are publicised on the organisation's website or other platforms, for access by stakeholders: corporate governance disclosures; integrated reports; annual financial statements; other external reports. Media statements are released periodically to address areas of concern from stakeholders and there is continuous engagements with the media. |
| 6. The governing body should serve as the focal point and custodian of corporate governance in the organisation | The board's annual reports contain full disclosures on the status of corporate governance matters affecting the organisation, which include the members of the board, their expertise, number of meetings held during reporting period and attendance, whether the board is satisfied that it has fulfilled its responsibilities in accordance with its Charter and applicable Codes and legislation. |
| 7. The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively | The annual report discloses: the board's comfort that its composition reflects the appropriate mix of knowledge, skills, experience, diversity and independence Categorisation of its members as either executive / independent non-executive Qualifications and experience of members and executives Period of service Age Other professional positions held |
| 8. The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties | The Board operates in accordance with a Board Charter. All Committees of the Board operate in accordance with delegations given to each Committee by the Board with clear roles and responsibilities/functions The annual report discloses: Composition, qualifications and experience of members; Number of meetings held and attendance Whether the board / committee is satisfied that it has fulfilled its responsibilities Statement as to whether audit committee is satisfied that the external auditor is independent, specifically addressing: → the policy/controls and nature and extent of non-audit services rendered → tenure of external audit firm → rotation of designated external audit partner → significant changes in the management of the organisation during external audit firm's tenure Significant matters considered in relation to the annual financial statements, and how these were addressed Views on quality of the external audit Views on effectiveness of the chief audit executive and arrangements for internal audit Views on effectiveness of design and implementation of internal financial controls Views on effectiveness of CFO and finance function Arrangements in place for combined assurance and views on its effectiveness |

| King IV Principle | 2022/2023 Disclosure |
|--|---|
| 9. The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness | The Board has over the years relied on formal self-assessment process as one of the tools to assess board / committee effectiveness. Over time this method will be reviewed and benchmarked against peers. An annual self-evaluation / performance report is submitted to the executive authority highlighting key issues identified during the evaluation. |
| 10. The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities | The organisation has in place a clearly defined delegation of authority framework that contributes to role clarity and effective exercise of authority. |
| 11. The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives | The risk identification and management process is firmly entrenched in the organisation's business processes and the Board exercises the appropriate platform for this and gives enough space to management to manage risks and report periodically to the Board, through the Audit Committee, on risk related matters. |
| 12. The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives | The audit committee is charged with the responsibility of assisting the board to conduct appropriate oversight on matters related to ICT. Management is required to provide periodic reports on ICT governance, put actions taken to monitor effectiveness of technology and information and provide plans that are meant to enhance ICT systems for future focus. |
| 13. The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen | The Board is accountable for ensuring organisation-wide compliance. Overview of arrangements for governing and managing compliance and the annual report addresses how the board seeks to ensure compliance in all layers of the organisation. |
| 14. The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term. | The annual report fully discloses remuneration of Board members and Executives in detail and provides the basis for remuneration strategies. |
| 15. The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports | Assurance of external reports The annual report fully discloses assurance processes applied, in addition to the independent, external audit opinions, including: → brief description of nature and scope of assurance functions, and services and processes underlying preparation of report → statement by governing body on integrity of report and basis of this statement |
| 16. In the execution of its governance roles and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time | The annual report fully discloses the organisation's benevolent intention in relation to transparency and how stakeholders are kept abreast of all developments regarding the organisation. In the reporting year, stakeholders have been kept abreast of key matters / developments regarding the entity through various mediums of communication. |



Maphumulo Water Works

BOARD MEMBERS



Adv. Vusi Khuzwayo S.C. Chairperson of the Board

Appointed as the Chairperson and Board Member 01 October 2023.

Adv. Khuzwayo has more than 31 years practical experience in law, admitted to practice in RSA and Lesotho. Currently practising from the DurbanChambers. He is currently serving as the chairman of the Integrated Forensic Accounting Services (Pty) Ltd, erstwhile chairman of KZN Gaming and Betting Board.

He is currently the sole member of QCK Lezmin 4650 cc, with interest in property portfolio.



Ms. Nothando Nonkululeko Mkhize Deputy Chairperson

Appointed as Board Member and Deputy Chairperson on 01 October 2023

Ms. Mkhize is certified Director with the Institute of Directors in South Africa. She holds a degree in Civil Engineering specializing in Water, a Postgraduate diploma in Project Management, and a diploma in Civil Engineering. Her experience spans across both the public and private sector. she served as the

non- Executive director at Mhlathuze Water, She has a deep understanding of the public sector governance and oversight, Statutory compliance requirements, PFMA, Treasury Regulations King INVCODE on Good Corporate Governance in South Africa (King IV), the Companies Act and other legislation applicable to the public sector including municipalities



Ms. Senamile Masango Board Member

Appointed as Board Member on 01 October 2023.

Ms. Masango is a Director at Mphathisithele Consultancy(PTY): Clean sustainable and innovative-energy solutions, focuses on Renewables, Climate Change, Energy Decarbonisation, Just energy transition. Founder of the Senamile Masango Foundation, Non-executive Director at South African Nuclear Energy

Corporation, Ltd (NECSA), Chairperson of the Research, Development and Technology Subcommittee at NECSA, Council Member at The University of the Western cape and Non-Executive Director at Moses Kotane Institute



Mr. Sipho Maxwell Mtolo Board Member

Appointed as Board Member on 01 October 2023

Mr. Mtolo, possess a diverse career that spans both from the public and private sectors. He has served as a soldier between 1994 and 2006 in the Umkhonto Wesizwe Military and the South African National Defence Force. He then ventured into Engineering consultancy, Property development, printing, and building construction.



Ms. Hlengiwe Mvubu Board Member

**Appointed as Board Member on
01 October 2023.**

Ms Mvubu is an experienced Public Affairs & Stakeholder Executive with over 22 years of experience. She has held positions at Foskor, including Communications & PR Specialist as the first black PR Professional in 2004. She has served as Group Stakeholder

Manager for Foskor Richards Bay Division, Phalaborwa, and Johannesburg.

She is an impact driven professional currently works at Mondi South Africa responsible for managing Stakeholder Engagement, Reputation, Risk and Corporate Responsibility.



Mr. Khanyisani Stanley Shandu Board Member

**Appointed as Board Member on
01 October 2023.**

Mr. Khanyisani Shandu is a distinguished business man and community leader with an exceptional track record. He is the founder and driving force behind a highly successful business operating in the Civil Construction and Engineering Sector, known as Lithah Africa. With a background as a Chemical Engineer, Mr. Shandu possesses over 5 years of invaluable experience in Plant Management and Operation at Sappi Salcor. His expertise in managing large scale projects across various industries showcases his proficiency in leveraging worldclass engineering

infrastructure. Under his exemplary leadership as the Managing Director, the company has achieved remarkable growth and established itself as a significant player in the Construction and Engineering Sector. Mr. Shandu's commitment to social responsibility is evident in his employment and development of over 2000 young South Africans. Moreover, he actively promotes young talent by providing sponsorship opportunities and serving as a mentor. With a strong business acumen, extensive experience in engineering, and a dedication to community empowerment, Mr. Khanyisani Shandu is a highly respected figure in both the business and social spheres.



Adv. Lavandran Gopaul Board Member

**Appointed as Board Member on
01 October 2023.**

Adv. Gopaul is a Director & Fund Manager of Merchant Afrika. He held various Director level and senior management roles in stock brokering, derivatives, fund management and law. Gopaul wrote a regular SundayTribune & Post column on Finance, Economics and business personalities. Past Adjunct Academic at Mancosa. He is a regular finance and economicscommentator on TV and Radio since 2000.



Mr. Sibusiso Wycliff Mkhize Board Member

**Appointed as Board Member on
01 October 2023.**

Mr. Mkhize is a Public Administrator and has accumulated over 20 years' experience in various public and service delivery management roles within Local, Provincial and National Government. These roles included being a Transformation Manager, responsible for amalgamation and integration of policies, structures, systems and procedures from various erstwhile Transitional Local Authorities into a single wall-to-wall then Hibiscus Coast Municipality.

A vast experience of more than 10 years as an accounting officer at Local Government including a Water Service Authority. A Ministerial Representative at one distressed Municipality responsible for financial, governance and service delivery recovery plan. A General Manager: Corporate Services responsible for organisational efficiency and effectiveness at a provincial department member of US based Global Decisions Inc.



Adv. Kwazikwenkosi Innocent Mshengu

Board Member

Appointed as Board Member on 01 October 2023.

Adv. Mshengu has 11 years' experience in government administration and 3 years as MEC for Education.

Leadership:
Former CSRC President-General and Former CSRC Secretary General at UKZN



Ms. Diana Gloria Hoorzuk

Board Member

Appointed as Board Member on 01 October 2023.

Ms. Hoorzuk is a former Deputy Mayor of eThekweni Municipality and Chair of Finance Committee of Council in 2021. Former local government Councillor for a period of 20 years. She held various positions of office during her tenure as a Councillor at eThekweni Municipality.



Mr. Timothy James Cornish

Board Member

Appointed as Board Member on 01 October 2023

Mr. Cornish brings a wealth of experience spanning over 45 years in the fields of civil engineering, project management, and water sector support.

He has dedicated ten years, divided into two periods, to working for Umgeni Water, focusing on the design and project management of

major projects within the CAPEX program. For nine years, he served as the manager of water and sanitation services for what is now the Msunduzi Municipality.

Additionally, Mr. Cornish has contributed his expertise in the private sector, working for a contractor in a senior role on the construction of the King Shaka International Airport.



Ms. Thandazile Mhlongo

Board Member

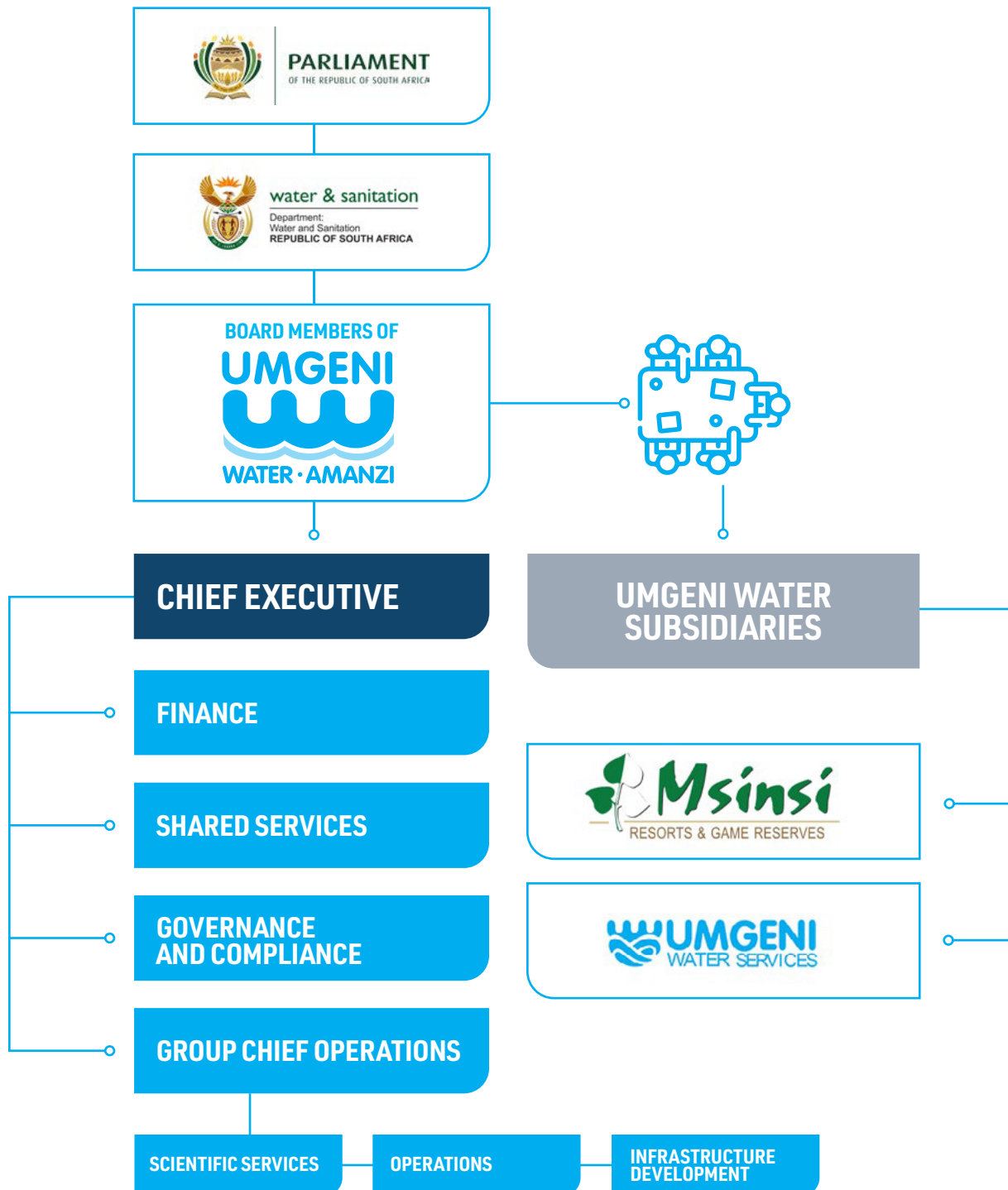
Appointed as Board Member on 01 October 2023

Ms. Mhlongo's area of expertise is mainly on Project Management; Contract Management; Project Finance; Risk Management; Human Resources Management; Auditing; Performance Management System; Internal Audit, Risk Management; Corporate Governance; Supply Chain and Asset Management.



FUNCTIONS AND MANAGEMENT STRUCTURE

Each Division works towards the achievement of set strategic objectives for a predetermined period. The organisation has a wholly owned operating subsidiary also works, independently, towards enabling Umgeni Water to fulfil its mandate and contracted obligations. Umgeni Water has the following structure that responds to its strategy. The core functions pertaining to each is articulated in the strategic statements that follow. Umgeni Water will continue to ensure a structure that is aligned to functions and mandate of a regional water utility. During the 2022/2023 financial year, the Board conducted a review of the strategy and emphasised on the urgent need to focus on the execution of the strategy. And as such, the Board has deemed urgent to ensure that the organisation is “fit-for-purpose” in that it responds to the urgent expectations of delivering on the mandate. This “fit-for-purpose” alignment, which is founded on ensuring the effective way of implementing the strategy, has culminated in the review of the organisation’s macro-structure and will further be drilled down the entire organisation, through informal and formal consultation processes that must be compliant to legislation and internal policies.



5.1.1 EXCO Member Appointment Dates and Details



Dr. Siphon Manana

Acting Chief Executive

Appointed as Acting Chief Executive in July 2022.

Dr. Manana served as Chief Director, Deputy Director General at the National School of Government from 2009 to 2019. He has also served in the following government institutions:

- Director in the SAPS for Skills Development and international liaison in Pretoria and Mahikeng from 2000 to 2008.
- KZN Department of Education as a Science and Mathematics educator and subject specialist respectively.
- has been identified as one of the Thought Leaders on the Developmental State and the NDP: Vision 2030 by IRMSA (Institute of Risk Management in South Africa) and delivers sessions regularly on their platforms.

His research interest is in human resource development and developmental state theory and practice



Mr. Thami Mkhwanazi

Group Chief Financial Officer

Appointed as Chief Financial Officer in February 2022

Mr. Mkhwanazi has over 21 years of experience of which 12 years was in the private sector which spans across the automotive, retail and wholesale, import and export of medical equipment, and the logistics sectors. Two of the entities were part of the listed group of companies. 9 years in the public sector as Chief Financial Officer. Of the 21 years, 15 years has been at the management level and 12 of those years at the senior management level. The public sector experience spans across a municipality, two municipal entities, and a section 3A state-owned entity.



Mr. Thulasizwe Derrick Shangase

Acting Group Chief Shared Services Officer

Appointed as Acting Group Chief Shared Services Officer from 01 July 2022.

Mr. Shangase is Senior Human Relations Manager from 2009. Employee Relations and Wellness Programme Manager from 2006 – 2009. Has over 30 years of experience in the Field of Human Resources which involved Managing and being responsible for Talent and Organisational Development: Human Resources Administration; Employee Relations and Wellness and Human Resources Planning sections.



Mr. Sbusiso Madonsela

Group Chief Governance & Compliance Officer

Appointed as Group Chief Governance & Compliance Officer in July 2022.

Mr. Madonsela is an Admitted Attorney. He is responsible for Group Governance and Compliance. Prior to this role, he held the position of Group Company Secretary. He is the former head of Umgeni Water's legal department and before joining Umgeni Water he was the Competition Commission's Legal Counsel. Prior to these roles, he had a stint in private legal practice.



Mr. Sanele Mazibuko

Acting Chief Operating Officer

Appointed as Acting Chief Operating Officer in January 2023

Mr. Mazibuko has over 15 years' experience in design and operations in process engineering from various industries including speciality chemicals, FMCG, pulp and paper, and water and wastewater. Serves as Board Member for the Water Institute of Southern Africa (WISA) since 2019 where he is responsible for strategy formulation and implementation on water governance and management in Southern Africa. He is also an Industry Advisory Board Member for the Department of Chemical Engineering in UKZN since 2017 where he gives critical input on academic programmes to be aligned with the industry needs.



Ms. Simangele Mbatha

Acting Group Company Secretary

Appointed Acting Group Company Secretary from July 2023

Ms. Mbatha is an admitted attorney of the High Court and has experience in the company secretariat field. Prior to joining former Mhlathuze Water, she worked as the first Company Secretary at Agribusiness Development Agency, a state owned entity under the KZN-Department of Agriculture and Rural Development. She has experience both in the public and private sectors, having previously worked at the Trust and Fiduciary Services department of Nedgroup Trust (Nedbank Private Clients). She has also worked at the Department of Justice and Constitutional Development and the Legal Aid South Africa.

07 SOCIAL AND ETHICS COMMITTEE REPORT



MS. P MVULANE
Chairperson of the
Ethics Committee

"Over 80% of the Integrated Ethics Management Framework milestones were met in 2022/2023."

The report of the social and ethics committee for the financial year ending 30 June 2023 is contained hereunder. King IV has re-emphasized ethical leadership and the need for Boards to embed ethical culture in the organisation's they govern as well as to act in the best interest of the company as well as all stakeholders.

King IV only consists of 16 principles, 3 is specifically focused on ethics. i.e.

- Ethical leadership,
- Ethical culture, and
- The ethical responsibilities of organisations to the environment in which they operate (corporate citizenship).

Umgeni Water has formally adopted best practice principles as contained in King IV with respect to ethics and fraud-prevention planning. This enables, among other aspects, greater accountability and transparency, an integrated approach to corporate governance in view of economic, social and environmental spheres, and a greater integration between the role and function of the Social and Ethics Committee and other Board committees.

The group pursued its goal of establishing an ethical culture. This was accomplished by carrying out the milestones outlined in its Integrated Ethics Management Framework for 2022/2023. Umgeni Water's Integrated Ethics Management Framework is driven by a five-phase ethics management approach aligned to the Ethics Institute of South Africa. This comprehensive Ethics Management Framework is also a translation of Umgeni Waters' strategy to fight fraud in a holistic manner while reducing potential risk to the organization's assets, service delivery efficiency, and reputation.

The framework's core is the Ethics Management function. The Chief Executive, in collaboration with the Social and Ethics Committee and other enabling stakeholders who are directly responsible for ethics management, is assigned responsibility for the five-step ethical management process. Due to the moratorium placed on all recruitment during the reconfiguration process, the ethics office was not set up and resourced as anticipated, however work did continue in the absence of a fully-fledged ethics units. Eighty-six (86)% of the goals were met within the financial year 2022/2023.

INTEGRATED ETHICS MANAGEMENT FRAMEWORK

During the reporting period the Integrated Ethics Management Framework was reviewed and approved for implementation. Changes included the alignment with the terms of reference as well as including the subsidiaries into the framework. The fraud prevention plan was also included as part of the framework for integration. Four(4) quarterly Ethics Management reports were presented at the Social and Ethics Committee showing performance against its framework in 2022/2023.

GOVERNANCE OF ETHICS

The Board ensured its committee to ethical leadership by entrusting the Audit Committee to sharpen its ethical focus. The year saw the Committee realign and approve its Terms of Reference for implementation. This was against the backdrop of last financial years commitment to focus on the social aspects of ethics. The name of the Committee was changed to the Social and Ethics Committee to enhance this focus.

The Board plan ensured that the Social and Ethics Committees objectives as set out in the Terms of Reference were carried out in four (4) quarterly meetings during this period. Quarterly reports discussed at Umgeni Water Social and Ethics Committee meetings assisted the Board to make strategic decisions and ensures the organisation takes accountability for their decisions and ensuring sustainability.

ETHICS RISK

During the reporting period the identified Ethics Risk that were identified during the perception survey conducted by Marsh, were interrogated with proper risk owners, cause and context as well as being allocated to divisions as per plan. During the period ethics risks details reports were presented at the divisional risk review meetings to interrogate their controls to confirm risk ratings and scores. They confirmed control effectiveness, reliance, and risk ratings and scores. All the ethics risks are within appetite and tolerance.

INSTITUTIONALIZATION OF ETHICS

Ethics Awareness and training

Umgeni Water will use ethical awareness programmes to promote ethical behaviour by providing a constant reminder of what is acceptable behaviour within the organisation. An ongoing focus on ethics in every changing environment is of utmost importance to keep abreast with legislation.

Umgeni Water endeavour to create and maintain awareness and ethics and of the hotline facility and ensure that the number is adequately advertised by means of posters, intranet, staff information and induction sessions, supplier forums as well as and other means deemed effective and appropriate.



Maphumulo
Water Works



During the reporting period, the following awareness initiatives were undertaken:

- Ethics brochures and internal alerts sent out to remind employees of ethical behaviour.
- Ethics awareness programmes - digital or otherwise. This enhances a fraud risk management program's effectiveness by providing evidence that preventive controls are working as intended and identifying fraud that occurs.
- An ethics advice facility, or ethics helpdesk
- Utilising ethics ambassadors to relay important ethics-related information, obtained from employees to the ethics office.
- Umgeni Water participated in the Ethics Institute's 10th Annual Conference
- The Ethics Officer attended training on Improving Ethical Conduct in Organizations
- All Ethics Ambassadors were trained and are now equipped to handle their responsibilities and duties as ambassadors.
- Orientation/induction programmes containing ethics as an important component

HOTLINE FACILITY

The Social and Ethics Committee provides assurance to the Board that there is effective institutional-wide prevention of fraud and corruption, and that complaints and allegations are effectively managed, appropriately followed-up and efficiently investigated.

Umgeni Water uses its external whistle-blowing hotline service managed by an external service provider as a means of fraud detection and as a means of encouraging an ethical culture. This 24-hour-365-day facility provides an anonymous and confidential communication channel for all stakeholders to report suspicions of fraud or otherwise unethical conduct. A review of the fraud hotline protocol procedure was necessary in line with the macro structure and new interim Board details to ensure implementation. The procedure ensures that all calls received by the whistleblowing hotline are dealt with in a transparent and consistent manner,

During the reporting period 15 calls were received ranging from low to medium in nature. Consequence management instituted for allegations that proved to have substance were implemented. The hotline took many calls on illegal connections and were diverted back to the municipality to resolved these issues as this is within the ambit of the municipalities

ETHICS MANAGEMENT STRATEGY

The year ended with the ethics office fulfilling finalisation the ethics management strategy. In an endeavour to improving the management of ethics at Umgeni Water, clearly articulated ethics goals and an ethics management strategy which encompasses a plan of coordinated actions designed to achieve the ethics goals is of utmost importance. An ethics management strategy that is led by the ethics office and guided by the ethics champion is the third step of an Integrated Ethics Management Framework. The ethics management strategy was designed after the ethics risk assessment and will assist Umgeni Water in identifying ethics focus areas to build ethics interventions to address problems and build the ethical culture. An integrated approach incorporating financial, social, and environmental ethics will ensure the continued sustainability of Umgeni Water.

ETHICS AMBASSADORS

During 2022/2023, the Ethics Ambassador Programme was rolled out. The Terms of Reference for the Ethics Ambassadors were formulated as well as a work plan to guide their responsibilities. A quarterly meeting was held with your divisional Ethics Ambassadors. All Ethics ambassadors attended training on their duties and responsibilities. All ambassadors have had awareness sessions/engagements with their respective departments. In an endeavour to encourage a speak up culture and staff felt comfortable in raising concerns to their ambassadors who assisted through the ethics office to try and answer their concerns.

FRAUD PREVENTION

Whilst Ethics is the promotion of ethical culture, Fraud is the punishment of unethical behaviour. During this period the Fraud Prevention Plan was reviewed and approved to ensure there are Internal controls as the first point of defense against fraud and corruption. Umgeni Water is mindful that although it has in place policies and procedures for preventing, there can be instances where "fraud happens." It is therefore important to put preventive and detective techniques in place to mitigate the exposure. While prevention encompasses policies, procedures, training, and communication, detection involves activities and programs designed to identify fraud or misconduct that is occurring or has occurred. High fraud risk areas such as Supply chain management, Human Resources and Finance remain high up on the plan with mitigations to support addressing fraud risk.

The potential controls like the code of ethics, disclosure of interests, delegation of authority limits, performing background checks, induction programmes, information security, performance management systems, transaction-level procedures for third party and related party transactions and business process controls all help prevent possible fraud.

LOOKING AHEAD

Umgeni Water will continue to intensify its efforts to creating an ethical culture in all areas of the business.

- The Ethics Strategy as well as the realignment and strengthening of the Code of Ethical Conduct will take the fore in the new financial year following the finalization and outcomes of the Ethic's Risk Assessment including training and awareness on the same
- The Social aspect of ethics will be the main focus of the committee in the coming year.
- The Social and Ethics Performance Review will ensure that challenges and misalignment areas in the Terms of Reference are addressed in order to ensure that the Social and Ethics Committee comply with its mandate.
- Once the moratorium on recruitment is lifted the Ethics office will be resourced and assist with implementation of its strategy and plan.
- Whilst the focus of an ethical culture is the in implementing our framework with a desire to bring about the ethical culture, we will intensify the integration of the new entity and provide a platform to create the aspired to ethical culture for Umgeni Water.



Ms P Mvulane

Chairperson of the Social and Ethics Committee
30 June 2023



08

STAKEHOLDER UNDERSTANDING & SUPPORT

Stakeholder engagements are undertaken by Umgeni Water's Board, management and officials.



8.1 STAKEHOLDER INTERACTION AND ENGAGEMENTS

A key Strategic Objective of Umgeni Water is to increase customer and stakeholder value, understanding and support, as well as ensure that relationships developed remain constructive. In order to achieve this, structured and regular engagements with stakeholders take place consistently. Stakeholder engagements are undertaken by Umgeni Water's Board, management and officials, and occur with individuals and organisations that are impacted on, affected or may have an interest in the core functions of the organisation. As a reflection of the seriousness with which Umgeni Water regards stakeholder engagement and cordial relations, stakeholders have been categorised into four groups. These groups are: Statutory, Strategic, Contracted and Non-Contracted. Some engagements are mandatory as they are requirements of the Water Services Act No 108 of 1997 and the Municipal Finance Management Act 56 of 2003 and contractual obligations as per bulk supply agreements with municipal customers. All stakeholder engagements are in line with Umgeni Water's Integrated Stakeholder Management Strategy.

During the financial year under review, two significant incidents occurred that required the activation of crisis communication and engagement through various forums, including media and structured meetings with the Minister of Water and Sanitation, the Deputy Minister of Water and Sanitation, the Premier of KwaZulu-Natal, the political leadership of eThekweni Metropolitan Municipality and officials of various municipalities. The incidents were:

1. Failure of a shaft pump at the Durban Heights Water Works (WW) that transfers raw water from Nagle Dam to the Durban Heights WW and resultant raw water shortage. At that time, Aqueduct 4 had been temporarily decommissioned awaiting repairs to a leak and the onsite Reservoir 3 was also decommissioned as work was being done on its roof soffit and later the concrete floor slab and internal lining had to be rehabilitated and external waterproofing done as additional work to the original scope. The work on Reservoir 3 was essential and safety related, as identified in a five-yearly dam safety inspection on Reservoir 3 that revealed that some safety and stability-related components required further investigation and rehabilitation.
2. Extensive damage to bulk raw water transfer systems, Aqueduct 1 and Aqueduct 2, in the April 2022 floods. These aqueducts are among two other aqueducts that transport water from Nagle Dam to the Durban Heights Water Works. They were and remain decommissioned as repair on full restoration is being undertaken. The consequence of decommissioning has been a shortfall in raw water and accompanying reduced production of potable water. This has meant that in the post-storm period Umgeni Water has not been able to supply eThekweni Metro full contracted volumes of potable water.

Despite the setbacks in (1) and (2) above, Umgeni Water was able to continue business operations and reduced a significant potable water supply deficit over the months following the torrential April rains. The current shortfall is, on average, 40 megalitres per day. On some occasions,

full contracted volumes were supplied to eThekweni Metro. This was made possible through the use of the fourth shaft pump at the Durban Heights WW and additional water being transported through Aqueducts 3 and 4.

An outcome of Ministerial participation in discussions was the formation of a War Room, which is represented by the Department of Water and Sanitation, Umgeni Water and eThekweni Metro. The War Room has been mandated by the Minister to receive reports about progress towards full restoration of damaged infrastructure and to report back to the Minister on this. A similar War Room was established in the last days of the financial year under review to accelerate resolution of water and sanitation challenges in the Ugu District.

Other pre-arranged engagements continued with other stakeholders during the period under review. These were meetings with the Planning Commission (KwaZulu-Natal); Durban Chamber of Commerce and Industry; Pietermaritzburg-Mdlands Chamber of Business; the Ingonyama Trust Board; other municipal customers of Umgeni Water; the Department of Water and Sanitation; the National Assembly Portfolio Committee with oversight on Water and Sanitation; the National Treasury; the South African Local Government Association (SALGA), and the Trans-Caledon Tunnel Authority (TCTA) where numerous strategic focus areas were discussed, including:

- The appraisal of strategy, corporate plan implementation and performance indicators as per Shareholder Compact;
- The delivery of Umgeni Water's audited annual performance results;
- Consultation on the proposed bulk water tariff for the new financial year, and
- The five-year bulk potable water infrastructure development programme

Engagements also took place with the Department of Co-operative Governance and Traditional Affairs (KwaZulu-Natal) during the process of mediation over municipal outstanding debt for services provided by Umgeni Water. All statutory documents for the reporting year were submitted as per deadlines.

8.2 KEY AREAS OF DISCUSSIONS WITH STAKEHOLDERS

A large number of customer engagements took place, including strategic and operational meetings. Engagements with Umgeni Water's customers focused on performance with respect to bulk supply agreements, service delivery needs, infrastructure plans, status of water resources and water conservation and demand management. Events that were either hosted by Umgeni Water or in which the entity participated were:

- Presentation of Umgeni Water's annual performance to stakeholders;
- Presentation of the Capex Programme and explanation of the workings of Enterprise Development to the Black Business Federation, with whom Umgeni Water has signed a Memorandum of Agreement;
- Various inter-governmental platforms to discuss strategies and plans to ensure future water security in support of business development;
- A signing ceremony to formalise the business relationship between Umgeni Water and the King Cetshwayo District Municipality in which Umgeni Water provides bulk water services to this municipality;
- Information sharing with a business delegation from the Kingdom of Denmark and Denmark's Ambassador to South Africa during formal discussions at the Durban Heights WW
- Information sharing with Government representatives from the Republic of Côte d'Ivoire during formal discussions at the Lower Thukela Bulk Water Supply Scheme

Umgeni Water is aware of the importance of maintaining a healthy internal pulse. In this regard, engagements took place with employees and the organised labour formation, represented by the National Education, Health and Allied Workers' Union. This included visits to sites to interact with staff members, commemoration of special days in the year, induction of new employees and communiqués designed to inform employees of events, Ministerial and Board announcements and speeches.

Table 8.1: Umgeni Water Stakeholders, Basis for Engagement and Value Proposition

| Umgeni Water Stakeholders, Basis for Engagement and Value Proposition Statutory Stakeholders | |
|---|--|
| Statutory Stakeholders | |
| <i>Stakeholders who have a regulatory or oversight function over Umgeni Water, among them the Minister of Water and Sanitation, the Department of Water and Sanitation, the Portfolio Committee with oversight on Water and Sanitation and the National Treasury. Umgeni Water, a State-owned entity, is required to interact with these stakeholders on a formal and regular basis to ensure that statutory obligations are met and there is alignment with the Government's objectives, strategies and plans.</i> | |
| → Minister of Water and Sanitation | → Department of Water and Sanitation |
| → Portfolio Committee with oversight on Water and Sanitation | → National Treasury |
| Basis for engagement: <i>Delivery on mandate, compliant with the Water Services Act, the Public Finance Management Act and other pertinent legislation and regulations, delivering strategy and plans aligned to the Government outcomes and Executive Authority expectations, demonstrating adequate water resource planning mobilisation, investing in water infrastructure, ensuring efficient water use and conservation and water quality management, demonstrating a well-governed and efficiently run entity, ensuring performance in line with financial and predetermined objectives and plans to deliver sustainability, a partner that shows alignment with water sector communication strategies and plans, and a leader that contributes to establishing synergies in value chain and the water sector.</i> | |
| Umgeni Water and the National Government both desire: <i>A high-performing, well-governed State-owned enterprise that mobilises resources in an equitable and cost-effective manner to advance key national objectives.</i> | |
| Strategic Stakeholders | |
| <i>Provincial and some national stakeholders to whom Umgeni Water provides information relating to organisational performance, water resource status, capital infrastructure plans, solutions to prolonged bulk water supply interruptions and expertise available to assist vulnerable water boards and municipalities.</i> | |
| → KwaZulu-Natal (KZN) Provincial Stakeholders, including the Office of the Premier, KZN EDTEA, CoGTA and KZN Planning Commission | → Mhlathuze Water |
| → South African Local Government Association (SALGA) | → uThukela Water (Pty) Ltd |
| → South African Association of Water Utilities (SAAWU) | → Water Sector Institutions |
| → South African Human Rights Commission | → Professional organisations representing sector employees |
| Basis for engagement: <i>Structured implementation plan to enhance assurance of supply and extend water services to previously unserved communities, affordable tariff, water resource adequacy and sustainability as a catalyst for economic expansion, delivery on mandate and alignment to policy and National and Provincial Development Plans, partner in service delivery, accelerated service delivery, corporate governance, benchmarking and strategic information exchanges, collaboration in major events and celebrations and proactive measures to mitigate effects of prolonged water shortages and supply interruptions.</i> | |
| Umgeni Water, KZN Province and other Strategic Stakeholders desire: <i>Sound water services delivery partnerships, affordable services, role in ensuring regional economic growth and development and exchange of strategic information.</i> | |
| Umgeni Water, sector institutions and professional organisations desire: <i>Sound water services delivery partnerships, information exchange, partnerships to enhance knowledge and service delivery and collaboration in projects</i> | |
| Basis for engagement: <i>Information exchange and knowledge management, collaboration in water research and development, support for water centres of excellence, student internships and experiential training and exposure, study tours and site visits, collaboration in major events, such as National Water Week, participation in international exhibitions, specifically in Africa, knowledge management, networking and responding to bilateral agreements between South Africa and other African countries and continental water utilities.</i> | |
| Umgeni Water and water sector-related institutions desire: <i>A partner and sector collaborator that contributes to knowledge and skills development for the country, province and region.</i> | |
| Contracted Stakeholders | |
| <i>Stakeholders with whom Umgeni Water has contracted to provide or purchase products, services and goods. They include customers, suppliers and investors and, in the case of employees and organised labour, provision of employment and accompanying service benefits.</i> | |
| Water Service Authorities in KwaZulu-Natal with whom Umgeni Water has bulk supply agreements comprise: | |
| → eThekweni Metropolitan Municipality | → Ugu District Municipality |
| → Msunduzi Municipality | → Harry Gwala District Municipality, and |
| → uMgungundlovu District Municipality | → King Cetshwayo District Municipality |
| → iLembe District Municipality | |

Basis for engagement: Service agreements, assurance of supply, quality and quantity, care and support, responsive to needs, tariff consultation, partnerships in socio-development initiatives and partnerships in corporate Social Investment (CSI) initiatives.

Umgeni Water and WSA customers both desire: A high-performing, efficient, effective and responsive Water Services Provider.

→ Employees of Umgeni Water

→ National Education, Health and Allied Workers' Union (NEHAWU)

Basis for engagement: Compliance with collective agreement, demonstrating relevance as an organisation that adds value to the sector, regular feedback and communication regarding sector issues and organisational performance, regular information sharing and feedback on entity events planned and held, equitable jobs, fair labour practice, good working conditions, enabling work environment and communication, fair market-related compensation and service conditions, sound performance management and recognition system and engaged employees, productivity, delivery and return on investment.

Umgeni Water management, union and staff all desire: An equitable company, whose policies, practices, systems and feedback create motivated, engaged and aligned employees.

→ Suppliers and Service Providers

→ Investors and other Financial Institutions

→ Ingonyama Trust

Basis for engagement: Compliance with legislation for fair and equitable procurement, supplier development, transparency, business opportunities, integrity, fair treatment, fair pricing, fair payment terms, partnerships in BBBEE and capacity building towards more inclusive economic participation and CSI, environmental management and supplier footprint reduction – water, energy and materials.

Umgeni Water and suppliers desire: An equitable company, whose policies, practices, systems and feedback create responsive and high-performing suppliers that deliver against contractual agreements and are responsive to negotiations over land use for infrastructure, among them pipelines, water treatment works and dams

Non-contracted Stakeholders

Stakeholders to whom Umgeni Water demonstrates its value as a socially responsible, efficient and high-performing entity.

→ Community and Civil Society Institutions and Formations

Basis for engagement: Umgeni Water's demonstration of conservation and responsible use of resources, provision of clean and safe environment, exercising of responsible corporate citizenship, demonstration of transparency in corporate governance, job creation and provision of information and opportunities. In turn, Umgeni Water requires endorsement of social licence to operate, recognition for creating value, respect for property and collaboration in protecting remotely situated water assets.

Umgeni Water and communities/civil society desire: A sustainable entity that adds value to society through sound balance of economic growth, social development and environmental sustainability.

→ Chambers of Commerce, Business and Industry

Basis for engagement: Umgeni Water's provision of assurance of supply, quality and quantity, information on tariff, demonstration of responsible corporate citizenship and information sharing on infrastructure development projects. In turn, Umgeni Water encourages recognition for creating value, pollution prevention and safeguarding of water supply resources.

Umgeni Water and business desire: A sustainable entity that adds value to society through sound balance of economic growth, social development and environmental sustainability.

→ South African Weather Service

Basis for engagement: Access to information, demonstrating accountability, transparency and good governance. In turn, Umgeni Water expects regular information provision to guide its water resources planning

Umgeni Water and the South African Weather Service desire: Transparency and regular sharing of information

→ Media and the general public

Basis for engagement: Access to information, demonstrating accountability, transparency and good governance. In turn, Umgeni Water expects accurate and balanced reporting and media integrity.

Umgeni Water and media/public desire: A sustainable entity that adds value to society.



09

ANNUAL PERFORMANCE REPORT 2022/23

Umgeni Water implements its strategy through a balanced scorecard.

Umgeni Water implements its strategy through a balanced scorecard. For the past year, this comprised four Perspectives, 12 Strategic Objectives and 52 Key Performance Objectives

The Performance Objectives are further made up of 52 total annual measurable Result Indicators, for which responsibilities and accountabilities were agreed and targets approved within the entity at the start of the year. These Result Indicators include all statutory indicators specifically targeted by the Executive Authority and approved through the Shareholder Compact.

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

For the period 1 July 2022 to 30 June 2023, the planned initiatives were implemented and progress was assessed by the entity. The detailed scorecard follows. Performance against the strategy is also illustrated graphically in **Figures 9.1 to 9.3**.

Percent targets met 90%
Percent targets not met: 10%

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

For the **Customer and Stakeholder** perspective:

67% performance was achieved, of which:

- SO 1 – Improve stakeholder value achieved 100%;
- SO 2 – Improve customer value achieved 50%.

Key outcomes: Customer Satisfaction, Stakeholder Understanding and Support, Community and Environmental Sustainability

For the **Financial** perspective:

97.00% performance was achieved, of which:

- SO 3 – Improve Financial Sustainability achieved 97.00%;

Key outcome: Financial Viability

For the **Process Perspective:**

84.16% performance was achieved, of which:

- SO 4 – Improve stakeholder management achieved 100%;
- SO 5 – Improve governance processes achieved 83.67%;
- SO 6 – Improve internal efficiency and effectiveness achieved 0.00%;
- SO 7 – Increase customers and services achieved 83.33%
- SO 8 – Improve product and service quality achieved 71.00%

Key outcomes: Community and Environmental Sustainability, Stakeholder Understanding and Support, Operational Resilience, Operational Optimisation, Product Quality

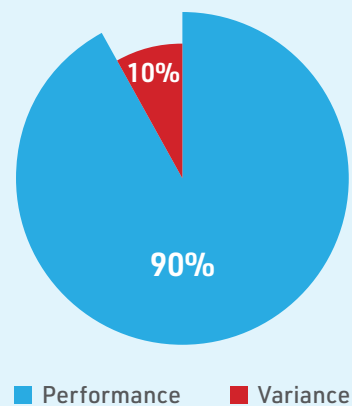
For the **Organisational capacity:**

95.66% performance was achieved, of which:

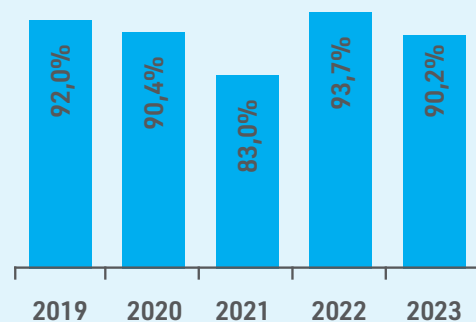
- SO 9 – Improve skills and competency achieved 100%;
- SO 10 – Improve the use of data and technology achieved 100%;
- SO 11 – Improve work culture achieved 100%.
- SO 12 – Increase supply security achieved 67.00%.

Key outcomes: Operational Optimisation and Resilience, Leadership and Employee Development, Water Resources Adequacy, Infrastructure Stability

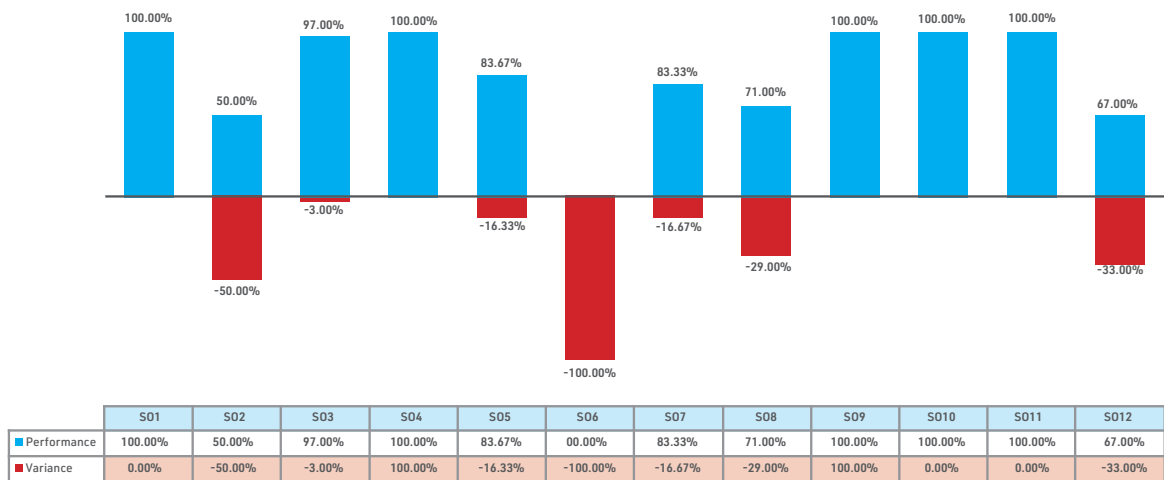
Figure 9.1: Umgeni Water Overall Performance



9.2 Umgeni Water Annual Performance Trend



9.3: Performance per Strategic Objective



The detailed performance of the organisation against indicators and targets for 2022/23 follows, with further expansion in each of the Annual Report chapters.

SCORECARD 2022/23

| # | Result Indicator | Target | Actuals | Reason for Variance |
|---|--|---|--|---|
| Balanced Scorecard Perspective: CUSTOMER AND STAKEHOLDER PERSPECTIVE | | | | |
| OUTCOMES: Customer Satisfaction, Stakeholder Understanding and Support, Community and Environmental Sustainability | | | | |
| Strategic Objective 1: Improve Stakeholder Value | | | | |
| KPI : Stakeholder satisfaction index | | | | |
| 1.1 | Stakeholder satisfaction index | ≥80% Improvements implemented | 87.5% Improvements implemented | Nil |
| Strategic Objective 2: Increase customer and stakeholder value | | | | |
| KPI 2: Satisfied customers over total customers | | | | |
| 2.1 | Satisfied customers over total customers | ≥80% Improvements implemented | 100% Improvements implemented | Nil |
| KPI 3: Per cent growth in geographic footprint | | | | |
| 3.1 | Per cent growth in geographic footprint | ≥5% growth in geographic footprint ≥20% footprint growth plan milestones implemented | 0% growth in geographic footprint 0% footprint growth plan milestones implemented | The milestones are long term as they are linked to major infrastructure projects. Some of these milestones will only be achieved over the next couple of years. |

| # | Result Indicator | Target | Actuals | Reason for Variance |
|--|--|--------------|---------|--|
| Balanced Scorecard Perspective: FINANCIAL PERSPECTIVE | | | | |
| OUTCOMES: Financial Viability | | | | |
| Strategic Objective 3: Improve financial sustainability | | | | |
| KPI 4 : Increase in Operating cash flows, Rm | | | | |
| 4.1 | Increase in Operating cash flows, Rm | ≥ R1522m | R1865m | Nil |
| KPI 5: Increase in Current Ratio | | | | |
| 5.1 | Increase in Current ratio (*SHC) | ≥ 4.94 | 6.09 | Nil |
| KPI 6: Decrease in Debt to Equity ratio | | | | |
| 6.1 | Decrease in Debt to Equity ratio (*SHC) | ≤ 0.08 | 0.08 | Nil |
| KPI 7: Increase in Interest cover ratio | | | | |
| 7.1 | Increase in Interest cover ratio | ≥ 6.44 times | 5.02 | Target not met due to the operating profit being lower than budget as a result of the increase in allowances for credit losses as customers continue to battle to pay their accounts as they become due. |
| KPI 8: Decrease in Number of debtor days | | | | |
| 8.1 | Decrease in Number of debtor days (*SHC) | ≤ 54 days | 44 | Nil |

Scorecard 2022/23 Continued

| # | Result Indicator | Target | Actuals | Reason for Variance |
|---|---|---------------|--------------------------------------|--|
| KPI 9: Per cent increase in return on assets | | | | |
| 9.1 | Per cent increase in return on assets (*SHC) | ≥ 6.23% | 5.42% | Target not met due to the operating profit being lower than budget as a result of the increase in allowances for credit losses as customers continue to battle to pay their accounts as they become due. |
| KPI 10: Employee related costs as a % of total operating expenditure | | | | |
| 10.1 | Employee related costs as a % of total operating expenditure (Bulk Water and Wastewater) (*SHC) | ≤ 35% | 23.05% | Nil |
| KPI 11: Increase in Total s29 Revenue | | | | |
| 11.1 | Increase in Total s29 revenue | R5.13bn ± 10% | R5.181bn (within allowable limit) | Nil |
| KPI 12: Total expenditure, Rbn (*SHC) | | | | |
| 12.1 | Total expenditure, Rbn (*SHC) | R4.42bn ± 10% | R4.83bn (within allowable limit) | Nil |
| KPI 13: Increase in Total surplus | | | | |
| 13.1 | Increase in Total surplus | R954m ± 10% | R1.15bn (within allowable limit) | Nil |
| KPI 14: Increase in Total s30 revenue | | | | |
| 14.1 | Increase in Total s30 revenue (*SHC) | R42m ± 10% | R55m | Nil |
| KPI 15: Gross profit margin % for primary activity (Bulk Water and Wastewater) | | | | |
| 15.1 | Gross profit margin % for primary activity (Bulk Water and Wastewater) (*SHC) | ≥ 60% | 58% | Higher than anticipated direct costs at budget period, which was pre-floods (Chemicals, Maintenance and Sludge Removal). Short-term and long-term incentive bonuses not budgeted for. |
| KPI 16: Net profit margin % for primary activity (Bulk Water and Wastewater) | | | | |
| 16.1 | Net profit margin % for primary activity (Bulk Water and Wastewater) (*SHC) | ≥ 18% | 22% | Nil |
| KPI 17: Gross profit margin % for secondary activity | | | | |
| 17.1 | Gross profit margin % for secondary activity (*SHC) | ≥ 18% | 16% | Ludeke Phase 2 and Compensation were not include in the budget and there was a lower than anticipated revenue received from SANBI project. |
| KPI 18: Net profit margin % for secondary activity | | | | |
| 18.1 | Net profit margin % for secondary activity (*SHC) | ≥ 13% | 13% | Nil |

| # | Result Indicator | Target | Actuals | Reason for Variance |
|--|--|---|---|---------------------|
| Balanced Scorecard Perspective: PROCESS PERSPECTIVE | | | | |
| OUTCOMES: Community and Environmental Sustainability, Stakeholder Understanding and Support, Operational Resilience, Operational Optimisation, Product Quality | | | | |
| Strategic Objective 4: Improve Stakeholder Engagement | | | | |
| KPI 19: Actual vs Planned stakeholder management plan deliverables met | | | | |
| 19.1 | Actual vs Planned stakeholder management plan deliverables met | ≥ 80% milestones of stakeholder management plan met | ≥ 80% milestones of stakeholder management plan met | Nil |
| KPI 20: Number of submissions in respect of Monthly Reports, Quarterly Reports, Annual Report, Tariff, Corporate Plan and Shareholder Compact and Policy Statement (*SHC) | | | | |
| 20.1 | Number of submissions in respect of Monthly Reports, Quarterly Reports, Annual Reports, Tariff, Corporate Plan and Shareholder Compact and Policy Statement (*SHC) | 20 submissions 12 Monthly Reports (Jul, Aug, Sep, Oct, Nov, Dec, Jan, Feb, Mar, Apr, May, Jun) 4 Organisational Quarterly Performance Report (2021/22 Q4, 2022/23 Q1, 2022/23 Q2, 2022/23 Q3) Final Annual Report by 31 Oct Final Corporate Plan by 30 April Final Shareholder Compact by 30 April Tariff | 20 submissions 12 Monthly reports (Jul, Aug, Sep, Oct, Nov, Dec, Jan, Feb, Mar, Apr, May, Jun) 4 Organisational Quarterly Performance Report (2021/22 Q4, 2022/23 Q1, 2022/23 Q2, 2022/23 Q3) 2021/2022 Annual Report Final Corporate Plan by 30 April Final Shareholder Compact by 30 April Tariff | Nil |
| KPI 21: Actual B-BBEE spend as a % of total discretionary expenditure and Number of new B-BBEE entrants awarded work (*SHC) | | | | |
| 21.1 | Actual B-BBEE spend as a % of total discretionary expenditure and Number of new B-BBEE entrants awarded work (*SHC) | ≥ 80% of B-BBEE spend ≥ 7 new Entrants | 129% 43 new entrants | Nil |
| KPI 22: Number of permanent and temporary jobs created (*SHC) | | | | |
| 22.1 | Number of permanent and temporary jobs created (*SHC) | HR report on new posts created on the permanent establishment ≥ 400 capex jobs | 76 permanent positions created as at Q4 480 temporal jobs created through the capex programme. | Nil Nil |
| Strategic Objective 5: Improve Governance Processes | | | | |
| KPI 23: Per cent actual vs planned controls improved | | | | |
| 23.1 | Per cent actual vs planned controls improved | ≥ 80% controls improvement milestones met | 80% controls improvement milestones met | Nil |
| KPI 24: Per cent audit findings resolved within target dates | | | | |
| 24.1 | Per cent audit findings resolved within target dates | ≥ 80% | 86% of internal and external audit findings were resolved within target dates | Nil |
| KPI 25: Increase in Risk Responsiveness of mitigation measures for all strategic risks identified | | | | |
| 25.1 | Increase in Risk Responsiveness of mitigation measures for all strategic risks identified | ≥ 80% of strategic risks have a Response effectiveness greater or equal to REASONABLE | 88.8% of strategic risks have Response effectiveness greater or equal to REASONABLE | Nil |
| KPI 26: Actual vs Planned Integrated Ethics Management Framework milestones | | | | |
| 26.1 | Actual vs Planned Integrated Ethics Management Framework milestones | Agreed Integrated Ethics Management Milestones met | 80% milestones met | - Nil |
| KPI 27: Board / Committee meetings attended as a % of planned meetings (*SHC) | | | | |

Scorecard 2022/23 Continued

| # | Result Indicator | Target | Actuals | Reason for Variance |
|--|---|--|---|---|
| 27.1 | Board / Committee meetings attended as a % of planned meetings (*SHC) | ≥ 95% resolutions taken | 100% resolutions taken | Nil |
| KPI 28: Resolutions taken by the board as a % of resolutions required (*SHC) | | | | |
| 28.1 | Resolutions taken by the board as a % of resolutions required (*SHC) | ≥ 95% | 100% | Nil |
| KPI 29: Unqualified audit report with no emphasis of matters (*SHC) | | | | |
| 29.1 | Unqualified audit report with no emphasis of matters (*SHC) | Unqualified audit report with no emphasis of matters | Unqualified external audit report with respect to financial statements and predetermined objectives. | Material findings with respect to compliance with legislation. |
| KPI 30: Number of repeat and unresolved findings (*SHC) | | | | |
| 30.1 | Number of repeat and unresolved findings (*SHC) | 0 repeat findings ≤ 6 unresolved findings | 0 repeat and 0 unresolved findings | Nil |
| KPI 31: Number of breaches in materiality and significance framework (*SHC) | | | | |
| 31.1 | Number of breaches in materiality and significance framework (*SHC) | Nil | There were instances of irregular expenditure resulting in breach of materiality and significance framework | The breaches resulted from non-compliance with SCM legislation. |
| Strategic Objective 6: Improve Internal Efficiency and Effectiveness | | | | |
| KPI 32: Actual vs planned business process improvement programme interventions implemented | | | | |
| 32.1 | Actual vs planned business process improvement programme interventions implemented | ≥ 80% milestones on Business process performance improvement met | 0% of Annual Targets Achieved | Project was put on hold due to the moratorium on procurement as well as the reconfiguration process |
| Strategic Objective 7: Increase Customers and Services | | | | |
| KPI 33: Total number of signed contracts (bulk supply agreements) in place as a % of total customers (*SHC) | | | | |
| 33.1 | Total number of signed contracts (bulk supply agreements) in place as a % of total customers (*SHC) | 100% (7 of 7 contracts signed) | 7 customers, 100% signed agreements | Nil |
| KPI 34: Per cent Directives implemented in accordance with plan (*SHC) | | | | |
| 34.1 | Per cent Directives implemented in accordance with plan (*SHC) | ≥ 80% planned Directives' Milestones met | 50% Planned Directive milestones met for Cwabeni OCS Dam, uMkhomazi BWSS and Stephen Dlamini Dam. | Delays in signing off the implementation plan by DWS due to their internal processes |
| KPI 35: Number of signed contracts/MOUs with rural Municipalities for provision of support (*SHC) | | | | |
| 35.1 | Number of signed contracts/MOUs with rural Municipalities for provision of support (*SHC) | ≥ 2 Signed contracts/MOUs | 3 signed contracts/MOUs with: → Ugu DM: Expires June 2023. → Harry Gwala DM: Expires November 2027. → Alfred Nzo DM: MOU valid until terminated by either Party. | Nil |
| Strategic Objective 8: Improve Product and Service Quality | | | | |
| KPI 36: Per cent compliance of WTW systems with SANS 241 water quality standard per risk category (*SHC) | | | | |

| # | Result Indicator | Target | Actuals | Reason for Variance |
|------|--|--|--|---|
| 36.1 | Per cent compliance of WTW systems with SANS 241 water quality standard per risk category (*SHC) | 12 WTW systems 100% compliant with EXCELLENT SANS 241 | 12 WTW systems 100% compliant with EXCELLENT SANS 241 in all risk categories. | |
| | | 1 WTW system 100% complaint with GOOD SANS 241 | 1 Maphumulo WTW system 100% complaint with EXCELLENT SANS 241 in all risk categories. The recorded performance exceeded the target: GOOD SANS 241. | 3 of 8 KCDM Schemes recorded UNACCEPTABLE SANS 241 in 3 risk categories: |
| | | 3 UMDM WTW systems 100% compliant with GOOD SANS 241 | 3 UMDM WTW systems 100% compliant with EXCELLENT SANS 241 in all risk categories. The recorded performance exceeded the target: GOOD SANS 241 | Eshowe WTW (Operational: 10.06% variance): Overloaded clarifiers and inadequate filter backwashing adversely affected plant performance. The ongoing payment dispute between the organisation and KCDM is delaying urgent capital investments that could improve process optimisation and quality of water produced at the plant. |
| | | 8 KCDM Schemes complaint with GOOD SANS 241 in all 5 risk categories | 3 KCDM Water Supply Systems 100% compliant with EXCELLENT SANS 241 in all risk categories 2 KCDM Water Supply Systems 100% compliant with GOOD SANS 241 in all risk categories. | Greater Mthonjaneni WTW (Operational: 11.6% variance): Turbidity failures resulting from inadequate backwashing. Disinfection of the main reservoir is also inadequate due to a faulty Chlorine supply pipe. |
| | | | | Melmoth WTW: (Acute Microbiological Health: 2.41% variance; Operational: 12.44% variance; Aesthetic: 3.13% variance): Overloaded clarifiers and inadequate filter backwashing adversely affected plant performance. |
| | | | | The implementation of the Action Plan was adversely affected by the ongoing payment dispute between the organisation and the customer. Engagements on the matter are ongoing. |
| | | ≥ 50% milestones achieved against KCDM Schemes Action Plan | 41% milestones achieved against KCDM Schemes Action Plan | |

KPI 37: Per cent Compliance against Licence or General Authorization or Green Drop Standards as a minimum (*SHC)

| | | | | |
|------|--|---|---|-----|
| 37.1 | Per cent Compliance against Licence or General Authorization or Green Drop Standards as a minimum (*SHC) | 10 WWTW ≥ 90% compliant 1 WWTW ≥ 80% compliant | 10 WWTW ≥ achieved 90% compliance 1 WWTW ≥ 80% compliant | Nil |
|------|--|---|---|-----|

Scorecard 2022/23 Continued

| # | Result Indicator | Target | Actuals | Reason for Variance |
|---|---|---|--|--|
| Balanced Scorecard Perspective: ORGANISATIONAL CAPACITY PERSPECTIVE | | | | |
| OUTCOMES: Operational Optimisation and Resilience, Leadership and Employee Development, Water Resources Adequacy, Infrastructure Stability | | | | |
| S09: Improve Skills and Competency | | | | |
| KPI 38: Actual vs planned HR plans delivered to progressively close identified strategic skills gaps | | | | |
| 38.1 | Actual vs planned HR plans delivered to progressively close identified strategic skills gaps | 5 of 7 Skills Development Programmes implemented ≥ 70% milestones met | 6 of 7 Skills development programmes implemented. | Nil |
| KPI 39: Number of staff terminations, excluding normal retirements, as a % of the total staff complement (*SHC) | | | | |
| 39.1 | Number of staff terminations, excluding normal retirements, as a % of the total staff complement (*SHC) | ≤ 8% | 1.74%, as at Q4 | Nil |
| Strategic Objective 10: Improve the use of Data & Technology | | | | |
| KPI 40: Actual vs planned digital transformation programme milestones met | | | | |
| 40.1 | Actual vs planned digital transformation programme milestones met | Digital Transformation programme milestones ≥ 80% met | 13 of 15 (87%) Digital Transformation Programme milestones met. | Nil |
| KPI 41: Per cent R&D projects on track against planned milestones | | | | |
| 41.1 | Per cent R&D projects on track against planned milestones | Organisational RD&I Programme milestones ≥ 70% met | 93.5% Organisational RD&I Programme milestones met | Nil |
| Strategic Objective 11: Improve Work Culture | | | | |
| KPI 42: Per cent change management programme milestones met over total milestones | | | | |
| 42.1 | Per cent change management programme milestones met over total milestones | Organisational Change Management Programme developed | Organisational Change Management Programme developed | Nil |
| Strategic Objective 12: Increase Supply Security | | | | |
| KPI 43: Number of days (> 24 hours) supply disrupted over total supply days (365 days per year) (*SHC) | | | | |
| 43.1 | Number of days (> 24 hours) supply disrupted over total supply days (365 days per year) (*SHC) | 0 days > 24 hours | 29.14 days > 24 hours Overall, 29.14 of 365 supply days were disrupted at 4 of 16 WTW systems | 29.14 of 365 supply days as at the following systems due to the following reasons: <ul style="list-style-type: none"> → 1.14 days at Hazelmere System in Q1 → 1.38 days at Hazelmere System in Q1 → 7.75 Days at Lidgetton WTW Supply System in Q2 → 16.42 Days at Mpfana WTW Supply System in Q2 → 2.45 Days at Maphumulo Water Supply Sytem in Q4 <p>Hazelmere System: A power failure and Pipeline shutdown to tie-in a refurbished pipeline that had sustained damage after the April 2022 floods adversely affected supply to customers in Q1.</p> <p>Mpfana and Lidgetton Systems: The abstraction point and raw water pump station were flooded. Power failure at Maphumulo resulted in the disruption of supply. Supply was successfully restored in all four systems that were affected by unplanned disruptions in the year.</p> |

| # | Result Indicator | Target | Actuals | Reason for Variance |
|---|--|--|---|---|
| KPI 44: Avoidable water lost (mil m3) over total water produced (mil m3) (*SHC) | | | | |
| 44.1 | Avoidable water lost (mil m ³) over total water produced (mil m ³) (*SHC) | ≤ 5% | 2.02% | Nil |
| KPI 45: Per cent actual vs. planned CAPEX programme milestones met (*SHC) | | | | |
| 45.1 | Per cent actual vs. planned CAPEX programme milestones met (*SHC) | ≥ 85% milestones met for Strategic projects | 63% milestones met for key strategic infrastructure projects | <p>22% variance against 85% milestone target due to:</p> <p>uMkhomazi Water Project: eThekweni Municipality is reluctant to sign an off-take agreement citing affordability challenges and has requested further engagements with NT and TCTA.</p> <p>South Coast Ph. 2b (Kelso to Umdoni): 1) Approval of VO 3 and VO 4 to get Contractor back on site 2) Project Stoppages from Umdoni informal Settlement over electricity supply matters that are not related to Umgeni Water or the Project. 3) Costly standing time claims due to unresolved matters with access to the site.</p> <p>Maphumulo Phase 3: 6MI WW: Delays in the signing of the Contract have delayed the start and completion date of the project.</p> <p>Greater Mpofana: The project had delayed due to non approval of wayleaves from external stakeholders.</p> |
| KPI 46: Total CAPEX spend against budget (*SHC) | | | | |
| 46.1 | Total CAPEX spend against budget (*SHC) | R1648m±20% | R1800m (within the upper range of the target of R1978m) | Nil |
| KPI 47: Capital expenditure for rural expansion (development) projects as % of total capex budget spent (*SHC) | | | | |
| 47.1 | Capital expenditure for rural expansion (development) projects as % of total capex budget spent (*SHC) | R395m±20% ± 23% of Total CAPEX spend | R463m capex spend for rural development against upper range of the target of R474m; 25.8% of annual capex spend | Nil |
| KPI 48: Repairs and Maintenance as a percentage of PPE (*SHC) | | | | |
| 48.1 | Repairs and Maintenance as a percentage of PPE (*SHC) | R330m±10% ≥3% of PPE | R393m 4.14% of PPE | <p>While the PPE target was met, an overspend of R68m was incurred. This resulted from unscheduled repairs that were conducted on infrastructure that was damaged in the April 2022 floods.</p> <p>This was necessitated by the urgent need to restore water supply to customers.</p> |
| KPI 49: Per cent volumes of water abstracted from alternative sources against total abstractions | | | | |
| 49.1 | Per cent volumes of water abstracted from alternative sources against total abstractions | Water resources diversification detailed feasibility study completed | Water resources diversification detailed feasibility study completed | Nil |
| KPI 50: Decrease in infrastructure theft, vandalism and servitude encroachment incidents | | | | |
| 50.1 | Decrease in infrastructure theft, vandalism and servitude encroachment incidents | Early Warning and Incident Management Programme milestones ≥95% met | 100% Early Warning and Incident Management Programme milestones met | Nil |
| KPI 51: Percent Environmental Sustainability Programme milestones met over total milestones | | | | |
| 51.1 | Percent Environmental Sustainability Programme milestones met over total milestones | Environmental sustainability programme/plan milestones ≥ 70% met | 78% Environmental sustainability programme/plan milestones met | Nil |



10 CREATING VALUE

Umgeni Water ensures that reciprocal value propositions are cultivated with customers and stakeholders. Value is created by actively applying the entity's core and distinctive competencies to meet identified needs.

PRODUCT QUALITY

MANAGEMENT APPROACH

The quality of potable water is paramount to Umgeni Water, thus the organisation endeavours to ensure that the quality of potable water produced within its operational area is safe for human health over a lifetime of consumption. To achieve this, a comprehensive water quality management programme is implemented throughout the supply area. The programme adopts a risk-based approach including monitoring programmes, water quality assessments, system audits, compliance reporting and water safety plans embracing the catchment to consumer concept.

The risks associated with abstraction, conveyance, treatment and bulk distribution are reviewed constantly to ensure control effectiveness and quality assurance. Potable water quality incidents are managed in accordance with an Incident Management Protocol aligned to the requirements of the South African National Drinking Water specification (SANS 241:2015).

In addition to providing safe drinking water and protecting public health, Umgeni Water is also committed to ensuring that wastewater discharges are not harmful to the environment and downstream users. This is achieved through the development and implementation of wastewater risk abatement plans that include comprehensive and site specific risk assessments, the implementation of corresponding mitigation plans and site specific incident management protocols to manage wastewater incidents and non-compliances.

All potable and wastewater sampling and analysis are undertaken in accordance with an ISO 9001 certified monitoring programme and South African National Accreditation System (SANAS) 17025-accredited laboratory methods. Information on water quality performance is regularly conveyed to customers, stakeholders and regulators in accordance with the organisational stakeholder communication plan. Umgeni Water has 100% investment in two subsidiaries, namely Msinsi Holdings and Umgeni Water Services.

Umgeni Water supports the relaunch of the DWS Blue Drop and Green Drop Certification Programmes as incentive-based regulatory tools used to acknowledge excellence in drinking water quality and wastewater quality management. The organisation has participated fully in the 2022-23 progress assessments and regulatory

PORTABLE WATER QUALITY PERFORMANCE

The South African National Drinking Water Specification (SANS 241:2015) dictates the compliance requirements for potable water supply systems.

The performance of each system is reported against

- (1) Acute Microbiological Health;
- (2) Acute Chemical Health;
- (3) Chronic Chemical Health
- (4) Aesthetics;
- (5) Operational Categories.

Table 10.1: Key to classification of the performance of drinking water supply systems according to SANS 241:2015

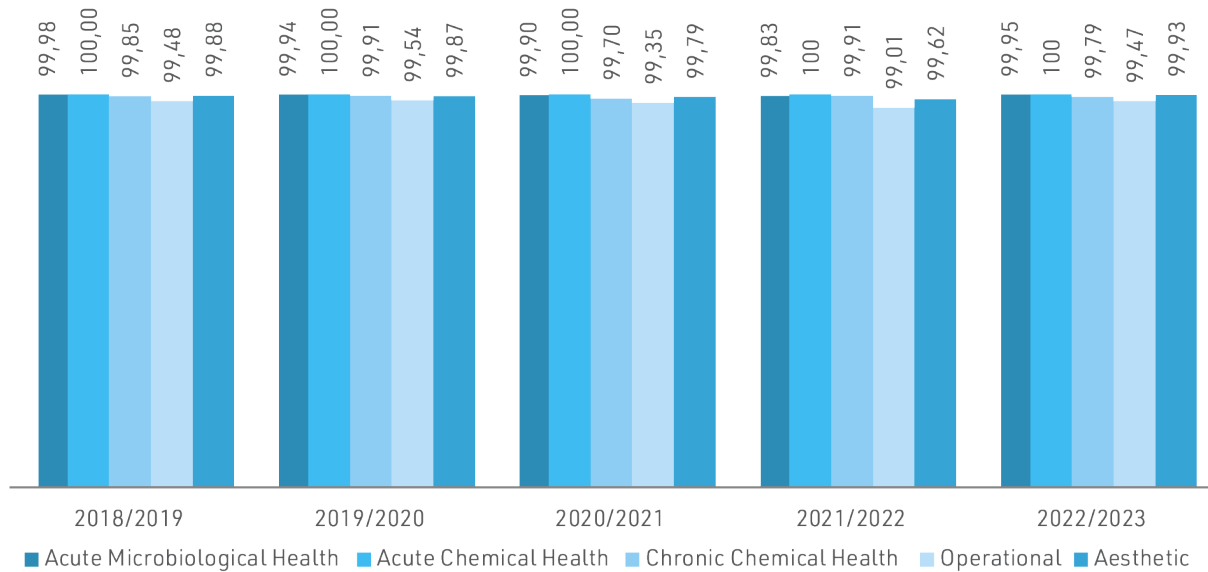
| | Population up to 100 000 Proportion of samples compliant | | | Population >100 000 Proportion of samples compliant | | |
|------------------------------|---|------|--------------|--|------|--------------|
| | Excellent | Good | Unacceptable | Excellent | Good | Unacceptable |
| Acute Microbiological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

During the reporting period, 13 Umgeni Water bulk water supply systems, three (3) uMgungundlovu District Municipality (UMDM) schemes and eight (8) King Cetshwayo District Municipality systems were monitored and reported against the five (5) risk categories as specified in SANS 241:2015.

Compliance per SANS 241:2015 risk category is shown in **Figures 10.1 to 10.3**.

Overall, the combined compliance of the Umgeni Water bulk potable water supply systems was excellent for the period under review.

Figure 10.1: Umgeni Water Bulk Systems Potable Water Quality Compliance (%) with SANS 241



The Umgungundlovu District Municipality potable water supply systems compliance was excellent for the period under review. Compliance per SANS 241:2015 risk category is shown in **Figure 10.2**.

Figure 10.2: uMgungundlovu WTW Potable Water Quality Compliance (%) with SANS 241

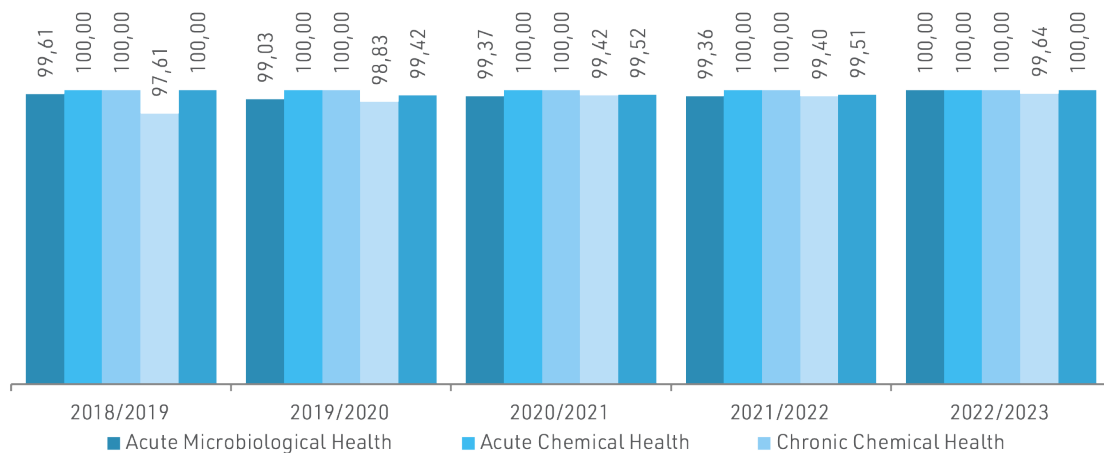


Table 10.2: 2022/2023 Potable Water Quality Compliance (%) with SANS 241:2015 per Water Supply System (KPI 36.1)

| | WATER SUPPLY SYSTEM | AVERAGE DAILY VOLUME TREATED (ML/D) | % VOLUME | PER CENT COMPLIANCE WITH SANS 241:2015 | | | | |
|----|---------------------|-------------------------------------|----------|--|-----------------------|-------------------------|-------------|-----------|
| | | | | ACUTE MICROBIOLOGICAL HEALTH | ACUTE CHEMICAL HEALTH | CHRONIC CHEMICAL HEALTH | OPERATIONAL | AESTHETIC |
| 1 | Durban Heights | 545.50 | 32.80 | 100.00 | 100.00 | 100.00 | 99.96 | 100.00 |
| 2 | Wiggins | 315.60 | 18.98 | 100.00 | 100.00 | 100.00 | 99.84 | 100.00 |
| 3 | Midmar | 365.10 | 21.95 | 100.00 | 100.00 | 100.00 | 99.87 | 100.00 |
| 4 | DV Harris | 117.70 | 7.08 | 100.00 | 100.00 | 100.00 | 99.79 | 100.00 |
| 5 | Hazelmere | 79.90 | 4.80 | 100.00 | 100.00 | 99.63 | 99.54 | 100.00 |
| 6 | Amanzimtoti | 87.30 | 5.25 | 100.00 | 100.00 | 98.83 | 99.30 | 99.88 |
| 7 | Mzinto | 11.00 | 0.66 | 100.00 | 100.00 | 99.51 | 99.05 | 100.00 |
| 8 | Mtwalume | 11.00 | 0.66 | 100.00 | 100.00 | 100.00 | 99.68 | 100.00 |
| 9 | Ixopo | 3.00 | 0.18 | 100.00 | 100.00 | 99.70 | 99.38 | 98.83 |
| 10 | Maphephetheni | 4.00 | 0.24 | 100.00 | 100.00 | 100.00 | 99.69 | 100.00 |
| 11 | Mhlabatshane | 7.00 | 0.42 | 100.00 | 100.00 | 100.00 | 99.34 | 100.00 |
| 12 | Lower Thukela | 58.19 | 3.50 | 100.00 | 100.00 | 100.00 | 99.92 | 100.00 |
| 13 | Maphumulo | 5.90 | 0.35 | 99.10 | 100.00 | 100.00 | 95.11 | 99.66 |
| 14 | Lidgetton | 0.46 | 0.03 | 100.00 | 100.00 | 100.00 | 99.61 | 100.00 |
| 15 | Mpofana | 5.20 | 0.31 | 100.00 | 100.00 | 100.00 | 99.63 | 100.00 |
| 16 | Rosetta | 0.21 | 0.01 | 100.00 | 100.00 | 100.00 | 99.66 | 100.00 |
| 17 | Gingindlovu | 1.60 | 0.12 | 100.00 | 100.00 | 98.97 | 95.69 | 98.30 |
| 18 | Greater Mthonjaneni | 24.6 | 0.96 | 98.15 | 100.00 | 100.00 | 78.40 | 97.36 |
| 19 | Inkandla | 3.96 | 0.18 | 97.87 | 100.00 | 100.00 | 98.55 | 98.97 |
| 20 | Eshowe | 12.00 | 0.60 | 97.22 | 100.00 | 100.00 | 79.94 | 99.12 |
| 21 | Melmoth | 1.89 | 0.18 | 92.59 | 100.00 | 100.00 | 80.56 | 89.87 |
| 22 | Middledrift | 12.7 | 0.66 | 98.00 | 100.00 | 100.00 | 98.99 | 99.52 |
| 23 | Mthunzini | 1.60 | 0.04 | 100.00 | 100.00 | 100.00 | 91.03 | 99.53 |
| 24 | Nomponjwana | 1.95 | 0.02 | 100.00 | 100.00 | 100.00 | 90.78 | 94.29 |

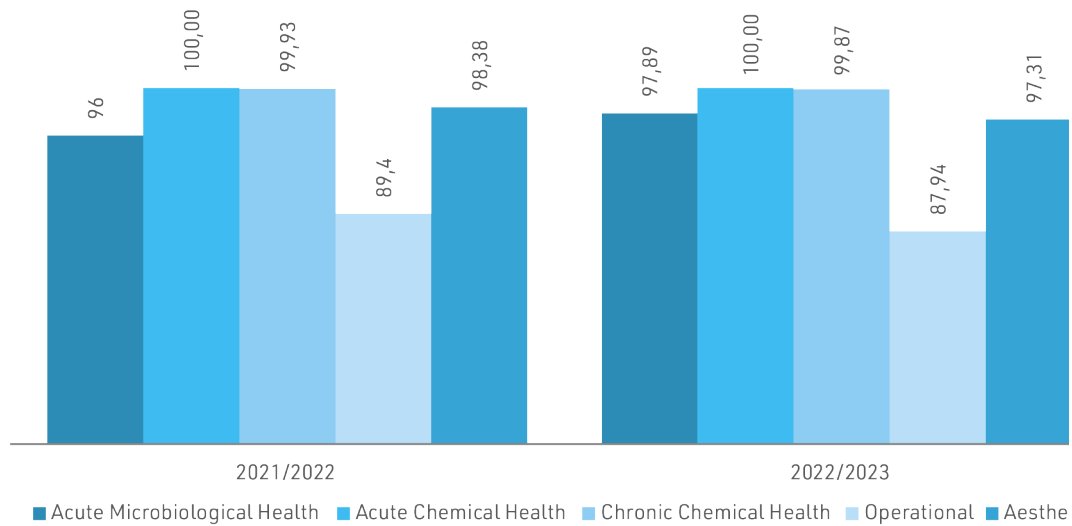
COMPLIANCE PER SYSTEM

Thirteen Umgeni Water bulk water supply systems showed excellent compliance with all monitored SANS 241:2015 risk categories.

The uMgungudlovu District Municipality's drinking water supply systems recorded a combined excellent performance against all the risk categories specified in SANS 241:2015.

The combined compliance for eight (8) King Cetshwayo District Municipality potable water supply systems (Figure 10.3) was EXCELLENT for three (3) Water Supply Systems in all risk categories, GOOD in two (2), and UNACCEPTABLE in three (3) systems against SANS 241 standards.

Figure 10.3: King Cetshwayo DM WTW Potable Water Quality Compliance (%) with SANS 241



Action plans were developed to facilitate an improvement in the water quality status and mitigate the risk to consumers in the King Cetshwayo District Municipality. These plans have informed a detailed list of water treatment aspects requiring maintenance, refurbishment and upgrade in the short, medium and long-term, subject to a collaborative agreement with the King Cetshwayo District Municipality regarding priorities and available budgets. Improvement in potable water quality compliance is anticipated to be progressive and over multi-years.



WASTEWATER QUALITY PERFORMANCE

Figure 10.4 and Table 10.3 show wastewater quality compliance per system, assessed against the relevant licence or General Authorisation General Limits prescribed by the Department of Water and Sanitation (DWS). Water and Sanitation (DWS) Figure below is : Figure 10.4:Wastewater Quality Compliance Per System

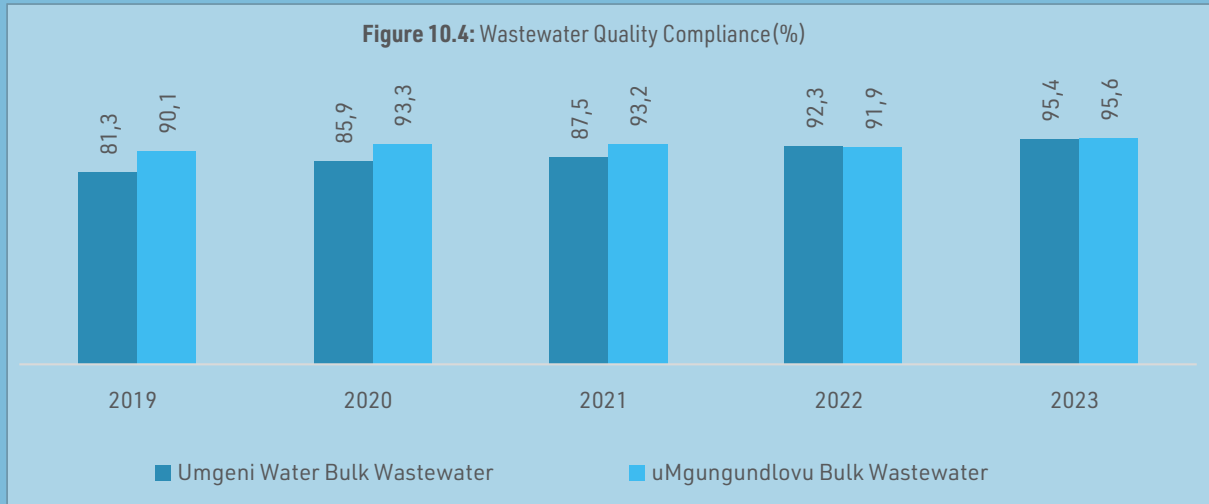


Table 10.3: Wastewater Compliance with licence and general authorization standards per Treatment Works

| | WASTEWATER TREATMENT WORKS | AVERAGE DAILY VOLUME TREATED | | PER CENT COMPLIANCE | | | | | |
|----|----------------------------|------------------------------|--------|---------------------|-------|---------|---------|-------------|-------------|
| | | (ML/D) | (%) | 2019 | 2020 | 2021 | 2022 | 2023 TARGET | 2023 ACTUAL |
| 1 | Darvill | 71.99 | 86.45% | 73.7% | 82.2% | 84.05% | 90.44% | ≥ 85% | 94.57% |
| 2 | Howick | 6.07 | 7.29% | 90.3% | 91.1% | 93.33% | 95.56% | ≥ 90% | 94.40% |
| 3 | Ixopo | 0.50 | 0.60% | 94.0% | 92.6% | 88.13% | 94.58% | ≥ 90% | 93.33% |
| 4 | Lynnfield Park | 0.17 | 0.20% | 93.6% | 92.5% | 96.79% | 95.65% | ≥ 90% | 96.79% |
| 5 | Mpofana | 3.38 | 4.06% | 77.7% | 88.4% | 86.92% | 87.30% | ≥ 80% | 92.08% |
| 6 | Richmond | 0.68 | 0.82% | 96.7% | 95.3% | 96.67% | 99.17% | ≥ 90% | 97.14% |
| 7 | Cool Air | 0.36 | 0.43% | 99.6% | 99.5% | 100.00% | 98.33% | ≥ 90% | 97.69% |
| 8 | Camperdown | 0.08 | 0.10% | 91.7% | 93.1% | 94.44% | 100% | ≥ 90% | 98.61% |
| 9 | Appelsbosch | 0.04 | 0.05% | 88.9% | 93.1% | 97.22 | 93.06% | ≥ 90% | 91.23% |
| 10 | Albert Falls North | 0.02 | 0.02% | - | - | 100.00% | 100.00% | ≥ 90% | 100.00% |
| 11 | Albert Falls South | 0.03 | 0.04% | - | - | 100.00% | 100.00% | ≥ 90% | 94.44% |

Compliance per System

Compliance for eleven (11) wastewater treatment works (WWTW) was assessed against the relevant standards, with all eleven (11) WWTW being compliant with the set performance targets. An improvement in the overall effluent compliance at WWTW may be attributed to a number of interventions including: maintenance and process optimisation to compensate the challenges and impacts of loadshedding on the treatment process, the implementation of flow proportional chlorine dosing at some of the WWTW, the commissioning of the dewatering units at Howick WWTW and the near completion of the upgrade at Darvill WWTW.



10.2 CUSTOMER SATISFACTION

GEOGRAPHICAL MARKETS AND CUSTOMERS

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

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

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

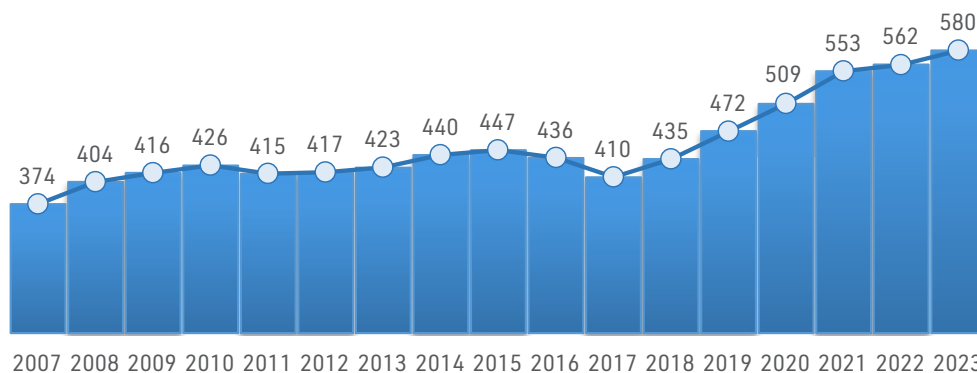
- | | |
|--|------------------------------------|
| 1. eThekweni Metropolitan Municipality: | Retain and grow |
| 2. Msunduzi Municipality: | Retain and grow |
| 3. iLembe District Municipality: | Retain and grow |
| 4. uMgungundlovu District Municipality: | Retain and grow |
| 5. Harry Gwala District Municipality: | Market penetration |
| 6. Ugu District Municipality: | Market penetration |
| 7. uThukela District Municipality: | Market development |
| 8. King Cetshwayo District Municipality: | Market development |
| 9. Newcastle Municipality: | Market Development (Demand driven) |
| 10. Amajuba District Municipality: | Market Development (Demand driven) |
| 11. uMzinyathi District Municipality: | Market Development (Demand driven) |
| 12. uMkhanyakude District Municipality: | Market Development (Demand driven) |
| 13. uMhlathuze Municipality: | Market Development (Demand driven) |
| 14. Zululand District Municipality: | Market Development (Demand driven) |



BULK PROVISION AND INFRASTRUCTURE ASSETS

The core bulk water and wastewater business is undertaken in a manner that serves customers and stakeholders most effectively. As part of the value chain function, raw water is carefully abstracted from dams, rivers and borehole sources and conveyed using both gravity and the most effective pumping options to bulk water treatment works, where it is treated to meet SANS 241 quality standards and distributed to customers.

Figure 10.3: Customer Volumes Supplied (million m³)



Equally, with regard to wastewater treatment, influent is received from municipal sewer systems, treated at bulk wastewater treatment works and effluent is discharged back into receiving systems mindful of the quality and potential impacts on receiving systems and potential for reuse.

Umgeni Water’s infrastructure assets in support of its bulk water services business comprise:

- Approximately 930km of pipelines and 53km of tunnels;
- Fifteen impoundments;
- Twenty water treatment works;
- Eleven wastewater treatment work

A total of 580 million cubic metres of potable water per annum (1589ML/d) were supplied to customers (Figure 10.5) who serve a population of 6.7m or 1.9m households through reticulation networks. This is a 3% year-on-year increase as compared to the previous year.

Treatment works' capacities and utilisation are shown in Figure 10.6(a) and (b) respectively.

In the year under review, there were unplanned supply disruptions of 29.14 supply days in four of the 17 supply systems. The disruptions at Hazelmere WTW were as follows: in Q1, a failure in the power supply infrastructure belonging to the City of Durban led to a disruption in supply amounting to 1.14 days. Power supply to the water treatment works was successfully restored and normal operations resumed. A second disruption on the same system occurred in Q1 resulting from a pipeline shutdown to tie-in a refurbished pipeline that had sustained damage after the April 2022 floods disrupted supply for 1.38 days. The isolation of the live pipeline was necessary to allow connection of the newly-refurbished pipeline at Mamba Ridge. Supply was successfully restored upon completion of the operation.

The unplanned disruption at Lidgetton (7.75 days) in Q2 was as a result of flooding at the abstraction point. The Pumps were repaired and normal operation resumed. The disruption at Mpofana WTW (16.42 days) in Q2 was as a result of flooding in the raw water pump station. The Mpofana WTW and Raw Water Pump station will be decommissioned and replaced by the new Bruntville pipeline, supplying from the newly constructed Spring Grove WTW.

The unplanned disruption at Maphumulo WTW (2.45 days) in Q4 arose from a power supply disruption from the national grid to the water treatment works. Power supply to the water treatment works was successfully restored and normal operations resumed.

In all such instances including planned disruptions, customers are kept informed on progress of any interventions. Umgeni Water continues to engage regularly with its customers in line with service level agreements.

Bulk wastewater treated from nine wastewater treatment works over this period amounted to 31 million cubic metres (84ML/d) for the year per annum, which is at similar to the prior year (31 million cubic meters or 84ML/d in 2021). Wastewater Treatment Works' (WWTWs) capacities

and utilisation are shown in Figure 10.46(c) and (d) respectively.

BULK SUPPLY ARRANGEMENTS

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

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

Figure 10.6 (a): WTW Capacity (ML/d)

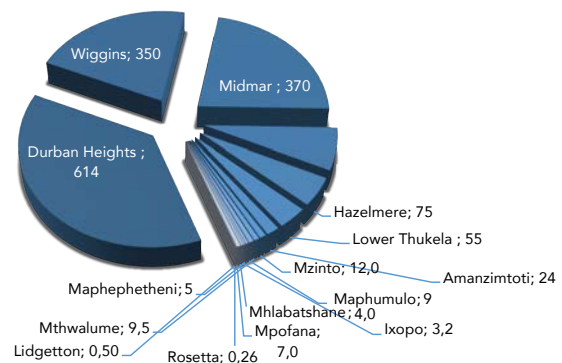


Figure 10.6 (b): WTW % Utilisation

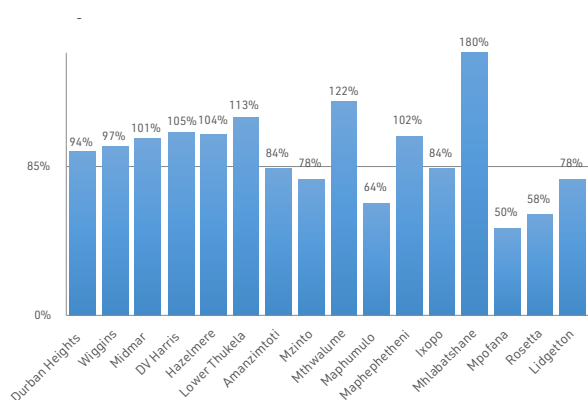


Figure 10.6 (c):WWTW DesignCapacity (Ml/d)

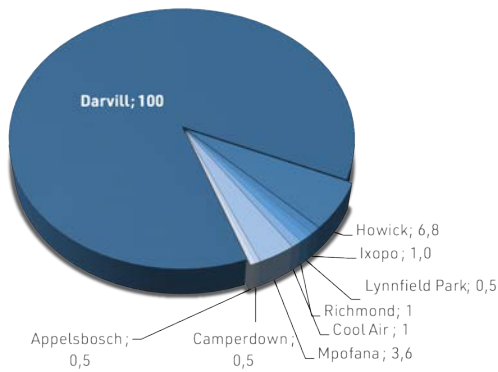
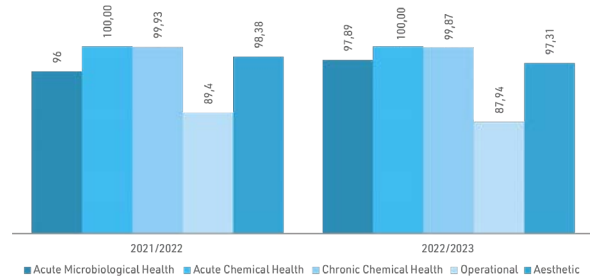


Figure 10.6 (d):WTTW % Utilisation



SUPPLY CAPACITY AND CONSTRAINTS

Several works, as shown in **Figure 10.6 (b)** are currently operated above their design capacity to meet demands, and both long- and short-term interventions are in place to address them including major works capital upgrades, refurbishments, pipeline developments, utilisation of package plants (interim measure) and general operational and process upgrades to alleviate bottlenecks.

OPERATIONAL PERFORMANCE AND SERVICE PLANNING

Umgeni Water met all customers formally in the year to assess performance as per the signed customer bulk supply agreements. Customer requirements were significantly met in relation to supply volumes, supply pressure, service levels and metering. Structured consultation for communication of future demands, infrastructure plans and tariff assumptions took place, and robust customer inputs received. In the past year, additional engagements focused on agreements on water restrictions that needed to be imposed (uThukela DM) and collaborative engagement of end users regarding judicious use of water supplies.

Conceptual plans for growth and expansion of water services and provision of universal access have been developed, for existing and new customers in KwaZulu-Natal (KZN). Discussion and communication with customers and stakeholders regarding these, notably implementation priorities and funding and financing will become the focus over the next few years. Customer engagement and consultation is core to Umgeni Water successfully extending access to unserved areas in KZN.

SUPPORT TO RURAL MUNICIPALITIES

Umgeni Water continued to provide support to vulnerable customers to implement projects that aim to improve service delivery. In the past year, support

was provided to various customers.

- Infrastructure assessments were completed for Ugu and King Cetshwayo District Municipalities and recommendations for process optimisations to improve the state of the infrastructure and ultimately water quality also provided;
- Support was provided to Ugu, Alfred Nzo, Harry Gwala District Municipalities and Winnie Madizikela-Mandela Local Municipality, with respect to Water and/or wastewater sampling, testing, compliance reporting, training and other support services;
- Process optimisation interventions were implemented at Ezakheni and Olifantskop WTWs in UThukela District Municipality. Possible refurbishment and upgrade options for the two WTWs were developed. Additional support was provided to the water service authority with respect to the implementation of its water quality-monitoring programme;
- Trade effluent support provided to uMsunduzi Municipality with regard to investigation and management of multiple illegal discharges in the rivers;
- Water storage tanks were supplied and installed in various municipalities throughout KwaZulu-Natal at the start of the COVID-19 crisis. This initiative was done in collaboration with the Department of Water and Sanitation, and the Water Institute of Southern Africa.

DROUGHT MANAGEMENT

Most of KwaZulu-Natal including UW area of operation received average rainfall early in 2023. This rainfall contributed to an acceptable water resource availability in all the systems operated by UW, particularly the Mgeni System. However, during the months of March

received below-normal rainfall. Climate models are suggesting the presence of El Niño for the latter parts of the 2023 winter season into early summer towards the end of 2023. As a result this situation is currently being monitored on regular basis but the current water resource status of all the systems is good, representing no risk of non-supply within the 2023/2024 financial year

The raising of Hazelmer Dam wall has been completed and DWS is the process of issuing an impoundment license after which the dam will be allowed to fill up. The dam safety officer for Imvutshane Dam has recommended that the level be reduced and kept below 60% so that the safety of the dam wall is not compromised.

Umgeni Water adopted a multi-faceted approach to deal with the water supply challenges experienced as a result of the previous drought and potential future droughts:

- The frequency of water resource monitoring, status updates and projections continue at an increased level;
- Advice and support for drought intervention initiatives is being provided to the Department of Water & Sanitation (DWS), Water Service Authorities and the KZN Department of Co-operative Governance & Traditional Affairs (CoGTA);
- Communication with the media and the Water Service Authorities continues to include water save tips and the potential for future exposure to water resource constraints if these are not implemented.

ASSET CONDITION, MAINTENANCE AND MANAGEMENT

Regular maintenance and inspection of all assets were undertaken in the reporting period as an intrinsic part of continued operations management.

Maintenance is implemented in accordance with the asset management strategy and implementation plan for the year.

This comprises planned maintenance – inclusive of preventative maintenance, repairs, redesign and modifications – complemented by ongoing unplanned, reactive and corrective maintenance.

Assessments of the condition of assets remain a vital part of determining the useful life and future

investments required to maintain the level of service to customers.

In the year the total asset maintenance spend was R398m (Figure 10.7). Over the years Umgeni Water has continued to maintain its assets and on average invests 6.6% of its revenue on asset maintenance. Based on assessments conducted over the past year, there are no assets that pose significant risk to supply and the organisation does not envisage major interruptions to its business over the next five years

Figure 10.5(a): Direct Maintenance Spend

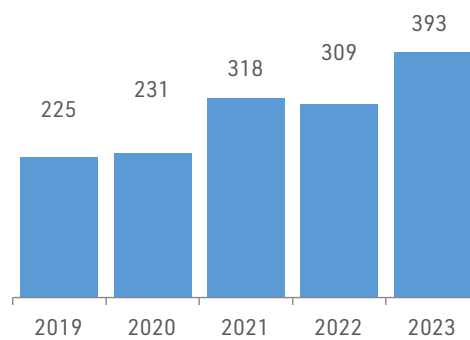
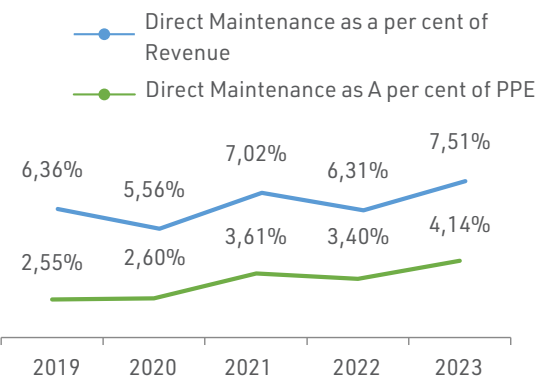


Figure 10.5(b): Direct Maintenance (%)



WATER LOSS MANAGEMENT AND METERING

Non-revenue water is successfully maintained below 5%. This has been a result of a metering all critical nodes and monitoring of meter accuracy. This initiative will continue through meters installed by Umgeni Water at various critical points in its systems.

10.3 INFRASTRUCTURE STABILITY

Management Approach

Umgeni Water plans and manages the stability/reliability of its bulk water infrastructure in order to meet current and future customer needs. The planned outcome is the provision of bulk infrastructure that is consistent with exceptional levels of service, manageable risk and anticipated projected future growth demand to ensure that long-term system reliability goals are met.

To this end, the capacity and condition of existing infrastructure is assessed annually and informs future infrastructure planning and development. Infrastructure developments, therefore comprises:

- Infrastructure upgrades, additions, augmentation, expansion, rehabilitation and development in order to deliver a high quality product, sustainable and reliable to customers;
- Growth to new areas and to serve projected needs;
- Supply rural areas and municipalities to reduce backlogs and increase community sustainability.

In implementing infrastructure projects, Umgeni Water uses local labour as its preferred workforce to facilitate skills transfer and economic support to local communities.

Umgeni Water further ensures that there is meaningful Broad-based Black Economic Empowerment (B-BBEE) through its policies that drive provision of meaningful economic opportunities to targeted enterprises.

All bulk water infrastructure developments are undertaken in an environmentally sustainable manner. Appropriate projects are subjected to Environmental Impact Assessments during project planning, design, construction and commissioning phases and manifests in the development and implementation of sound Environmental Management Plans that are monitored and audited independently during implementation.

Status of Water Access in the Supply Area

Within Umgeni Water’s area of focus in the reporting period, access to potable water inside the dwelling / house / yard comprise 70% of the total number of people with access to water (Figure 10.8 - Community Survey 2016). There are many areas that fall outside the supply of Umgeni Water’s bulk water infrastructure footprint, that are still not benefiting from any other water schemes. In addition, components of the served areas that are characterised by small schemes have been found to be unsustainable.

Figure 10.8 (a) : Main Source of Water for Drinking by WSA – Umgeni Water Focus Area (Stats SA, Community Survey 2016)

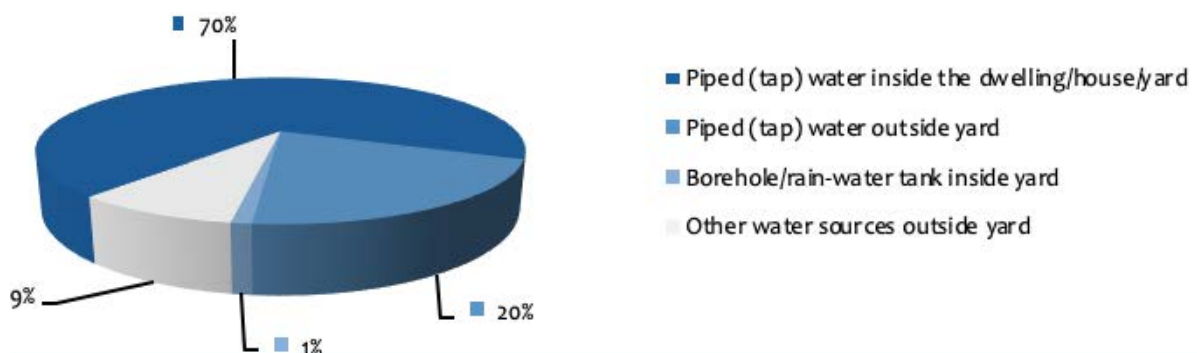


Figure 10.8 (b) : Main Source of Water for Drinking - Umgeni Water Focus Area (Stats SA, Community Survey 2016)

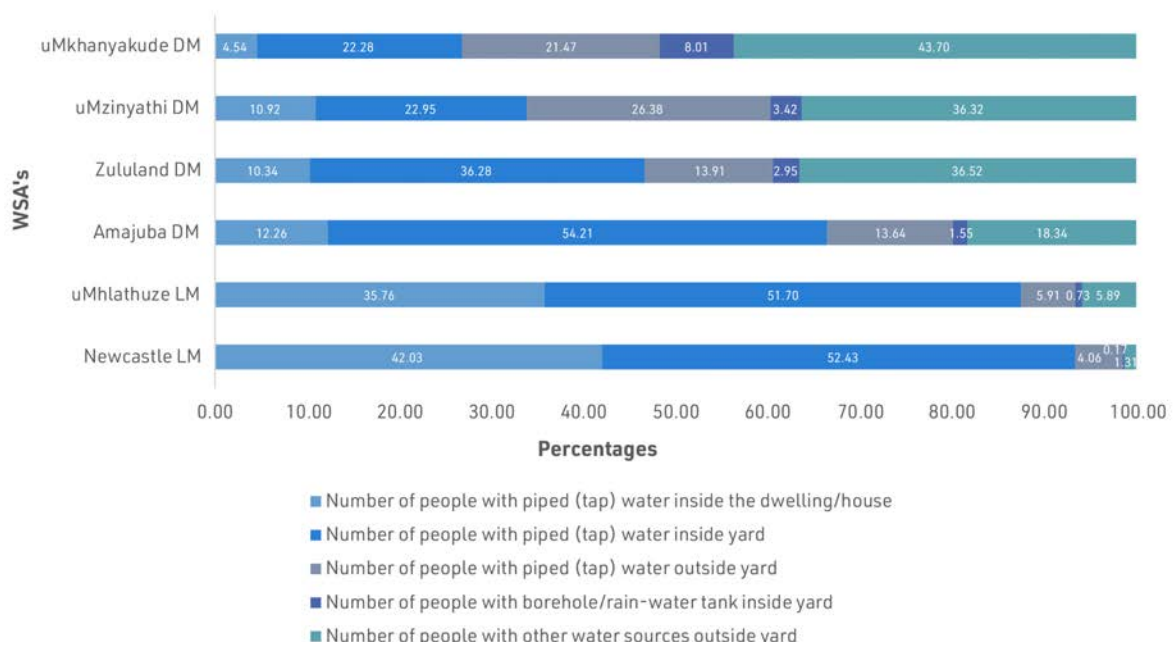
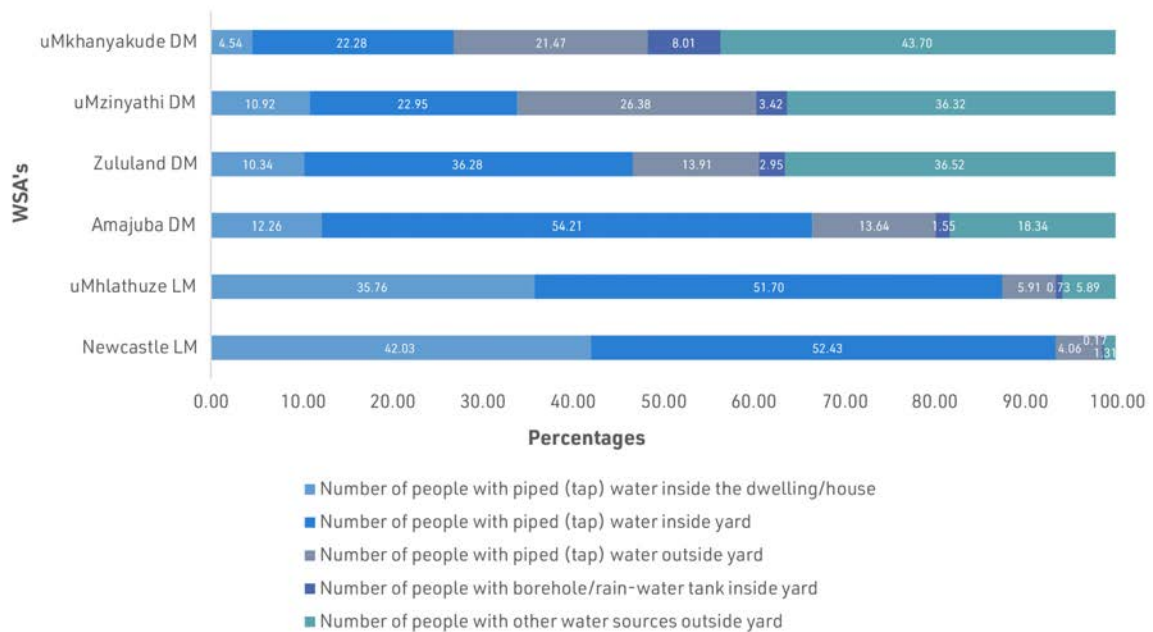


Figure 10.8 (c) Main Source of Water for Drinking by WSA – Umgeni Water Focus Area (Stats SA, Community Survey 2016)

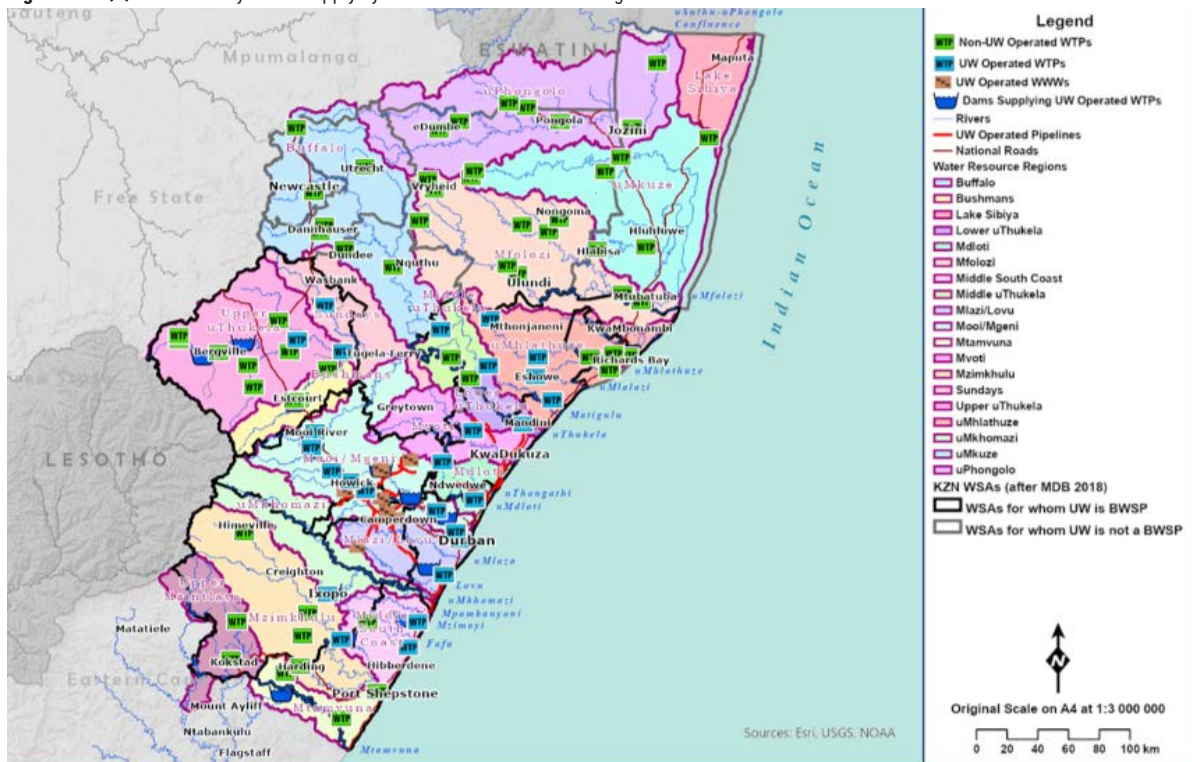


UNIVERSAL ACCESS PLAN

Working closely with national and provincial stakeholders in KwaZulu-Natal, Umgeni Water completed the planned development of Universal Access Plans (UAPs) for all Water Services Authorities (WSAs) in KwaZulu-Natal in 2016. The outputs comprise conceptual bulk water supply scheme plans per municipality for all of KZN. The plans reconcile backlogs and growth in demands with bulk infrastructure to meet the needs for the 2045 planning horizon. In the year, Umgeni Water further extended this plan to include the secondary bulk that would be needed to link regional schemes to community areas.

In addition to the UAP suite of projects, Umgeni Water has developed bulk water Infrastructure Master Plans for the entire province of KwaZulu-Natal. They are available on the Umgeni Water website and provide an understanding of the status quo of the existing water resource and supply infrastructure as represented by **Figure 10.9 (a)** and **Figure 10.9 (b)**, the expected future supply needs and recommendations for infrastructure projects to provide regional supply to all areas.

Figure 10.9 (a): KZN Primary Water Supply Systems as identified in the Umgeni Water Infrastructure Master Plan 2023



Umgeni Water investigates the feasibility of implementing these plans where they exist within its operational area, and feasible (financial and technical) projects are thereafter included within the organisations capital expenditure programme for implementation.

Umgeni Water’s Current Bulk Infrastructure and Supply Footprint and the Status of Bulk Infrastructure implemented in the reporting period are shown in **Figure 10.9 (b)**.





Figure 10.9 (b): Major Projects Implemented in 2022/23

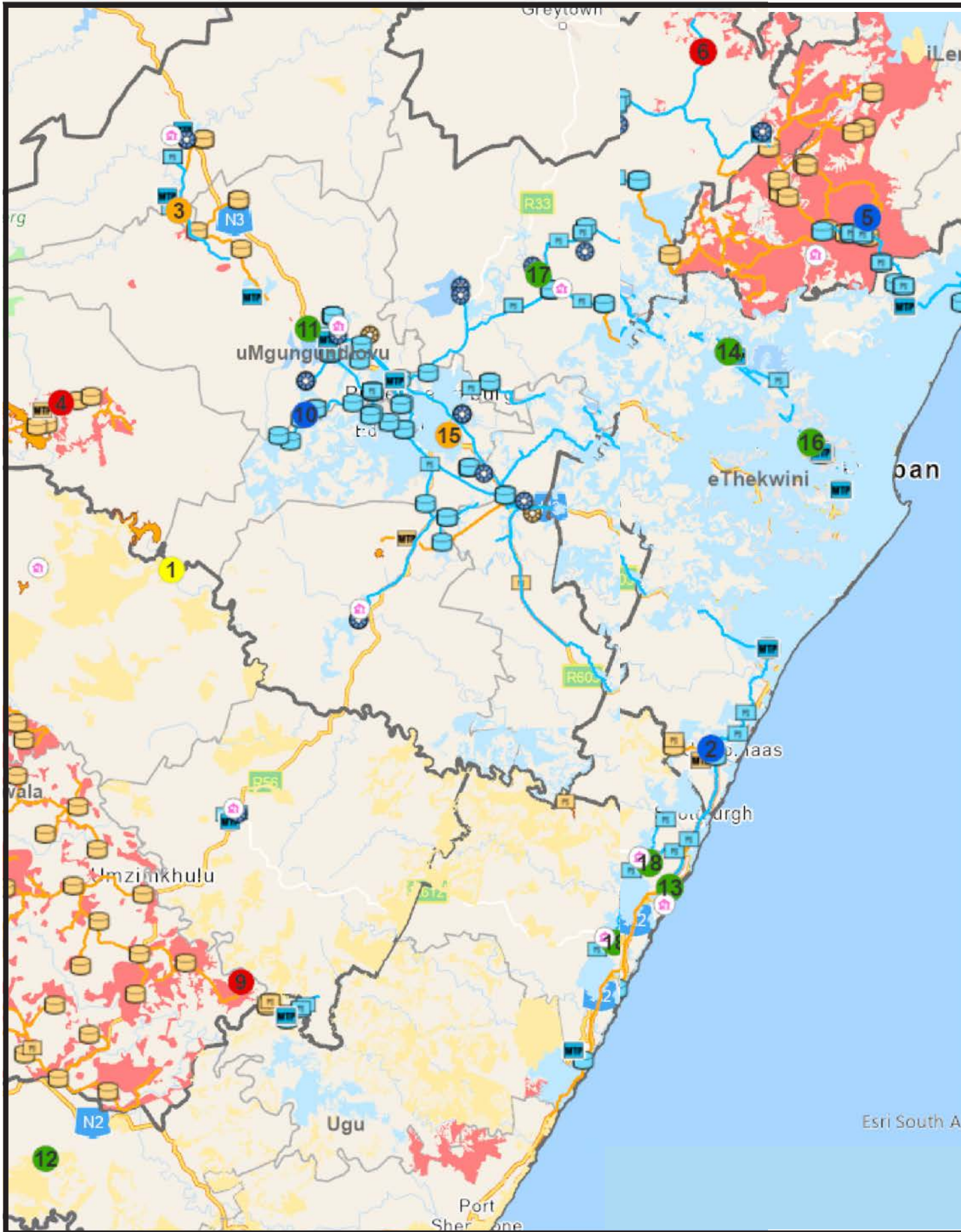


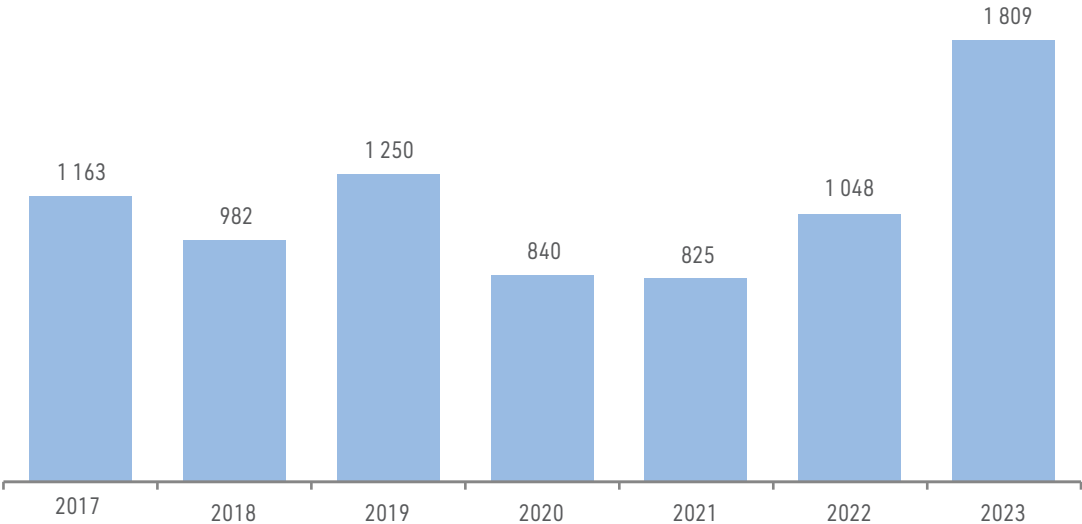
Table 10.4: Major Projects Implemented in 2022/2023

| | Project Name | Project Status | Objective | Major Customer | Total Project Budget (Rm) | Implemented as at 30 June 2023 (Rm) |
|----|---|------------------------------|-----------------|--------------------------------|---------------------------|-------------------------------------|
| 1 | Mkhomazi Bulk Water Supply Scheme | Detailed Feasibility | Augmentation | eThekwini MM, uMgungundlovu DM | 8,278 | 11 |
| 2 | Lower uMkhomazi Bulk Water Supply Scheme | Procurement and Construction | Augmentation | eThekwini MM, Ugu DM, | 6,191 | 7,10 |
| 3 | Greater Mpofana Regional Scheme Phase1 | Completed | Rural Expansion | uMgungundlovu DM | 1,022 | 992 |
| 4 | Impendle BWSS | Detailed Design | Rural Expansion | uMgungundlovu DM | 260 | 10 |
| 5 | uMshwathi BWSS Phase 4 (Southern Ndwedwe) | Procurement and Construction | Rural Expansion | iLembe DM | 700 | 12 |
| 6 | uMshwathi Phase 6 | Detailed Design | Rural Expansion | uMgungundlovu DM | 322 | 3 |
| 7 | Lower Thukela BWSS Phase 2 | Detailed Design | Rural Expansion | Ilembe DM | 1,406 | 16 |
| 8 | Maphumulo BWSS Phase 3: WTW Upgrade (6 ML/d to 12 ML/d) | Construction | Rural Expansion | iLembe DM | 387 | 154 |
| 9 | Mhlabatshane Sub-Regional Scheme Ph 2 | Detailed Design | Rural Expansion | Ugu DM | 852 | 17 |
| 10 | Vulindlela BWSS Upgrade | Procurement and Construction | Augmentation | Msunduzi LM | 519 | 63 |
| 11 | Mpophomeni Wastewater Treatment Works (WWTW) | Construction | Rural Expansion | uMgungundlovu DM | 536 | 343 |
| 12 | Weza Harding Abstraction and Pipeline | Construction | Rural Expansion | eThekwini MM, Ugu DM | 189 | 86 |
| 13 | South Coast Phase 2b Kelso to Umdoni | Construction | Expansion | eThekwini MM, Ugu DM | 339 | 175 |
| 14 | Rehabilitation of Aqueduct No 1&2 | Completed | Rehabilitation | eThekwini MM | 783 | 105 |
| 15 | Darvill WWTW Capacity Increase | Completed | Upgrade | Msunduzi LM | 1,133 | 1,124 |
| 16 | Emergency Rehabilitation to Nagle Aqueduct No 3&4 | Construction | Rehabilitation | eThekwini MM | 194 | 76 |
| 17 | Trustfeeds WWTW | Construction | Rural Expansion | uMgungundlovu DM | 194 | 76 |
| 18 | Umzinto WTW Upgrade | Construction | Upgrade | Ugu DM | 85 | 75 |

PERFORMANCE WITH CAPITAL INFRASTRUCTURE PLAN

Significant progress with capital infrastructure implementation was achieved in the reporting period. Spend performance for the year was R1,809 million, of which R1,246m (R611m in 2022) was spent on bulk infrastructure augmentation, expansion, upgrades and rehabilitation projects. R463m (26%) went towards projects for rural development. Overall, 63% of target water infrastructure project milestones were met.

Figure 10.10: Capital Infrastructure Implemented (Parent) (Rm)



CUSTOMERS TARGETED AND PROGRESS WITH KEY BULK INFRASTRUCTURE DEVELOPMENTS



(1) Mkhomazi Bulk Water Supply

Serves eThekweni Metropolitan Municipality, uMgungundlovu District Municipality, Msunduzi Local Municipality, Ugu District Municipality and iLembe District Municipality

Phase 1 of the infrastructure development includes a dam on the uMkhomazi River, raw water tunnel to Baynesfield, balancing dam, raw water pipeline, water treatment works and bulk potable storage reservoir at Baynesfield and bulk potable water pipeline to Umlaas Road. Phase 2 includes a further dam higher up on uMkhomazi River at Impendle, raw water tunnel, raw water pipeline, water treatment works capacity and reservoir storage upgrades and a second bulk potable water pipeline.

The detailed feasibility study for Phase 1 was completed in 2015 and the Environmental Authorisation was obtained at the end of 2020. The process of appointing an Environmental Assessment Practitioner (EAP) who will amend the conditions in the approved Environmental Authorisation and undertake the Water Use Licence (WUL) application was initiated in August 2021. The Political Steering Committee, comprising CoGTA, DWS, TCTA, UW and Water Users, was set in 2021 to facilitate the development of solutions regarding the funding model for the project and affordability of tariffs for Water Users.

The Steering Committee continues to function on a weekly basis.

The Committee's latest resolution was that the State will fund 50% of the project and the balance will be funded by water users through a capital unit charge of R 2.58 per kilolitre, which has since been approved by National Treasury. The section 33 of MFMA process is delayed due to eThekweni Metropolitan Municipality having not concluded this process. eThekweni Metropolitan Municipality has requested that in order for the Municipality to continue with the section 33 of MFMA process they require an accurate estimate of the project cost which can only be obtained after the completion of the Detailed Design. TCTA (Implementing Agent for the Raw Water Component) has indicated that they cannot proceed with the appointment of Professional Service Providers to complete the Detailed Design without users committing to the project through water user agreements.

The bilaterals between Water Users, DWS, UW, CoGTA and TCTA will continue parallel to section 33 of MFMA process to resolve outstanding issues. The Minister of Water and Sanitation will continue engagements. With the Minister of Finance, CoGTA and the eThekweni Metropolitan Municipality leadership to finalise the signing of water user agreements.



(2) Lower uMkhomazi Bulk Water Supply Scheme

Serves eThekweni Metropolitan Municipality and Ugu District Municipality, and will augment the coastal areas from Amanzimtoti to Hibberdene via the SouthCoast Pipeline

The planned infrastructure comprises:

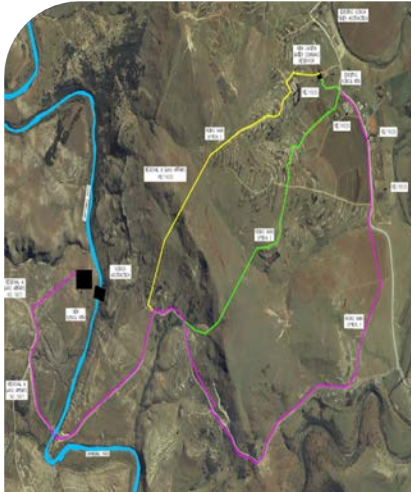
Phase 1: a dam at Ngwadini and two Raw Water Abstraction Systems together with pipelines, Raw Water Pump Stations and Raw Water Reservoir; Ngwadini Dam: Procurement is in progress; Detailed design has been completed for Ngwadini Abstraction Works; Construction has commenced for Goodenough Abstraction Works, with completionscheduled for March 2026. Ngwadini Dam tender was awarded on 08 February 2023 and construction set to commence in August 2023, The construction of the Goodenough Abstraction Works and Pump Stations is 27% complete. The tender for the construction of the Ngwadini Abstraction Works, Pipelines, and Raw Water Reservoir will be advertised in September 2023. Overall, the project is planned for completion in November 2026.

Phase 2: a 100ML/d Water Treatment Works, storage reservoir and Bulk Potable Water Pipeline. The detailed feasibility and preliminary designs were completed in 2017 and the detailed design was completed in 2021. The design documentation stage is currently in progress, after which the procurement of the various construction contract packages will follow. Project is planned for completion in June 2026. The Earthworks contract which was in preparation of the Water Treatment Works was completed in April 2023, where R86M was spent on local SMME's and more than R3.9M was spent on local communities through temporary employment. The Water Treatment Works tender is expected to be advertised in August 2023 and commence in the first quarter of 2024. The Water Treatment Works site will be accompanied by a "green" administration building- (4 star), the tender for which is planned to be advertised in the second quarter of 2024.

(3) Greater Mpofana Bulk Water Supply Scheme

Serves uMgungundlovu District Municipality

The scheme comprised of a water treatment works, two storage reservoirs and two bulk pipelines. The construction of the 20ML/d Rosetta Water Treatment Works commenced in the 2016/17 financial year and was completed in March 2021. The construction and commissioning of the 5ML/d and 12ML/d reservoirs that feed Nottingham Road and Bruntville communities is complete. The construction of the 8km long Nottingham Road Pipeline – from the Water Treatment Works to the Nottingham Road Reservoir was completed in June 2016. The construction of the 13 km long Bruntville Pipeline was completed in June 2023. The Final integration and commissioning of the Rosetta Water Treatment Works, Bruntville and Nottingham Road Pipelines and Reservoirs, formally known as the Greater Mpofana Bulk Water Supply Scheme Phase 1 was concluded in July 2023. Phase 2 of the Greater Mpofana Bulk Water Supply Scheme – which will be a labour intensive 25 km long steel pipeline from Nottingham Road Reservoir to Lions River Reservoir and 3 Reservoirs at Zenzani Village, Lidgetton and Lions River – is currently at Detailed Feasibility/Design Development Stage, and is planned for construction in the 2024/2025 financial year. There are proposed changes to the scope of work for the project. The appointed environmental assessment practitioner (EAP) will include the proposed scope changes for all environmental assessments required.



(4) Impendle Bulk Water Supply Scheme

Serves uMgungundlovu District Municipality and Impendle Local Municipality

The Bulk Water Supply Scheme is designed to supply 1.6ML/d up-gradable to 3ML/d at Stepmore and a supply of 13ML/d at Nzinga up-gradable to 18.5ML/d. The detailed design for the Stepmore scheme is 95% complete and the detailed design for the Nzinga scheme is 20% complete. Construction of the Stepmore scheme is planned to commence in 2024, with targeted completion in the latter part of the year in 2026 and the Nzinga scheme is planned to commence in 2025, with completion in the latter part of the year 2028. The environmental approvals for Stepmore are in place.

The environmental assessment practitioner has commenced with the environmental impact assessments for the Nzinga Scheme.

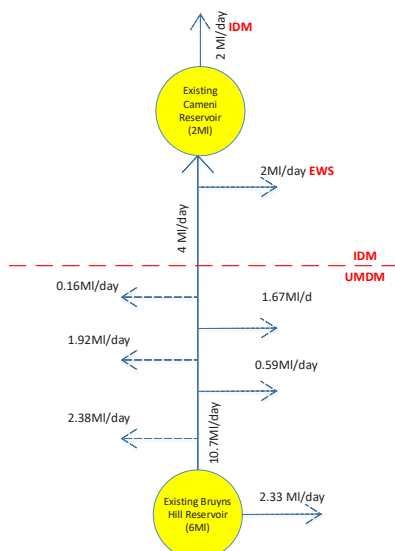


(5) uMshwathi Bulk Water Supply System Phase 4 (Southern Ndwedwe)

Serves iLembe District Municipality and the Southern Ndwedwe areas

The scheme will draw 22.85 ML/d bulk potable water from the existing 12ML Ozwathini Reservoir and supply by gravity to the entire Southern Ndwedwe area, under the Ndwedwe Local Municipality. The detailed design stage is currently in progress. The three work packages are at various stages of implementation. The pipe supply contract was awarded in June 2023 and work package 2 and 3 are planned to be advertised for construction by end of 2023. With construction set to commence in early 2024.

Procurement for the appointment of an independent Environmental Control Officer has progressed.



(6) uMshwathi Regional Bulk Water Supply Scheme: Phase 6

Serves uMgungundlovu and iLembe District Municipality and eThekweni Metro

The project will consist of a pipeline from Bruyns Hill Reservoir to Wosiyani in Southern Ndwedwe, with an off-take supplying parts of eThekweni Metro. The capacity of the scheme is 10 ML/day and will ultimately serve 100 000 people. The project is currently in detailed design and the application for environmental authorisation is being finalised.



(7) Lower Thukela Bulk Water Supply Scheme Phase 2

Serves iLembe District Municipality, specifically areas North of the uThukela River.

The project will upgrade the existing Lower Thukela Water Treatment Works from 55ML/d to 110 ML/d, with a 7km Rising Main and a 30ML reservoir. The project is currently at the detailed design stage and wayleaves with the relevant authorities are being approved. Both the Environmental Impact Assessment (EIA) and Water Use Licence (WUL) applications have been completed and approved. Servitude acquisition and consultation with the communities is in progress. All environmental approvals are in place



(8) Maphumulo Bulk Water Supply Scheme Phase 3

Serves iLembe District Municipality, which includes KwaMaphumulo, Ndwedwe and KwaDukuza Local Municipalities, and will serve 150 000 people in Maqumbi, Ashville, Maphumulo, Masibambisane, KwaSizabantu and Ngcebo supply areas

Phase 3 includes the upgrade of the Water Treatment Works from 6ML/d to 12ML/d plant, raw water abstraction and booster Pump Stations. The upgrade of the Pump Stations is complete. The detailed design of the Water Treatment Works upgrade is complete and construction is planned to start in the 2023/24 financial year. The environmental authorisation was rejected and an appeal was lodged with the Appeals Directorate. A response was received from the minister and the rejection was set aside. Umgeni Water is in the process of re-negotiating with the DFFE on the requirements and process to be followed going forward.



(9) Mhlabatshane Bulk Water Supply Scheme Phase 2 – Mzimkhulu River Abstraction

Serves Ugu District Municipality and will reach and provide potable water access for over 100 000 inhabitants in 10 tribal authority areas

The infrastructure development comprises an abstraction works on the Mzimkhulu River, pump station and pipeline to deliver water to the Mhlabatshane Water Treatment Works and an upgrade of the Water Treatment Works from 4ML/d to 12ML/d supply. Environmental Assesments for licences and approvals has commenced. Design Development Report is complete and construction has been reprioritised to start in 2025. An EAP has been appointed to facilitate the application for a new EA in line with the increased capacity of the upgrade. The project team continues to engage with Eskom to ensure that Power s made available for the upgrade.



(10) Vulindlela Bulk Water Supply Scheme Upgrade Serves Msunduzi Local Municipality

Phase 1 includes a new 20ML reservoir, 6km of pipelines (rising main and gravity pipelines), one Pump Station at Howick West Reservoir and two at Mpophomeni, 9.37km rising mains and a new 10ML Reservoir at Mpophomeni. The construction of Phase 1 has commenced. Phase 2 is planned to be advertised for construction by end of 2023. Phase 1 and 2 are planned to run concurrently with a targeted completion date of the latter part of 2025. The Environmental Assessment Practitioner has initiated an application to amend the environmental authorisation



(11) Mpophomeni Wastewater Treatment Works

Serves uMgungundlovu District Municipality and uMngeni Local Municipality

The infrastructure development comprised of a 6ML/d Wastewater Treatment Works and a 6km bulk sewer outfall pipeline. Construction commenced in January 2020 and is ongoing. Completion is scheduled for January 2024. Compliance monitoring is being undertaken against the environmental approvals.



(12) South Coast Pipeline Phase 3

Serves the Umdoni and Umzambe Local Municipalities within the Ugu District Municipality

The South Coast Pipeline is intended to provide a supply of potable water to the South Coast Region via a single bulk pipeline that will stretch from the Quarry reservoir in Umkomaas to the Catalina reservoir in the town of Hibberdene. Phases 1 and 2A are complete, with Phase 2B currently undergoing construction. Phase 3 will extend the scheme from Umdoni to Mthwalume and then to Hibberdene, and will also augment Phase 1B and Phase 2A, as the existing diameters are insufficient. Phase 3 is currently at Detailed Feasibility and Preliminary Design Stage, which is planned for completion by May 2024, with construction targeted to commence in 2026. Environmental assessments have commenced.



(13) South Coast Pipeline Phase 2B

Serves Ugu District Municipality, including Pennington, Kelso, Malangeni and Shayamoya

The pipeline is designed to supply approximately 16.7ML/d and will link Scottburgh South to Pennington and then to Malangeni Reservoir. The contract was awarded in August 2020 and construction commenced in March 2021 and practical completion for the access road was achieved in June 2023. Compliance monitoring is being undertaken against the environmental approvals.



(14) Rehabilitation of Nagle / Durban Heights/Inanda / Wiggins Systems

Serves eThekweni Metropolitan Municipality

This project is a rehabilitation of major existing assets and is split into four sub-projects as outlined:

- Emergency Rehabilitation to Aqueduct 3 & 4 Siphon 6: Slip lining will protect the Clermont community against consequences of a burst. Project has been awarded and the appointed contractor was scheduled to commence with work however the April 2022 floods had damaged Nagle Aqueducts 1 & 2. Subsequently, the Nagle Aqueducts 3 & 4 could not be handed over to the contractor and the project has been suspended until the Emergency Rehabilitation of Nagle Aqueducts 1 & 2 has been completed.
- Nagle System Auxiliary Works: Purchasing of large diameter valves to be installed on aqueducts under the Rehab. The rehabilitation of the Nagle Aqueducts 1 & 2 is currently underway and the anticipated completion date is December 2023
- Carbon Fibre Repairs: Repair of Nagle Aqueducts following scanning to identify affected portions will ensure longevity of the Nagle Aqueducts. Project is scheduled to only be implemented once the Emergency Rehabilitation to Nagle Aqueducts 1 & 2 as well as the slip-lining project for Nagle Aqueducts 3 & 4 Siphon 6 has been completed.
- Rehabilitation of the Degremont Filter Complexes and Nagle Aqueducts;
- PSP appointment underway for upgrade /rehabilitation of Old, New degs and pulsator clarifiers at Durban Heights.



(15) Darvill WWTW Capacity Increase

Serves Msunduzi Local Municipality

The works capacity is being upgraded from 65ML/d to 100ML/d. Practical completion achieved) The project comprises a new inlet works, Primary and Secondary Settling Tanks, pumps and Pump Station, Reactor, Chlorination House and Anaerobic. Digesters, among other components It also features a state of the art 2ML/d Reuse Demonstration Plant. The project was significantly delayed as a result of the main contractor going into business rescue. The project was turned around and successfully completed in June 2023.



(16) Trustfeeds WWTW

Serves uMgungundlovu District Municipality and iLembe District Municipality.

The infrastructure development comprises a 1 ML/d Wastewater. Treatment Works; 4.5km of bulk sewer outfall pipeline and a 1.5km gravel access road. Construction of the bulk sewer outfall and access road is complete. Construction of the Wastewater Treatment Works was completed in October 2020 and handed over in December 2020. The plant automation works is currently underway and the anticipated completion date is December 2023.



(17) Umzinto Water Treatment Works Upgrade

Serves Ugu District Municipality

The project entailed a substantial upgrade to the head-of-works (inlet system) to improve capacity, efficiency and chemical dosing systems for the water treatment process. Construction has been completed and commissioning is in progress. The upgrade is expected to be fully commissioned end August 2023.

10.5 Community Outreach and Corporate Social Responsibility

Management Approach

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

- Programme Related Corporate Social Responsibility: This relates to those activities, which are submitted by various divisions as a way of taking total responsibility towards the business environment in which Umgeni Water operates;
- Strategic/Discretionary CSI: These are initiatives that are implemented at the discretion of the Chairperson of the Board and the Chief Executive;
- Targeted CSI Initiatives:
These initiatives are those that would be submitted in response to the call for CSI proposals, from different targeted areas within Umgeni Water's area of operations. Ideally, these initiatives will assist to build relationships in the areas where Umgeni Water will be rolling out Capex projects;
- Legacy Projects: These initiatives are meant to live a physical and visual memento, for the communities to remember Umgeni Water, for years to come.

Umgeni Water's categories of initiatives focus in the following areas:

- Education, Training and Skills Development;
- Job Creation;
- Public Health and Community Support;
- Environmental Conservation;
- Staff Voluntarism and Support.

To ensure that investments are aligned to policy, applications follow a thorough process of screening that entails consideration by the designated internal bodies to ensure that investments contribute and support the organisation's strategic goals. A comprehensive process has been developed to institutionalise the processes and systems for the provision of social and economic development support and natural environment stewardship by the organisation.

Umgeni Water has committed 1% of Net Profit After Tax to Social Corporate Investment initiatives.

Water Education and Community Outreach

Umgeni Water prides itself on the establishment of its water conservation and environmental education that it conducts for Adopted-Schools and community outreach programmes, which has been running for over two decades now and has since provided a number of rural and urban and semi -urban schools and communities within our area of operation, with vast knowledge on water and environmental issues. These programmes are done to ensure that learners and communities (especially where Umgeni Water is implementing Capex Projects) understand our source-to-sea process, water and wastewater treatment process, value of water, water conservation, sanitation, health and environmental issues .

Awareness initiatives on water, environment and health education were conducted through three targeted programmes during the reporting period:

- Themed Activations per quarter;
- Schools and Community Outreach Programmes; and
- Adopt-A-School Programme.



Themed Activations:

During the reporting period, four themes were created i.e. (Servitude Encroachment, Waste Disposal, Illigal Sand Mining and Environment and Biodiversity), with the aim of educating and creating awareness on the importance of all four spheres and their impact. A total of five educator’s workshops, 157schools and 75 community groups were reached as part of Umgeni Water’s efforts to promote community well-being, knowledge and environmental stewardship through these themed activations. Active learning through recognition of prior knowledge and guided questioning ensured that all stakeholders that participated were kept engaged. During this period, 80 trees were planted.

Schools and Community Outreach Programmes:

Umgeni Water’s education initiatives included outreach programmes to raise awareness around water safety, pollution, water conservation, climate change and environmental health. Programmes implemented included awareness events, clean-up campaigns and commemoration of special environmental day events.

The areas reached were as follows:

- eThekweni Municipality: Bothas Hill, Isiphingo, Umbumbulu, Durban North, KwaMashu, Clertmont, Watercrest, Hillcrest, Bothas Hills, Wushwini and Hazelmere Dam Area.
- uMgungundlovu DM: Richmond area and Vulindlela
- Maphumulo LM: Sakhuxolo and Maqadini, Maphumulo CBD
- King Cetshwayo DM Umlalazi LM: Gingindlovu and Naickerville
- Umngeni LM: Midmar & Mphophomeni ; Lidgetton
- UMdoni LM: KwaCele
- uMzumbe LM: Turton and St, Faiths
- Ray Nkonyeni LM: Port Shepstone
- Mandeni LM: Sundumbili
- KwaDukuza LM: Ntshawini-Dube Traditional Authority and Stanger, Stanger CBD and Mavivane River
- Ndwedwe LM: Nsuze Ward 2, Glendale area-Ward 1, Nambithana area Ward 5 and Esidumbini area -Ward 8
- Greater Kokstad LM: Bhongweni Location
- Impendle LM: Impendle Town, Impendle Village Impendle Swamp and Boston
- Msunduzi LM: Imbali Unit 13, CBD- KZN Museum, Medi-Clinic Hospital, Sweetwaters, Pietermaritzburg CBD, Queen Elizabeth and Imbali Unit 1
- Mkhambathini LM: Eston, Nagle Dam, Umlaas Road and Camperdown
- Richmond LM: KwaBhambatha Ward 2, Ophatheni, Moyeni , CBD and Agosay Hopewell
- Mooi River LM: Mpofana CBD, Bruntville
- Mshwathi LM: Swayimane/Gcumisa
- Nkosazana Dlamini-Zuma LM: Zashuke and Bulwer

Schools outreach engagements were conducted at 157 schools within our operational area. Five (5) Workshops for educators representing various schools were conducted in Clermont and Phoenix in eThekweni Metro, Canelands and UmlaziMtwalume in Mdoni LM, St.Faiths in Mzumbe LM, Mbalenhle in Mshwathi LM, Maqongqo in Mkhambathini LM: KwaPata, Elandskop, Vulindlela, Azalea and Mbali Unit 14 in Msunduzi LM, Emayekeni, Mzuzane & Ntaphuka in Ndwedwe LM, Stanger and Nonothi Mouth in KwaDukuza, Dokodweni and Melmoth in KCDM (Mlalazi) LM.

Adopt-a-School Programme:

The schools identified during the reporting period were adopted for a period of four years, which ended on 30 June 2023. The distribution of the 21 adopted schools included five schools within uMgungundlovu District Municipality, two schools within Harry Gwala District Municipality, six schools in eThekweni Metropolitan Municipality, one school in Ugu District Municipality and seven schools within ILembe District Municipality.

Activities implemented at these schools included Arbor Week awareness coupled with 80 trees planted. Wetlands and Water Week visits included educational talks, audit, clean-ups and presentations.

Various messages related to health and hygiene, environmental sustainability and water conservation were also shared with the public via our social media platforms .

Institutional Support and Development (ISD)

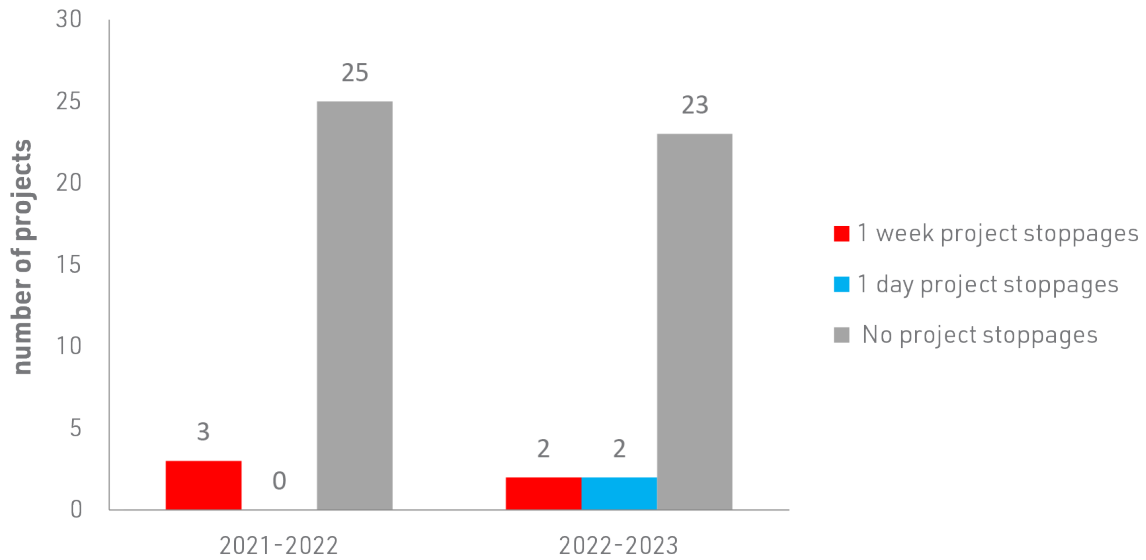
Institutional Support and Development (ISD) is one of the vehicles that the organisation is using to engage more broadly with the community and in ways that promote participation and collaborated decision making. This is due to the realisation that the organisation cannot solve complex problems without the combined efforts of the community it serves. Whilst there has been improvement and less project disruptions due to the early involvement of ISD and the Social facilitation teams, there is much work to be undertaken in the rollout of strategies that will ensure community buy-in when it comes to local business participation.

During this financial year, twenty five (25) projects were supported by ISD. Twenty (20) of the projects were managed successfully without any stoppages. More than 669 locals benefitted as local labour whilst more than 69 local companies participated in local business opportunities that were created during this reporting period.

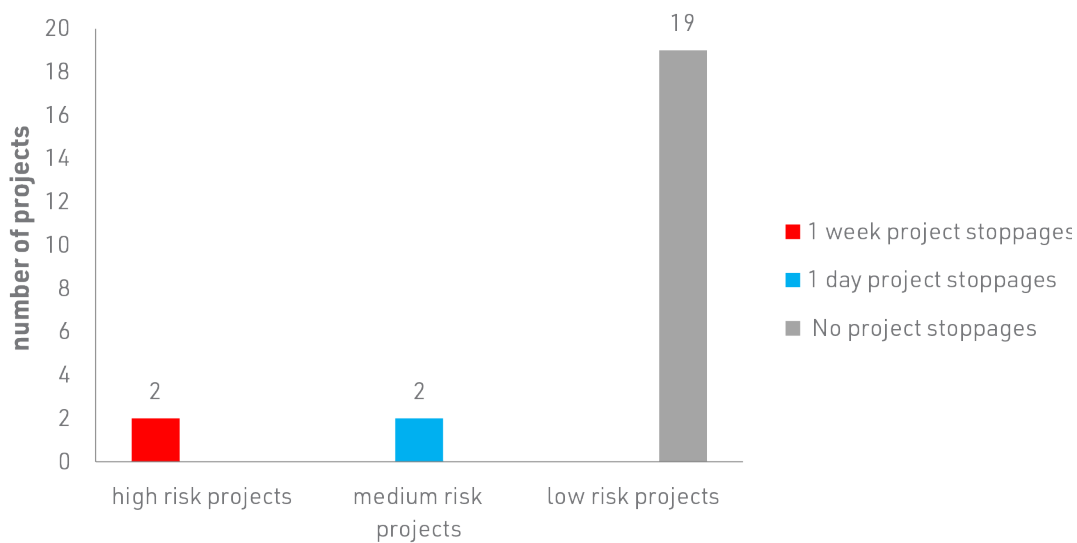
There is a significant improvement in terms of overall community buy in due to the representative community structures like the Project Liaison Committees. More than 80% of the projects were implemented successfully,

especially with the skills including shutter hand, gabions, drilling and toll operation which were offered to the local community. The presentation below shows that there is a significant decrease on work stoppages which reduces costs overruns and due to project delays

Social Risk Index



Social Risk Index







11

CONSERVING OUR NATURAL RESOURCES

The natural climate is the prime determinant of water resources availability, whether surface or groundwater.



Spring Grove Dam

CONSERVING OUR NATURAL RESOURCES

11.1 ENVIRONMENTAL SUSTAINABILITY, INCLUDING WATER RESOURCES ADEQUACY

Management Approach

The environment constantly undergoes multiple changes, changes that are occurring over different temporal and spatial scales. As a result, it is vital that natural resources are managed in a sustainable manner. Adequate supplies of raw water resources are paramount to Umgeni Water, which together with reliable sources of energy, water treatment chemicals and other resources are crucial for sustainability of the water business.

The entity, therefore, is steadfast in protecting, conserving and using and sustaining these resources efficiently.

Environmental management programmes and plans are embedded in all components of the water business lifecycle, namely, during planning, construction, operation and decommissioning. Umgeni Water has classified its environmental management programmes as Corporate, Operational or Integrated Environmental Management:

- Corporate Environmental Management focuses on aligning the business activities to environmental sustainability and promoting a shift towards the state of a green economy;
- Integrated Environmental Management focuses on identification, mitigation and implementation of management plans for potential environmental impacts associated with infrastructure developments.

Umgeni Water, as a public water services entity in South

Africa, complies with all mandatory environmental disclosure requirements. Notwithstanding this, the entity continues to improve alignment of environmental indicators with other national and internationally accepted indicator disclosure requirements as per King IV Report on Corporate Governance, in terms of materiality and relevance. Relevant aspects include materials, including chemicals and water resources, energy efficiency, greenhouse gas emissions, carbon footprint mapping, biodiversity and waste management.

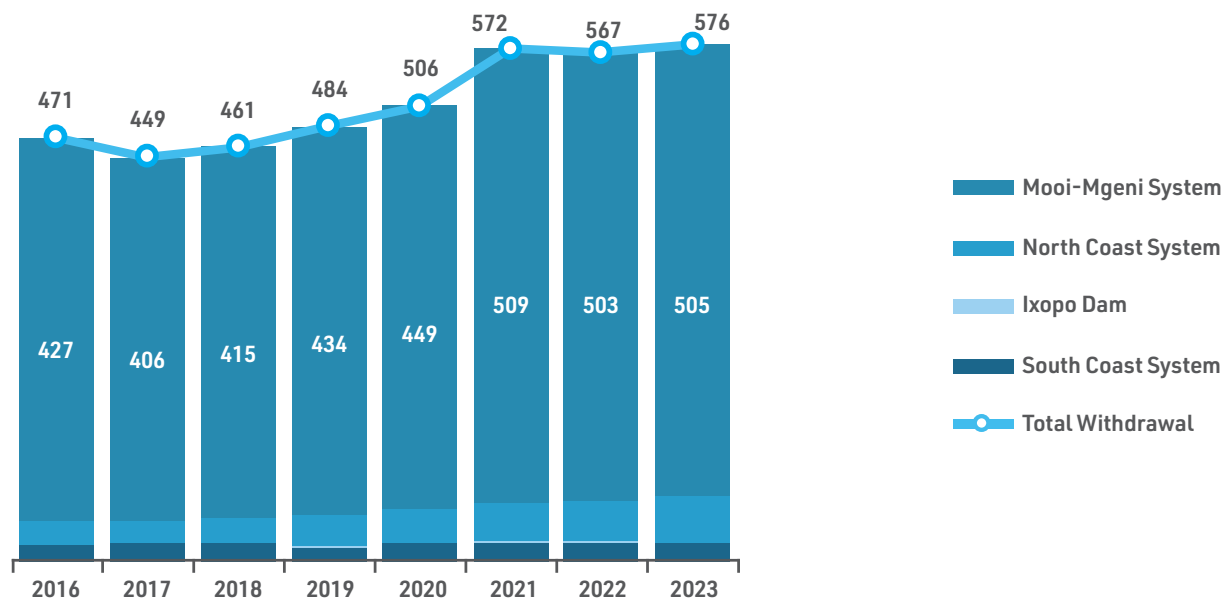
Water Resources Adequacy

Umgeni Water leverages water sector partnerships and collaborations to respond to the challenges facing the region including water availability, redistribution, demand management and drought and impact of climate change. Its core business function is to treat and supply bulk potable water – a business highly dependent on the availability of sustainable water resources. The reconciliation between water resource availability and water demand is, therefore, of primary

importance to the entity and forms an integral part of the infrastructure planning process. Understanding what water resources are available to the entity, both current and future resources, and what factors affect the assurance level of these resources is crucial to balancing supply with customer demand and maintaining supply sustainability into the future.

The primary water sources used by the entity is distributed across four major water resource systems, namely, the Mgeni System (Mooi and Mgeni rivers), the North Coast System (uMdloti, iMvutshane, uThukela and uMvoti rivers) and the South Coast System (Nungwane, Mzimayi, uMuziwezinto and Mhlabatshane rivers). Total water withdrawal by source is shown in **Figure 11.1**. In addition, UW is currently installing equipment to monitor the water resources in the KCDM area as this installation will enable efficient management of the water resources in the area.

Figure 11.1: Water Withdrawal by Source (million m³)



In the reporting period, progress was made with the following water resource dam developments:

- The construction of Phase 1 of the uMkhomazi Water Project (Smithfield Dam) is anticipated to be completed by 2030;
- Hazelmere Dam raising (DWS) has been completed but awaiting a licence to impound which is expected at the end of 2023;
- Approximately 75% progress has been achieved for Ngwadini Phase 1. The contract for Ngwadini Dam and Associated Infrastructure has been awarded. The project construction completion is planned for 2026.

Climate Change and Water Resources

The natural climate is the prime determinant of water resources availability, whether surface or groundwater. Sufficient water that is fit for purpose is key to the business of Umgeni Water. During the year under review, Umgeni Water implemented the organisational Climate Change Response Policy. The main purpose of the policy is to provide a framework for Umgeni Water’s just transition to a climate resilient and lower carbon water entity. The objectives of the policy are to:

- Provide a co-ordinated and integrated Umgeni Water response to Climate Change and its impacts on all aspects of the water value chain;

- Manage climate change impacts effectively through implementing interventions that reduce the organisation's vulnerability, build its resilience and adaptive capacity to the impacts of climate change; and
- Assist Umgeni Water contribute fairly to the global efforts to stabilise greenhouse gas emissions to a level that avoids anthropogenic interference with the climate system and enables sustainable development.

During 2022/2023 a climate change implementation plan was implemented. This plan is integrated to the overarching Umgeni Water sustainability implementation plan. The plan incorporates targets for both mitigation and adaptation responses, where the mitigation targets are aimed at reducing the organisation's greenhouse gas emission, while the adaptation initiatives responds directly to water resource sustainability and are aimed at building the organisation's adaptive capacity and resilience to the impacts of climate change which includes reduced streamflow, wet spells, dry spells, poor water quality and degraded ecological infrastructure.

The climate mitigation interventions that were implemented during the period under review included carbon emissions reduction related practices such as monitoring energy usage, water usage, undertaking a feasibility study for the solar power installation at 7 Umgeni Water sites; undertaking a feasibility study for the Darvill WWTWs co-generation; appointment of service provider to undertake detailed feasibility of the Mpopana Hydropower installation; and implementation of ecological infrastructure interventions that have benefits for climate regulation and carbon sequestration.

The implemented adaptation interventions on the other hand, included the monitoring drought parameters; monitoring of flood parameters; development and implementation of an annual flood drill plan; issuing of flood early warnings to various operational sites; communication of weekly water resource status updates on various digital media platforms; installation of automated river level monitoring equipments at various sites; setting up of a hydronet subscription for hydro alerts and maps that will be integrated into the flood forecasting and early warning system; calibration of hydraulic model for the flood forecasting and early warning system; setting up of a web-based dashboard for viewing the flood early warning system by external users; development and implementation of water safety plans for water quality management; implementation of catchment management and ecological infrastructure interventions that support water quality enhancement and sustainable water supply.

In terms of climate change related stakeholder engagement, during 2022/2023, Umgeni Water actively participated at the KwaZulu-Natal Climate Change Committee quarterly meetings that are chaired by the Department of Economic Development, Tourism and Environmental Affairs who is the regulator for climate change in SA. On 22 June 2022, a roadshow to workshop the Climate Change Response Policy and implementation plan was convened at Umgeni Water. Furthermore, in June 2023 Umgeni Water was featured in a documentary for the uMgeni Resilience Project for leading the development and implementation of the uMgungundlovu Flood Forecasting and Early Warning System. Umgeni Water also participated in the Climate Change Resilience Indaba that was held from 7 to 9 June 2023, where the UMDM flood forecasting and early warning system case study was presented.

Wastewater Reuse

Umgeni Water is piloting a reuse plant at its Darvill Wastewater Treatment Works. The 2 MU/d direct reuse demonstration plant comprises a conventional water treatment works to provide high-pressure wash water followed by an advanced treatment process plant. The plant is to be used for evaluating the effectiveness of reuse processes and for demonstration to communities on the benefits of wastewater reuse to applicable potable water standards.

Raw Water Quality

The status of raw water quality per resource is shown in **Table 11.1** and **Figure 11.2**. Water quality risks in Umgeni Water supply catchments arise from factors including: eutrophication (nutrient enrichment and its associated threats including algal blooms, taste and odours and aquatic weed infestations), faecal contamination and associated pathogen risks, suspended solids and chemical constituents (including iron and manganese). This impacts on treatability, chemical usage and other cost implications, and may contribute to final water non-compliance with the South African National Standard Drinking Water specification (SANS 241: 2015). Source and raw water quality monitoring is undertaken to assess and mitigate treatability risks, optimise raw water quality and provide early warning of adverse raw water quality that can be expected at the water treatment works.

Table 11.1: Raw Water Quality

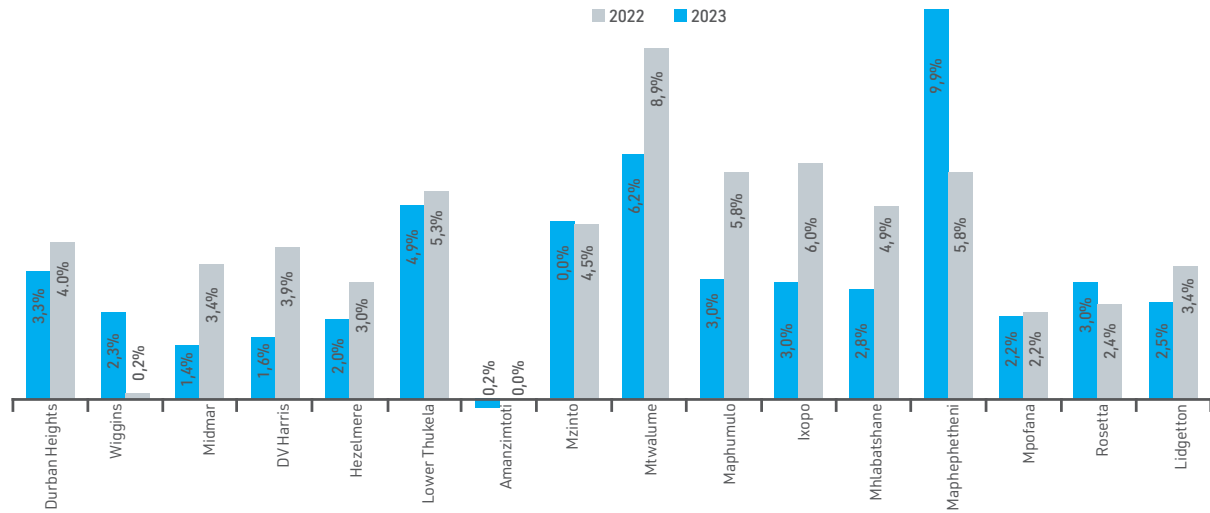
| System | Catchment | Impoundment/ Abstraction | Abstraction Water Quality Status and Trends | | | | | Comments |
|------------------------|-----------|------------------------------------|---|----------------|----------------|----------------|----------------|--|
| | | | 2019 | 2020 | 2021 | 2022 | 2023 | Adverse Raw Water Quality |
| Inland & Central Coast | Mooi | Spring Grove Dam | Good | Excellent | Excellent | Excellent | Excellent | - |
| | | Mearns Dam | Good | Excellent | Good | Excellent | Excellent | - |
| | uMgeni | Midmar Dam | Good | Excellent | Good | Excellent | Good | - |
| | | Albert Falls Dam | Unsatisfactory | Unsatisfactory | Satisfactory | Unsatisfactory | Satisfactory | - |
| | | Nagle Dam | Excellent | Unsatisfactory | Satisfactory | Good | Good | - |
| | | Inanda Dam | Poor | Good | Good | Unsatisfactory | Poor | Inanda Dam showed poor water quality status due to elevated algal counts, <i>E. coli</i> , <i>Barzia</i> , chlorophyll 'a', and geosmin associated with eutrophication (in particular the long term sewer problems in the uMsunduzi river catchment) and significant rainfall events. |
| North Coast | uMdloti | Hazelmere Dam | Good | Excellent | Excellent | Good | Good | - |
| | uMvoti | iMvutshane Dam & River abstraction | Unsatisfactory | Unsatisfactory | Unsatisfactory | Unsatisfactory | Unsatisfactory | Imvutshane Dam showed unsatisfactory water quality status due to elevated chlorophyll "a", algal count, ortho-phosphate, total phosphorus, total organic carbon and turbidity associated with catchment rainfall events and elevated nutrient loadings. |
| | uThukela | River abstraction | Unsatisfactory | Unsatisfactory | Unsatisfactory | Unsatisfactory | Unsatisfactory | Raw water abstracted from the uThukela River (Lower Thukela River) showed unsatisfactory water quality status due to elevated <i>E. coli</i> , <i>Giardia</i> , soluble iron, total organic carbon and turbidity associated with catchment rain / erosion events and human and animal activities in the catchment. The Sundumbili Town sewer network and sewage pump stations just upstream of the WW are thought likely to be a significant part of the problem affecting the lower Thukela WW. |

| System | Catchment | Impoundment/ Abstraction | Abstraction Water Quality Status and Trends | | | | | Comments |
|-------------|---------------|------------------------------|---|---|---|----------------|----------------|--|
| | | | 2019 | 2020 | 2021 | 2022 | 2023 | Adverse Raw Water Quality |
| South Coast | iLovu | Nungwane Dam | Satisfactory | Good | Good | Good | Good | - |
| | uMzimayi | EJ Smith Dam | Unsatisfactory | Unsatisfactory | Unsatisfactory | Unsatisfactory | Unsatisfactory | EJ Smith Dam showed unsatisfactory water quality status due to elevated total organic carbon, 2-MIB, chlorophyll "a", <i>E. coli</i> and total phosphorus associated with catchment rainfall events and sewer inputs from Umzinto town. |
| | uMhlabatshane | Mhlabatshane Dam | Unsatisfactory | Unsatisfactory | Unsatisfactory | Unsatisfactory | Unsatisfactory | Mhlabatshane Dam showed unsatisfactory water quality status due to elevated <i>E. coli</i> and turbidity associated with rainfall events, contaminated catchment run-off, overgrazing and erosion. |
| | uMzinto | uMzinto Dam | Good | Good | Unsatisfactory | Unsatisfactory | Unsatisfactory | uMzinto Dam showed unsatisfactory water quality status due to elevated <i>E. coli</i> , geosmin, ortho-phosphate and turbidity associated with intensive agricultural uses in the catchment and some run-off from rain events. |
| | uMtamvuna | Ludeke Dam | Good | Good | Good | Good | Good | — |
| | uMthwalume | uMthwalume River abstraction | Unsatisfactory | Unsatisfactory | Satisfactory | Unsatisfactory | Unsatisfactory | Raw water abstracted from uMthwalume River (Mthwalume Raw) showed unsatisfactory water quality status due elevated <i>E. coli</i> , <i>Giardia</i> , soluble iron, total organic carbon and turbidity associated catchment run-off from rainfall events. |
| | Ixopo | Home Farm Dam | The water supply at Ixopo Dam cannot be directly monitored by boat due to low dam levels and presence of weeds. | The water supply at Ixopo Dam cannot be directly monitored by boat due to low dam levels and presence of weeds. | The water supply at Ixopo Dam cannot be directly monitored by boat due to low dam levels and presence of weeds. | Unsatisfactory | Satisfactory | - |

Water Loss Management

Umgeni Water strives to use the water abstracted from resources assiduously. Water balancing and water loss management measures are in place per treatment system. Overall, water loss levels have been maintained below the entity’s target level of 5% over the years. Water loss trends are shown in **Figure 11.3** below.

Figure 11.3: Water Losses

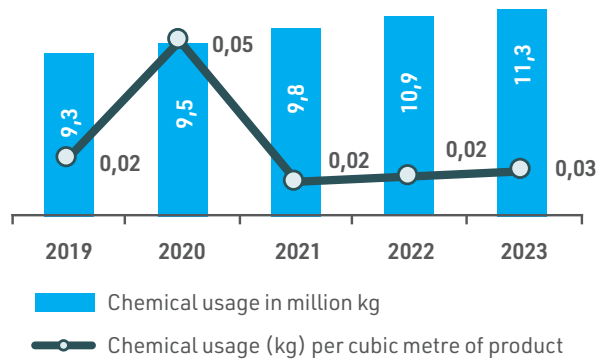


Materials Usage and Efficiency

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

Chemicals Usage and Efficiency

Figure 11.4: Chemical Usage and Efficiency Trends



The chemical usage trend for the past five years presented in **Figure 11.4**. During the current assessment period, Umgeni Water utilised a total of 11.3 million kg of water treatment chemicals. There is an increase observed in the chemical usage as compared to the previous year. The reasons for the increase in the chemical use amount could be due to the treatment of high volumes of raw water with unsatisfactory quality associated with heavy rains, catchment activities and the operation of additional plants. Furthermore, the increase in operational footprint. Water treatment chemicals were used to ensure that the quality of potable water was of acceptable standard and that the quality was maintained to the point of use.

Umgeni Water has implemented various initiatives to optimise the use of water treatment chemicals. These include:

- Testing the effectiveness of water treatment chemicals for each raw water system / plant. This informs the selection of the optimal treatment chemical and therefore prevents inefficiency / unnecessary usage;
- Monthly chemical optimisation audits to ensure that optimal use of treatment chemicals is maintained and to facilitate a prompt response should a problem be identified through the monthly sampling;
- Monitoring and evaluation of the water treatments process per plant, which identifies areas of process improvement and operational efficiency;

- Monitoring and assessing seasonal variation of the water column / dam levels to assess levels with optimal raw water quality;
- Participating in catchment management activities and forums and contributing to the information base, including provision of water quality data. This influences decisions on catchment land use activities and more sustainable development

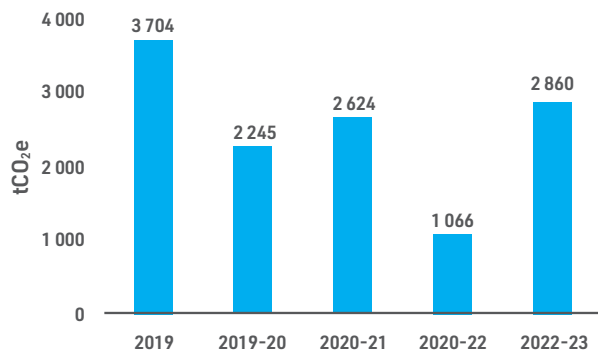
Energy Usage, Carbon Footprint and Emissions Reduction Initiatives

Carbon footprint can be described as the total amount of carbon dioxide and other greenhouse gas (GHG) emissions (expressed as carbon dioxide equivalents or CO₂e) for which an organisation or site is responsible for or has control over, resulting from business activities. The entity's carbon emissions are shown in **Figure 11.5**.

Umgeni Water wants to take full ownership of all emissions that it can control, influence and reduce. Scope 1 emissions refer to direct emissions that Umgeni Water can control, whereas scope 2 and 3 emissions are indirect emissions controlled by third party organisations.

Table 11.2 shows the GHG Emissions for scopes 1, 2 and 3.

Figure 11.5: Umgeni Water's direct carbon emissions (CO₂e)



Umgeni Water's direct CO₂ emission (Scope 1) contributions emanate mainly from vehicles, boats, generators and methane production from anaerobic wastewater treatment process (**Figure 11.5**). Indirect GHG emissions are predominantly due to electricity consumption (>99%) which is one of the main inputs to water and wastewater treatment processes. (**Table 11.2**).

Table 11.2: Direct and indirect greenhouse gas emissions in tons of CO² equivalents

| Emission type | Activity | Tons of CO ² equivalents per activity | | | | |
|--------------------|--|--|----------------|----------------|-------------------|------------------|
| | | 2019 | 2020 | 2021 | 2022 | 2023 |
| Direct (Scope 1) | Combustion: Generators, Cars, boats & Mobile Plant | 2 303 | 2 112 | 1 442 | 1 066 | 2 860 |
| | Methane from Anaerobic wastewater treatment | 1 401 | 132 | 1 182 | - | - |
| Indirect (Scope 2) | Electricity | 143 332 | 142 166 | 123 228 | 15 752 648 | 6 064 825 |
| Indirect (Scope 3) | Travel: Air & Car Hire | 425 | 327 | 305 | - | - |
| TOTAL | | 147 461 | 144 738 | 126 157 | 15 753 714 | 6 067 685 |

Umgeni Water is in the process of investigating and implementing initiatives to reduce its carbon footprint. The main initiative that is proposed for implementation is the development of an electricity cogeneration plant at Darvill WWTW that will utilise the methane produced at this plant to produce electricity. Preliminary studies indicate that energy produced from this system can reduce the Darvill WWTW's energy demand by approximately 40%. Other initiatives to reduce and offset the organisation's emissions form part of the Organisation's Environmental Sustainability Plan.

Green Building

Umgeni Water's objective of greening its operational and future infrastructure is driven and supported by its desire to shift towards environmental sustainability. Green buildings not only reduce or eliminate negative impacts on the environment by using less water, energy or natural resources, but may also have a positive impact on the environment by generating their own energy or by increasing biodiversity. Key drivers of the need for green building include climate change, energy, water security, waste reduction, healthy working environments and biodiversity.

As a water utility, Umgeni Water can play a significant role in the green building sector through its comprehensive Capital Expenditure Programme, which involves the provision of vital infrastructure required to enhance assurance of water supply. Therefore, Umgeni Water has since developed a Green Building Policy with the following objectives:

- To facilitate the adoption of Green Buildings principles and construction techniques into all types of development;
- To influence development to achieve improved sustainable outcomes;
- To advocate for a more sustainable approach;
- To demonstrate leadership in commitments to sustainable development.

This policy will provide a framework to structure the approach to achieving sustainable design outcomes, commitment and minimum requirements for its implementation.

One of the projects that have been identified for Green Star Certification is the Lower uMkomaas Bulk Water Supply Scheme which is a scheme that will serve eThekweni

Metropolitan Municipality and Ugu District Municipality. The planned infrastructure comprises the raw water infrastructure and the bulk water treatment works. The administration building situated at the water treatment works is earmarked for certification.

Integrated Catchment Management

In 2019 Umgeni Water Executive Committee and Board identified the deterioration in the quality of catchment or raw water resources and the associate impacts of climate change as a strategic risk. This deterioration impacts on the quality and quantity of raw water resources which are paramount to Umgeni Water's core business of sustainable water supply. Implications include supply limitation, high water treatment costs, high infrastructure design costs, decreased affordability by customers, non-payment for water services by customers and several other risks. The source of the problem of poor catchment health stems from several factors including, poor land use practices, poor mindset and behaviour of water users towards water resources, lack of pollution reduction/prevention from source, lack of coordination of water resource management at catchment level, lack of compliance and enforcement by authorities, lack of institutional capacity within the governmental departments that are mandated for environmental and water resource protection and lack of integration between water users/stakeholders.

These issues are a symptom of a failure of traditional water resource management approaches in which water resource management was highly centralised and did not encourage an holistic approach to water resource management where there is:

- participation of all water users/stakeholders including communities in water

resource management decision making.

- coordinated development and management of water, land and related resources to maximise socio-economic welfare without compromising the sustainability of vital ecological infrastructure and the associated ecosystem services
- every water user is responsible for managing their water use and prevent/minimise/treats pollution at source.

In response to the serious and urgent challenge of deterioration of catchment health, in 2019 Umgeni Water established a Catchment Management unit within its scientific Services Division. The primary mandate of the department is to undertake catchment or land use assessments, develop and implement catchment management plans that will ensure water resource protection, improvement in water resource quality at strategic water supply resources. Since water is shared resource among different users, efforts towards its management require coordination and collaboration between stakeholder in order to ensure effectiveness of interventions.

Catchment /land-Use Assessments

Catchment Assessments and land use assessments are an essential tool in assisting Umgeni Water catchment managers target their resources, select and implement the right measures in the right places. Catchment assessments assist in identifying:

- sources of pollution;
- hotspots for high water consumption and streamflow reduction;
- the required interventions; and
- where interventions need to be implemented.

During the period under review Catchment assessments were undertaken for the following water resource units:

- Inanda water resource unit
- Albert Falls Dam – Nagle water resource unit
- Nungwane water resource unit
- Imvusthane water resource unit
- Mthwalume water resource unit
- Midmar water resource unit
- Mooi water resource unit
- Umzinto - Mzimayi water resource unit
- Mahlabatshane water resource unit and
- Home Farm or Ixopo water resource unit

Overall outcomes of the catchment assessments indicated that the main land use and water use types that affects catchment health within Umgeni Water area of operation include discharges from water treatment works, discharges from poorly maintained sewer infrastructure (sewer leaks, blocked and surcharging manholes), nutrient inputs from intensive agricultural runoff, poor solid waste management, terrestrial and aquatic alien invasive plant infestation, poor mindset and behaviour of water users towards water resources, ecological infrastructure transformation to agricultural lands, land degradation, poor development and spatial planning, chemical spillages from industries, location of sewer infrastructure i.e. pump stations in relation to water resources, illegal sand mining, soil erosion associated with catchment runoff, urbanisation and the associated poor sanitation services, unsustainable livestock farming, crop production and land degradation.

Recommendations from the assessments include the following:

- development of integrated catchment specific management plans with inputs from all relevant stakeholders.
- establishment of strategic relationships and partnerships with key stakeholders, targeting those with catchment management and environmental/ biodiversity management mandates as well as those with direct impacts on water resources. The partnerships should be aimed at solving issues from the source as well as implementing interventions that can improve the impacts of poor catchment health.
- collaboration with municipalities to upgrade and repair sewer and wastewater treatment infrastructure.
- investigation of potential ecological infrastructure that can be restored upstream of strategic resource.
- encourage controlled and rotational grazing and other sustainable land use management practices to local communities and farmers.
- investigate and implement interventions for illegal sand mining operations with relevant authorities and stakeholders.
- Ensuring active participation at catchment management forums and other stakeholder engagement platforms for integrated water resource management.
- collaboration with stakeholders and local communities to develop and implement integrated management plans both terrestrial and aquatic alien invasive vegetation.

Biodiversity Management – Aquatic Alien Invasive Weeds Management

Well-managed and sustainable water resources are critical to Umgeni Water's core function of providing sustainable potable water supply. Alien aquatic weeds invading various water resources pose a significant risk to water quality and quantity. The aquatic weeds of main concern in Umgeni Water impoundments and rivers include Water Hyacinth (*Pontederia crassipes*); Water lettuce (*Pistia stratiotes*); Kariba weed (*Salvinia molesta*); Parrots feather (*Myriophyllum aquaticum*) and Honwort (*Ceratophyllum demersum*). These free-floating and submerged aquatic plants are extremely difficult to control in eutrophic waters due to their exponential growth rate and invasion in the riverine environments. To ensure the effective management of these invasive weeds, interventions are implemented both in the upstream catchments as well as at the infested Umgeni Water operated dams. In the upstream catchments, involvement of Community Based Organisation, Non-Governmental Organisations, Non-Profit Organisations organisations and the Department of Fisheries, Forestry and Environment's Working for Water programme are critical in implementing control work. At Umgeni Water operated dams, the preferred method of management is biocontrol (herbicide spraying and manual removal are considered as and when required in the critical parts of the dams where there is zero tolerance for any infestation due to strategic water abstractions that must not be interrupted. For ease of management, dams are categorized into management zones which then allows implementation of suitable management methods in each of the zones i.e. Inanda Dam is categorised into three management zones namely the:

- Upper Dam Management Zone where the main management method is active biocontrol mass release and monitoring for effectiveness. Management of weeds at this zone is also supplemented by a floating boom that is installed at Bridge 4 to confine weeds to the upper parts of the dam and prevent spreading into critical parts of the dam;
- Mid Dam Management Zone, where the method of management is active biocontrol release, herbicide spraying by boat if needed and manual removal of stragglers where feasible; and

Main Basin Management Zone, where the method of management is active herbicide spraying of all plants including the riparian zones and manual removal of stragglers since this is a no tolerance zone for infestation.

The alien aquatic weeds management interventions undertaken in the year included:

- Regular site inspections and implementation of integrated methods of management (biocontrol, herbicide spraying and manual removal) at infested catchments and dams to achieve a target of $\geq 80\%$

(12/15) sites with low residual risk of infestation.

- Undertaking boat surveys for Inanda Dam, Albert Falls, Ixopo Home Farm Dam, Hazelmere Dam and Nagle Dam..
- Development and implementation of integrated catchment management plans for aquatic weeds infestation at Inanda Dam, Ixopo Home Farm Dam and E.J. Smith Dam in collaboration with the Umgeni Water internal stakeholders (Operations, Water and Environmental Services) Centre for Biological Control (CBC) of Rhodes University, Msinsi Holdings, DFFE and Duzi-Umgeni Conservation Trust. The management plans outline the procedures for the monitoring, control and the management approaches that are being adopted to control the infestation. Interventions aim to treat the problem at source and also treat the symptoms of the problem.
- Targets and interventions that were implemented during the period under review included:
 - Regular inspections at all Umgeni Water operated dams. Providing support to the Municipalities for sewer infrastructure monitoring to monitor nutrient loading impacts on eutrophication of infested dams.
 - Achieving $\geq 80\%$ (12/15) of sites with low residual risk of infestation.
 - Liaison with DFFE and relevant stakeholders to support weed management efforts in the upstream catchment of the infested or vulnerable dams.
 - Operation and maintenance of the Inanda Dam and Lynnfield Park biocontrol mass rearing facilities.
 - Mass release of biocontrol agents at infested sites.
 - Herbicide spraying and removal of stragglers – near the abstraction points. Undertaking desktop assessments using satellite remote sensing imagery Macrophyte Viewer.
 - Continuous aquatic weeds research and training in collaboration with the CBC of Rhodes University

Biodiversity Management – Terrestrial Alien Invasive Plant Management

Similar to aquatic alien weeds, terrestrial alien plants infestation on riparian zones have a significant impacts on sustainable water supply. The national environmental legislation on biodiversity management requires state-owned entities to put in place measures to control, monitor and eradicate terrestrial alien weeds. During the period under review, Umgeni Water in partnership with Msinsi developed and implemented a plan to remove terrestrial alien weeds at Umgeni Water's operational sites as specified in **Table 11.3**.

Table 11.3: Cleared terrestrial alien invasive plants

| Reserve/site | Hectares Removed (Ha) |
|------------------|-----------------------|
| Albert Falls Dam | 545.71 |
| Spring Grove Dam | 98 |
| Hazelmere Dam | 95.56 |
| Inanda Dam | 183.45 |
| Nagle Dam | 521.2 |
| Mvutshane Dam | 40.9 |
| Nungwane Dam | 98 |
| Darvill WWTW | 54.88 |
| EJ Smith Dam | 37 |
| Mzinto Dam | 50.4 |
| Ixopo (aquatics) | 28.5 |
| Mhlabatshane | 48 |
| Upper Mkomazi | 40 |

Investment in Ecological Infrastructure

Ecological infrastructure is defined as the nature-based equivalent of built or hard infrastructure. It refers to ecosystems that function naturally to deliver invaluable services to people and the environment including enhanced water quality and sustainable water supply, soil erosion management, climate regulation and disaster risk reduction. Ecological infrastructure includes catchments, rivers, wetlands, groundwater resources, inland and coastal areas, nodes and corridors of natural habitats, which together form a network of interconnected natural structural elements in the landscape.

Management and protection of ecological infrastructure ensures sustainable water availability, and therefore is as fundamental to Umgeni Water's business as engineered infrastructure development. Umgeni Water's initiatives on investment in ecological infrastructure are aligned to national government priorities and specified on the National Development Plan. This also include the key principles that guides investment in ecological infrastructure as recommended by the South African National Biodiversity Institute (SANBI). The ecological infrastructure related initiatives undertaken by Umgeni Water in the year include:

Wetland Restoration and Management

During the 2022/2023 financial year the following wetland management targets were achieved to support sustainable water supply at strategic dams:

- Completion of the Mphophomeni Sakabula wetland rehabilitation for reducing the impacts of effluent from the Mphophomeni WWTWs.
- Significant progress made on the rehabilitation of the Mthinzima wetland to enhance or polish the raw sewage from the leaking Mpophomeni sewer pipelines before it can be discharge to Mthinzima River that supplies water to Midmar Dam.

- Completion of the Bayenspruit wetland rehabilitation strategy to improve the water quality of Msunduzi River and Inanda Dam.
- Appointment of a service provider to construct the Darvill artificial wetland.
- Completion of the Ixopo Home Farm Dam wetland rehabilitation for the enhancement of water quality of the Ixopo Home Farm Dam.

Soil Erosion Management: The Upper Mkhomazi Catchment Restoration

The Department of Water and Sanitation, Umgeni Water and the Trans-Caledon Tunnel Authority are implementing the Mkhomazi-Mgeni Transfer Scheme to meet the current and future water demands of eThekweni Metro and surrounding areas. The major challenge is that the catchment upstream of the proposed Smithfield Dam in the Mkomazi River is already highly degraded and a significant proportion of the remainder is at a high risk of future similar degradation. Technical experts have generated a number of scenarios related to the rate of sediment deposition that might occur in the proposed dam and the most reasonable scenario indicate that the dam would lose about half of its volume to sediment over 100 years.

In addition, highly turbid water due to sedimentation and siltation will contribute significantly to an increase in purification costs. Climate change, bringing both droughts and more intense rainfall events to this area, is likely to accelerate erosion and subsequent dam sedimentation and further increase turbidity. Population demographics for the Mkhomazi area show that 68% of people living in the area have no formal income and 10% earn less than R3 500 per month. Women are particularly vulnerable with 8 755 female-headed households of which about 3 492 are reliant on unprotected water sources. Many households survive by supplementing social grant and transfer payments with small-scale stock and crop production.

Umgeni Water has partnered with with communities and stakeholders to share knowledge on practices that will lead to the restoration of the Upper Mkhomazi landscape. In addition to improving water security and reducing the cost of water treatment, this initiative creates significant direct and indirect economic opportunities to local residents and improve biodiversity with associated ecosystem benefits. However, it is anticipated that the benefits of successful conservation and restoration will, over the long term, far outweigh the costs. The dam itself (estimated cost at R30 billion) is likely to deliver limited local economic opportunities and most benefits will accrue from upstream protection rather than from the dam itself. The first phase of the project was completed in 2020 and phase 2, which is the current phase commenced in the 2020 and will be completed in November 2023.



Mpofana Bulk Water
Supply Bruntville Pipeline

The overall objective of this project is use nature based solutions to address the severe land degradation and invasive alien plant infestation in the Upper Mkhomazi Catchment so as to improve water security, the livelihood prospects of local residents and biodiversity outcomes. This is being achieved through implementation of catchment management and ecological infrastructure interventions at degraded areas located upstream of the proposed Smith Field Dam. During 2022/2023 the following targets were greatly exceeded:

- Expansion of land that is under rangeland management by 45000 ha instead of the planned 5 000 ha;
- 40 ha of alien wattle cleared in stead of the planned 3 ha;
- Establishment of 4200 ha of brushpacks to capture sediment;
- 2 450 m of vertiver grass planted to supplement brushpacks in sediment capturing;
- 4.5 ha of land revegetated as opposed to the planned 1 ha.
- 100 local farmers supported with conservation agriculture instead of the planned 50 farmers;
- 10 citizen scientists subcontracted to monitor the effectiveness of the interventions using citizen science tools;
- Practical training associated with restoration activities provided to project teams;
- Further investment secured from interernational and local investors;
- Establishment of the Upper Mkhomazi catchment management forum; and
- Completing and collating monitoring of conservation agriculture control and treatment plots.

Ecological Infratsructure for Water Security Project (EI4WS) - Umgeni Water-SANBI Collaboration

The Ecological Infrastructure for water security project is a five year \$7.2 million (approximately R90 million) worth investment from from the Global Environment Facility (GEF) with considerable cofinance from various collaboration with South African partners. The Department of Environmental Affairs is the National focal point for this project, the Development bank of South Africa (DBSA) is the Implementin Agent for the GEF and SANBI is the project executing agency. The Project aims to transform the way people think about, value and invest in water and ecosystems, and will lead to increased investment in the management of ecological infrastructure in the future.

SANBI's ecological infrastructure for water security project recognise the urgent need to bring investment in the management, maintenance and restoration of ecosystems into the planning, financing and development in the water sector. It is anticipated that such investments will create more jobs and advance SA's developmental agenda, especially in face of a changing climate. The EI4WS project is designed in close consultation with the Department of Water and Sanitation (DWS), and supports the implementation of the National Water Resource Strategy and the Call to Action of the Water and Sanitation Master Plan. Project implementation is through a suite of partnerships involving several other public, private and civil society organisations, such as the DWS, the WRC, WWF-SA and Umgeni Water.

The project was launched as a development finance institution with the ability to take the country's natural capital into account in development financing.

As part of the signed collaboration agreement between Umgeni Water and SANBI, the following achievements were attained in the year under review:

- Mapping of Woody Alien- Invasive Vegetation in the Mgeni System
- Review of biodiversity offsets as part of the mitigation hierarchy
- Project management and training of the Mpophomeni Enviro Champs that are contracted to monitor the Mthinzima wetland rehabilitation using citizen science tools and techniques.
- Confirmation of the eligibility/suitability of catchments for the implementation of the Waste Discharge Charge System.
- Development of detailed costing for the implementation of Pongola-Mthamvuna Catchment Management Strategy and Plans;
- Investigation of the full cost of water for different water user groups in the catchment and explore opportunities within the water value chain to ensure equitable allocation of full costs of water amongst

different users.

Water Use Compliance: Licence Status

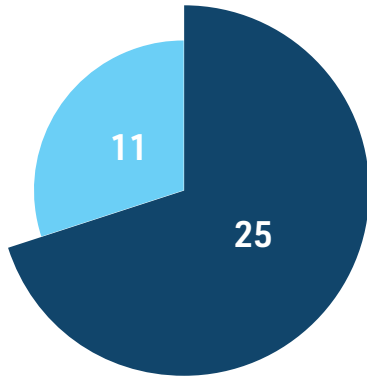
The National Water Act, Act No 36 of 1998 (NWA), requires that water-use licences are obtained before any water-use activity or development can be undertaken. Water use is defined as undertaking activities that have an impact on a water resource. The impact may be on the amount of water in the resource, the quality of water in the resource and the environment surrounding the resource. Section 21 of the NWA lists 11 water uses as requiring a water-use licence before they can be undertaken. Of the 11 listed water uses, only seven are applicable to Umgeni Water and include:

- Taking water from a water resource (water abstractions);
- Storing water (raw water storage in a dams);
- Impeding or diverting the flow of water in a watercourse (river or wetland crossing or construction of a dam or weir);
- Discharging waste or water containing waste into a water resource through a pipe, canal, sewer, sea outfall or other conduits (discharges from WWTW and WTW to the river);
- Disposing of waste in a manner which may detrimentally impact on a water resource (sludge solids disposal);
- Altering the bed, banks, course or characteristics of a watercourse (river or wetland crossing or construction of a dam or weir);
- Engaging in a controlled activity (Irrigation with wastewater/sludge).

Water users can include any entity or individual whose operations trigger the water uses that are listed in section 21 of the NWA. To ensure compliance with the requirements of the NWA, the water-use licence status and compliance was monitored and quarterly reporting was undertaken. This included developing and implementing action plans to obtain outstanding licences and compliance with the conditions of the

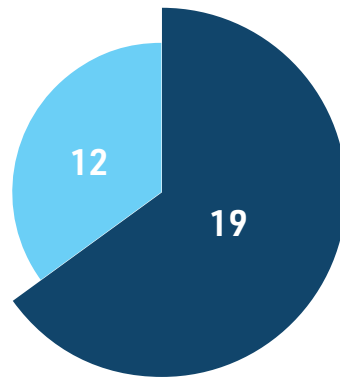
The status of water use licence applications for CAPEX Projects (new infrastructure development projects) is presented in the figure below:

Capex projects WUL application status for construction



■ Authorised
 ■ Not Authorised -WUL application to DWS
 ■ In Planning Phase

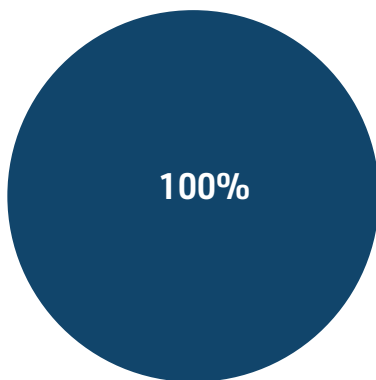
Capex projects WUL application status for operations



■ Authorised
 ■ Not Authorised -WUL application to DWS
 ■ In Planning Phase

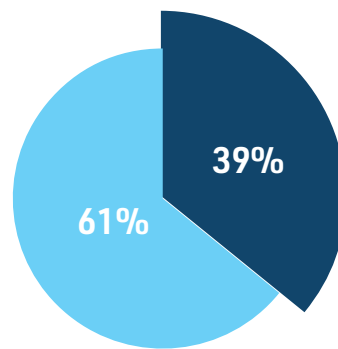
The Status of Water Use Licences for Operational Water Uses (existing water uses) is presented in the figure below:

Abstractions and storage for portable water treatment



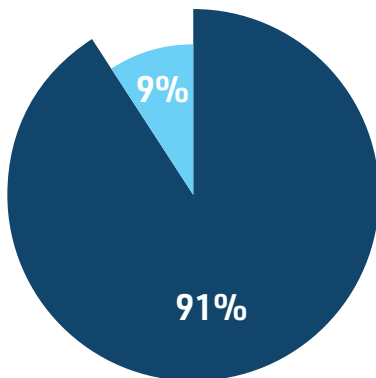
■ Authorised
 ■ Not Authorised
 ■ In Planning Phase

Discharges from water treatment works



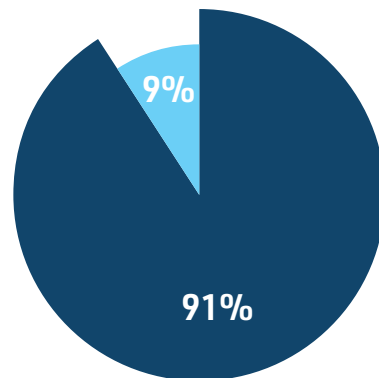
■ Authorised
 ■ Not Authorised
 ■ In Planning Phase

Abstractions and storage for portable water treatment



■ Authorised
 ■ Not Authorised
 ■ In Planning Phase

Wastewater treatment sludge disposal



■ Authorised
 ■ Not Authorised
 ■ In Planning Phase

Msinsi Holdings Sustainable land and Resource Management

Msinsi Holdings SOC Ltd, a wholly-owned subsidiary of Umgeni Water, is mandated to manage the land and biodiversity of the areas around the dams owned or managed by Umgeni Water in a manner that balances the divergent factors of local community development provision of recreational facilities for the public and water resources/biodiversity protection.

These reserves are located at:

- Spring Grove Dam;
- Albert Falls Dam;
- Nagle Dam;
- Inanda Dam;
- Hazelmere Dam.

The following sites have been incorporated into the scope of Msinsi for implementing catchment management interventions associated with alien invasive plant eradication:

- Nungwane Dam;
- Imvutshani Dam;
- Mhlabatshane Dam;
- Umzinto Dam;
- EJ Smith Dam;
- Darvill Wastewater Treatment Works;
- Ixopo Dam (aquatic weeds).

Detailed management plans for each of the reserves in line with industry best practice have been completed and form the basis for all operations in the reserves. In the past year, Msinsi succeeded in protecting the habitats and ensuring an ecological sustainable and protected water environment through implementing its resource management plans which focused on:

- The management of the game and species according to the carrying capacity of each reserve;
- Local community development;
- Recreation for the public;
- Grassland management;
- Pollution control within purchase areas;
- Removal of alien invasive plants (terrestrial and aquatics).

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

Security patrols are conducted as per a patrol plan to identify and mitigate security risks to the reserves including ensuring reserve fence lines are in good condition.

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

Stakeholder engagement successfully created value for Msinsi's operations and the communities at large during this reporting period. As a result, there was no interruption of Msinsi's operations as a result of community instability in the neighbouring areas.

Waste Management

Umgeni Water has solidified its commitment to conserve scarce natural resources and reduce the environmental impacts of its operational activities through environmental sustainability initiatives. The initiatives aim to transform the organisation from the typical wasteful linear economic model (of take-make-use-dispose) to an economic model that enables economic growth, while aiming to optimise the operation chain in a more sustainable approach. Waste minimisation was identified as one of the crucial initiatives in reducing the amount of waste that is disposed at landfill sites.

A notable decrease in the quantity of waste that was recycled during 2022/23 (**Figure 11.6 and 11.7**). The reported recyclable waste was collected from two sites only due to challenges faced by the cooperative that is collecting recyclable waste.

Figure 11.6: Waste Produced

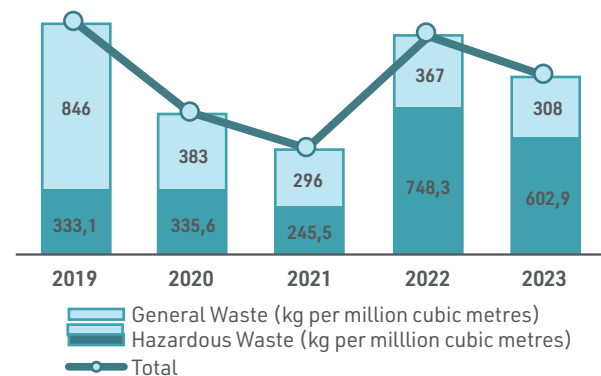
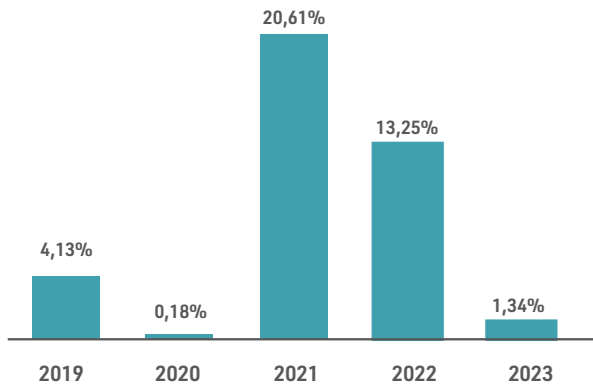


Figure 11.7: Per Cent Waste Recycled



Water Treatment Residues and Waste Water Sludge

The management of Water Treatment Residues (WTRs) and wastewater sludge forms an integral component of the core business of Umgeni Water. Current sludge management practices include on and off-site disposal and river discharges.. Umgeni Water recognises that the disposal of waste to landfills has negative environmental impacts, such as the greenhouse gas emissions from methane especially in the absence of landfill gas capture mechanisms. This triggered the need for Umgeni Water to develop a comprehensive Sludge Management Plan (SMP) for its operational sites.

The WTRs will be applied to agricultural land as a soil conditioner whilst the wastewater sludge will be used as organic compost. Wastewater sludge contains organic matter and nutrients that can provide soil benefits. Planned work is to design and pilot a long-term solution that will transform both management of WTRs and wastewater sludge from a liability into an asset on a commercially representative scale.

Environmental Performance of Operational Sites

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

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

Operational environmental audits were conducted at 15 sites for 2022/2023. Out of 28 findings, 12 findings were rated major.

Table 11.4: Environmental Findings Classification

| Risk Rating | No. of Findings | % |
|-------------|-----------------|-----|
| Minor | 16 | 57 |
| Major | 12 | 43 |
| TOTAL | 28 | 100 |

Environmental findings at a corporate level related to:

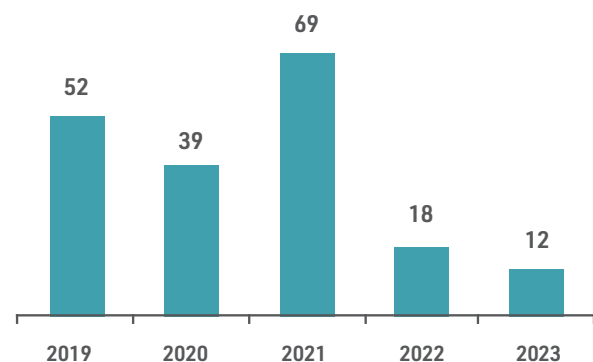
- Non-compliances against Water Use Licences (WUL) in terms of annual sharing of the required information with the Regional Head, investigation of efficient techniques to conserve water, annual dam safety evaluations and development and implementation of biomonitoring programmes, Over abstraction of water beyond authorized abstraction volumes;
- Non-compliances against General Authorisations (GA) in terms of registration of wastewater discharge activities into a water resource;
- The absence of discharge licences, WUL or General Authorisation at some of the newly acquired sites and some of the existing WTWs;

Mitigation measures and action plans have been instituted to address these findings

Environmental Incidents

In the year under review, there were 12 environmental incidents recorded for the 2022/2023 financial year (48 incidents in 2022). This indicates a decrease in the number of incidents from the previous year. **Figure 11.8** provides the comparative analysis for the past five years

Figure 11.8: Environmental Incidents

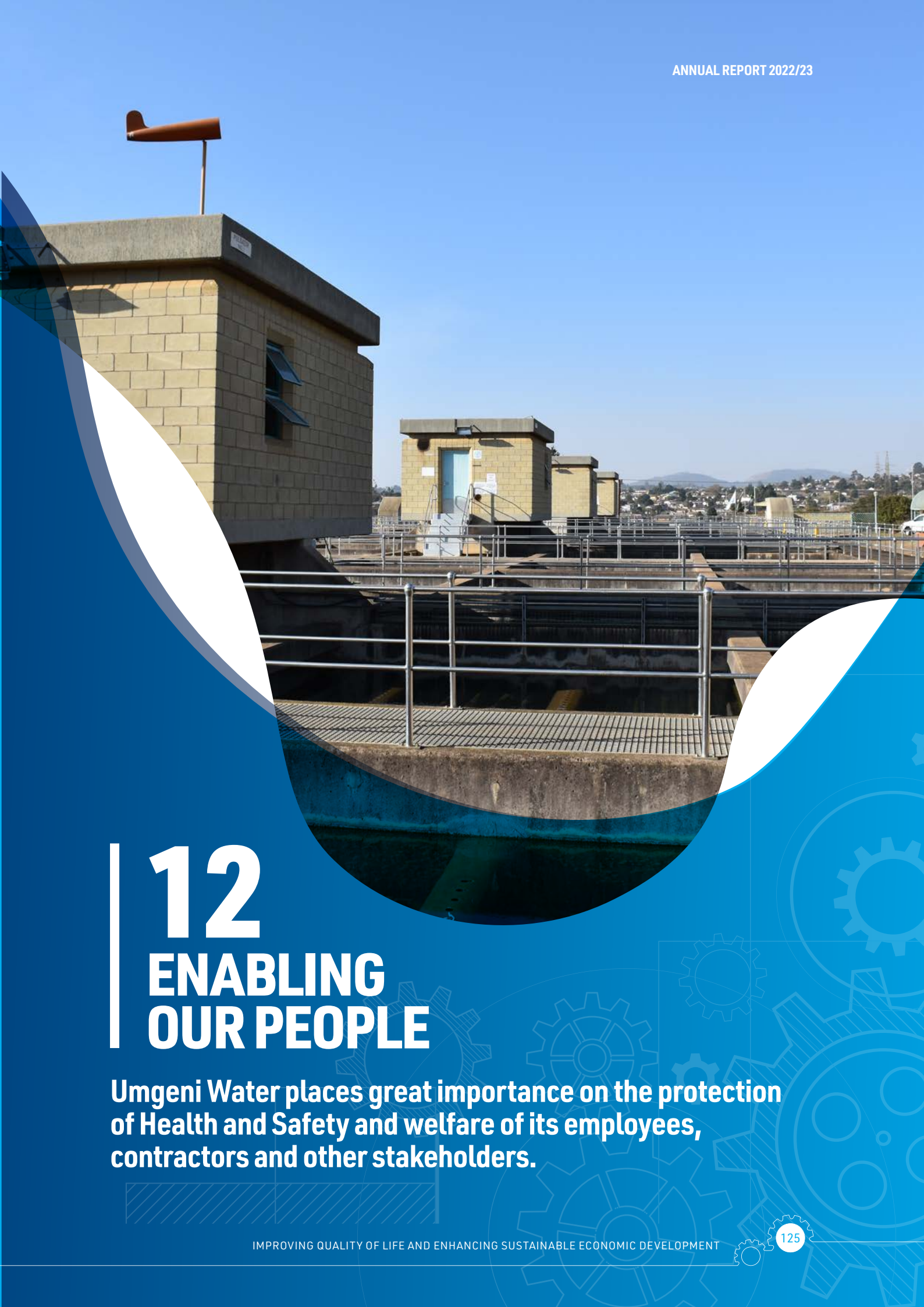


Sixteen projects were in the Construction phase. The details of some of the projects is depicted in Tables 11.5 below.

Table 11.5: Bulk Infrastructure Projects in the Construction Phase.

| No. | Project Name | Environmental Authorisation Status |
|-----|--|---|
| 1 | Nagle Emergency Slip-lining of Aqueduct 3 & 4: Siphon 6 | Authorisation Not required (EMP in place) |
| 2 | Darvill WWTW Office Building Remodelling | Authorisation Not required (EMP in place) |
| 3 | Lovu Emergency Scheme | Authorisation Not required (EMP in place) |
| 4 | Weza Harding Scheme | Authorisation Not required (EMP in place) |
| 5 | Ixopo Stilling Wells and Sludge Pipeline | Authorisation Not required (EMP in place) |
| 6 | Hilton N3 Corridor Pumpstation, Rising Main and Gravity Main Project | Authorised |
| 7 | South Coast Phase 2A&B | Authorised |
| 8 | Darvill WWTW Upgrade and Co-Generation | Authorised |
| 9 | Greater Mpopana Bulk Water Supply Scheme: Phase 1 | Authorised |
| 10 | Darvill WWTW - Rehabilitation of the Sludge Lands | Authorised |
| 11 | Mpophomeni - WWTW Upgrade | Authorised |
| 12 | Mpophomeni - Sewers | Authorised |
| 13 | Lower uMkhomazi BWSS | Authorised |
| 14 | Maphumulo Access road | Authorised |
| 15 | Umbumbulu Project | Authorised |
| 16 | Rehabilitation of the Nagle Aqueducts 1 & 2 | EA in place but needs Amendment |

During this reporting period there were 16 projects in the construction phase that were monitored and audited by environmental control officers, environmental site officers as well as environmental scientists. The environmental audits were conducted for compliance against the approved Environmental Management Plans as well as the conditions of the Environmental Authorisations, Permits and Licences. The environmental performance has been generally satisfactory, however, the audit reports showed that several contractors were challenged with a few common non-conformances. These included inadequate topsoil management, spillages (e.g. hydrocarbon), runoff from stockpiles impeding watercourses, excessive noise and dust pollution during drilling, soil erosion of slopes, as well as commencement of construction of some activities without environmental authorisation. Mitigation measures were recommended to the contractors to minimise impacts on the environment and to facilitate continuous environmental compliance.



12 ENABLING OUR PEOPLE

Umgeni Water places great importance on the protection of Health and Safety and welfare of its employees, contractors and other stakeholders.

12.1 LEADERSHIP AND EMPLOYEE DEVELOPMENT

Management Approach

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

Labour and employment matters, including:

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

Social and economic development, including:

- This includes Umgeni Water's standing in terms of the goals and purposes of:
- The 10 principles set out in the United Nations Global Compact Principles and OECD recommendations regarding corruption, including human rights, child and forced labour, environment, anti-corruption, bribery, extortion and transparency;
- The Employment Equity Act, No 55 of 1998;
- The Broad-Based Black Economic Empowerment Act, No 53 of 2003.

Good corporate citizenship, including:

- Promotion of equality, prevention of unfair discrimination and measures to address corruption;
- Corporate social contribution and development of the communities in which Umgeni Water conducts its business;
- Impartial/objective sponsorship, donations and charitable giving.

The environment, health and public safety, including:

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

Consumer relationships, including:

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



Rosetta WTW

LABOUR PRACTICES AND DECENT WORK

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

EMPLOYMENT

The workforce profile is shown in **Table 12.1** and **Figure 12.1**.

- The entity seeks to maintain a workforce that enables it to deliver quality services to all stakeholders;
- All employees are based in KwaZulu-Natal and within commuting distance from all operational sites;
- All full-time and fixed-term contract employees are provided with several benefits, including membership of provident fund or retirement fund, housing allowance and medical aid;
- All female employees are entitled to maternity leave. During the reporting period, 14 female employees qualified for 100% maternity leave benefits, 83% returned to work after their leave and 17% are still on leave.

SUCCESSION, MENTORING AND COACHING

The Succession Planning Policy focuses on executing a systematic and multi-dimensional workforce management and succession strategy that promotes Umgeni Water as an employer of choice, supports career growth and development of talent at all levels of the organisation and optimises organisational performance to ensure the continuity and success of Umgeni Water operations and service delivery to communities. The goals / strategies include:

- a) Attracting talent to the organisation
 - Graduate Development Programmes
 - Updated processes relating to recruitment
- b) Ensuring Leadership is developed to meet Existing and Future Challenges
 - Management Development Programme
 - Leadership Development Programme
 - Executive Development Programme

The annual target is set based on the premise that a Division has an employee who is about to retire and occupies a critical position that in order for skills transfer and retention of institutional memory to happen; a succession planning route is followed.

Table 12.1 2022/2023 workforce by employment type/category, and race and gender is shown for the permanent establishment for (a) parent company and (b) wholly-owned subsidiary.

(a) Umgeni Water (Permanent Establishment)

| Occupational Category | Total | Male | | | | Female | | | |
|---|-------------|------------|-----------|-----------|-----------|------------|-----------|-----------|----------|
| | | African | Coloured | Indian | White | African | Coloured | Indian | White |
| Top management * | 9 | 7 | 0 | 0 | 0 | 2 | 0 | 0 | 0 |
| Senior management | 33 | 14 | 2 | 6 | 3 | 6 | 0 | 1 | 1 |
| Professionally qualified and experienced specialists and mid-management | 338 | 126 | 9 | 34 | 12 | 126 | 4 | 21 | 6 |
| Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents | 587 | 291 | 4 | 35 | 8 | 217 | 7 | 23 | 2 |
| Semi-skilled and discretionary decision-making | 200 | 181 | 1 | 0 | 0 | 16 | 0 | 2 | 0 |
| Unskilled and defined decision-making | 48 | 32 | 0 | 0 | 0 | 16 | 0 | 0 | 0 |
| Total | 1215 | 651 | 16 | 75 | 23 | 383 | 11 | 47 | 9 |

* Top management consists of Executives on five-year fixed-term contracts

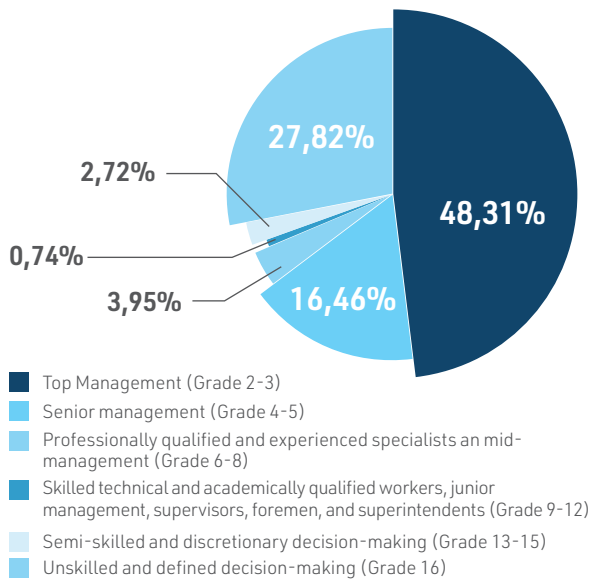
(b) Msinsi Holdings SOC Ltd (Permanent Establishment)

| Occupational Levels | Male | | | | Female | | | | Foreign Nationals | | Total |
|--|-----------|----------|----------|----------|-----------|----------|----------|----------|-------------------|----------|------------|
| | A | C | I | W | A | C | I | W | Male | Female | |
| Top management (P4) | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Senior management (P5) | 0 | 0 | 0 | 0 | 2 | | 0 | 0 | 0 | 0 | 2 |
| Professionally qualified and experienced specialists and mid-management (P6-8) | 3 | 0 | 0 | 0 | 4 | 0 | 1 | 0 | 0 | 0 | 8 |
| Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents (P9-12) | 12 | 0 | 0 | 0 | 22 | 1 | 0 | 0 | 0 | 0 | 35 |
| Semi-skilled and discretionary decision making (P13-15) | 38 | 0 | 0 | 0 | 10 | 0 | 0 | 0 | 0 | 0 | 48 |
| Unskilled and defined decision making (P16) | 21 | 0 | 0 | 0 | 23 | 0 | 0 | 0 | 0 | 0 | 44 |
| TOTAL PERMANENT + 1 contract | 74 | 0 | 0 | 0 | 61 | 1 | 1 | 0 | 0 | 0 | 138 |

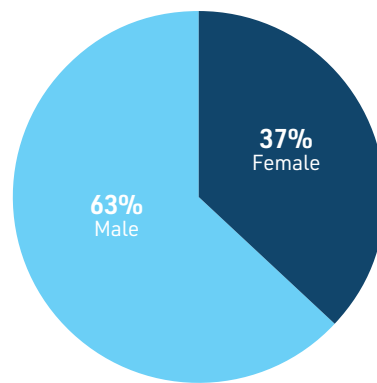
* Top management consists of the Managing Director on a five-year fixed-term contract

Figure 12.1: Employment in 2022/23 showing (a) category, (b) race, (c) gender, (d) age and (e) disability

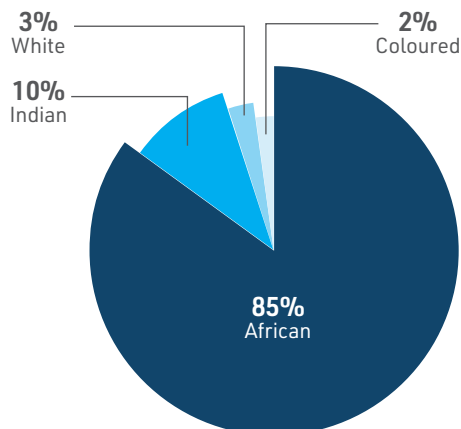
(a) Employment status (Group) by Category



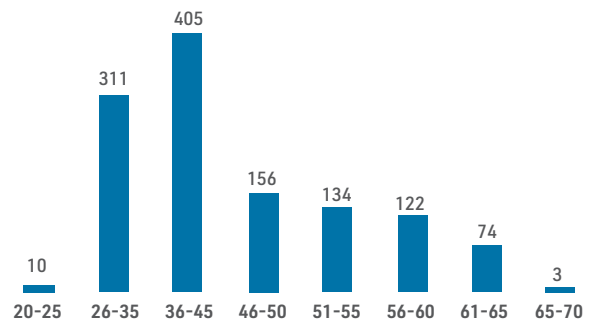
(c) Employment status (Group) by gender



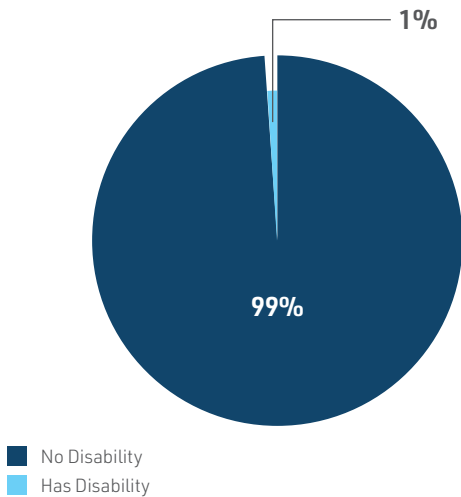
(b) Employment status (Group) by race



(d) Age Profile (Parent)



(e) Employee Disability Profile (Parent)



alignment of corporate policies with relevant legislation and regulations. Specifically, with its union, NEHAWU, the entity has in place a Collective Agreement that is maintained. Currently, 69% of the total workforce are union members and 51% are within the collective bargaining unit.

Quarterly Union-Management meetings were held in the reporting period, excluding special meetings that were held to provide more timely feedback. The collective agreement serves as the minimum terms of engagement, as the entity is committed to information sharing and to providing reasonable response at all times to organised labour regarding any significant operational changes that affect employees. During the engagement sessions, management actively engaged labour regarding concerns raised and sought to achieve resolution of issues without any stand-offs.

Table 12.2 Summary of staff numbers as at 30 June 2023

| Staff Numbers | Total |
|----------------------------|-------|
| Parent permanent | 1 215 |
| Msinsi permanent | 137 |
| Group permanent | 1 352 |
| Group fixed-term contracts | 197 |
| Group Total | 1 549 |

OCCUPATIONAL HEALTH AND SAFETY

Umgeni Water places great importance on the protection of Health and Safety and welfare of its employees, contractors and other stakeholders and firmly believes in risk prevention and the promotion of Health and Safety in the workplace, as these are key factors that improve job quality, working conditions, competitiveness and sustainability of operations. Health and Safety is a way of doing business and it is not the responsibility of a single person or department but a collective effort where every employee is responsible for playing their part.

RECRUITMENT AND TURNOVER

In the reporting period the entity recruited 111 employees, comprising:

- 15 (fifteen) permanent employees;
- 8 (eight) contract employees; and
- 95 (ninety-five) graduates, interns and in-service trainees.

Terminations were 44 including:

- 11 (eleven) resignations;
- 4 (four) natural deaths;
- 6 (six) early retirement;
- 6 (six) normal retirements;
- 4 (four) because of medical boarding.

The entity’s labour turnover percentage for the year is 83% and is below the industry benchmark of 8%.

The entity’s commitment is driven by:

- Acknowledging that while we operate in an inherently high-risk industry, we cannot ignore our moral and legal obligation to safeguard the well-being of our people and community and other stakeholders;
- The introduction of a safety article by the Chief Executive to demonstrate leadership and commitment;
- By ensuring that employees understand the hazards and risks associated with their activities;
- By prioritising and addressing and mitigating Health and Safety risks;
- Our approach is that to health and safety comes first at all times and that there are no shortcuts;
- Our continuous efforts to create a culture where every employee understands the importance of working safely and can go home safe and healthy to their family after every shift;
- Ongoing supervision and inspections by supervisors and line management;
- Introduction of site Health and Safety IMBIZOs to promote Health and Safety Awareness amongst all employees;

LABOUR/MANAGEMENT RELATIONS

Umgeni Water strives to create an environment in which employees feel valued and support the organisation’s values, strategies and priorities. The rights and well-being of all employees are safe-guarded and protected through

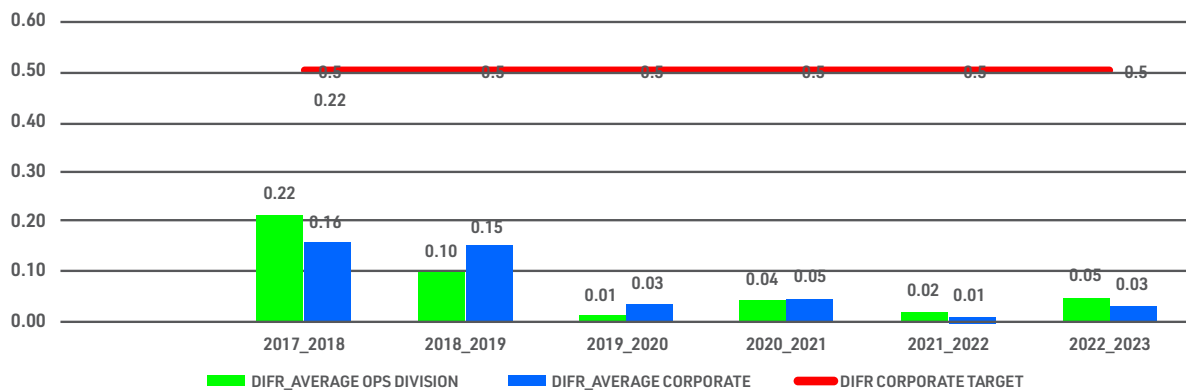
- By instilling our beliefs and culture to our employees and relevant stakeholders, that a safe site is a productive site and that safety and production go hand in hand;
- Maintaining the health and safety of our employees, as well as within the communities in which we operate;
- Promoting Dam Safety awareness to schools and communities, which are located within the Dams;
- Scheduled compliance audits are conducted on all sites to ensure maximum SHEQ compliance, and these include management audits to instil participative leadership;
- Continuously providing resources, information, training, equipment, systems and other support to all individuals as they have a role to play; to enable all to understand their role, to work safely, healthily, and to participate in improving performance overall and minimise business impact upon the environment;

- The migration from an Operations Division SHEQ policy to a Corporate SHEQ policy. This further strengthened our top management leadership commitment.

Umgeni Water applies international, as well as South African standards across the organisation. The entity also drives programmes to support it in complying with relevant legislation and regulations that govern its operations and operating environment. In this regard, the organisation has retained its OHSAS 18001 accreditation and duly awarded ISO 9001:2015 accreditation. To maintain the integrity and continuous improvement of this system, regular SHE legal compliance audits were conducted by an independent, competent and accredited service provider.

One of the measures adopted by Umgeni Water in measuring its safety performance is the Disabling Injury Frequency Rate (DIFR). There was a noticeable increase in the number of disabling incidents recorded in the year compared with previous years. Our final DIFR was recorded at 0.02. **(Figure 12.2)**

Figure 12.2: DIFR_Average_operations vs corporate



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

Skills Development

Every year, Umgeni Water compiles and submits a Workplace Skills Plan and Annual Training Report to Energy and Water Sector Education Training Authority (EWSETA), which guides the implementation of skills and development initiatives through the identification of the skills needs of the entity and ensures the effectiveness of skills development plans. The skills development programmes include:

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

SKILLS AUDIT & CAPACITY BUILDING FRAMEWORK

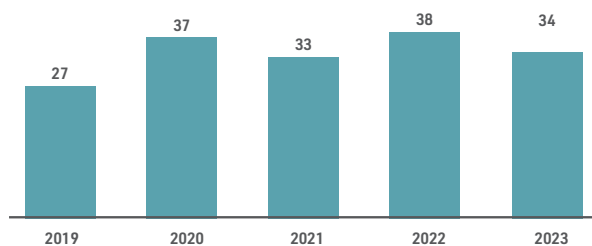
The Umgeni Water Skills Audit provided the entity with a five-year multi-layered competency framework that guides the identification of skills development gaps, scarce and critical skills and prioritisation of training and development initiatives to support the entity's continuity. For this reporting period, the entity is on year three of the implementation plan

For the reporting period, the entity continued with the application of the approved three-layered Capacity Building Framework that offers a simplified and systematic approach to organisational capacity building to aid the implementation and evaluation of capacity building programmes.

Training and Development

The implementation of training and development initiatives is aligned with the Skills Development Act 97 of 1998 and other related legislation for purposes of developing the workforce skills requisite in order to improve the quality of life, productivity and competitiveness, and delivery of social services. Furthermore to respond to the water sector skills requirements

Figure 12.3 (b): Training Spend (Rm)



Leadership, Learnership and Apprenticeships

At Umgeni Water, skills development remains an essential enabler for employees to excel in their individual and organisational roles to deliver on the entity's mandate.

As part of the continued endeavours to strengthen organisational leadership capacity; two Executives enrolled for an Executive Leadership Development Program at Gordon Business School and University of Cape Town (GetSmarter) respectively. A three multi-layered assessment was adopted focusing on key areas namely; behaviour change, attitudinal and technical skills. The outcomes of the capacity impact assessment report will be used as baseline for the design and decision-making on future Leadership Development initiatives.

A total of 13 employees have been enrolled for the Management Development Program (MDP) at the University of Kwa Zulu -Natal Extended Learning and one Executive was enrolled for the Executive Leadership Development Program with Harvard Business College. The purpose for enrolment is to equip the newly appointed managers with new set of skills and current individuals who are already occupying leadership roles within the entity with the required knowledge and ability to drive change and organisational mandate, ensure achievement of Vision 2050 and organisational sustainability. The MDP program further aims to assist with the achievement of short and long term goals of the organisation.

The Learnerships and Apprenticeships programme provided training, development and exposure to both internal and external candidates. On completion of trade tests and were deemed to be competent as Artisans, then Apprentices will be appointed as junior artisans for a two-year period in order for them to gain experience that is in line with the minimum requirements of the artisan positions. A total of 49 apprentices were appointed in the apprenticeship

programme and will receive theoretical training at Amajuba TVET College and Shukela Training Centre in the Automotive Motor Mechanics, Boilermaking, Electrical, Instrumentation, Fitting and Millwright trades. In F2023/24 apprentices will receive practical work exposure from various operational sites within the entity as per the requirements of the programme.

Furthermore, Foremen visited training institutions in April 2023 to discuss the curriculum as well as inspect the institutional workshops for compliance purposes. There was an apprenticeship induction programme which aimed at familiarizing the apprentices with the overview of Umgeni Water, apprenticeship programme, the structure of training programme etc. Apprentices are expected to be enrolled for the first phase of theoretical training in the Q1 of F2023/2024.

Assisted Education

The organisation continued to provide employees with financial support to further their studies in disciplines related to the entity's core and support business for improved performance to meet the current and future skills needs through the Assisted Education Programme (AEP). For the period under review, 36% of employees enrolled in formal qualifications that respond directly to critical and scarce skills needs. The qualifications range from NQF level 6 to NQF level 10, consisting of under graduate and post graduate qualifications.

Umgeni Water Young Professionals

The existence of Umgeni Water Young Professionals (UWYP) proves the entity's ongoing acknowledgement and support towards initiatives aimed at developing the youth. Since the inception of UWYP in 2014, the forum has an active membership of 200, consisting of employees below the age of 35. The UWYP is a solution-oriented platform that aims to cultivate professional development, leadership and social responsibility among the entity's young workforce.

The forum continues to aim at being a catalyst in supporting the organisation to achieve its vision and mission, be the proponent of continuous learning, growth and collaboration, and being a key partner to enable the organisation to achieve efficiency gains through innovation and use of best-fit technology. Aligned with Umgeni Water's growth strategy; the forum's operational model is underpinned by its constitution, strategy and the following objectives:

- To create an enabling environment for professional growth through affiliation and registration;
- To encourage active community and social responsibility participation;
- To create a solid professional and social networking the young professionals in the organisation;
- To empower Umgeni Water Young Professionals (UWYP) through skills development, resources and information-sharing.

During the reporting period, the UWYP initiated and advocated for different Initiatives that were seen as being key to the progress and continuous success of the forum. These initiatives were borne of engagements with different internal and external stakeholders.

Notable activities completed by UWYP in the year include:

- Elections and a new committee was elected in this financial year,
- Roadshows, the new committee was introduced to the different Umgeni Water sites as well as reiterating the benefits of being a Young Professional,
- Planning and successfully convening a re-launch for the young professional forum
- Sponsored different organisations in different social initiatives, such as the World Merit South Africa. This organisation hosted a men's talk for young boys in Durban, and the community cleanup in Pietermaritzburg at the FJ Sithole Road Imbali Edendale. This initiative ended with a career guidance talk that was aimed to assist the youth of this ward,
- Assisted in the establishment of the Young Water Professionals Forum of Mhlathuze
- Partnered with the Department of Water and Sanitation in planning and co-hosting the 2023 National Youth Indaba,
- Sponsored three (3) young professionals who partook in the Wetskills challenge part of their professional development,
- Finalised the detailed planning for the tutoring programme for High School learners that will assist with Mathematics, Physical Science and Accounting. This programme will be fully operational in the first half of the 2023/2024.

- Successfully co-hosted the National Water Youth Indaba with the Department of Water and Sanitation during the youth month.

Bursary, Graduate and In-service Trainee Programmes

Umgeni Water's graduate trainee programme aims to expose trainees to a practical working environment that puts structured learning into practice in order to equip beneficiaries with applicable competencies to allow development of a pool of qualified, skilled and experienced candidates for future employment. In the reporting period, the entity had 50 graduates enrolled in the engineering, science and other required professional fields and 41 in-service trainees.

A total 16 interns were contracted for a two-year internship programme in multi-disciplinary fields across the organisation. The duration of the internship program was extended to two years to allow adequate workplace exposure and for interns to meet the minimum requirements for entry-level positions. Umgeni Water continued its bursary programme and funded 16 bursary students through the Bursary Scheme with students enrolled at various universities in disciplines of Civil Engineering, Mechanical Engineering, Electrical Engineering, Chemistry, Microbiology and Computer Science - Cyber Security.

The entity in partnership with National Treasury continued to implement the graduate development programme of engineers, technologists, process support and technicians with specific emphasis on meeting the skills shortages in municipalities in the province.

In the reporting period, 44 Graduates were developed under the National Treasury Graduate Development Programme. These graduates are expected to be professionally registered by 2026.

KEY MEMBERSHIPS AND ASSOCIATIONS

Umgeni Water employees subscribe to a wide range of memberships and associations (Table 12.3). These straddle governance and risk, water, science and engineering, natural resources, social impact management, business, finance and accounting, and occupational health and safety, among others. The memberships ensure employees keep abreast in fields of expertise and participate in sector knowledge-sharing.

Table 12.3: Key Membership and Associations

| Category | Memberships |
|--|---|
| Governance and Risk | Institute of Directors in Southern Africa (IoDSA) Institute of Risk Management South Africa (IRMSA) Ethics Institute of South Africa (EthicsSA) Institute of Internal Auditors (IIA) Information Systems Audit and Control Association (ISACA) Compliance Institute of South Africa Association of Arbitrators Corporate Counsel Association of South Africa Association of Arbitrators and Corporate Counsel Association of South Africa |
| Financial and Business | South African Institute of Chartered Accountants (SAICA) Association of Corporate Treasurers of Southern Africa (ACTSA) Chartered Institute of Management Accountants (CIMA) South African Institute of Professional Accountants (SAIPA) National Business Initiative (NBI) Durban Chamber of Commerce and Industry (DCCI) Pietermaritzburg Chamber of Business (PCB) Chartered Institute of Purchasing (CIPS) SA Accounting Academy (SAAA) |
| Product Quality, Infrastructure Stability, Research, Innovation, Science and Technology | Water Institute of Southern Africa (WISA) South African Association of Water Utilities (SAAWU) International Desalination Association South African Institute of Agricultural Engineers South African Institute of Mechanical Engineers International Association of Hydrological Sciences American Water Works Association (AWWA) International Water Association (IWA) Engineering Council of South Africa (ECSA) South African Institute of Civil Engineers (SAICE) Construction Industry Development Board (cidb) South African Institute of Chemical Engineers (SAIChE) Project Management Institute South African Council for Planners South African Planning Institute South African National Committee on Large Dams (SANCOLD) The Association of SA Quantity Surveyors Concrete Society of Southern Africa NPC South African Council for the Project and Construction Management Professions (SACPC-MP) The Southern African Institute of Mining and Metallurgy (SAIMM) South African Geomatics Council American Chemical Society (ACS) South African National Standards |
| Community and Environmental Sustainability, Science and Technology | International Association for Impact Assessment (IAIAsa) South African Council for Natural Scientific Professions (SACNASP) Institute of Waste Management |
| Employee and Leadership Development, Operational Resilience, Operational Optimisation | Institute of Information Technology Professional of South Africa (IITPSA) South African National Standards Association (SABS) South African Institute of Draughting Electrical Contractors' Association NACE International South African Right of Way Association (SARWA) Institute of Safety Management. Fire Protection Association of South Africa South African Board of People Practice (SABPP) South African Nursing Council (SANC) South African Reward Association (SARA) South African Society of Occupational Health Nursing Practitioners (SASHON) Chartered Institute for Purchasing and Supply (CIPS) State-Owned Entities Procurement Forum (SOEPF) Society of South African Archivists (SASA) Library and Information Association of South Africa (LIASA) South African Institute of Occupational Safety and Health (SAIOSH) Toastmasters International The Association for Office Professionals of South Africa (OPSA) |

PERFORMANCE, ALIGNMENT TO STRATEGY AND REMUNERATION

Umgeni Water continues to implement successfully a three-component performance management system in the organisation. The system ensures that all employees have conceptual knowledge, and an understanding of the role and purpose of their jobs with line of sight to the entity's strategy and performance objectives and targets.

The Board of Umgeni Water assesses the entity's performances against predetermined objectives on a quarterly and annual basis, while formal employee performance assessments are undertaken twice a year.

The Remuneration Policy and Strategy are aligned to the Performance Management Policy in order to ensure that the performance management process at Umgeni Water is development orientated and intended to cultivate effective human resources management and career development. As a result, appraisals are constructively used to provide feedback and coaching to individual employees concerning their job performance.

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

DIVERSITY AND EQUAL OPPORTUNITY

Umgeni Water's workforce by employment type/category, race and gender is shown in **Table 12.1** and **Figures 12.1**. The organisation annually submits an Employment Equity Plan to the Department of Labour and prepares quarterly equity reports to track the status of its workforce diversity against its plan. Umgeni Water does not discriminate between men and women in terms of remuneration.

CHANGE MANAGEMENT

Improving Work Culture

Employees need to understand that change is inevitable. Change is enabled when employees are involved and equipped. They need to see visible commitment to the change.

The Change Management Programme serves to provide generic guidance for Change implementation in the organisation. The organisation remains committed to

effectively managing change and is confident that the Change Management Programme will contribute to effective transformation that will benefit the sector as a whole.

HUMAN RIGHTS

Investment and Procurement Practices

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

Awareness continues to be built amongst the entity's employees through requesting mandatory disclosures of interests in support of fair, equitable, transparent and competitive procurement practices.

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

Child and Forced Labour

Umgeni Water, as a state-owned entity, subscribes fully to National Legislation that ensures a healthy and safe work environment for its employees. The entity's Human Resources Policies comply and are in line with the Labour Relations Act (Act No 66 of 1995), Basic Conditions of Employment Act (Act No 75 of 1997) and their relevant Codes of Good Practice. The entity is also aligned to the United Nations Global Compact Principles and OECD recommendations in this regard. Umgeni Water does not practise child and forced labour.

Non-Discrimination

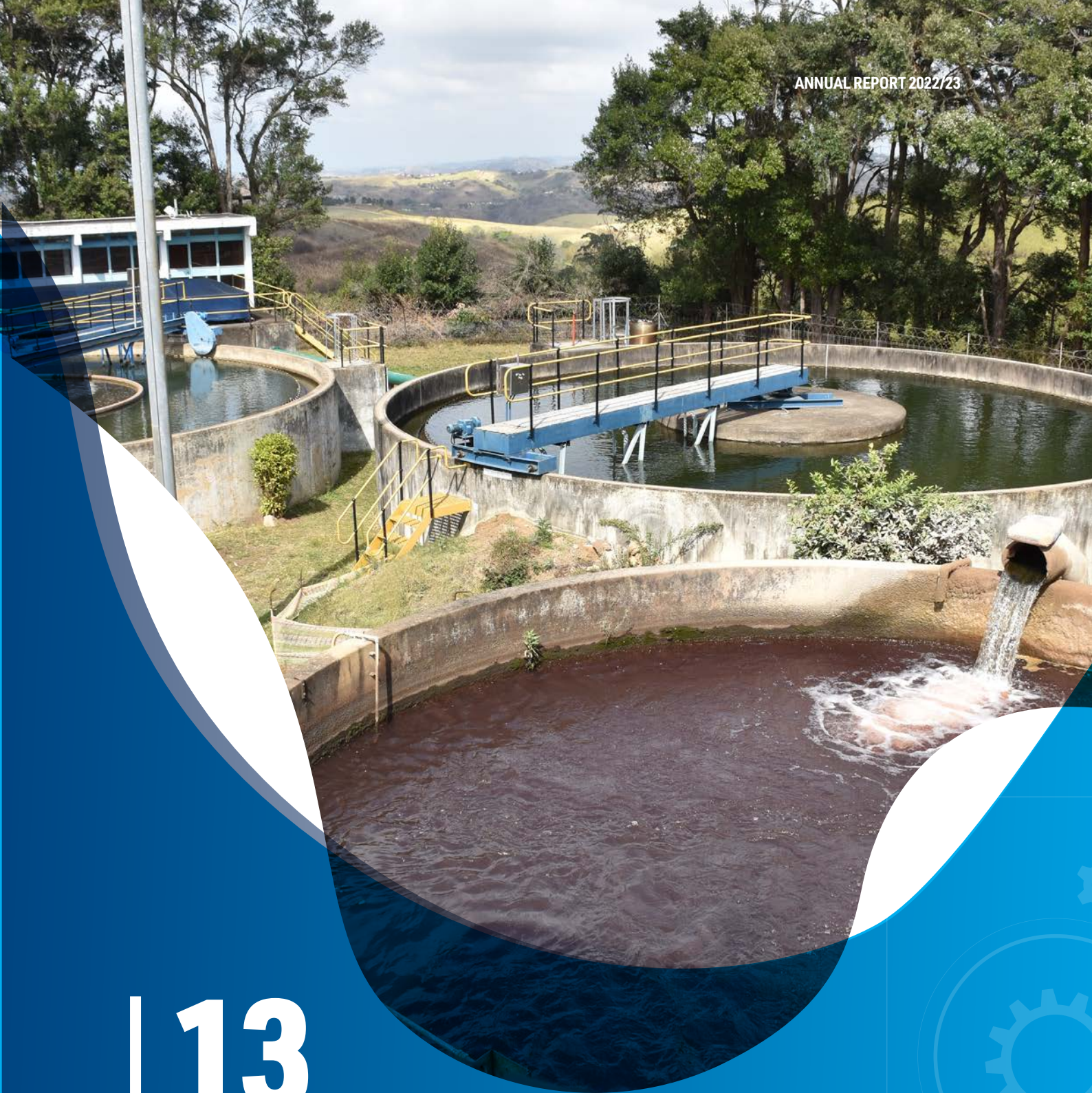
In the year, zero incidents of discrimination were reported.

Indigenous Rights

Umgeni Water subscribes fully to the Bill of Rights in terms of the Constitution of the Republic of South Africa (Act 108 of 1997). During the year, there were zero reported incidents of violation of rights of indigenous people in any aspect of the organisation's business.

Human Rights Remediation

Zero grievances related to human rights issues / contraventions were filed.



13

IMPROVING RESILIENCE

Water samples from the entire supply system are collected by a team of dedicated well-trained sampling officers daily throughout Umgeni Water's operational area.



Darvill Wastewater Works

IMPROVING RESILIENCE

13.1 ISO/IEC 17025 ACCREDITED LABORATORY SERVICES ASSURING WATER QUALITY

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

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

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

- Immediate provision of early warnings and alerts to stakeholders when a breach of quality standards is detected and ensuring that the incident-management protocol is followed to contain and remedy the breach.
- Maintaining analytical results database which allows all Umgeni Water users access to over 30-years of test results for trend forecasting. This is critical for construction of dams, water and wastewater treatment works and other capital projects.

Water samples from the entire supply system (catchment to consumer) are collected by a team of dedicated well-trained sampling officers daily throughout Umgeni Water's operational area, and are assessed in terms of physical, chemical and microbiological characteristics, as per SANS 241 standard requirements. The sampling activities are also governed and guided by ISO/IEC 9001 certification standard, which they have to conform to.

The analytical results are produced within specified times that form part of Service Level Agreements with end users. Supported by LabWare Laboratory Information Management System (LIMS), water quality results are captured, validated, stored and reported timeously. Laboratory Services generates 20 000 to 30 000 analytical results per month from its four accredited laboratories, split as follows: Chemistry, approximately 20 000; Microbiology, 5 000; Hydrobiology, 500 and Soil Chemistry, 100. The laboratories generated about 323 830 test results in this financial year. Direct access to the results is also provided to external users via the Electronic Water Quality Management System (eWQMS), the IRIS Blue Drop System (BDS) and the IRIS Green Drop System (GDS).

In addition to assuring the quality of bulk water produced, Laboratory Services provides water testing and sampling services to municipalities and various private sector clients. This valuable service supports and assists municipalities to improve their IRIS Blue and Green Drop compliance.

As an ISO 17025-accredited laboratory, Umgeni Water laboratory has to constantly keep up with the requirements of the standard, in order to maintain its accreditation status against the ISO 17025: 2017 Management System. As such, Laboratory Services has successfully retain its ISO/IEC 17025:2017 Accreditation status after SANAS completed the re-assessment evaluation on the 18th and 19th May 2023 with the clearance of all six non-conformances recorded for the Laboratory Management System with a minimum 75% of the laboratory's Chemistry Scope of Accreditation which includes methods and technical signatories. This Certification of Accreditation shall be valid for the next five years considering successful SANAS surveillance assessments every 18 to 24 months, to ensure major efforts and commitments to the standard, thus achieving and enhancing customer and stakeholder quality assurance.

The Microbiology and Hydrobiology laboratory voluntary suspended all the accredited methods of the two laboratories. The suspension was implemented from the 1st May 2023. These methods were affected due to the facility undergoing planned refurbishment activities which have an impact on the environmental conditions within the laboratory. The refurbishment is scheduled for a period of six to eight months. The laboratory remains committed to providing ongoing services under these conditions and shall assure continued quality, credibility and reliability of test results produced.

13.2 INFORMATION AND COMMUNICATION TECHNOLOGY GOVERNANCE

In line with King IV Report on Corporate Governance for South Africa 2016, the purpose of ICT Governance is to support the organisation to achieve its strategic objectives. The Board has delegated this function through the Innovation, Technology & Information (ITI) Committee to exercise this oversight role. The Information Technology and Innovation (ITI) Committee manages the governance of ICT and reports quarterly to the ITI Committee.

The Board through its strategy has approved the Digital Transformal process as a key thrust.

Digital transformation (**Figure 13.1**) is the integration of digital technology into all areas of a business resulting in fundamental changes to how businesses operate and how they deliver value to customers. In this regard, the Information Communication and Technology (ICT) department has ensured the delivery of a collaborative and integrated service to Umgeni Water via an organisational centric approach to Digital Transformation. The mechanism of driving Digital Transformation was the review and implementation of the ICT Strategy.

Umgeni Water has in place an approved ICT strategy, which sets out its requirement to improve the overall technology and information management capability of Umgeni Water. This includes strategies for changing how the technology and information services of Umgeni Water will be managed in future. ICT has continued to implement its strategy for future ICT planning and investment, providing a sound basis for investment decisions across Umgeni Water. The ICT Strategy was aligned to the Government Wide Enterprise Architecture (GWEA) framework as prescribed by the Department of Public Service and Administration (DPSA). The ICT Strategy will be reviewed during 2023/24 to incorporate input from all the Board subcommittees which was established to excellerate the digital transformation programme for the organisation.

Figure 13.1 – Digital Transformation

| | | | | |
|---|--|---|--|---|
| <p>ICT Governance</p> <ul style="list-style-type: none"> → Implementation of ICT Strategy → Implementation of ICT Policies | <p>ICT Operational Agility</p> <p>Connectivity and Mobility</p> <ul style="list-style-type: none"> → On premise' private cloud → Server Upgrade → Internet Service Provider (ISP) → Data Centre Upgrade | <p>Innovation and Integration of ICT Systems</p> <ul style="list-style-type: none"> → Upgrade to S4/Hana → Automated meter-reading project | <p>Data Analytics</p> <ul style="list-style-type: none"> → SAP BW / BI → Enterprise Information Management → Integration of Data Sources | <p>Cyber / Information Security</p> <ul style="list-style-type: none"> → Physical treats and cyber attacks → Implementation of the Cybersecurity strategy & Plan |
|---|--|---|--|---|

ICT Operational Agility

In support of the business objectives of bulk water and waste water provision, the availability and reliability of systems are of utmost importance. In this regards, Umgeni Water continued to standardise connectivity and ensured a maximum uptime at all Umgeni Water sites; the organisation has opted for fibre optic cables for fixed line connectivity. This has further prepared the organisation for 4G and 5G connectivity.

ICT is in the final process of building its own “on premise” private cloud to securely host all corporate data. This will ensure that Umgeni Water’s critical data is not housed outside the borders of South Africa and is complaint with relevant data regulatory requirements. The Extranet which is being implemented would be a portal for Board and External facing data sharing will also form part of this private cloud facility.

In a connected world, the Internet of Things (IoT) with its collaborative tools has assisted with the delivery of Mobility via Microsoft Teams and video conferencing. Umgeni Water has continued to roll out these mobility tools in order to speed up business decisions and reduce costs and time of employees.

Umgeni Water continued to engage with the Independent Communications Authority of South Africa (ICASA) to extend the Broadband License is in an advanced stage. This has provided a platform for the establishment of Umgeni Water as an Internet Service Provider (ISP).

ICT has upgraded its Data Centre, which has the capacity to act as a bureau hosting facility for public sector entities.

Innovation & Integration of Umgeni Water Business Systems

Umgeni Water took a decision to consolidate its operating environment by implementing an ERP system in 2017. The Enterprise Resource Planning (ERP) system namely: SAP has been supporting and enabling the business successfully. However, the system is now due for an upgrade to S/4Hana due to the end of support life of the existing software version. This upgrade would also include the identified SAP enhancements as per the approved ICT Strategy. The upgrade of SAP ECC 6.0 to SAP S/4HANA is scheduled to commence during the third quarter of 2023/2024.

Umgeni Water’s meter reading process is currently captured monthly. Any breaks in the system are only detected at month-end i.e. burst pipe, leaking pipe, etc. In a drive for efficiency and to support the operational business the automated meter-reading project will allow meters to be read at any determined regular intervals and compromised thresholds flows will be flagged automatically. Implementation of this project is scheduled to commence during the third quarter of 2023/2024.

Data Analytics

The Board, EXCO and Management require data and insights in order to make quick informed business decisions. To achieve this, ICT is supporting the business to harness their diverse data sources in one platform, having a single source of the truth.

The SAP Business Warehousing/Business Intelligence (BW/BI) Reports and Dashboards project was implemented and went live during 2020 in order to support Management decision-making and Corporate Reporting requirements. This has improved levels of data integration, consistent, reliable information across the business value chains, as well as the single version of the truth across operational areas. The integrity of the system has also be from a trusted data source.

Information is the most valuable resource in the digital world. Umgeni Water has embarked on an Enterprise Information Management (EIM) project which has moved from a paper base to an electronic medium in preparation for digital transformation. The completion of the implementation of Digital Signatures has enhanced business processes and efficiencies.

To ensure the Integration of Data Sources, Umgeni Water continued with the “data architecture analysis” to review all business systems for identifying integration points in preparation for data digital transformation. Umgeni Water continues to work towards ensuring the delivery of data across the spectrum of data subject areas and data structure types in the enterprise, to meet the data consumption requirements of all applications and business processes. These types of data will include, Business Systems, SCADA, Drone Data, Spatial, Sensors and third Parties, etc. The project has progressed well during the period and Umgeni Water will continue with this momentum during 2023/2024.

Integrated Security

In a drive to protect people, assets and reputations as well as physical security technology; ICT continued to support security in the business by integrating technology and security to produce an integrated security solution. The integration of Physical Guarding and Technology has enabled the security guards to be more pro-active in responding to security threats and risks. The merger of these functions has also enhanced the integration of systems, that is Access Control and CCTV.

Umgeni Water is mindful that with new technologies in the world of the Fourth Industrial Revolution, the organisation is prone to cyber attacks. This makes cybersecurity a critical mechanism in the safeguarding of Umgeni Water's information and assets. The organisation has upgraded its Information Security Infrastructure to the latest technology on both the Corporate and Operational networks. Umgeni Water has attained, and continues to maintain National Key Point (NKP) accreditation at three key Operational sites namely, Durban Heights, Wiggins and Midmar.

13.3 RESEARCH, DEVELOPMENT AND INNOVATION.

Umgeni Water sees itself as a learning organization, who's long term vision is to take up a global Leadership position in the sector. The organisation recognizes the crucial role of Research, Development and Innovation in the socio-economic development of any society.

Umgeni Water's strategy for research, development, technology and innovation uses a hybrid model, comprising:

- Utilisation of internal skills and knowledge to solve certain operational challenges through research
- Complementary collaboration with academia to develop solutions that will add value to the organisation's processes, products and services

In the year under review, Umgeni Water made progress with implementing its Research, Development and Technology and Innovation (RDTI) Plan. This plan provides the organisation with a disciplined framework to help guide the organisation's RDTI efforts in addressing current and future challenges in the water sector. The plan focusses on the following areas:

- Water Resources
- Water and Wastewater Treatment Process Optimization
- Pollution Management
- Environmental Management
- Climate Change
- Infrastructure Development and Management
- Energy Alternatives



Table 13.1: Umgeni Water RDTI projects and progress against set milestones

| Number | Title/description of Project | % Progress as at 30 June 2023 |
|--------|--|-------------------------------|
| 1 | Chlorine-resistant pathogens in treated water | 60 |
| 2 | Efficiency of the Lower Thukula BWSS Fishway and environmental performance of the Facility | 91 |
| 3 | Development of a predictive mass balance model of chlorine and flocculant consumption in wastewater | 95 |
| 4 | Development of a predictive mathematical model of the activated sludge process in wastewater treatment | 80 |
| 5 | Quantitative Analysis of Selected Pharmaceuticals and Illicit Drugs in the Darvill Wastewater Treatment Plant (DWTP) | 100 |
| 6 | Detection of wastewater cyanotoxins and measurement of microcystins in DWTP | 98 |
| 7 | Developing an equity and equality assessment method for water resources allocation in South Africa | 60 |
| 8 | The value of citizen science in assessing compliance with resource quality objectives | 50 |
| 9 | Modelling Small and Larger-Scale Interventions to Limit Soil Erosion and Improve the Quality of Water Flowing into the Proposed Smithfield Dam on the Umkhomazi River | 67 |
| 10 | Assessing and improving the simulation of run-off and design flood estimation in urban areas using the ACRU and SCS-SA models as a case study | 70 |
| 11 | Flood impacts and trend analysis: documentation of historical flood events in South Africa | 70 |
| 12 | Borehole yield study | 40 |
| 13 | Development and assessment of operating rules for UW hydraulic network | 35 |
| 14 | Biofilm control in cement mortar lined water supply pipes | 90 |
| 15 | Sustainable plant-derived coagulating agents in a heterogeneous platform for water treatment | 90 |
| 16 | New technologies for wastewater treatment and management that can be adopted for the removal of impurities/contaminants | 50 |
| 17 | Development of solar thermal drying technologies for the treatment of faecal sludge from on-site sanitation facilities and sewage sludge from wastewater treatment plant | 95 |
| 18 | The use of activated carbon for the removal of pharmaceutical compounds in the effluent from a decentralized water treatment system | 75 |

13.4 RISK MANAGEMENT

Umgeni Water defines risk as all sources of uncertainty that could, positively or negatively, affect the entity's ability to achieve its strategic objectives and outcomes. Risk management at Umgeni Water is guided by an Integrated Risk Management Framework and the risk management process is aligned to strategy, which ensures a focused and integrated process of risk management in the entity.

The entity has nine strategic risks as presented in Table 13.2 below, which are sorted by descending risk score, linked to strategic objectives and indicating their risk appetite and risk tolerance, four risks are outside risk appetite but within risk tolerance and the remaining risks are within both risk appetite and risk tolerance.

Eight out of nine strategic risks (89%) have been managed to a level of equal to or above reasonable ($\geq 55\%$) overall response effectiveness as presented in Figure 13.2.

Figure 13.2: Overall Response Effectiveness

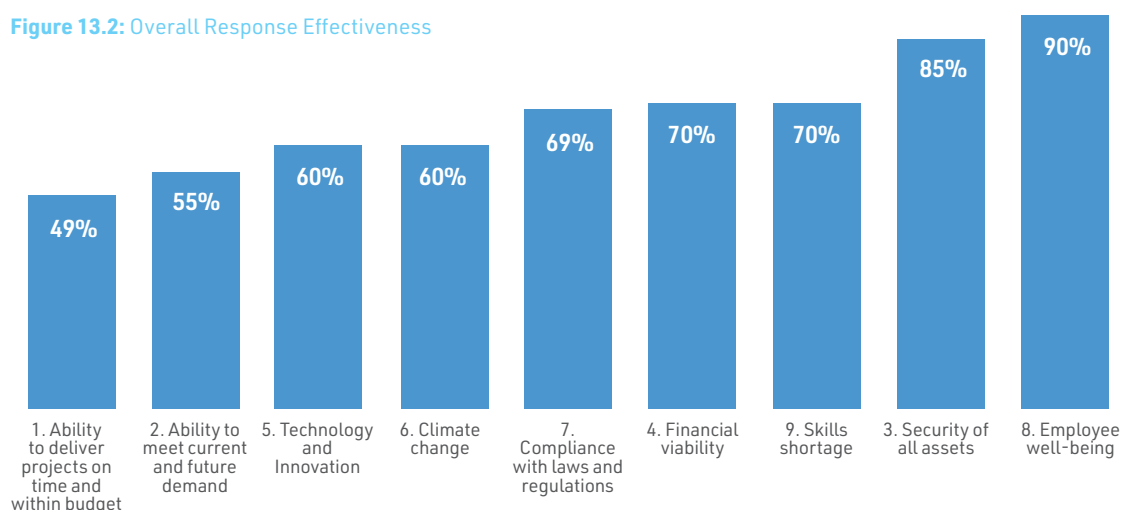







Table 13.2 Strategic Risks as at 30 June 2023

| Risk # | Risk Name, Risk Rating and Risk Score | Cause and Context and Risk Treatment | Main Strategic Perspectives, Objectives and Outcomes Impacted |
|--------|--|---|--|
| 1 | <p>Ability to deliver projects on time and within budget.</p> <p>→ Overall Response Effectiveness: Poor 49%</p> <p>→ Severity: Major-High : 200</p> <p>→ Probability: 90% Highly probable and / or certain to occur within 1 year</p> <p>→ Risk Owner: Executive: Infrastructure Development</p> <p>Score 180 Medium</p> <p>Risk Appetite and Tolerance</p> <p>→ Outside Appetite</p> <p>→ Within Tolerance</p> | <p>Cause & Context:</p> <p><u>Project planning and design phase:</u> Possible inefficient forms of contract. Poorly performing Professional Services Providers (PSPs) and contractors. Internal and external budget constraints (Re-prioritisation of Capex due to tariff reductions, external funding constraints and the re-prioritization of UW's growth strategy). Dependency of approvals from external stakeholders.</p> <p>Procurement process: Global challenge in goods and services resulting in the delay of ICT products. Lengthy & bureaucratic procurement process. Complex & ineffective Contract Participation Goal process. Appeals after intention to award. Internal capacity constraints.</p> <p>Project construction phase: Social disruption during construction during all project phases. Changes during design and construction leading to over runs and time delays. Ineffective project and contract management.</p> <p><u>Treatment Approach:</u> <i>Optimised contracting strategies. Strategic engagements with stakeholders and proactive social facilitation. Timeous acquisition or design of facilities. Streamlined procurement process. CPG Policy & procedure. Clarity of tender documentation. Improved project/contract management. Hold poorly performing PSPs and contractors accountable.</i></p> | <p>Customer and stakeholder perspective: SO1: Improve Stakeholder Value SO2: Improve Customer Value</p> <p>Process perspective: SO4: Improve Stakeholder Engagement SO7: Increase Customers and Services</p> <p>Organisational Capacity Perspective: SO 12: Increase Supply Security</p> <p>Outcomes: Customer Satisfaction</p> <p>Stakeholder Understanding and Support Community Sustainability Operational Optimisation Enterprise Resiliency Product Quality Employee and Leadership Development Water Resources Sustainability Infrastructure Strategy and Performance</p> |
| 2 | <p>Ability to meet current and future water demands</p> <p>→ Overall Response Effectiveness: Reasonable 55%</p> <p>→ Severity: Major- High -: 200</p> <p>→ Probability: 80% Likely and/or could occur within 1 year</p> <p>→ Risk Owner: Executive: Infrastructure Development</p> <p>Score 160 Medium</p> <p>Risk Appetite and Tolerance</p> <p>→ Outside Appetite</p> <p>→ Outside Tolerance</p> | <p>Cause & Context:</p> <p><u>Long-term water resources:</u> Delays in the implementation of water resource development projects.</p> <p><u>Short-term water resources:</u> Drought; Lack of system resilience in the short-term. (Integrated planning and implementation for medium (5 years) and long-term (greater than 10 years) augmentation of systems with stakeholders).</p> <p><u>Infrastructure Adequacy:</u> Mis-managed urbanization, ineffective demand management (demand out-stripping supply). Delays in developing infrastructure. Deteriorating catchment water quality and declining quantity or catchment yield. Compromised Ecological Infrastructure.</p> <p><u>Treatment Approach:</u> <i>TCTA to obtain outstanding Water User agreement from eThekweni. Design of the Lower uMkhomazi BWSS. Status: WTW is 100% complete. Construction of Lower uMkhomazi BWSS is to be completed by Oct 2025. Interbasin transfers undertaken based on predefined operating rules. Timeous implementation of DWS Directives for the implementation of Stephen Dlamini Dam and Cwabeneni Dam. Implementing Agent Agreements are anticipated to be finalised by September 2023).</i></p> | <p>Customer and stakeholder perspective SO1: Improve Stakeholder Value SO2: Improve Customer Value</p> <p>Financial perspective SO3: Improve Financial Sustainability</p> <p>Increase access to services</p> <p>Process perspective: SO7: Increase Customers and Services</p> <p>Manage costs within approved budget</p> <p>Organisational Capacity Perspective: SO 12: Increase Supply Security</p> <p>Outcomes: Customer Satisfaction Stakeholder Understanding and Support</p> <p>Community Sustainability Financial viability Operational Optimisation Enterprise Resiliency Product Quality Employee and Leadership Development Water Resources Sustainability Infrastructure Strategy and Performance</p> |

| Risk # | Risk Name, Risk Rating and Risk Score | Cause and Context and Risk Treatment | Main Strategic Perspectives, Objectives and Outcomes Impacted |
|--------|---|--|--|
| 3 | <p>Security of all assets.</p> <p>→ Overall Response Effectiveness: Good 85%</p> <p>→ Severity: Moderate-High: 40</p> <p>→ Probability: 65% Even probability and/or could occur within 1- 2 years</p> <p>→ Risk Owner: Group Chief Shared Services Officer</p> <div style="border: 1px solid black; padding: 5px; display: inline-block;"> <p>Score 26 Low </p> </div> <p>Risk Appetite and Tolerance</p> <p>→ Outside Appetite</p> <p>→ Within Tolerance</p> | <p>Cause & Context:</p> <p>Physical assets: Breach of/ damage to/ loss of physical assets (Illegal settlements, land claims and encroachments on properties and servitudes. Injury and loss of human capital .</p> <p>Service delivery protests may affect site accessibility or cause damage to infrastructure. Remote locations that are difficult to secure, monitor theft and vandalism.</p> <p>Personal safety and occupational health and safety hazards. Sustainability of natural resources: air, land water, energy. Increased human vulnerability to environmental stress.</p> <p>Information assets: Loss of/ damage to information assets and resources. Cyber attacks and social engineering. Sabotage. Inappropriate use or transmission of confidential data. Breach of confidentiality.</p> <p><i>Treatment Approach:</i> <i>Physical Assets: Implementation of physical security processes and procedures:</i></p> <p>→ <i>Security contracts are in place.</i></p> <p>→ <i>On going monitoring and evaluation of three National Key Points sites.</i></p> <p>→ <i>Implementation of physical security measures.</i></p> <p>→ <i>Monitoring of inflows/outflows of raw and potable water pipelines and reservoir to detect reduction in volumes and pressure, which could indicate that there has been tampering with infrastructure.</i></p> <p><i>Planned maintenance, implementation of asset management plans and monitoring of infrastructure by Asset Management staff. Housing & Accommodation Policy. Implementation of the Servitude Management Plan.</i></p> <p><i>Implementation of the Occupational Health and Safety Management System.</i></p> <p><i>Engagement with stakeholders and communities.</i></p> <p><i>Information Assets:</i> <i>Implementation of ICT related policies and strategies.</i> <i>Cybersecurity implementation.</i></p> <p><i>Sustainability of natural resources:</i> <i>Implementation of the Environmental Sustainability plan.</i> <i>Climate Change Response Policy.</i></p> | <p>Customer and stakeholder perspective S02: Improve Customer Value</p> <p>Process perspective S04: Improve Stakeholder Engagement S08: Improve Product and Service Quality</p> <p>Organisational Capacity Perspective: S010: Improve The Use of Data and Technology S012: Increase Supply Security</p> <p>Outcomes: Stakeholder Understanding and Support Customer Sustainability</p> <p>Operational Optimisation Enterprise Resiliency Product Quality Employee and Leadership Development Water Resources Sustainability Infrastructure Strategy and Performance</p> |
| 4 | <p>Financial Viability</p> <p>→ Overall Response Effectiveness: Good 70%</p> <p>→ Severity: Moderate-Low: 20</p> <p>→ Probability: 50% Fairly poor and/or could possibly occur within 2 years</p> <p>→ Risk Owner: Group Chief Financial Officer</p> <div style="border: 1px solid black; padding: 5px; display: inline-block;"> <p>Score 10 Low </p> </div> <p>Risk Appetite and Tolerance</p> <p>→ Outside Appetite</p> <p>→ Within Tolerance</p> | <p>Cause & Context:</p> <p>Financial viability of organisation. Tariff increases are not cost reflective. Inappropriate business model to support infrastructure investment and operating costs. Debtor's Collections. Cash flow. Inability to raise funding.</p> <p><i>Treatment Approach:</i> <i>Sustainable tariff model for potable water.</i> <i>Annual tariff review.</i> <i>Operating cost plan.</i> <i>Monitoring and reporting on payment plans and cash flows.</i> <i>Developing & implementing debt collection programmes for customers.</i> <i>Grant funding to support social investment projects.</i> <i>Business case for all projects.</i> <i>Revenue Enhancement strategies.</i></p> | <p>Customer and stakeholder perspective S01: Improve Stakeholder Value S02: Improve Customer Value</p> <p>Financial perspective So3: Improve financial sustainability</p> <p>Increase access to services</p> <p>Process perspective: S04: Improve Stakeholder Engagement S05: Improve Governance Processes</p> <p>Manage costs within approved budget</p> <p>Outcomes: Customer Satisfaction Stakeholder Understanding and Support Community Sustainability Financial viability Operational Optimisation Enterprise Resiliency Product Quality Employee and Leadership Development Water Resources Sustainability Infrastructure Strategy and Performance</p> |




| Risk # | Risk Name, Risk Rating and Risk Score | Cause and Context and Risk Treatment | Main Strategic Perspectives, Objectives and Outcomes Impacted |
|--------|--|--|---|
| 5 | <p>Technology and Innovation</p> <p>→ Overall Response Effectiveness: Reasonable 60%</p> <p>→ Severity: Minor-High: 10</p> <p>→ Probability: 80% Likely and/ or could occur within 1 year.</p> <p>→ Risk Owner: Executive: Scientific Services</p> <p>Score 8  Low</p> <p>Risk Appetite and Tolerance</p> <p>→ Within Appetite</p> <p>→ Within Tolerance</p> | <p>Cause & Context:</p> <p>Lack of appetite to implement new technology.</p> <p>Inability to calculate return on research and technology investment.</p> <p>Lack of technology and innovation expertise Lack of Corporate Research, Development and innovation policy. Lack of capacity to plan for future challenge/problems. Poor adoption of innovative technology due to fear of job losses</p> <p>Poor buy-in from the customer due to poor engagement by the project owners. Lack of understanding on the customer's needs and wants.</p> <p><i>Treatment Approach:</i></p> <p><i>Corporate innovation, technology and information Committee. Umgeni Water Research and Innovation Facility. Technology and innovation road map and plan. Training program in response to the Research, Technology and Innovation needs. Research, Technology and Innovation Programme / Masterplan. Research, Technology and Innovation strategy.</i></p> | <p>Organisational capacity perspective:</p> <p>SO10: Improve the use of data and technology</p> <p>Outcomes:</p> <p>Customer Satisfaction</p> <p>Stakeholder Understanding and Support</p> <p>Community Sustainability</p> <p>Financial Viability</p> <p>Operational Optimisation</p> <p>Enterprise Resiliency</p> <p>Product Quality</p> <p>Employee and Leadership Development</p> <p>Water Resources Sustainability</p> <p>Infrastructure Strategy and Performance</p> |
| 6 | <p>Climate change</p> <p>→ Overall Response Effectiveness: Reasonable 60%</p> <p>→ Severity: Minor-high: 10</p> <p>→ Probability: 65% Even probability and/or could occur within 1-2 years</p> <p>→ Risk Owner: Executive: Scientific Services</p> <p>Score 7  Low</p> <p>Risk Appetite and Tolerance</p> <p>→ Within Appetite</p> <p>→ Within Tolerance</p> | <p>Cause & Context:</p> <p>Climate change results in changing rainfall patterns, increased intensity of storms, more extreme droughts and floods, increased evaporation and decreased runoff in the critical water source catchments. Water availability, infrastructure stability, water security and water quality are threatened, exacerbated by competing demands. Poor and marginalised communities impacted by climate change. Excessive / sole reliance of fossil fuels for water business contributing to greenhouse gas emissions by dumping waste at landfill sites. Poor condition of ecological systems in key catchments, due to poor land use management, lack of monitoring and coordination of activities, poor behaviour of water users and lack of compliance and enforcement.</p> <p>Historical focus on hard engineering as opposed to soft or "green" engineering solutions to address water management and climate change impacts.</p> <p>Lack of awareness and shared-learning on water related risks of climate change and response to address these, coupled with how measures will benefit people. Climate change affects all life and response requires participation by all people, enterprises, communities and government entities.</p> <p>Lack of institutional climate change policy, planning, funding and financing of climate response interventions.</p> <p><i>Treatment Approach:</i></p> <p><i>Reducing vulnerability and enhancing resilience. Ensure processes and decisions reduce vulnerability and build resilience and adaptive capacity to the impacts of climate change for Umgeni Water, infrastructure, customers and communities. Includes flood management plans, drought management plans, modified works design. Reducing Greenhouse Gas Emissions. Compute emissions and their materiality, and put in place appropriate emissions reductions interventions. Water resource protection and climate resilient ecological infrastructure investment. Collaborate with relevant stakeholders to ensure activities and decisions protect / restore ecosystem functioning. Ecological infrastructure initiatives are integrated into UW built infrastructure developments. Influence behavioural change for enhanced climate response. Create an enabling environment for behavioural change towards climate change and water management, through awareness creation and shared-learning. Climate Change Response Policy. Climate Change Response Financing:</i></p> <p>→ <i>Incorporate water related climate change response strategies into organisational financial planning and budgeting (built into various department's budgets).</i></p> <p>→ <i>Collaborate with and tap into government climate finance and market-based interventions. These include National Treasury's Green Fund, Carbon Tax and the South African Renewables Initiative, amongst other local mechanisms that are emerging.</i></p> | <p>Customer and stakeholder perspective</p> <p>SO1: Improve Stakeholder Value</p> <p>Process perspective</p> <p>SO4: Improve Stakeholder Engagement</p> <p>SO8: Improve Product and Service Quality</p> <p>Organisational Capacity Perspective:</p> <p>SO10: Improve The Use of Data and Technology</p> <p>SO 12: Increase Supply Security</p> <p>Effective Internal Controls, Compliance and Risk Management</p> <p>Outcomes:</p> <p>Stakeholder Understanding and Support</p> <p>Community Sustainability</p> <p>Operational Optimisation</p> <p>Enterprise Resiliency</p> <p>Product Quality</p> <p>Employee and Leadership Development</p> <p>Water Resources Sustainability</p> <p>Infrastructure Strategy and Performance</p> |




| Risk # | Risk Name, Risk Rating and Risk Score | Cause and Context and Risk Treatment | Main Strategic Perspectives, Objectives and Outcomes Impacted |
|--------|---|--|--|
| 7 | <p>Compliance with laws and regulations</p> <p>→ Overall Response Effectiveness: Reasonable 69%</p> <p>→ Severity: Minor-Low 5</p> <p>→ Probability: 65% Even probability and/or could occur within 1-2 years</p> <p>→ Risk Owner: Group Chief Governance and Compliance Officer</p> <p>Score 3  Low</p> <p>Risk Appetite and Tolerance</p> <p>→ Outside Appetite</p> <p>→ Within Tolerance</p> | <p>Cause & Context: Material misstatements; material irregularities or adjustments to financial statements, inconsistency in performance results against pre-determined objectives.</p> <p>Non-compliance to laws, regulations, policies and procedures as a result of dishonest behaviour and/or poor performance. Ever changing regulatory environment and the agility to adapt to the operating environment.</p> <p>Poor document management system control.</p> <p>Lack of understanding, misinterpretation or non-compliance to procurement processes and contract management, as required by regulations. Non-renewal of licenses.</p> <p><i>Treatment Approach:</i></p> <p><i>Assurance of compliance through:</i></p> <p>→ <i>On-going assessment of control effectiveness.</i></p> <p>→ <i>Compliance to policies and procedures.</i></p> <p>→ <i>Combined assurance framework.</i></p> <p>→ <i>Proactive policy review process.</i></p> <p>→ <i>Regulatory analysis.</i></p> <p>→ <i>Delegation of Authority.</i></p> <p>→ <i>Root cause analysis of non-compliance and litigations.</i></p> | <p>Customer and stakeholder perspective</p> <p>SO1: Improve Stakeholder Value</p> <p>Process perspective:</p> <p>SO5: Improve Governance Processes</p> <p>SO8: Improve Product and Service Quality</p> <p>Effective Internal Controls, Compliance and Risk Management</p> <p>Outcomes:</p> <p>Customer Satisfaction</p> <p>Stakeholder Understanding and Support</p> <p>Community Sustainability</p> <p>Financial Viability</p> <p>Operational Optimisation</p> <p>Enterprise Resiliency</p> <p>Product Quality</p> |
| 8 | <p>Employee well-being</p> <p>→ Overall Response Effectiveness: Very Good 90%</p> <p>→ Severity: Negligence: 1</p> <p>→ Probability: 80% Likely and/ or could occur within 1 year.</p> <p>→ Risk Owner: Group Chief Shared Services Officer</p> <p>Score 1  Low</p> <p>Risk Appetite and Tolerance</p> <p>→ Within Appetite</p> <p>→ Within Tolerance</p> | <p>Cause & Context:</p> <p>Mental wellbeing. Poor work-life balance. Unhealthy life style and communicable diseases. Poor job design including control over work. Overtime and number of hours worked.</p> <p>Failure to provide employees with social support. Conflict between work and family commitments. Perceived fairness and justice at work. Job insecurity and uncertainty of the future.</p> <p><i>Treatment Approach:</i></p> <p><i>Employee Assistance Programs.</i></p> <p><i>Policies aligned to the basic conditions of employment.</i></p> <p><i>Wellness programmes.</i></p> <p><i>Employee Assistance Programs.</i></p> | <p>Process perspective:</p> <p>SO6: Improve internal efficiency and effectiveness</p> <p>Organisational capacity perspective:</p> <p>SO11: Improve work culture</p> <p>Outcomes:</p> <p>Customer Satisfaction</p> <p>Stakeholder Understanding and Support</p> <p>Community Sustainability</p> <p>Financial Viability</p> <p>Operational Optimisation</p> <p>Enterprise Resiliency</p> <p>Product Quality</p> <p>Employee and Leadership Development</p> <p>Water Resources Sustainability</p> <p>Infrastructure Strategy and Performance</p> |
| 9 | <p>Skills shortage</p> <p>→ Overall Response Effectiveness: Good 70%</p> <p>→ Severity: Negligence: 1</p> <p>→ Probability: 50% Fairly poor and/or could possibly occur within 2 years</p> <p>→ Risk Owner: Group Chief Shared Services Officer</p> <p>Score 1  Low</p> <p>Risk Appetite and Tolerance</p> <p>→ Within Appetite</p> <p>→ Within Tolerance</p> | <p>Cause & Context:</p> <p>Non-competitive remuneration structure leading to unaffordability of skills. Under-investment in skill development. Failure to attract digital-wise and/or adaptive workforce. Competitive external employment opportunities. Difficulties in recruiting key personnel. Failure to attract scarce and critical skills.</p> <p>Over-reliance on consultants.</p> <p><i>Treatment Approach:</i></p> <p><i>Competitive remuneration structure.</i></p> <p><i>Internal and external recruitment and research.</i></p> <p><i>Skills transfer from consultant services.</i></p> | <p>Process perspective:</p> <p>SO6: Improve internal efficiency and effectiveness</p> <p>SO7: Increase customers and services</p> <p>SO8: Improve product and service quality</p> <p>Outcomes:</p> <p>Customer Satisfaction</p> <p>Stakeholder Understanding and Support</p> <p>Community Sustainability</p> <p>Operational Optimisation</p> <p>Enterprise Resiliency</p> <p>Product Quality</p> <p>Employee and Leadership Development</p> <p>Water Resources Sustainability</p> <p>Infrastructure Strategy and Performance</p> |

In accordance with the Integrated Risk Management risk priority table, risks that are outside the risk appetite and tolerance levels require specific sign-off by the Umgeni Water Board and disclosure in the Annual Report. The entity's divisional risks outside appetite and tolerance are shown in Table 13.3.

There are six divisional risks outside both risk appetite and tolerance.

Table 13.3 Divisional Risks outside appetite and tolerance as at 30 June 2023

| Risk # | Risk Name, Score and Status | Cause, Context and Treatment | Main Strategic Perspectives, Objectives and Outcomes Impacted |
|--------|--|---|--|
| 1 | <p>SCM Process – Tendering Phase Risks</p> <p>→ Overall Response Effectiveness: Poor 40%</p> <p>→ Severity: Major-High: 200</p> <p>→ Probability: 100% Virtually certain and/ or already occurred</p> <p>→ Risk Owner: Group Chief Financial Officer</p> <p>Score 200 </p> <p>Risk Appetite and Tolerance</p> <p>→ Outside Appetite</p> <p>→ Outside Tolerance</p> | <p>Cause & context:</p> <p>Lack of responsiveness and flexibility in decision-making by SCM process participants, stakeholders and Delegation Of Authority holders.</p> <p>Insufficient stakeholder interaction between SCM and divisions / Department heads.</p> <p>Procurement process cycle time take too long to finalise (delays).</p> <p>Inadequate planning by procurement end users.</p> <p>High frequency of adhoc purchases.</p> <p>Unclear, inadequate selection and award criteria or unskilled, negligent/biased technical evaluation teams may lead to non-achievement of planned projects due to appeals.</p> <p><i>Treatment Approach:</i></p> <p><i>Checklist to guide SCM compliance to legislation.</i></p> <p><i>Quarterly Internal stakeholder engagements.</i></p> <p><i>Reduce procurement process turnaround time.</i></p> <p><i>SCM policies and procedures.</i></p> <p><i>Training and capacity building of SCM practitioners.</i></p> | <p>Process perspective:</p> <p>S05: Improve Governance Processes</p> <p>S06: Improve Internal Efficiency and Effectiveness</p> <p>Outcomes:</p> <p>Customer Satisfaction</p> <p>Stakeholder Understanding and Support</p> <p>Community Sustainability</p> <p>Operational Optimisation</p> <p>Enterprise Resiliency</p> <p>Product Quality</p> <p>Employee and Leadership Development</p> <p>Water Resources Sustainability</p> <p>Infrastructure Strategy and Performance</p> |
| 2 | <p>Catchment Water Quality</p> <p>→ Overall Response Effectiveness: Poor 40%</p> <p>→ Severity: Major-High: 200</p> <p>→ Probability: 90% Highly probable and/ or certain to occur within a year</p> <p>→ Risk Owner: Executive: Scientific Services</p> <p>Score 180 </p> <p>Risk Appetite and Tolerance</p> <p>→ Outside Appetite</p> <p>→ Outside Tolerance</p> | <p>Cause & Context:</p> <p>Polluted runoff from poor land use management, broken and blocked municipal sewers, non-compliant discharges from point sources such as wastewater effluents or illegal discharges from industry all contribute to poor water quality.</p> <p>Destruction of ecological infrastructure and substantial reduction in the assimilative capacity / natural ecosystem functioning of water resources.</p> <p>Emerging water quality concerns from impact of personal care products/micro-plastics and pharmaceuticals, including birth control pills or hormones (endocrine disrupters), anti-inflammatories and antibiotics, etc.</p> <p><i>Treatment Approach:</i></p> <p>→ <i>Undertaking catchment assessments to determine land use impacts of water resources quality</i></p> <p>→ <i>Development and Implement catchment management plans/ ecological infrastructure management plans.</i></p> <p>→ <i>Active participation at catchment management forums</i></p> <p>→ <i>Developing Strategic Partnerships with key stakeholders and authorities on the implementation of interventions sharing of costs.</i></p> <p>→ <i>Identification/management of emerging contaminants.</i></p> <p><i>NB: the effectiveness of interventions can only be visible in the long terms i.e. 10-20 years and these need to be done at an appropriate scale and that requires enough funding and human resources.</i></p> | <p>Organisational Capacity Perspective:</p> <p>S012: Increase Supply Security</p> <p><i>Increase access to services</i></p> <p>Outcomes:</p> <p>Stakeholder Understanding and Support</p> <p>Customer Sustainability</p> <p>Operational Optimisation</p> <p>Enterprise Resiliency</p> <p>Product Quality</p> <p>Employee and Leadership Development</p> <p>Water Resources Sustainability</p> <p>Infrastructure Strategy and Performance</p> |
| 3 | <p>Reliability of chlorine supply</p> <p>→ Overall Response Effectiveness: Good 70%</p> <p>→ Severity: Major-Low: 100</p> <p>→ Probability: 90% Highly probable and/ or certain to occur within a year</p> <p>→ Risk Owner: Executive: Operations</p> <p>Score 90 </p> <p>Risk Appetite and Tolerance</p> <p>→ Outside Appetite</p> <p>→ Outside Tolerance</p> | <p>Cause & Context:</p> <p>Stability of power supply. Reliability of supply: chlorine is currently being sold by only two suppliers in South Africa.</p> <p><i>Treatment Approach:</i></p> <p><i>Investigate alternate disinfectants for each site.</i></p> <p><i>Setting up of new chlorine contract for the water treatment works.</i></p> <p><i>Proposal for a National Multi-stakeholder team.</i></p> | <p>Customer and stakeholder perspective</p> <p>S01: Improve Stakeholder Value</p> <p>Financial perspective</p> <p>So3: Improve financial sustainability</p> <p>Process perspective:</p> <p>S04: Improve Stakeholder Engagement</p> <p>S07: Increase Customers and Services</p> <p>S08: Improve Product and Service Quality</p> <p>Outcomes:</p> <p>Customer Satisfaction</p> <p>Stakeholder Understanding and Support</p> <p>Community Sustainability</p> <p>Operational Optimisation</p> <p>Enterprise Resiliency</p> <p>Product Quality</p> <p>Employee and Leadership Development</p> <p>Water Resources Sustainability</p> <p>Infrastructure Strategy and Performance</p> |

| Risk # | Risk Name, Score and Status | Cause, Context and Treatment | Main Strategic Perspectives, Objectives and Outcomes Impacted |
|--------|---|---|--|
| 4 | <p>Waste Water Quality for Waste Water Treatment Works <10ML/d</p> <ul style="list-style-type: none"> → Overall Response Effectiveness: Good 70% → Severity: Major-Low: 100 → Probability: 80% Likely &/or could occur within a year → Risk Owner: Executive: Operations <p>Score 80 </p> <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> → Outside Appetite → Outside Tolerance | <p>Cause & Context: Howick Waste Water Treatment Works under utilisation/ low flows. Hydraulic and organic overload at Mpofana Waste Water Treatment Works. Power outages. High and prolonged down time in treatment works. Plant design. Skills competence of process controllers and capability. Leaks at the pumps station. Dilapidated Infrastructure. Quality and quantity impact of trade influent (Howick & Mpofana Waste Water Treatment Works).</p> <p>Low influent flows, dam deterioration impacting on raw water source for Ixopo wastewater treatment work.</p> <p><i>Treatment Approach:</i> <i>Howick Wastewater Treatment Works upgrade.</i> <i>Upkeep of infrastructure and maintenance.</i> <i>Wastewater operating licence compliance/ General authorisation.</i> <i>Wastewater treatment process.</i></p> <p><i>Howick & Mpofana Waste Water Treatment Works Laboratory reports on out-of-range results.</i> <i>Media strategy to curb illegal effluent discharges.</i> <i>Monitoring and analysis of ecosystems.</i> <i>On-site water quality management and monitoring programme.</i> <i>Process audits.</i> <i>Site inspections.</i></p> | <p>Process perspective: S05: Improve Governance Processes S06: Improve Internal Efficiency and Effectiveness S07: Increase Customers and Services S08: Improve Product and Service Quality</p> <p>Effective Internal Controls, Compliance and Risk Management</p> <p>Outcomes: Customer Satisfaction Stakeholder Understanding and Support Community Sustainability Operational Optimisation Enterprise Resiliency Product Quality Employee and Leadership Development Water Resources Sustainability Infrastructure Strategy and Performance</p> |
| 5 | <p>Credit Risk.</p> <ul style="list-style-type: none"> → Overall Response Effectiveness: Good 80% → Severity: Moderate-High: 40 → Probability: 100% Virtually certain and / or already occurred → Risk Owner: Group Chief Financial Officer. <p>Score 80 </p> <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> → Outside Appetite → Outside Tolerance | <p>Cause & Context: The ability of customers to collect from end users and pay water bills to Umgeni Water. Instability in municipality leadership increasing risk of non-payment. Municipalities under administration and financial pressure. Inability of customers to manage their cash flows and make payments on time. Increased credit risk due to new customers in new areas taken over and existing customers who are behind on payments and in some instances there are contractual disputes.</p> <p><i>Treatment Approach:</i> <i>Debtor's monthly report and age analysis.</i> <i>Reporting on overdue balances to National Treasury and DWS.</i> <i>Debtors Policy & procedure in place.</i> <i>Inter-government relations framework.</i> <i>Customer engagement.</i> <i>Maintain a liquidity buffer of R200M.</i></p> | <p>Customer and stakeholder perspective S02: Improve Customer Value</p> <p>Financial perspective S03: Improve financial sustainability</p> <p>Process perspective: S05: Improve Governance Processes</p> <p>Outcomes: Customer Satisfaction Stakeholder Understanding and Support Community Sustainability Operational Optimisation Enterprise Resiliency Product Quality Employee and Leadership Development Water Resources Sustainability Infrastructure Strategy and Performance</p> |
| 6 | <p>Post Award SCM Risks</p> <ul style="list-style-type: none"> → Overall Response Effectiveness: Reasonable 60% → Severity: Minor-Low: 5 → Probability: 90% Highly probable and / or certain to occur within a year → Risk Owner: Executive: Chief Financial Officer. <p>Score 80 </p> <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> → Outside Appetite → Outside Tolerance | <p>Cause & Context: Terms & conditions/ documents tailored for construction instead of goods & services. Use of generic SLA's not adequately customised to suit each transaction. Inadequate contracts to address business requirements and inadequate document management. Deviations from contract terms and conditions. Timeous renewal of contracts. Contracts not in place.</p> <p><i>Treatment Approach:</i> <i>All contracts are aligned to Delegation Of Authority processes for approval.</i> <i>Ensure appropriate contract management provisions are included in the standard bidding documents used.</i> <i>Identify repetitive purchases on items eligible to be placed on contract.</i> <i>Electronic Contract Management System in SAP for all contracts.</i></p> | <p>Process perspective: S05: Improve Governance Processes S06: Improve Internal Efficiency and Effectiveness</p> <p>Outcomes: Customer Satisfaction Stakeholder Understanding and Support Community Sustainability Operational Optimisation Enterprise Resiliency Product Quality Employee and Leadership Development Water Resources Sustainability Infrastructure Strategy and Performance</p> |

Financial risks are detailed in the annual financial statement section of this annual report.

Mitigated Risks

Mitigated risks refer to risks that have been treated to an acceptable level with continual monitoring by Internal Audit to ensure the controls in place are still effective and efficient. There were no strategic risks mitigated.

Emerging Risks

Emerging risks refer to those uncertainties that have a potential to affect the organisation meeting its objectives but which an organisation does not fully understand. The entity regularly reviews the internal and external landscapes with a view to identifying emerging risks.

Emerging strategic and divisional risks are constantly monitored and no emerging risks have been identified for the 2022/2023 period.

13.5 BUSINESS CONTINUITY MANAGEMENT

Umgeni Water has a well-established Business Continuity Management Programme, the objective of which is to:

- Protect the business, including its staff and stakeholders, by minimising the impact of a material disruption to critical business activities;
- Understand and communicate the recovery needs of the business and ensure an appropriate recovery capability is provided;
- Recover the business in a planned and controlled manner, meeting the requirements of the business whilst complying with applicable laws, contracts, regulations etc.; and
- Ensure that business continuity is an essential part of business planning and development in order to enhance organisational resilience.

The relevant structures and roles that are required to ensure that the Business Continuity Programme is entrenched and executed within the organisation are mature, continually reviewed and improved, through quarterly scenario/stress-testing of the Crisis Management Plan (CMP), Business Continuity Plans (BCPs) and Emergency Response Plans (ERPs), as an integral component of the Corporate-wide Integrated Risk Management Framework.

13.6 RECORDING OF PROCUREMENTS BY "OTHER MEANS" AS PER PFMA SCM INSTRUCTION 3 OF 2022/23

Effective 01 April 2022, the "PFMA SCM Instruction 03 of 2021/22: Enhancing Compliance Transparency and Accountability in SCM", repealed the requirement of prior approval by the National Treasury related to deviations from normal bidding procedures and the expansion and variations of contracts. The repeal aligns with section 51(1)(iii) of the Public Finance Management Act, 1999, confirming the authority and responsibility of the Accounting Authority to determine an appropriate procurement and provisioning system that is fair, equitable, transparent, competitive and cost effective. The purposes of the instruction note, is to improve compliance, accountability, transparency in the procurement of goods and services, ensuring value for money and reducing the abuse of the SCM system.

SCM Instruction No 03 of 2021/22 allows the Accounting Authority to approve the deviation or extension and report only to National Treasury thereafter. This together with other steps taken by the entity will no doubt contribute to improving Umgeni Water's procurement responsiveness to operational demands and will lead to faster commercially orientated procurement practices.

Umgeni Water is cognisant that deviations/procurement by other means should be the exception rather than the norm and should be applied only when absolutely necessary. In that if the entity is frequently requesting approval to deviate from standard procurement processes, it can be an early warning sign that the it is planning its procurement adequately. Over reliance on the use of procurement deviations can also serve as an indication of possible poor governance practices and service delivery issues.

The 205 SCM deviations/procurements by other means were approved by relevant delegated authority where it was not practical or possible to follow normal procurement procedures. These deviations amount to R763 million and are outlined in **Table 13.4**. The variation orders incurred in the year are listed in **Table 13.5**.

Table 13.4 : Procurement Deviations for 2022/2023 Financial Year

| Description of procurement by other means | Number of transactions | Value "R" |
|---|------------------------|--------------------|
| Accepting less than 3 Quotes | 40 | 9,731,408 |
| Closed Tender (multiple source) | 9 | 142,433,490 |
| Single Source | 73 | 58,076,201 |
| Sole Supplier | 56 | 136,263,237 |
| Emergency Cases | 11 | 123,612,756 |
| Urgent Cases | 15 | 290,295,476 |
| Total | 205 | 763,444,588 |

Table 13.5: Procurement variations for 2022/2023 Financial Year

| Variation Orders ≥ 20% or R20M | Number of Variations | Value "R" |
|-----------------------------------|----------------------|-----------------------|
| Yes | 41 | 540,556,680.56 |
| No | 25 | 433,893,312.50 |
| Total | 66 | 974,449,993.06 |

13.7 IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISCLOSURES FOR 2022/2023

On 23 December 2022 National Treasury issued Instruction Note No. 4: PFMA Compliance and Reporting Framework of 2022/23 in terms of section 76(1)(b), (e) and (f), 2(e) and (4)(a) and (c) of the PFMA, which came into effect on 3 January 2023. As per this framework, irregular as well as fruitless and wasteful expenditure incurred in previous financial years is no longer disclosed in the notes to the consolidated and separate financial statements but only the current year and prior year figures are disclosed in note 28 to the consolidated and separate financial statements. The reconciliation and details of the irregular expenditure and fruitless and wasteful expenditure is as follows:

| | Group | | Parent | |
|--|------------------|------------------|------------------|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| | R'000 | R'000 | R'000 | R'000 |
| IRREGULAR EXPENDITURE | | | | |
| Opening balance 1 July | 1 943 986 | 1 408 977 | 1 937 979 | 1 403 021 |
| Prior period error correction | (167) | | (167) | |
| Irregular expenditure relating to current year | 15 951 | 139 179 | 15 895 | 139 128 |
| Irregular expenditure incurred in the current year | 550 992 | 342 886 | 550 992 | 342 886 |
| Add: prior year irregular expenditure identified in current year | 2 993 | 52 944 | 2 993 | 52 944 |
| Amounts awaiting condonement | 2 513 754 | 1 943 986 | 2 507 691 | 1 937 979 |

Details of irregular expenditure

| Incident | Condoning Authority |
|---|---|
| Year ended June 2023 | |
| <p>Deviations approval non-compliance (R100m)</p> <ul style="list-style-type: none"> • R21.2m - incurred from prior year non-compliant deviations from competitive bidding • R75.8m - incorrectly awarded as sole source • R2.9m - Non-compliant deviation approvals relating to prior year, identified in 2022/2023 <p>Procurement Procedures & Contract management (R469.7m)</p> <p>Tender award procedure discrepancies (R339.3m)</p> <ul style="list-style-type: none"> • R 11.4m - Procurement legislation non-compliance from current year RFD and tender awards • R327.9 - Resulting from procurement legislation non-compliance in respect of prior year tender awards <p>Contract Management non-compliance to National Treasury's SCM instruction note 3 of 2016/2017 (R130.3m)</p> <ul style="list-style-type: none"> • R75.8m - Non-compliant contract extensions above 15% threshold for prior years • R 54.5m - Accrued from non-compliant contract variation approvals in excess of 20%/R20m <p>Non-compliant contract extensions or variations exceeding threshold were approved internally by Umgeni Water as opposed to seeking National Treasury authorisation. This gave rise to the irregular expenditure emanating from historical variations/extensions approved between 2016-2021.</p> | The Board and National Treasury in terms of the National Treasury Instruction No. 04 of 2022/2023 PFMA Compliance and Reporting Framework |
| Year ended June 2022 | |
| <p>Deviations approval non-compliance (R65.2m)</p> <ul style="list-style-type: none"> • R2.0m - Deviation irregularities relating to transactions concluded during 2021/22 for non-compliant approval of deviations from competitive bidding. • R63.2m - incurred from prior year non-compliant deviations from competitive bidding and incorrectly awarded as sole source <p>Procurement Procedures & Contract management (R469.6m)</p> <ul style="list-style-type: none"> • R160m - Procurement legislation non-compliance in respect of tender awards from prior year. • R 309.6m - Accrued from contract variation approvals not complying with Treasury's SCM instruction note 3 of 2016/2017. Variations exceeding threshold approved internally by Umgeni Water as opposed to seeking National Treasury authorisation. <p>The above non-compliance's giving rise to irregular expenditure detected during year under review emanated from historical contracts variations approved between 2016-2022.</p> | The Board and National Treasury in terms of Irregular Expenditure framework instruction no. 2 |

FRUITLESS AND WASTEFUL EXPENDITURE

| | Group | | Parent | |
|--|---------------|---------------|---------------|---------------|
| | 2023 | 2022 | 2023 | 2022 |
| | R'000 | R'000 | R'000 | R'000 |
| Opening balance 1 July | 17 878 | 12 679 | 17 863 | 12 652 |
| Fruitless and wasteful expenditure incurred in the current year | 36 834 | 7 367 | 36 834 | 7 362 |
| Less: amounts written off/recovered by appropriate authority | (44) | (2 168) | (44) | (2 151) |
| Amounts awaiting condonement or write-off | 54 668 | 17 878 | 54 653 | 17 863 |
| Analysis of fruitless and wasteful expenditure | | | | |
| Remuneration from 20 th August 2017 to 19 th August 2019 | 5 226 | 5 226 | 5 226 | 5 226 |
| 20 th August 2017 to 19 th Aug 2018 | 2 613 | 2 613 | 2 613 | 2 613 |
| 20 th August 2018 to 19 th Aug 2019 | 2 613 | 2 613 | 2 613 | 2 613 |
| Fines and penalties | 36 948 | 158 | 36 948 | 158 |
| Financial losses | 6 469 | 6 469 | 6 469 | 6 469 |
| Interest paid | 6 025 | 6 025 | 6 010 | 6 010 |
| Total fruitless and wasteful expenditure | 54 668 | 17 878 | 54 653 | 17 863 |

Details of fruitless and wasteful expenditure

| Incident | Details |
|---|--|
| Remuneration paid in terms of a settlement agreement | 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. |
| Financial losses | Financial losses arose from the investigations concluded on a contract for which information was misrepresented, resulting in an overpayment for goods and services delivered. |
| Penalty | The penalties relates to damages on hired vehicles and losses on accommodation as well as an amount of R36,8 million paid for an extension of time claim that could have been avoided had the payment approval process followed proper procedures. |
| Interest | Relates primarily to interest charged by a contractors on late payment. |



14 FINANCIAL SUSTAINABILITY

The preservation and sustainability of financial resources available to fund the strategic objectives are crucial.

FINANCIAL REVIEW

1. INTRODUCTION

Umgeni Water business continuity and operations were relatively stable in comparison to the prior two financial years. The entity has been recovering from the impact of the KZN floods and riots which were disruptive to operations. Credit risk management continues to be a key strategic risk as many customers have indicated financial distress and are behind on payments for bulk water services provided.

The group profits for the year reduced by 6% to R1 162m (2022: R1 242m). Gross profit margins also reduced by 2% to 58% (2022: 60%). The decreases were predominantly due to the 12% increase in cost of sales arising from the increases in the main cost drivers combined with the 29% increase in other operating and administration costs, the details of which are set out in section 2 of this report.

Total assets improved by 10% which was mainly driven by the increases in investments on hand, which are fully committed to funding the infrastructure required for water service delivery over the next 3 to 5 years.

Umgeni Water measures its financial performance in terms of its achievement against financial indicators which are aligned to the organisation's strategic objectives and are included in the key performance indicators on the 2022/2023 section of the annual report, page 66-74.

2. OPERATING PERFORMANCE

2.1 OVERVIEW OF OPERATING PERFORMANCE

2.1.1 YEAR ON YEAR CHANGES OF GROUP OPERATING PERFORMANCE

The group's operating profits have reduced by 34% to R605m (2022: R920m). The primary business consists of bulk water sales and waste water fees. Primary activities revenue grew by 7% arising from the bulk water tariff increase of 3% combined with a 9% increase in waste water revenue in line with the contractual agreements.

Other operating and administrative expenses decreased by 29% and are further discussed under section 2.1.3. The following table summarises the year on year operating financial performance of the group.

| | 2023 | CHANGE | 2022 |
|---|------------------|-------------|------------------|
| | R'000 | % | R'000 |
| Revenue | 5 252 802 | 7 | 4 909 454 |
| Cost of sales | (2 210 254) | 12 | (1 966 084) |
| Gross profit | 3 042 548 | 3 | 2 943 370 |
| GP% | 58% | | 60% |
| Other income | 190 377 | 1273 | 13 840 |
| Other operating and administration expenses | (2 047 137) | 29 | (1 582 732) |
| Expected credit losses | (580 354) | 28 | (453 877) |
| Profit from operations | 605 434 | (34) | 920 601 |
| Net finance income | 553 985 | 75 | 316 716 |
| Share of profit from associate | 2 548 | (27) | 4 088 |
| PROFIT BEFORE TAX | 1 161 967 | (6) | 1 241 363 |

FINANCIAL REVIEW CONTINUED

2. OPERATING PERFORMANCE (CONTINUED)

2.1 OVERVIEW OF OPERATING PERFORMANCE (CONTINUED)

2.1.1 YEAR ON YEAR CHANGES OF GROUP OPERATING PERFORMANCE (CONTINUED)



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% (2022: 77%) of cost of sales.

Chemicals expenditure increased by 12.5% year on year. The increase is mainly attributable to the average price increasing by 27% as a result of price increases on most chemicals, with coagulants average price increasing by 31% and chlorine by 33%. The increase in pricing is offset by lower usage particularly in coagulants with stabilising turbidity levels in the raw water.

Energy cost is 18.3% higher than last year due to both tariff and usage increases, particularly Shaft pumps usage has increased by 51% and Wiggins Highlift increasing by 7% to service demand. The average price increase for the year is 10%. The year on year increase is further expanded by the fact that prior year cost included credits for Darvill and Vulindlela.

Maintenance costs increased by 38.5% year on year mainly due to having incurred significant renewals costs relating to the refurbishment of pumps at the various Durban Heights area pumpstations. Furthermore, external repairs costs were incurred in the KCDM region with work being undertaken to stabilise the plant operations.

Raw and potable water costs decreased by 1.7%. The decrease over prior year is mainly due to credit from KCDM on potable water relating to reduced tariff from City of uMhlathuze. Raw water has increased with higher volumes in all systems, overall driven by the Lower Thukela tariff increase of 10%, Mgeni System of 2% offset by Hazelmere tariff reduction of 28%.

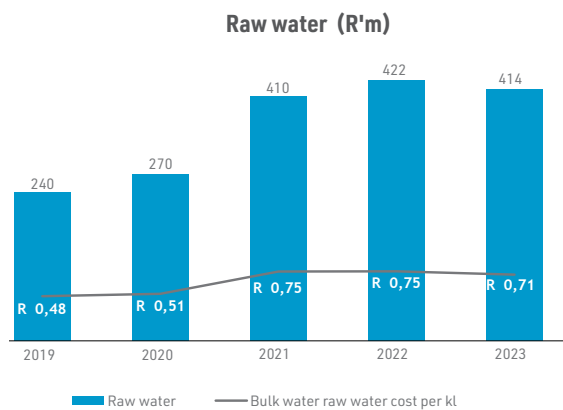
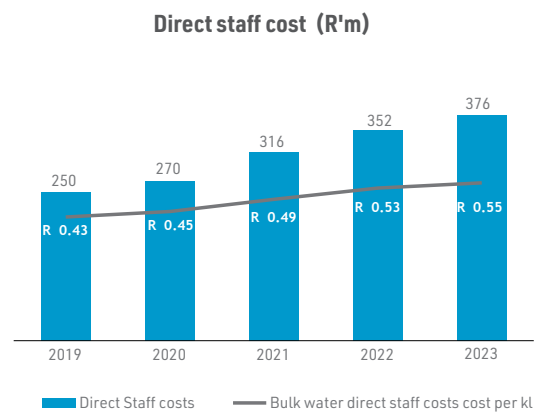
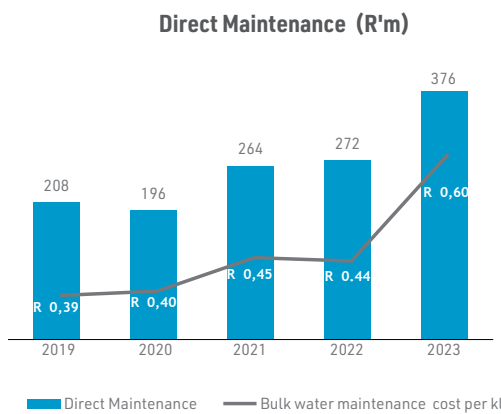
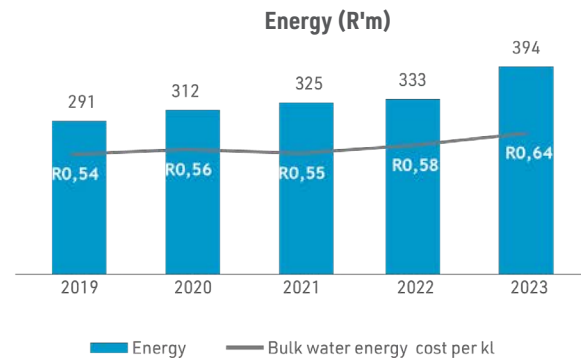
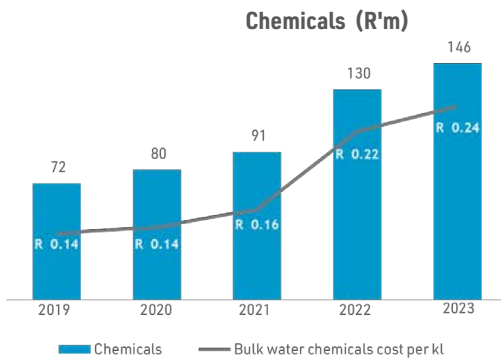
Direct staff costs increased by 7.1%. The increase over prior year is mainly due to increased overtime costs and the standard pay increases.

FINANCIAL REVIEW CONTINUED

2. OPERATING PERFORMANCE (CONTINUED)

2.1 OVERVIEW OF OPERATING PERFORMANCE (CONTINUED)

2.1.2 MAIN COST DRIVERS INCLUDED IN COST OF SALES (CONTINUED)



2.1.3 OTHER OPERATING AND ADMINISTRATION EXPENSES AND NET FINANCE INCOME

Other operating and administration costs increased by 29% mainly due to staff costs and impairments. The credit losses increases of 28% are reflective of the current operating environment with customers struggling to pay on time resulting in an increased credit risk.

Net finance income was 75% higher as a result of the increase in interest income earned on investments. Further details on the investment movements are included in section 7 of this report. Interest income for the period was R555m (2022: R327m) while finance costs after borrowing costs capitalised was R1m (2022: R10m). Borrowing costs capitalised to qualifying assets were R120m (2022: R117m).

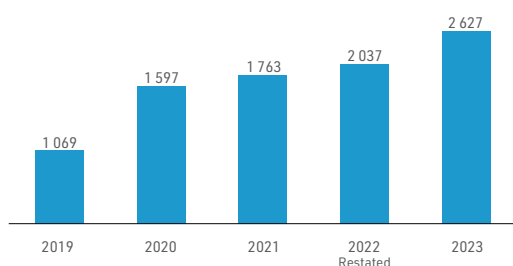
FINANCIAL REVIEW CONTINUED

2. OPERATING PERFORMANCE (CONTINUED)

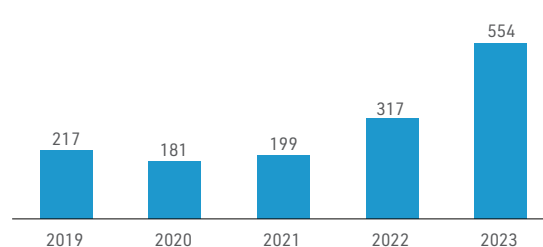
2.1 OVERVIEW OF OPERATING PERFORMANCE (CONTINUED)

2.1.3 OTHER OPERATING AND ADMINISTRATION EXPENSES AND NET FINANCE INCOME (CONTINUED)

Other Operating & Admin Costs (R'm)



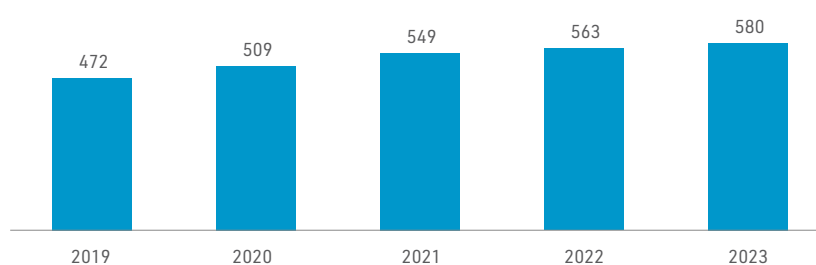
Net Finance Income (R'm)



2.2 BULK WATER SALES VOLUME ANALYSIS

Bulk water sales volumes grew by 3%. The main source of increased sales volumes was from eThekweni Metro Municipality, Msunduzi Local Municipality and King Cetshwayo District Municipality.

Water Sold (Kl'000)



Volume by customer and % change

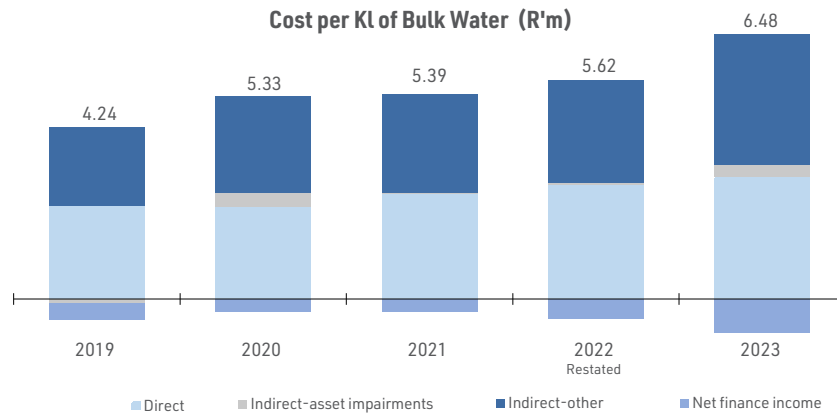
| | 2019 | | 2020 | | 2021 | | 2022 | | 2023 | |
|-----------------|----------------|-------------|----------------|-------------|----------------|-------------|----------------|-------------|----------------|-------------|
| | Kl'000 | % | Kl'000 | % | Kl'000 | % | Kl'000 | % | Kl'000 | % |
| Ethekeeni | 335 724 | 6.7% | 355 835 | 6.0% | 379 325 | 6.6% | 396 623 | 4.6% | 409 534 | 3.3% |
| Other customers | 136 077 | 13.4% | 153 383 | 12.7% | 169 222 | 10.3% | 165 860 | (2.0%) | 170 731 | 2.9% |
| Msunduzi | 71 040 | 3.8% | 77 286 | 8.8% | 74 238 | (3.9%) | 80 844 | 8.9% | 79 092 | (2.2%) |
| Umgungundlovu | 20 426 | 8.7% | 22 905 | 12.1% | 26 425 | 15.4% | 26 805 | 1.4% | 26 714 | (0.3%) |
| Siza | 3 527 | 2.0% | 3 562 | 1.0% | 3 612 | 1.4% | 4 080 | 12.9% | 5 015 | 22.9% |
| Ugu | 13 956 | (0.2%) | 13 543 | (3.0%) | 14 272 | 5.4% | 14 566 | 2.1% | 13 865 | (4.8%) |
| iLembe | 18 646 | 31.5% | 20 731 | 11.2% | 23 536 | 13.5% | 22 686 | (3.6%) | 24 995 | 10.2% |
| Harry Gwala | 1 156 | 8.5% | 1 234 | 6.7% | 1 125 | (8.8%) | 1 230 | 9.3% | 1 311 | 6.6% |
| Uthukela | 7 192 | 100% | 13 998 | 100% | 13 874 | (0.9%) | - | (100%) | - | - |
| King Cetshwayo | - | - | - | - | 12 054 | 100% | 15 529 | 100% | 19 610 | 100% |
| Other | 134 | 4.0% | 124 | (7.7%) | 86 | (30.9%) | 120 | 40.1% | 129 | 7.5% |
| Total | 471 801 | 8.6% | 509 218 | 7.9% | 548 547 | 7.7% | 562 483 | 2.5% | 580 265 | 3.2% |

FINANCIAL REVIEW CONTINUED

2. OPERATING PERFORMANCE (CONTINUED)

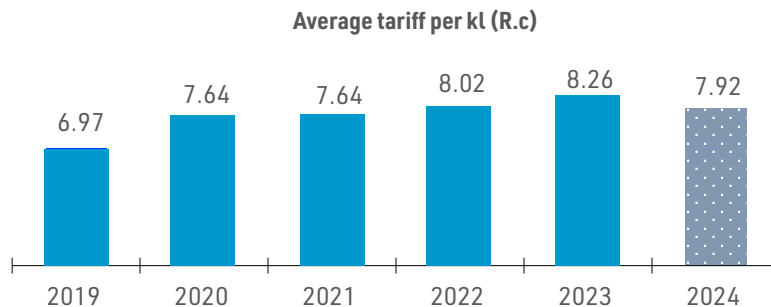
2.3 BULK WATER COST PER KILOLITRE (KL)

The cost of bulk water per kl increased by 15.3% mainly due to the increases in cost of sales arising from raw and potable water charges and maintenance costs associated with the plants operated at King Cetshwayo District Municipality in line with the new bulk supply agreement implemented in the current financial year.



3. BULK WATER TARIFF

The average Umgeni Water bulk water tariff increase for 2022/2023 was approved at 3% and the bulk water tariff increase for the financial year 2023/2024, effective 1 July 2023, has been approved at 6.7% after taking into consideration the current economic and operating environment.



4. CASH FLOW ANALYSIS

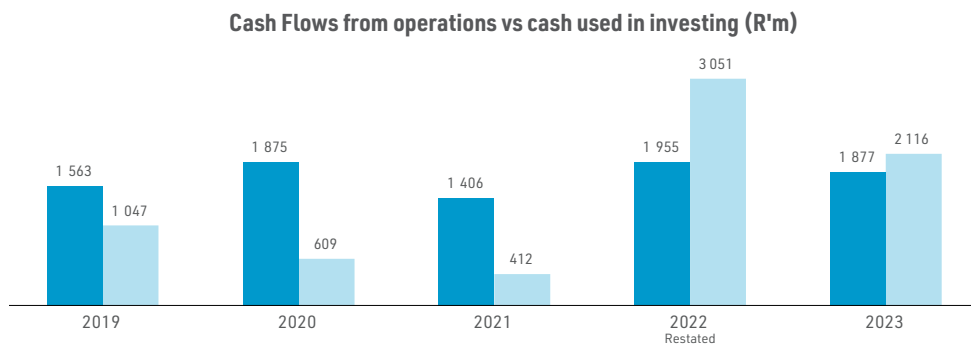
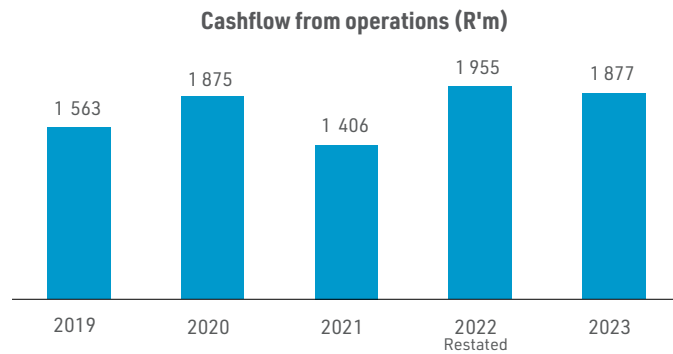
Operating cash flows totalled R1 877m (2022 Restated: R1 955m). The 4% decrease is primarily due to the decrease in cash from operations before the working capital changes attributable to the reduction in operating profit.

Net cash used in investing activities were R2 116m (2022 Restated: R3 051m) consisting of R1 806m (2022: R1 049m) additions to property, plant & equipment offset by R642m (2022: R200m) Regional Bulk Infrastructure Grant funding received for development projects, while additions to intangible assets were R9m (2022: R1m). Investments increased by R1 167m (2022: R2 313m) as a result of Regional bulk infrastructure grants received due to delays in capital expenditure and interest received of R222m (2022: R102m).

Net cash used in financing activities totalled R295m (2022: R152m) which consisted of R25m (2022: R25m) loan repayments, interest paid of R120m (2022: R126m) and redemption investments purchased.

FINANCIAL REVIEW CONTINUED

4. CASH FLOW ANALYSIS (CONTINUED)



5. CAPITAL PROJECTS

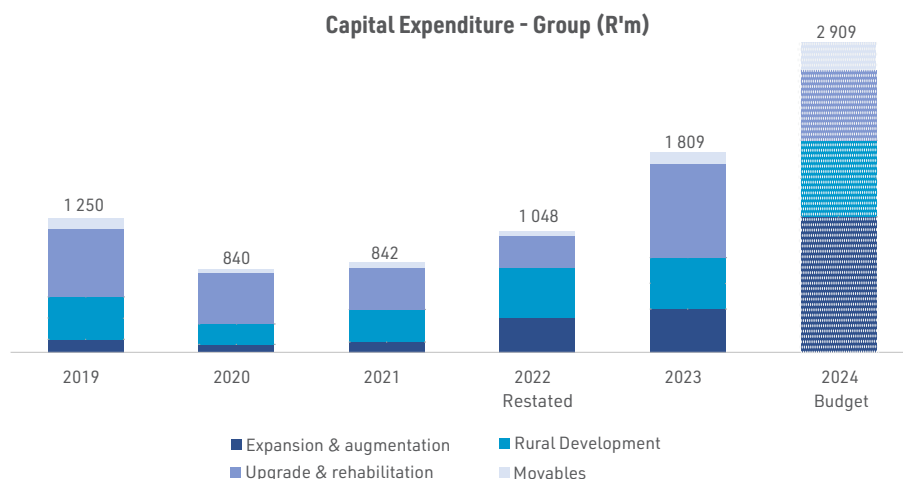
The capital expenditure programme is based on Umgeni Water’s Infrastructure Master Plan which is aligned to the KZN Bulk Water Supply Plan. The Infrastructure Master Plan is updated annually and outlines the organisation’s future bulk infrastructure requirements to meet the regional demands. The capital infrastructure programme is drawn from this Master Plan and structured according to provincial and local strategic priorities. The capital expenditure programme is estimated at R15 billion for the next 5 years as per the Corporate Business Plan for 2024.

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

For further details on the funding requirements, refer to section 8.1.

5.1. CAPITAL EXPENDITURE

During the year capital expenditure including intangible assets against the targets set for 2022/2023 totalled R1 809m (2022: R1 048m). Details of major projects are included in the infrastructure section of the annual report on pages 93-94 .



FINANCIAL REVIEW CONTINUED

5. CAPITAL PROJECTS (CONTINUED)

5.2. DEVELOPMENT PROJECTS

In response to customer water demands and the need to eliminate water service delivery backlogs, a specific allocation of R5.2 billion for development projects has been made for the period 2024 to 2028.

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 or loss as impairments. These impairments are recognised during the construction period and reflected in work in progress on a progressive basis.

DEVELOPMENTAL PROJECT FUNDING & IMPAIRMENTS

JUNE 2023

| Developmental project funding & impairments June 2023 | | Projected funding split | | | Total project Cost June 2023 | Impairment | 2023 Impairment / (Impairment reversal) |
|---|-------------|-------------------------|--|---------------------------|------------------------------|------------|---|
| Project | System | Total Projected cost | Regional bulk infrastructure grant funding | UW funding | | | |
| | | R'000 | R'000 | R'000 | R'000 | % | R'000 |
| Mhlabatshane Sub regional scheme ph2(Mzimkhulu River) | South Coast | 1 441 787 | - 0% | 1 441 787 100% | 21 609 | 78% | 2 078 |
| Lower Umkomazi Bulk Water scheme | South Coast | 8 554 125 | 804 348 9% | 7 749 777 91% | 490 187 | 15% | 75 492 |
| Maphumulo Bulk Water Supply (Phase 3 and 4) | Upper Mvoti | 565 256 | 109 241 19% | 456 015 81% | (13 089) | 9% | (17 447) |
| Mpophomeni WWW and Mpophomeni Sewer Outfall | WWW | 756 820 | - 0% | 756 820 100% | 435 927 | 100% | 120 546 |
| Trustfeeds WWW Plant Automation | WWW | 7 731 | - 0% | 7 731 100% | 7 731 | 100% | 7 731 |
| Ilovu River Raw Water Transfer Pump Station | South Coast | 58 160 | - 0% | 58 160 100% | 58 160 | 100% | (58 160) |
| Weza Harding Abstraction and Pipeline | South Coast | 215 802 | - 0% | 215 802 100% | 93 650 | 16% | 15 140 |
| N3 Corridor WWW | WWW | 147 978 | - 0% | 147 978 100% | 54 773 | 25% | (19 346) |
| UMDM WWW WIP projects | WWW | 23 257 | - 0% | 23 257 100% | 23 257 | 0% | (23 257) |
| TOTAL | | 11 770 916 | 913 589 8% | 10 775 910 92% | 1 172 205 | | 102 777 |

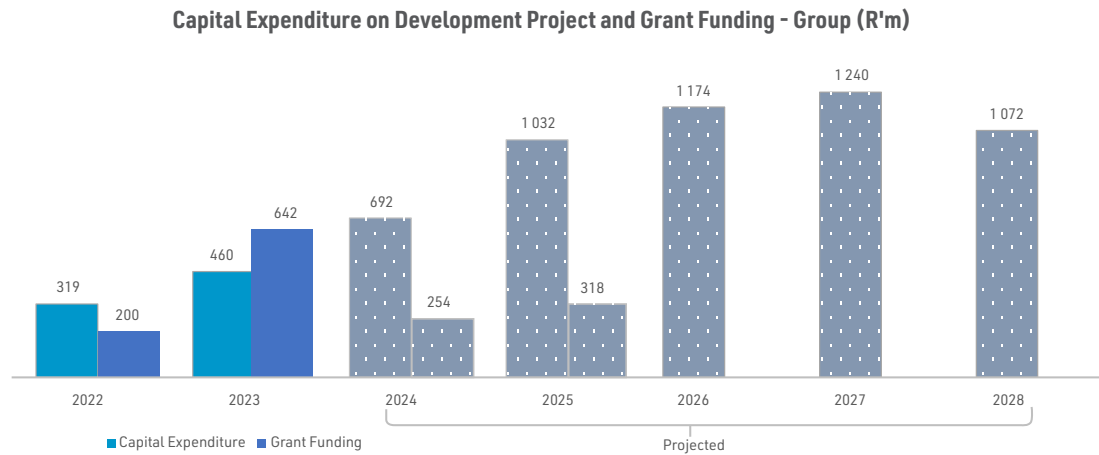
* Total project cost include interest and escalation

Impairments on development infrastructure commissioned and included under buildings and infrastructure totalled R189m (2022: R14m). Further details on impairments are included in note 9 of the financial statements.

FINANCIAL REVIEW CONTINUED

5. CAPITAL PROJECTS (CONTINUED)

5.2. DEVELOPMENT PROJECTS (CONTINUED)

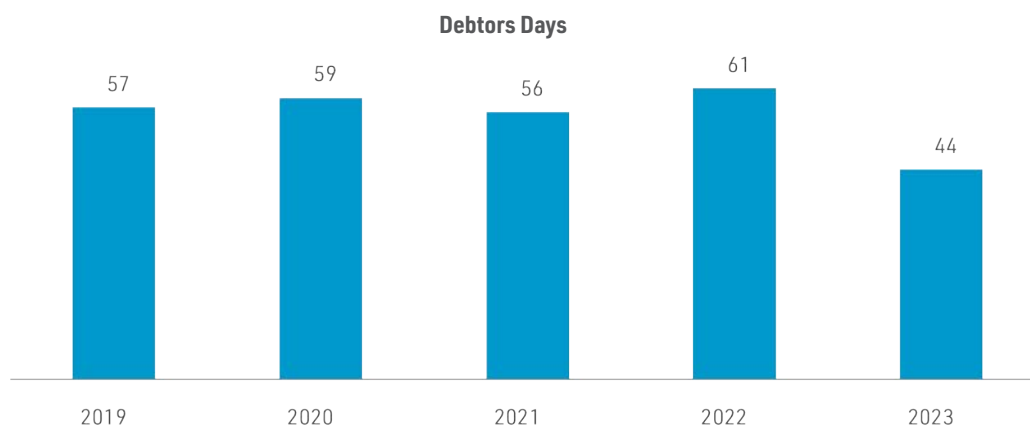


The projected capital expenditure is per the approved 2024 business plan, whilst the projected grant funding is per the latest approved RBIG funding schedule received from the Department of Water and Sanitation.

6. ACCOUNTS RECEIVABLE

Group trade and other receivables totalled R1 219m (2022: R1 139m) which comprises both current and non-current components. Trade debtor's days were 44 (2022: 61) at the end of the reporting period. The allowance for credit losses were R1 607m (2022: R1 019m), a 57.7% increase after taking into account the increase in credit risk as a result of the overdue amounts from bulk customers. The customers in high credit risk are Msunduzi LM, UGu DM, UThukela DM and King Cetshwayo DM.

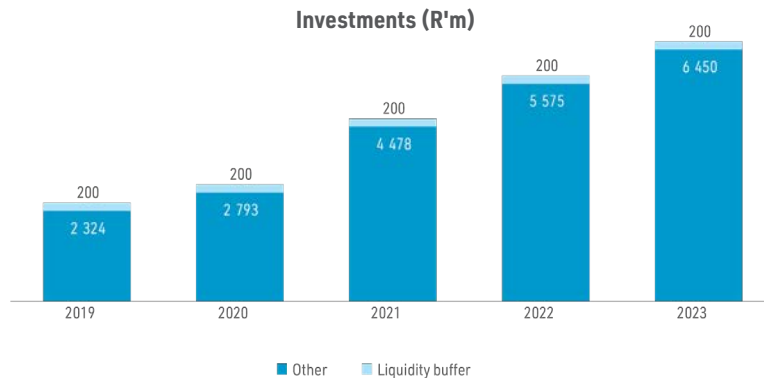
Further details on trade and other receivables are included in note 16 of the financial statements.



FINANCIAL REVIEW CONTINUED

7. INVESTMENTS

Financial investments totalled R6 450m (2022 Restated: R5 018m), a 29% increase due to delays in capital expenditure and Regional bulk infrastructure grant funding received.



8. DEBT MANAGEMENT

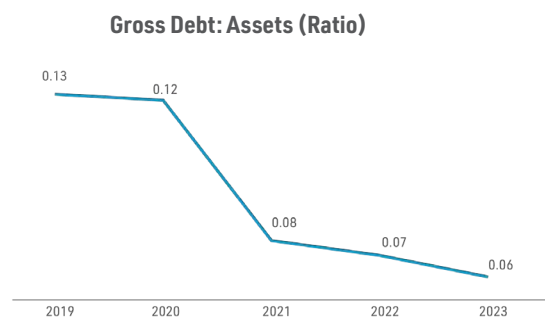
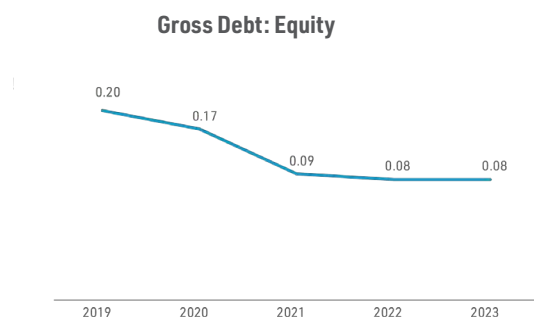
Debt Management is a key focus area at Umgeni Water and is integral to the delivery of sustainable financial business solutions. Umgeni Water targets a debt: equity ratio of 0.50 and an interest rate structure of 70% fixed and 30% variable.

The gross debt: equity ratio remained constant at 0.08 (2022: 0.08) while the interest rate structure was 92% fixed and 8% variable (2022: 91% fixed and 9% variable). The high fixed rate structure is as a result of the UG26 bond in issue. The gross weighted average cost of capital was 11.04% (2022: 10.79%).

All loan covenant requirements were met during the reporting period.

During the year R 25m was repaid towards the EIB loan and R935m will be repaid on the redemption of the UG26 bond in March 2026.

| Debt | 2023 | 2022 |
|--------------|--------------|--------------|
| | R'000 | R'000 |
| Long-term | 1 059 | 1 108 |
| Short-term | 58 | 58 |
| Total | 1 117 | 1 141 |



FINANCIAL REVIEW CONTINUED

8. DEBT MANAGEMENT (CONTINUED)

8.1. 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:

- General banking facilities.
- Development funding institutions include the DBSA and the EIB.
- Issuing short-term and long-term notes under the DMTN Program.
- Bank loans include bridging facilities and revolving credit facilities that can be used in the short term.

As per the Corporate Business Plan for 2024 detailed cash flow forecasts have been prepared for the next five years, taking into account the group's R15 billion planned capital expenditure (unescaled) and is detailed in the table that follows:

| Financial Year | Short Term | | Medium Term | | Long Term |
|---|----------------|----------------|----------------|----------------|----------------|
| | 2024 | 2025 | 2026 | 2027 | 2028 |
| | R'm | R'm | R'm | R'm | R'm |
| Operational Cash flows | 1 331 | 1 682 | 1 951 | 2 282 | 2 618 |
| CapEx - (Escalated) | (2 909) | (3 726) | (3 645) | (3 588) | (3 693) |
| Net operating cash (shortfall) after capex | (1 578) | (2 044) | (1 693) | (1 305) | (1 075) |
| Capex - Grants: Confirmed | 255 | 318 | - | - | - |
| Net Financing activities | 145 | 872 | 99 | 839 | 555 |
| Annual Funding Requirements | (1 178) | (854) | (1 594) | (466) | (520) |

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 to be raised in 2023/2024. The funding strategy takes cognisance of the funding levels projected in terms of determining the required borrowing limits for the years 2023/2024 to 2027/2028 as well as compliance with the covenants. Further details of the various sources of funding available to Umgeni Water can be found in note 29 of the financial statements.

8.2. BORROWING LIMITS

The borrowing limits for the period 2023 to 2025 were approved by the Minister of Water and Sanitation with the concurrence of the Minister of Finance. The borrowing limits are applicable to the value of gross borrowings, collateral & guarantees exposure and may not exceed the approved limits.

| Financial year | Total Borrowing Limit |
|----------------|-----------------------|
| | R'm |
| 30 June 2023 | 2 024 |
| 30 June 2024 | 3 332 |
| 30 June 2025 | 4 541 |

FINANCIAL REVIEW CONTINUED

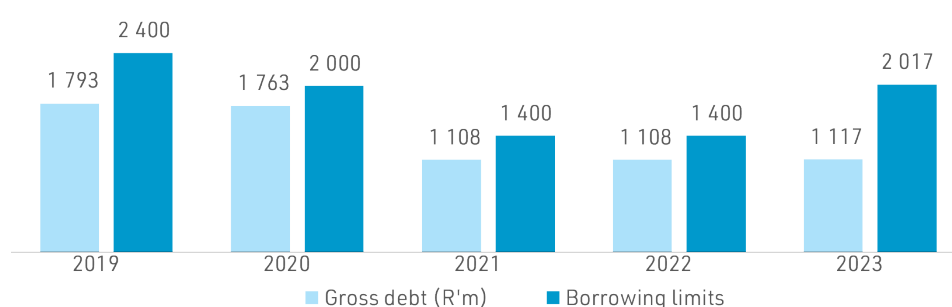
8. DEBT MANAGEMENT (CONTINUED)

8.2. BORROWING LIMITS (CONTINUED)

Utilisation of the borrowing limit as at 30 June 2023 was as follows:

| | |
|---------------------------|---------|
| Actual gross borrowings | R1 084m |
| Collateral and guarantees | R 7m |
| Total actual borrowings | R1 091m |
| Borrowing limit | R2 024m |
| Underutilisation | R 933m |

Gross Debt & Borrowing Limits (R'm)



8.3. CREDIT RATINGS

There were no revisions to the credit ratings in the current year.

| | Date of rating re-affirmation or change | Long-term Rating | Short-term rating |
|------------------------------------|---|------------------|-------------------|
| Standard & Poor's (National Scale) | 18 May 2023 | zaAAA | zaA-1+ |
| Fitch Ratings | 07 September 2023 | AA+(zaf) | F1+(zaf) |

Standard & Poor's places particular emphasis on the critical role of Umgeni Water to the government and the integral link thereto, whilst Fitch Ratings places more emphasis on Umgeni Water's liquidity position.

9. RETIREMENT BENEFIT OBLIGATIONS

DEFINED BENEFIT PENSION PLAN

In terms of IAS19, the group's retirement benefit plan is currently in a surplus however due to paragraph 65 limit the plan is reported as Nil (2022: R48m) Further details are disclosed in note 25 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 R361m (2022: R364m). Further details are disclosed in note 25 of the financial statements.

FINANCIAL REVIEW CONTINUED

10. FINANCIAL RISKS

As per industry norms, 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.

Credit risk remained one of the top strategic financial risks faced by the organisation. All customers assessed with a high credit risk with overdue amounts have been included in the allowance for credit losses. Processes are in place with monitoring at Accounting Authority level to manage this risk and the group will follow the necessary processes as legislated to allow for collection of the overdue amounts whilst managing the service delivery objectives.

The operating environment has been assessed and where municipal customers were considered an increase in credit risk exposure, these were provided for in terms of the potential impact on credit losses to the organisation.

The major financial risks to the organisation and the mitigating strategies are analysed in note 29 on financial risk management to the financial statements and the Corporate Risk Management Framework on pages 142-148 of the annual report.

11. LOOKING AHEAD

As the organisation undergoes reconfiguration to effectively position it to deliver the significant mandate of improving the delivery of water and sanitation services for all communities of KwaZulu-Natal with which it has been entrusted.

The outlook is positive and the preservation as well as sustainability of financial resources available to fund the strategic objectives are crucial and dependent on robust financial systems and controls being implemented to prevent deviations from planned expenditure that could impact the financial viability of the organisation.

The inseparable connections of the water value chain also emphasize the need of even greater collaboration between the organisation and all relevant stakeholders in finding economical and innovative solutions that will make reliable provision of water and sanitation services a reality for all communities in the Province of KwaZulu-Natal.

GROUP FIVE-YEAR KEY PERFORMANCE INDICATORS

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2022-2023 |
|---|----------------|----------------|----------------|----------------|----------------|--------------|
| | | Restated | Restated | | | Movement |
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| Performance criteria/indicators | | | | | | |
| Total revenue (R'm) | 5 253 | 4 909 | 4 528 | 4 154 | 3 538 | 7.00% |
| Profit from operations/revenue | 0.23 | 0.19 | 0.23 | 0.26 | 0.32 | 18.95% |
| Total expenditure/revenue | 0.71 | 0.75 | 0.74 | 0.70 | 0.63 | (5.97%) |
| Cost of sales/revenue | 0.42 | 0.40 | 0.39 | 0.36 | 0.41 | 5.19% |
| Capex spend (R'm) (including intangibles) | 1 809 | 1 048 | 842 | 840 | 1 250 | 72.61% |
| Bulk water business segment | | | | | | |
| Treated water volume sold (Kl'000) | 580 266 | 562 483 | 548 547 | 509 217 | 471 801 | 3.16% |
| Raw water volume sold (Kl'000) | 460 | 593 | 544 | 427 | 454 | (22.44%) |
| Total water sold (kl'000) | 580 726 | 563 076 | 549 091 | 509 644 | 472 255 | 3.13% |
| Bulk water tariff 1 - Other Water Service Authority customers (Rc/kl) | 8.365 | 8.121 | 7.734 | 7.734 | 7.057 | 3.00% |
| Bulk water tariff 2 - eThekweni MM (Rc/kl) | 8.200 | 7.961 | 7.582 | 7.582 | 6.918 | 3.00% |
| Bulk water tariff 3 -KCDM(Rc/kl) | 12.048 | 11.697 | 11.140 | n/a | n/a | 3.00% |
| WRC levy (Rc/kl) | 0.067 | 0.067 | 0.067 | 0.067 | 0.065 | - |
| Total bulk cost/volume sold (Rc/kl) ¹ | 6.49 | 5.58 | 5.41 | 5.02 | 4.24 | 3.14% |
| Kl'000 sold per employee ¹ | 383 | 405 | 401 | 378 | 353 | (5.43%) |
| Operating risk indicators | | | | | | |
| Working ratio | 0.63 | 0.71 | 0.69 | 0.65 | 0.58 | (1.64%) |
| <i>Operating costs (excl depreciation and amortisation) divided by revenue</i> | | | | | | |
| Rate of return on assets | 10.46% | 8.86% | 10.76% | 11.48% | 10.81% | 18.01% |
| <i>Profit from operations divided by assets (excl investments)</i> | | | | | | |
| Gross profit margin ratio | 57.92% | 59.95% | 64.08% | 61.48% | 58.97% | (3.39%) |
| <i>Debtors collection period (days) after provision for doubtful debts</i> | | | | | | |
| <i>Trade and other receivables (excluding amounts not recognised in revenue) divided by revenue(Incl VAT) x 365</i> | 44 | 61 | 56 | 59 | 57 | 39.05% |
| Financial risk indicators | | | | | | |
| Current ratio | 6.15 | 6.56 | 4.88 | 2.61 | 2.72 | (6.21%) |
| <i>Current assets divided by current liabilities</i> | | | | | | |
| Interest cover before interest capitalised | 9.85 | 7.22 | 6.40 | 5.63 | 5.77 | 36.41% |
| <i>Profit from operations divided by finance costs before interest capitalised</i> | | | | | | |
| Debt :equity ratio | 0.08 | 0.08 | 0.10 | 0.17 | 0.20 | - |
| <i>Total interest-bearing debt divided by capital and reserves</i> | | | | | | |
| Debt :asset ratio | 0.06 | 0.07 | 0.08 | 0.12 | 0.14 | (12.32%) |
| <i>Total interest-bearing debt divided by total assets</i> | | | | | | |

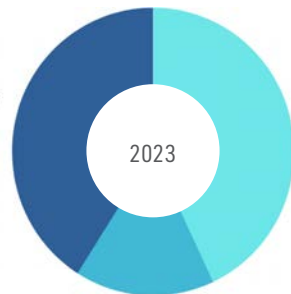
(1) These indicators have been calculated using treated water volumes only.

GROUP FIVE-YEAR KEY PERFORMANCE INDICATORS CONT

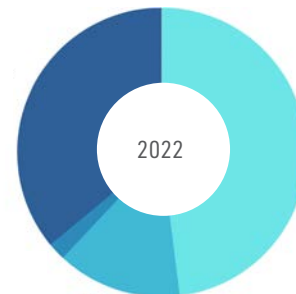
| | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|------------------|--------------------|--------------------|------------------|------------------|
| | | Restated | Restated | | |
| | R'000 | R'000 | R'000 | R'000 | R'000 |
| Financial position | | | | | |
| Capital and reserves | 14 441 070 | 13 185 113 | 11 927 516 | 9 119 947 | 7 715 959 |
| Net debt | (5 333 330) | (3 876 488) | (1 480 475) | (1 086 515) | (596 506) |
| Assets excluding investments | 11 177 850 | 11 145 789 | 13 516 997 | 9 864 092 | 8 770 196 |
| Total interest-bearing debt (nominal value) | 1 083 549 | 1 133 226 | 1 762 668 | 1 792 900 | 1 871 912 |
| Total investments | 6 450 193 | 5 018 186 | 2 646 978 | 2 933 144 | 2 524 446 |
| Total assets | 17 628 043 | 16 163 975 | 16 163 975 | 12 797 236 | 11 294 642 |
| Financial performance | | | | | |
| Revenue | 5 252 802 | 4 909 454 | 4 528 237 | 4 154 375 | 3 538 457 |
| Cost of sales | (2 210 254) | (1 966 084) | (1 788 513) | (1 492 297) | (1 363 161) |
| Gross Profit | 3 042 548 | 2 943 370 | 2 739 724 | 2 662 078 | 2 175 296 |
| Other income | 190 377 | 13 840 | 81 688 | 13 067 | 26 179 |
| Other operating and administration expenses | (2 627 491) | (2 036 609) | (1 762 966) | 1 596 866 | 1 069 274 |
| Profit from operations | 605 434 | 920 601 | 1 058 446 | 1 078 297 | 1 132 201 |
| Net finance income | 553 985 | 316 716 | 199 376 | 181 288 | 216 592 |
| Share of profit from associate | 2 548 | 4 088 | 4 853 | 5 441 | 5 664 |
| Profit before taxation | 1 161 967 | 1 241 405 | 1 262 675 | 1 265 026 | 1 354 457 |
| Taxation | (187) | (42) | (23) | (31) | (106) |
| Profit for the year | 1 161 780 | 1 241 363 | 1 262 652 | 1 264 995 | 1 354 351 |
| Cash flow | | | | | |
| Net cash from operating activities | 1 876 965 | 1 955 080 | 1 875 365 | 1 563 404 | 1 334 123 |
| Net cash used in investing activities | (2 116 181) | (3 050 629) | (609 107) | (1 047 016) | (534 449) |
| Net cash (utilised) generated | (239 216) | (1 095 549) | 1 266 258 | 516 389 | 799 674 |
| Net cash used in financing activities | (295 276) | (151 890) | (973 376) | (1 332 307) | (455 651) |
| Net increase (decrease) for the year | 534 492 | 1 247 439 | (20 654) | 66 049 | (60 738) |
| Net cash (utilised) generated | 239 216 | 1 095 549 | (1 266 258) | (516 389) | (799 674) |

VALUE ADDED STATEMENT FOR THE YEAR ENDED 30 JUNE 2023

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|--|------------------|------------------|------------------|------------------|------------------|
| | R'000 | R'000 | R'000 | R'000 | R'000 |
| Gross revenue | 5 252 802 | 4 909 454 | 4 528 237 | 4 154 375 | 3 538 457 |
| Paid to suppliers for materials & services | (3 083 634) | (2 475 465) | (2 166 971) | (1 734 039) | (1 186 584) |
| Value added | 2 169 168 | 2 433 989 | 2 361 266 | 2 420 336 | 2 351 873 |
| Income from investments and customers | 554 603 | 327 051 | 249 397 | 285 917 | 230 547 |
| Total wealth created | 2 723 772 | 2 761 040 | 2 610 663 | 2 706 253 | 2 582 420 |
| Salaries, wages and other benefits | 1 112 932 | 1 072 717 | 926 652 | 968 990 | 889 711 |
| Providers of debt capital | 619 | 10 335 | 50 021 | 104 629 | 13 955 |
| Depreciation | 448 441 | 436 625 | 371 338 | 367 639 | 324 403 |
| Profit for the year | 1 161 780 | 1 241 363 | 1 262 652 | 1 264 995 | 1 354 351 |
| Total wealth distributed | 2 723 772 | 2 761 040 | 2 610 663 | 2 706 253 | 2 582 420 |



■ 41% Salaries, wages and other benefits
 ■ 0% Providers of debt capital
 ■ 16% Depreciation
 ■ 43% Profit for the year



■ 39% Salaries, wages and other benefits
 ■ 0% Providers of debt capital
 ■ 16% Depreciation
 ■ 45% Profit for the year

EMPLOYEE STATISTICS

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2022-2023 Movement |
|------------------------------------|-------|-------|-------|-------|-------|-----------------------|
| | R'000 | R'000 | R'000 | R'000 | R'000 | |
| Number of employees as at year-end | 1 519 | 1 374 | 1 355 | 1 273 | 1 250 | 10.55% |
| Gross revenue per employee | 3 458 | 3 573 | 3 342 | 3 263 | 2 831 | (3.22%) |
| Value added per employee | 1 428 | 1 727 | 1 743 | 1 901 | 1 900 | (17.31%) |
| Wealth created per employee | 1 793 | 1 882 | 1 911 | 2 126 | 2 084 | (6.21%) |

STATEMENT OF DIRECTORS RESPONSIBILITIES AND APPROVAL OF THE FINANCIAL STATEMENTS

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

The financial statements set out in this report have been prepared in accordance with International Financial Reporting Standards (IFRS) as approved by National Treasury in terms of section 79 of the Public Finance Management Act No.1 of 1999, as amended, and in the manner required by the Water Services Act No. 108 of 1997. The preparation of financial statements in conformity with IFRS requires management to consistently apply appropriate accounting policies, supported by reasonable and prudent judgements and estimates.

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

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

Apart from the non-compliance to legislation noted in the SCM processes resulting in irregular expenditure, nothing significant has come to the attention of the Directors to indicate that any material breakdown in the functioning of controls, procedures and systems has occurred during the year under review. The Directors are of the opinion, based on the information and explanations given by management, the internal auditors and the external auditors, that the systems of internal control provide reasonable assurance that the financial records may be relied on for the preparation of the consolidated financial statements and that accountability for assets and liabilities is maintained.

The Audit Committee has evaluated Umgeni Water and the group's financial statements and has recommended its approval to the Directors. The Audit Committee's approval is set out on page 169.

The Directors have reviewed the group's forecast financial performance for the year to 30 June 2024 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. Any increase in credit risk has been adequately taken into account in the allowance for credit losses.

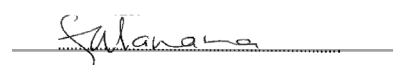
In the opinion of the Directors, based on the information available to date, the financial statements fairly present the financial position of Umgeni Water and the group as at 30 June 2023 and the results of its operations and cash flow information for the year then ended.

PREPARATION AND APPROVAL OF FINANCIAL STATEMENTS

The financials have been prepared on a going concern basis under the supervision of the Group Chief Financial Officer, Mr Thamsanqa Mkhwanazi CA (SA). The financial statements set out on pages 185 to 252 were approved by the Accounting Authority on 31 October 2023.



Adv. Vusi Khuzwayo
Chairperson of the Board



Dr Siphon Manana
Acting 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 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.

The Debt Officer for the period ending 30 June 2023 was Mr. Thamsanqa Mkhwanazi CA (SA).

In the conduct of its duties, the Audit Committee has, inter alia, conducted the following oversight functions:

Financial and non-financial reporting and disclosures

- The experience, expertise and resources of the Chief Financial Officer and the finance function;
- considered whether the annual financial statements met the fair presentation requirements of the PFMA and International Financial Reporting Standards;
- considered the appropriateness of key judgements, estimates and accounting treatment related to significant transactions in the annual financial statements;
- The committee acknowledged that improvement is required in respect of compliance with applicable laws and regulations. In line with the Board's commitment to ensure proper governance protocols, all of the recommendations in the Auditor-General's report are being implemented so that the governance vision and objectives set by the Board are achieved. Additional legal support being received will strengthen measures already implemented to address the issue of irregular expenditure and consequence management thereof.

Internal control, risk management and compliance with legal and regulatory provisions:

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

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 Auditor General.

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 Chief Financial Officer and 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 judgments 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 coordinated approach to all assurance activities.

REPORT OF THE AUDIT COMMITTEE CONTINUED

REPORT OF THE AUDIT COMMITTEE IN TERMS OF REGULATION 27.1 OF THE PUBLIC FINANCE MANAGEMENT ACT NO. 1 OF 1999, AS AMENDED STATEMENTS

The Audit Committee has evaluated the financial statements of Umgeni Water and the group for the year ended 30 June 2023 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 Accounting Authority 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 25 October 2023 the adoption of the financial statements by the Accounting Authority.



Ms. T Mhlongo
Audit Committee Chairperson

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 Board presents their report FOR THE YEAR ENDED 30 June 2023.

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 (potable bulk water supply and bulk 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, 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, as well as the application of Directive 12 - The Selection of an Appropriate Accounting Framework for Entities as issued by the Accounting Standards Board and the following relevant statutes:

- Water Services Act No. 108 of 1997;
- Public Finance Management Act No. 1 of 1999, as amended (PFMA);
- Public Audit Act, 25 of 2004;

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

GOVERNANCE, COMPLIANCE AND RISK MANAGEMENT

The Board supports the Code of Governance Principles as set out in King IV (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 applicable legislations and regulations is concerned. Where the organisation has not fully complied with a certain principle of King IV applicable legislation or regulation, 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 section on corporate governance detailed on pages 36 to 46 and risk management on pages 142 to 149.

The Board of Umgeni Water will continue to ensure there is full compliance with legislation that seeks to curb wasteful, irregular and fruitless expenditure and promotes good governance. The irregular expenditure identified in the Auditor-General's findings in the prior year pertained to contract variations and changes to scope of works that were apparently not approved by the National Treasury, as required by Instruction Note 3 of 2016/17, and where applicable by other appropriately delegated persons. Investigations conducted in response to the Auditor-General's findings and in terms of the National Treasury Framework for irregular, fruitless and wasteful expenditure have made good progress in unravelling some of the details pertaining to non-compliance regarding approvals and accompanying possible transgressions of the Public Finance Management Act.

The Board is at a stage now where intense examination of these matters has separated possible common errors or deficiencies from issues that could potentially form the basis for disciplinary action and consequence management, including where possible institution of legal action for recovery of monies. During the reporting period, corrective action has been taken against a number of officials for reasons as recommended by investigations conducted and this process is on-going until all identified action against relevant individuals have been taken. This teasing out of issues creates a clearer picture about what motivations are to be made in terms of the National Treasury Framework for condonation. Amendments to the Public Audit Act No 25 of 2004 have become an important guide in assisting the Board through this process.

DIRECTORS' REPORT CONTINUED

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 constituted during the year under review is set out on pages 47 to 49 of the annual report.

Members of the Board and Executive Committee's emoluments are disclosed in note 33 of the financial statements the remuneration report on pages 249 to 251 in terms of regulation 28.1 of the PFMA.

COMPANY SECRETARY AND REGISTERED ADDRESS

The Acting Group Company Secretary, Ms Simangele Mbatha, was appointed on 01 July 2023.

The registered address of the Group Company Secretary and that of the registered office during the current financial year are as follows:

| Business address | Postal address |
|--|--------------------------------------|
| 310 Burger street Pietermaritzburg 3201 smbatha@mhlathuze.co.za | PO Box 9 Pietermaritzburg 3200 |

AUDITORS

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

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.

uMngeni-uThukela Water bulk water tariff increase for 2023/2024 effective 1 July 2023 has been approved at 6.7% for all Water Service Authorities. The directors, after full analysis of its projected cash flows including the revision of the five-year capital expenditure programme together with prudent management of controllable operating costs, are of the opinion that the tariff for 2023/2024 will not adversely affect Umgeni Water's gearing levels or its financial sustainability.

DIRECTORS' REPORT CONTINUED

| | 2022 | 2023 | 2024 |
|---|---------------|----------------|---------------|
| | R/Kl | R/Kl | R/Kl |
| Bulk Tariff 1: Water Service Authorities | | | |
| Base tariff | R7.734 | R8.121 | R8.365 |
| Tariff increase | R0.387 | R0.244 | R0.753 |
| Umgeni Water bulk tariff | R8.121 | R8.365 | R9.118 |
| <i>% increase</i> | <i>5.0%</i> | <i>3.0%</i> | <i>9.0%</i> |
| Capital unit charge Spring Grove dam* | R1.628 | R0.000 | R0.000 |
| Mkomazi bulk water supply charge* | R0.162 | R0.167 | R0.182 |
| New Tariff | R9.911 | R8.532 | R9.300 |
| <i>% increase</i> | <i>5.6%</i> | <i>(13.9%)</i> | <i>9.0%</i> |

Bulk Tariff 2: eThekweni Metropolitan Municipality

| | | | |
|--------------------------------------|---------------|----------------|---------------|
| Base tariff | R7.582 | R7.961 | R8.200 |
| Tariff increase | R0.379 | R0.239 | R0.451 |
| Umgeni Water bulk tariff | R7.961 | R8.200 | R8.651 |
| <i>% increase</i> | <i>5.0%</i> | <i>3.0%</i> | <i>5.5%</i> |
| Capital unit charge Spring Grove dam | R1.628 | R0.000 | R0.000 |
| Mkomazi bulk water supply charge | R0.159 | R0.164 | R0.173 |
| New Tariff | R9.748 | R8.364 | R8.824 |
| <i>% increase</i> | <i>5.6%</i> | <i>(14.1%)</i> | <i>5.5%</i> |

Bulk Tariff 3: King Cetshwayo District Municipality

| | | | |
|---------------------------------|----------------|----------------|----------------|
| Base tariff | R11.140 | R11.697 | R12.048 |
| Tariff increase | R0.557 | R0.351 | R1.084 |
| Umgeni Water bulk tariff | R11.697 | R12.048 | R13.132 |
| <i>% increase</i> | <i>5.0%</i> | <i>3.0%</i> | <i>9.0%</i> |

* Not applicable to King Cetshwayo District Municipality as these systems are not within these customer operational areas.

DIRECTORS' REPORT CONTINUED

FINANCIAL PERFORMANCE

The group profits for the year have decreased by 6%, which totalled R1 162m (2022: R1 151m). Bulk water revenue grew by 6% as a result of the 3.2% growth in bulk water sales volumes combined with the 3% bulk water tariff increase, whilst bulk water direct operating costs increased by 11%. This was mainly due to the increases in chemical costs directly associated with staff costs due to increases in the establishment combined with the annual wage increases and performance incentives. Total other operating and administrative expenses increased by 29% mainly as a result of increases in asset impairments and staff costs.

Impairments of property, plant and equipment totalled R292m (2022: R222m) whilst asset write-offs totalled R12m (2022: R148m). Impairment of buildings and infrastructure was R189m (2022: R14m) while impairment of projects included in capital work in progress were R103m (2022: R208m). Refer to note 6.1 of the financial statements for further details on impairments.

Operating cash flows were R1 877m (2022 Restated: R1 955m), a decrease of 4% year on year. Net cash used in investing activities was R2 116m (2022 Restated: R3 051m) after the receipt of rural bulk infrastructure grants of R642m (2022: R200m) and net cash used in financing activities was R295m (2022: R152m).

During the year capital expenditure including intangible assets totalled R1 809m (2022: R1 048m). 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 157.

Loan covenants remain un-breached at financial year end and Umgeni Water remained within its approved borrowing limits of R2 024m. The main loan covenant triggers are: reductions in operating profits; operating cash flows; and accumulated profits and increases in gross borrowings and finance costs. None of these were in the proximity of triggering any breaches in loan covenants for the period under review. Further details on the loan covenants and debt management are included in note 29.1.2. to the financial statements.

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 152 to 163.

SUBSIDIARY AND ASSOCIATE COMPANIES

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

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

EVENTS AFTER THE REPORTING PERIOD

Mhlathuze Water was disestablished effective on 30 June 2023 and was merged with Umgeni Water, with all its staff, assets and liabilities effective on 01 July 2023, in terms of Section 46 of the Water Services Act, 1997 (Act No. 108 of 1997). This will then result in a single water entity, uMngeni-uThukela Water. The impact of transfer of assets, liabilities and employees of Mhlathuze Water to Umgeni Water will be accounted for in the 2023/24 financial year as the disestablishment occurred after 2022/23 financial year-end. At the time of preparation of the annual financial statements, it was not possible to make an estimate of what will be the financial implications of incorporating former Mhlathuze Water operations into Umgeni Water as the operations, assets and liabilities of Mhlathuze Water will be wholly absorbed by Umgeni Water. Management did not identify any other subsequent event in addition to incorporation of Mhlathuze Water's operations to Umgeni Water as described above.

GOING CONCERN

The directors, having considered all the relevant information, have satisfied themselves that the group is in a sound financial position, it has sufficient liquidity, and that it has adequate access to sufficient borrowing facilities to meet its foreseeable cash requirements. There are adequate resources to continue operating for the foreseeable future and it is therefore appropriate to adopt the going concern basis in preparing the financial statements. The Executive Authority has proceeded with the Institutional re-alignment of Umgeni Water and Mhlathuze Water effective from 1 July 2023. As part of the reconfiguration process, there will be a transfer of the staff, assets, and liabilities of Mhlathuze Water to Umgeni Water. Concurrently, a name change for Umgeni Water has been approved, with the new name being UMngeni-UThukela Water. However, this change does not affect the going concern of entity.

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 R26.2m (2022: R24.5m). Management also apply a qualitative aspect to all errors found.

FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure incurred for the year was R36.8m (2022: R7.4m) which arose primarily from interest on late payments. Further details are set out in note 28 of the financial statements.

IRREGULAR EXPENDITURE

Irregular expenditure incurred during the year totalled R567m (2022: R482m) which arose due to, non-compliance with legislation relating to deviations, procurement procedures and contract management. Irregular expenditure incurred and relating to the current year contracts totalled R15.9m (2022: R139m), whilst irregular expenditure incurred in the current year but relating to prior year contracts was R551m (2022: R343m). 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 allegations of possible fraud; corruption and financial misconduct in the current financial year. These came through the whistle-blowers hotline as well as through the media reports and other written communication addressed to the Board. The Board, through its structures – notably the Social and Ethics Committee, have overseen that investigations into these allegations are instituted, concluded and reported on to the Board timeously. As a standing protocol, once the investigations are concluded the necessary corrective actions must be implemented to ensure that any fraud; corruption and financial misconduct is dealt with in accordance with the relevant legislation and policies of the group, including legal action for recovery of monies where possible. Further details relating to the Board's commitment to good governance relating to the non-compliance matters are included in the governance and risk management section of this report.

PERFORMANCE AGAINST FINANCIAL TARGETS (PARENT ONLY)

The performance of Umgeni Water against the key financial indicators as agreed in the shareholder's compact is illustrated on page 64 to 74 of the annual report.

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON UMGENI WATER AND ITS SUBSIDIARIES

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

OPINION

1. I have audited the consolidated and separate financial statements of the Umgeni Water and its subsidiaries (the group) set out on pages 184 to 251, which comprise the consolidated and separate statement of financial position as at 30 June 2023, 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 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 financial position of the group as at 30 June 2023, and their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act 1 of 1999 (PFMA).

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 responsibilities of the auditor-general for the audit of the consolidated and separate financial statements section of my report.
4. I am independent of the group in accordance with the International Ethics Standards Board for Accountants' International code of ethics for professional accountants (including International Independence Standards) (IESBA code) as well as other 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 for 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 on these matters.

| Key audit matter | How the matter was addressed in the audit |
|---|---|
| <p>Material impairment of infrastructure assets</p> <p>Included in note 9 to the consolidated and separate financial statements were material impairments of R291,76 million (2021-22: R222,20 million) that were raised on significant water infrastructure assets for Umgeni Water. These assets are subject to annual impairment assessments which require significant judgement.</p> <p>The value in use method of valuation is applied to determine the recoverable amount of the water infrastructure assets, which makes use of the future estimated cash flows and other assumptions to determine the recoverable amount.</p> <p>The expected performance of these assets is based on the sales volume demand and the operating cost structure.</p> <p>Key assumptions include the discount rate (gross weighted average cost of capital), cash flows and sales volume demand for significant water infrastructure assets.</p> <p>Future cash flows are estimated and projected over the expected useful life of the assets to reflect the long-term plans for Umgeni Water using key economic indicators such as consumer price inflation, producer price inflation and energy costs.</p> | <p>I obtained an understanding of the process for impairment and the key assumptions and estimates used by management in determining the recoverable amounts.</p> <p>This included testing the reasonableness of the discount rates, cash flows, assets' useful lives as well as other management estimates used in the calculation. The forecasted inputs were assessed to determine whether they were consistent with inputs and judgements included in the rest of the business, including management's forward-looking corporate plan.</p> <p>The completeness of the information supporting the assumptions and estimates was assessed and it was confirmed that assessments were carried out for all infrastructure assets where there was a possibility of reduced cash flows.</p> <p>Having performed an independent assessment of estimates, budgets and calculations, the assumptions and resulting valuations were found to be reasonable.</p> |

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON UMGENI WATER AND ITS SUBSIDIARIES CONTINUED

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

EMPHASIS OF MATTER

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

MATERIAL IMPAIRMENTS

8. As disclosed in note 16.1 to the consolidated and separate financial statements, material impairments of R588,44 million (2021-22: R451,80 million) were raised by Umgeni Water for the year under review on trade and other receivables due to debtors not being able to settle outstanding amounts.

SUBSEQUENT EVENTS

9. As disclosed in note 31 to the financial statements, with effect from 1 July 2023, Umhlatuze Water has been disestablished with the staff, assets and liabilities of Umhlatuze Water transferred to Umgeni Water. The new single entity was renamed Umngeni-uThukela Water.

OTHER MATTER

10. Draw attention to the matter below. My opinion is not modified in respect of this matter.

NATIONAL TREASURY INSTRUCTION NOTE NO. 4 OF 2022-23: PFMA COMPLIANCE AND REPORTING FRAMEWORK

11. On 23 December 2022 National Treasury issued Instruction Note No. 4: PFMA Compliance and Reporting Framework of 2022-23 in terms of section 76(1)(b), (e) and (f), 2(e) and (4)(a) and (c) of the PFMA, which came into effect on 3 January 2023. The PFMA Compliance and Reporting Framework also addresses the disclosure of unauthorised expenditure, irregular expenditure, and fruitless and wasteful expenditure. Among the effects of this framework is that irregular and fruitless and wasteful expenditure incurred in previous financial years and not addressed is no longer disclosed in the disclosure notes of the consolidated and separate financial statements, only the current year and prior year figures are disclosed in note 28 to the consolidated and separate financial statements. The movements in respect of irregular expenditure and fruitless and wasteful expenditure are no longer disclosed in the notes to the consolidated and separate financial statements of Umgeni Water. The disclosure of these movements (e.g., condoned, recoverable, removed, written off, under assessment, under determination and under investigation) are now required to be included as part of other information in the annual report of the entity. I do not express an opinion on the disclosure of irregular expenditure and fruitless and wasteful expenditure in the annual report.

RESPONSIBILITIES OF THE ACCOUNTING AUTHORITY FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

12. The accounting authority is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the IFRS and the requirements of the PFMA, 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.
13. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the group'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 appropriate governance structure either intends to liquidate the group or to cease operations or has no realistic alternative but to do so.

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

14. 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
15. 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 OF THE AUDITOR-GENERAL TO PARLIAMENT ON UMGENI WATER AND ITS SUBSIDIARIES CONTINUED

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

RESPONSIBILITIES OF THE AUDITOR-GENERAL FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

16. In accordance with the Public Audit Act of South Africa of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected objectives presented in the annual performance report. The accounting authority is responsible for the preparation of the annual performance report.
17. I selected the following objectives presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected objectives that measure the entity's performance on its primary mandated functions and that are of significant national, community or public interest.

| Objective | Page numbers | Purpose |
|-------------------------------------|--------------|---|
| Improve product and service quality | [70] | To produce water in full compliance with statutory and reliability requirements consistent with customer and environmental needs |
| Increase supply security | [71] | To have reliable supply, minimise resource loss and ensure that asset repairs, rehabilitation and replacement efforts are coordinated to minimise disruptions |

18. I evaluated the reported performance information for the selected objectives against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the entity's planning and delivery on its mandate and objectives.
19. I performed procedures to test whether:
- the indicators used for planning and reporting on performance can be linked directly to the entity's mandate and the achievement of its planned objectives.
 - the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements.
 - the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated.
 - the indicators and targets reported on in the annual performance report are the same as what was committed to in the approved initial or revised planning documents.
 - the reported performance information is presented in the annual performance report in the prescribed manner.
 - there is adequate supporting evidence for the achievements reported.
20. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion.
21. I did not identify any material findings on the reported performance information of the selected objectives.

OTHER MATTERS

22. I draw attention to the matters below.

ACHIEVEMENT OF PLANNED TARGETS

23. The annual performance report includes information on reported achievements against planned targets.
24. The entity plays a key role in delivering services to South Africans. The annual performance report includes the following service delivery

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON UMGENI WATER AND ITS SUBSIDIARIES CONTINUED

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

ACHIEVEMENT OF PLANNED TARGETS (CONTINUED)

achievements against planned targets and lists the key service delivery indicators that were not achieved as reported in the annual performance report:

| Key service delivery indicators not achieved | Planned target | Reported achievement |
|---|--|---|
| IMPROVE PRODUCT AND SERVICE QUALITY Targets achieved: 71% | | |
| Per cent compliance of WTW systems with SANS 241 water quality standard per risk category | 8 KCDM Schemes compliant with good SANS 241 in all 5 risk categories | 3 KCDM Water Supply Systems 100% compliant with excellent SANS 241 in all risk categories |
| | | 2 KCDM Water Supply Systems 100% compliant with good SANS241 in all risk categories |
| | ≥ 50% milestones achieved against KCDM Schemes Action Plan | 41% milestones achieved against KCDM Schemes Action Plan |
| INCREASE SUPPLY SECURITY Targets achieved: 67% | | |
| Number of days (> 24 hours) supply disrupted over total supply days (365 days per year) | 0 days > 24 hours | 29.14 days > 24 hours |

MATERIAL MISSTATEMENTS

25. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of the *Improve Product and Service Quality objective*. Management subsequently corrected all the misstatements and I did not include any material findings in this report.

REPORT ON COMPLIANCE WITH LEGISLATION

26. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting authority is responsible for the entity's compliance with legislation.
27. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
28. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the entity, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
29. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON UMGENI WATER AND ITS SUBSIDIARIES CONTINUED

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FINANCIAL STATEMENTS

30. The financial statements submitted for auditing were not fully prepared in accordance with IFRS, as required by section 55(1)(b) of the PFMA. Material misstatements of disclosures identified by the auditors in the submitted financial statements were corrected, resulting in the financial statements receiving an unqualified audit opinion.

EXPENDITURE MANAGEMENT

31. Effective and appropriate steps were not taken to prevent irregular expenditure disclosed in note 28 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA.
32. Effective and appropriate steps were not taken to prevent fruitless and wasteful expenditure disclosed in note 28 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. The majority of the fruitless and wasteful expenditure was caused by extension of time claims by contractors.
33. Resources of the entity were not utilised economically, as required by section 57(b) of the PFMA as payments were made for services with no supporting documentation to confirm that the services were actually rendered.

CONSEQUENCE MANAGEMENT

34. Disciplinary steps were not taken against the officials who had incurred and/or permitted irregular expenditure for investigations completed, as required by section 51(1)(e)(iii) of the PFMA.
35. I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure as required by section 51(1)(e)(iii) of the PFMA. This was because some investigations into irregular expenditure were not performed.

PROCUREMENT AND CONTRACT MANAGEMENT

36. Some of the construction contracts were awarded to contractors that did not qualify for the contract in accordance with section 18(1) of the Construction Industry Development Board Act 38 of 2000 (CIDB) and CIDB Regulation 17.

OTHER INFORMATION IN THE ANNUAL REPORT

37. The accounting authority is responsible for the other information included in the annual report. The other information referred to 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 on in this auditor's report.
38. My opinion on the consolidated and separate financial statements, the report on the audit of the annual performance report and the report on compliance with legislation, do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
39. My responsibility is to read this other information and, in doing so, consider whether it 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
40. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

INTERNAL CONTROL DEFICIENCIES

41. I considered internal control relevant to my audit of the consolidated and separate financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON UMGENI WATER AND ITS SUBSIDIARIES CONTINUED

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

42. The matters reported below are limited to the significant internal control deficiencies that resulted in the material findings on compliance with legislation included in this report.
43. As a result of Instabilities in the accounting authority and an ineffective internal audit unit, leadership was slow to implement the recommendations of the prior years to ensure proper oversight over the compliance with procurement and contract management legislation as well as implement proper consequence management at the entity.
44. While senior management, internal audit, and the audit committee did conduct reviews of both the consolidated and separate financial statements, these reviews were not adequate to ensure that the consolidated and separate financial statements were free from material misstatements.

MATERIAL IRREGULARITIES

45. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of material irregularities as previously reported in the auditor's report.

MATERIAL IRREGULARITIES IN PROGRESS

46. I identified a material irregularity during the audit and notified the accounting authority, as required by material irregularity regulation 3(2). By the date of this auditor's report, the response of the accounting authority was not yet due. This material irregularity will be included in next year's auditor's report.

STATUS OF PREVIOUSLY REPORTED MATERIAL IRREGULARITIES

PAYMENTS FOR CONSULTANCY SERVICES NOT RECEIVED

47. A tender for R338,10 million was awarded on 20 May 2020 to a supplier for social facilitation. Officials of Umgeni Water accepted invoices submitted by the supplier and processed payments to the supplier without proof of services having been received by the entity. This resulted in the uneconomical use of the entity's resources by the responsible officials, in contravention of section 57(b) of the PFMA.
48. The non-compliance resulted in a likely cumulative financial loss of R157,81 million as at 30 June 2023. The accounting authority was notified of the material irregularity on 3 December 2021 and invited to make a written submission on the actions taken or to be taken to address the matter.
49. The accounting authority responded on the 14 March 2022 by disagreeing that there were any losses incurred on the contract as the accounting authority maintained that goods and services had been received.
50. I referred the material irregularity to the Special Investigating Unit (SIU) for investigation as provided for in section 5(1A) of the PAA. The SIU is conducting an investigation into the contract in terms of Proclamation 122 of 2023, issued in Government Gazette 48693 of 2 June 2023. I will follow up on the status of the matter during the next audit.

INVALID PAYMENTS FOR SECURITY SERVICES

51. Umgeni Water entered into a security contract with a security service provider on 26 November 2018. Umgeni Water further entered into an addendum with the service provider on 25 January 2019. Officials of Umgeni Water accepted invoices and processed payments to the amount of R14,10 million to the supplier without adequate verification of supporting documentation. This resulted in the uneconomical use of the entity's resources by the responsible officials, in contravention of section 57(b) of the PFMA.
52. The non-compliance resulted in a likely material financial loss of R3,41 million for Umgeni Water if the losses are not recovered from the supplier. The accounting authority was notified of the material irregularity on 31 January 2022 and invited to make a written submission on the actions taken or to be taken to address the matter.
53. The accounting authority responded on 28 February 2022 by disagreeing that there were any losses incurred on the contract as the

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON UMGENI WATER AND ITS SUBSIDIARIES CONTINUED

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

accounting authority maintained that payments made to the security service provider were based on valid charges.

54. I referred the material irregularity to the SIU for investigation as provided for in section 5(1A) of the PAA. The SIU is conducting an investigation into the contract in terms of Proclamation 122 of 2023, issued in Government Gazette 48693 of 2 June 2023. I will follow up on the status of the matter during the next audit.

OVERPAYMENT OF LEASE RENTALS

55. Umgeni Water entered into a lease agreement in March 2017 with a supplier for pipe-storage. This lease commenced six months before the contract was concluded with the supplier. In addition, the lease agreement was for 12,5 hectares of land but what was actually received for use by Umgeni Water was 1,5 hectares being the full size of leased land.
56. Officials of Umgeni Water approved and paid invoices for the lease rentals for six months prior to the commencement of the main contract and based on a lease agreement of 12,5 hectares of land without confirming if the entity received usage of land of that size. This resulted in the uneconomical use of the entity's resources by the responsible officials, in contravention of section 57(b) of the PFMA.
57. The non-compliance is likely to result in a material financial loss of R3,04 million for Umgeni Water if the losses are not recovered from the contractor. The accounting authority was notified of the material irregularity on 3 December 2021 and invited to make a written submission on the actions taken or to be taken to address the matter.
58. The following action has been taken to resolve the material irregularity:
- Management appointed an independent investigator to review all aspects of the contract and related lease payments. The investigators recommended legal action against the persons identified in the irregularity to recover the losses incurred.
 - Between April and May 2023, Umgeni Water has served summons to the supplier and former officials to recover the losses incurred and the legal processes are now in progress.
59. I have submitted a determination to the accounting authority on 6 October 2023 to confirm that the material irregularity is resolved.

INTEREST INCURRED ON LATE PAYMENT TO A SUPPLIER – TENDER 2013/032

60. Umgeni Water awarded tender number 2013/032 for R242,74 million to a supplier. Management did not comply with section 51(1)(a)(i) of the PFMA, by maintaining effective systems over the payment certificates and variation orders relating to the tender resulting in late payments and irregular expenditure.
61. On the 10 November 2021, the Pietermaritzburg High Court ordered Umgeni Water to pay interest of R5,61 million to the supplier. The order was by consent and not defended by Umgeni Water. As a result of the non-compliance, Umgeni Water has suffered a financial loss of R5,61 million.
62. The accounting authority was notified of the material irregularity on 30 September 2022 and invited to make a written submission on the actions taken or to be taken to address the matter.
63. The accounting authority responded on the 21 October 2022 with the following actions being taken to resolve the material irregularity:
- The accounting authority has investigated the circumstances surrounding the late payments to the supplier and determined that the interest was incurred due to delays in approval of variation orders by the National Treasury.
 - The accounting authority has approved revised delegations in terms of National Treasury instruction note 3 of 2021-22 to ensure that variation orders are timeously approved.
64. I have followed up on the actions taken and determined that they were appropriate. I have submitted a determination to the accounting authority on 6 October 2023 to confirm that the material irregularity is resolved.

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON UMGENI WATER AND ITS SUBSIDIARIES CONTINUED

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

INTEREST INCURRED ON LATE PAYMENT TO A SUPPLIER – TENDER 2015/220

65. Umgeni Water awarded tender number 2015/220 for R98 million to a supplier. Management did not maintain effective systems and controls over the processing of payment certificates and variation orders relating to the tender resulting in interest being incurred and paid due to late payments.
66. Due to the delays in the payment, the supplier successfully obtained a court order on 27 October 2020, for Umgeni Water to settle the outstanding payment certificates and interest backdated to May 2020. This interest on late payment amounted to R1,11 million and was paid by Umgeni Water in February 2021. The supplier also succeeded in getting a second court order in November 2021 for further interest of R1,03 million. This order was not defended and the settlement by consent was paid out in December 2021.
67. The non-compliance has resulted in a material financial loss of R2,15 million for Umgeni Water. The accounting authority was notified of the material irregularity on 30 September 2022 and invited to make a written submission on the actions taken or to be taken to address the matter.
68. The accounting authority responded on the 21 November 2022 with the following actions being taken to resolve the material irregularity:
 - The accounting authority has investigated the circumstances surrounding the late payments to the supplier and determined that the interest was incurred due to delays in approval of variation orders by the National Treasury.
 - The accounting authority has approved revised delegations in terms of National Treasury instruction note 3 of 2021-22 to ensure that variation orders are timeously approved.
69. I have followed up on the actions taken and determined that they were appropriate. I have submitted a determination to the accounting authority on 6 October 2023 to confirm that the material irregularity is resolved.

OTHER REPORT

70. In addition to the investigations relating to material irregularities, I draw attention to the following engagement conducted. This report did not form part of my opinion on the consolidated and separate financial statements or my findings on the reported performance information or compliance with legislation.

INVESTIGATIONS

71. In terms of Proclamation 4 of 2019, the SIU is investigating alleged irregularities in the management of the affairs of Umgeni Water, which covers the period 2012 to 2019. The outcome of this investigation was still in progress at the date of this report.

Auditor - General

Pietermaritzburg

31 October 2023



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

ANNEXURE TO THE AUDITOR'S REPORT

The annexure includes the following:

- the auditor-general's responsibility for the audit
- the selected legislative requirements for compliance testing.

AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

PROFESSIONAL JUDGEMENT AND PROFESSIONAL SCEPTICISM

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 selected requirements in key legislation.

FINANCIAL STATEMENTS

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 entity's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made
- conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the consolidated and separate financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the entity and its subsidiaries 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 consolidated and separate financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the consolidated and separate 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 operating as a going concern.
- evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and determine whether the consolidated and separate 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

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.

I also provide the accounting authority with a statement that I have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to those charged with governance, I determine those matters that were of most significance in the audit of the consolidated and separate financial statements for the current period and are therefore key audit matters. I describe these matters in this auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in this auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.

COMPLIANCE WITH LEGISLATION – SELECTED LEGISLATIVE REQUIREMENTS

THE SELECTED LEGISLATIVE REQUIREMENTS ARE AS FOLLOWS:

| Legislation | Sections or regulations |
|--|---|
| Public Finance Management Act No.1 of 1999 (PFMA) | Section 50(3) Section 51(1)(a)(iii); 51(1)(a)(iv); 51(1)(b)(i); 51(1)(b)(ii); 51(1)(e)(iii) Section 52(b) Section 53(4) Section 54(2)(c); 54(2)(d) Section 55(1)(a); 55(1)(b); 55(1)(c)(i) Section 56 Section 57(b) Section 57(d) |
| Treasury Regulations for departments, trading entities, constitutional institutions and public entities (TR) | Treasury Regulation 29.1.1; 29.1.1(a); 29.1.1(c'); 29.2.1; 29.2.2; 29.3.1 Treasury Regulation 31.1.2(c') Treasury Regulation 33.1.1; 33.1.3 |
| Prevention and Combating of Corrupt Activities Act No.12 of 2004 (PRECCA) | Section 34(1) |
| Construction Industry Development Board Act No.38 of 2000 (CIDB) | Section 18(1) Section 22(3) |
| CIDB Regulations | CIDB regulation 17 & 25(7A) |
| PPPFA | Section 2.1(a); 2.1(b); 2.1(f) |
| PPR 2017 | Paragraph 4.1; 4.2 Paragraph 5.1; 5.3; 5.6; 5.7 Paragraph 6.1; 6.2; 6.3; 6.5; 6.6 Paragraph 7.1; 7.2; 7.3; 7.5; 7.6 Paragraph 8.2; 8.5 Paragraph 9.1; 9.2 Paragraph 11.2 Paragraph 12.1 and 12.2 |
| Preferential Procurement Regulations of 2022 | Paragraph 4.1; 4.2; 4.3; 4.4 Paragraph 5.1; 5.2; 5.3; 5.4 |
| NT SCM Instruction Note 03 2021/22 | Paragraph 4.3; 4.4; 4.4(c); 4.4(d) |
| NT SCM Instruction Note 11 2020/21 | Paragraph 3.1; 3.4(b); 3.9 |
| NT instruction note 4 of 2015/16 | Paragraph 3.4 |
| Second amendment of NTI 05 of 2020/21 | Paragraph 4.8; 4.9; 5.1; 5.3 |
| Erratum NTI 5 of 202/21 | Paragraph 1 |
| Erratum NTI 5 of 202/21 | Paragraph 2 |
| NT instruction note 5 of 2020/21 | Paragraph 5.1 and 5.3 |

STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 30 JUNE 2023

| | Note | GROUP | | PARENT | |
|---|------|------------------|------------------|------------------|------------------|
| | | 2023 | 2022 | 2023 | 2022 |
| | | R'000 | R'000 | R'000 | R'000 |
| Revenue | 4.1 | 5 252 802 | 4 909 454 | 5 236 076 | 4 895 407 |
| Cost of sales | 6.1 | (2 210 254) | (1 966 084) | (2 210 254) | (1 966 084) |
| Gross profit | | 3 042 548 | 2 943 370 | 3 025 822 | 2 929 323 |
| Other income | 5 | 190 377 | 13 840 | 190 942 | 13 632 |
| Other operating and administration expenses | | (2 047 137) | (1 582 732) | (2 035 673) | (1 582 315) |
| Expected credit losses | | (580 354) | (453 877) | (580 201) | (453 814) |
| Profit from operations | 6.1 | 605 434 | 920 601 | 600 890 | 906 826 |
| Net finance income | | 553 985 | 316 716 | 550 605 | 315 725 |
| Interest income | 7 | 554 603 | 327 051 | 550 882 | 325 667 |
| Finance costs | 8 | (618) | (10 335) | (277) | (9 942) |
| Share of profit from associate | 13 | 2 548 | 4 088 | - | - |
| Profit before taxation | | 1 161 967 | 1 241 405 | 1 151 495 | 1 222 551 |
| Income tax expense | 6.2 | (187) | (42) | - | - |
| Profit for the year | | 1 161 780 | 1 241 363 | 1 151 495 | 1 222 551 |

STATEMENTS OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2023

| | GROUP | | PARENT | |
|--|------------------|------------------|------------------|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| | R'000 | R'000 | R'000 | R'000 |
| Profit for the year | 1 161 780 | 1 241 363 | 1 151 495 | 1 222 551 |
| Other comprehensive income | | | | |
| Items that will not be reclassified to profit and loss: | | | | |
| Remeasurement of retirement benefit obligations | 94 177 | 16 234 | 94 177 | 16 234 |
| Total comprehensive income for the year | 1 255 957 | 1 257 597 | 1 245 672 | 1 238 785 |

STATEMENTS OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 JUNE 2023

| NOTES | GROUP | | | PARENT | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2023 | 2022 Restated | 2021 Restated | 2023 | 2022 Restated | 2021 Restated |
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| ASSETS | | | | | | |
| Non-current assets | 9 815 278 | 9 183 216 | 9 148 204 | 9 785 717 | 9 156 814 | 9 121 735 |
| Property, plant and equipment | 9 9 515 643 | 8 987 543 | 8 828 820 | 9 496 603 | 8 970 671 | 8 812 168 |
| Investment property | 10 - | - | - | 8 474 | 8 696 | 8 918 |
| Intangible assets | 11 99 144 | 148 988 | 206 132 | 96 679 | 148 565 | 206 018 |
| Biological assets | 12 4 531 | 3 415 | 3 130 | - | - | - |
| Investment in associate | 13.2 8 830 | 10 031 | 10 858 | - | - | - |
| Investments - financial assets | 14.1 152 894 | - | - | 152 894 | - | - |
| Trade and other receivables | 16.2 29 490 | 28 458 | 94 392 | 29 176 | 28 151 | 94 169 |
| Right of use assets | 23.1 4 746 | 4 781 | 4 872 | 1 891 | 731 | 462 |
| Non-current asset held for sale | 9.2 2 943 | 548 | 1 867 | 2 943 | 548 | 1 867 |
| Current assets | 7 809 822 | 6 980 211 | 5 794 942 | 7 739 624 | 6 920 142 | 5 752 775 |
| Investments - financial assets | 14.2 6 297 299 | 5 018 186 | 2 646 978 | 6 297 299 | 5 018 186 | 2 646 978 |
| Inventories | 15 33 022 | 26 081 | 22 155 | 33 022 | 26 081 | 22 155 |
| Trade and other receivables | 16.1 1 189 081 | 1 111 032 | 1 053 458 | 1 184 125 | 1 110 874 | 1 052 522 |
| Bank and cash | 17 290 420 | 824 912 | 2 072 351 | 225 178 | 765 001 | 2 031 120 |
| Total assets | 17 628 043 | 16 163 975 | 14 945 013 | 17 528 284 | 16 077 504 | 14 876 377 |
| EQUITY AND LIABILITIES | | | | | | |
| Capital and reserves | 14 441 070 | 13 185 113 | 11 927 516 | 14 345 360 | 13 099 688 | 11 860 903 |
| Capital | 18 442 847 | 442 847 | 442 847 | 442 847 | 442 847 | 442 847 |
| Other Comprehensive Income Reserve | 511 053 | 416 876 | 400 642 | 511 053 | 416 876 | 400 642 |
| Accumulated profit | 13 487 170 | 12 325 390 | 11 084 027 | 13 391 460 | 12 239 965 | 11 017 414 |
| Non-current liabilities | 1 913 865 | 1 915 102 | 1 829 960 | 1 911 476 | 1 911 657 | 1 826 375 |
| Debt - financial liabilities | 19 1 058 710 | 1 083 548 | 1 108 387 | 1 058 710 | 1 083 548 | 1 108 387 |
| Contract liabilities | 20.1 485 217 | 400 097 | 314 365 | 485 217 | 400 097 | 314 365 |
| Long - term incentive bonus | 21 15 057 | 23 469 | 20 158 | 15 057 | 23 469 | 20 158 |
| Lease liability | 23.1 3 538 | 3 865 | 3 873 | 1 149 | 420 | 288 |
| Post-retirement benefit obligations | 25 339 023 | 393 298 | 371 817 | 339 023 | 393 298 | 371 817 |
| Five-year long service benefit | 26 12 320 | 10 825 | 11 360 | 12 320 | 10 825 | 11 360 |
| Current liabilities | 1 273 108 | 1 063 760 | 1 187 537 | 1 271 447 | 1 066 159 | 1 189 099 |
| Debt - financial liabilities | 19 58 153 | 58 150 | 58 116 | 58 153 | 58 150 | 58 116 |
| Short Term Incentive Bonus | 21 123 267 | 106 821 | 77 351 | 121 116 | 105 533 | 75 618 |
| Trade and other payables | 22 942 303 | 732 422 | 891 967 | 944 892 | 737 322 | 896 388 |
| Contract liabilities | 20.2 119 197 | 139 537 | 135 049 | 119 197 | 139 537 | 135 049 |
| Lease liability | 23.1 2 823 | 1 486 | 1 294 | 725 | 273 | 168 |
| Post-retirement benefit obligations | 25 21 835 | 18 776 | 17 635 | 21 835 | 18 776 | 17 635 |
| Five-year long service benefit | 26 5 529 | 6 568 | 6 125 | 5 529 | 6 568 | 6 125 |
| Total equity and liabilities | 17 628 043 | 16 163 975 | 14 945 013 | 17 528 284 | 16 077 504 | 14 876 377 |

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2023

| | 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 2021 | 442 847 | 400 642 | 11 084 027 | 11 927 516 |
| Movement for the year | | | | |
| Total comprehensive income | - | 16 234 | 1 241 363 | 1 257 597 |
| Profit for the year | - | - | 1 241 363 | 1 241 363 |
| Other comprehensive income | - | 16 234 | - | 16 234 |
| Balance as at 30 June 2022 | 442 847 | 416 876 | 12 325 390 | 13 185 113 |
| Movement for the year | | | | |
| Total comprehensive income | - | 94 177 | 1 161 780 | 1 255 957 |
| Profit for the year | - | - | 1 161 780 | 1 161 780 |
| Other comprehensive income | - | 94 177 | - | 94 177 |
| Balance as at 30 June 2023 | 442 847 | 511 053 | 13 487 170 | 14 441 070 |

| | Parent | | | |
|-----------------------------------|----------------|----------------|--------------------|-------------------|
| | Capital | OCI Reserve | Accumulated profit | Total |
| | R'000 | R'000 | R'000 | R'000 |
| Balance as at 30 June 2021 | 442 847 | 400 642 | 11 017 414 | 11 860 903 |
| Movement for the year | | | | |
| Total comprehensive income | - | 16 234 | 1 222 551 | 1 238 785 |
| Profit for the year | - | - | 1 222 551 | 1 222 551 |
| Other comprehensive income | - | 16 234 | - | 16 234 |
| Balance as at 30 June 2022 | 442 847 | 416 876 | 12 239 965 | 13 099 688 |
| Movement for the year | | | | |
| Total comprehensive income | - | 94 177 | 1 151 495 | 1 245 672 |
| Profit for the year | - | - | 1 151 495 | 1 151 495 |
| Other comprehensive income | - | 94 177 | - | 94 177 |
| Balance as at 30 June 2023 | 442 847 | 511 053 | 13 391 460 | 14 345 360 |

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2023

| | Note | Group | | Parent | |
|--|-----------|--------------------|--------------------|--------------------|--------------------|
| | | 2023 | 2022 | 2023 | 2022 |
| | | R'000 | Restated R'000 | R'000 | Restated R'000 |
| OPERATING ACTIVITIES | | | | | |
| Cash receipts from customers | | 4 867 256 | 4 595 040 | 4 850 377 | 4 548 555 |
| Cash paid to suppliers and employees | | (3 120 670) | (2 722 436) | (3 111 752) | (2 691 368) |
| Cash from operating activities | 17.1 | 1 746 586 | 1 872 604 | 1 738 625 | 1 857 187 |
| Interest received | | 130 379 | 82 476 | 126 658 | 81 091 |
| Net cash from operating activities | | 1 876 965 | 1 955 080 | 1 865 283 | 1 938 278 |
| INVESTING ACTIVITIES | | | | | |
| Proceeds on disposals of assets | | 1 252 | 4 932 | 1 252 | 4 909 |
| Receipt of Regional Bulk Infrastructure grants | 9 | 642 324 | 200 166 | 642 324 | 200 166 |
| Additions to property, plant and equipment | 9 | (1 805 864) | (1 049 042) | (1 802 068) | (1 046 888) |
| Additions to intangible assets | 11 | (9 023) | (1 080) | (6 980) | (662) |
| Increase in investments* | | (1 166 532) | (2 312 892) | (1 166 532) | (2 312 892) |
| Interest received* | | 221 662 | 102 374 | 221 662 | 102 374 |
| Dividend received from associate | | - | 4 913 | - | - |
| Net cash used in investing activities | | (2 116 181) | (3 050 629) | (2 110 342) | (3 052 993) |
| FINANCING ACTIVITIES | | | | | |
| Long-term borrowings repaid | 19.1 | (24 839) | (24 839) | (24 839) | (24 839) |
| Lease payments | 23.1 | (1 160) | (338) | (989) | (245) |
| Interest paid on lease liability | | (213) | (72) | (213) | (72) |
| Increase (decrease) in redemption assets | | (149 006) | - | (149 006) | - |
| Finance costs paid | | (120 058) | (126 641) | (119 717) | (126 248) |
| Net cash used in financing activities | | (295 276) | (151 890) | (294 764) | (151 404) |
| CASH AND CASH EQUIVALENTS | | | | | |
| Net decrease in cash and cash equivalents | | (534 490) | (1 247 440) | (539 822) | (1 266 119) |
| Cash and cash equivalents at 1 July | | 824 912 | 2 072 351 | 765 001 | 2 031 120 |
| Cash and cash equivalents at 30 June | 17 | 290 420 | 824 912 | 225 178 | 765 001 |

* The classification of interest received from investments and increase in investment has been reclassified from financing activities in the prior year to investing activities in the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

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 Enterprise as per Schedule 3B of the Public Finance Management Act (Act 1 of 1999), as amended, domiciled in South Africa. The consolidated financial statements comprise that of the Umgeni Water and its subsidiaries (collectively 'the group' and individually 'Parent'). The accounting policies are applicable to both the group and parent entity. The following principal accounting policies were applied by the group for the year ended 30 June 2023.

2.1. BASIS OF PREPARATION AND MEASUREMENT

STATEMENT OF COMPLIANCE

The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) 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 financial reporting framework. In addition, Umgeni Water has applied Directive 12 The Selection of an Appropriate Reporting Framework by Public Entities; issued by the Accounting Standards Board. The directive states that "An entity shall apply International Financial Reporting Standards (IFRS) as its reporting framework if it meets the criteria in paragraph 11. Otherwise it shall apply Standards of GRAP".

Paragraph 11 provides that "In assessing whether an entity shall apply IFRS Standards, it considers whether it meets one of the following criteria:

- (a) the entity is a financial institution;
- (b) the entity has ordinary shares or potential ordinary shares that are publicly traded on capital markets; or
- (c) its operations are such that they are:
 - (i) commercial in nature; and
 - (ii) only an insignificant portion of the entity's funding is acquired through government grants or other forms of financial assistance from government."

Umgeni Water satisfies the criteria in paragraph 11 as its operations are of a commercial nature which aim to provide services to generate profits to self-fund operating and capital expenditure requirements, and only an insignificant portion of the entity's funding is acquired through government grants or other forms of financial assistance from government. Thus the criteria in paragraph 11 (c) are met and Umgeni Water has applied IFRS as its accounting framework in the preparation of the consolidated financial statements.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT FOR THE YEAR ENDED 30 JUNE 2023

2.1. BASIS OF PREPARATION AND MEASUREMENT (CONTINUED)

FUNCTIONAL AND PRESENTATION CURRENCY

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

USE OF ESTIMATES AND JUDGEMENTS

CRITICAL JUDGMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

ALLOWANCE FOR CREDIT LOSSES

As detailed under the accounting policy for impairment of financial assets, the group recognise a loss allowance for expected credit losses (ECL) on investments measured at amortised cost and trade and other receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

DEPRECIATION OF RIGHT OF USE ASSETS

Depreciation of leased assets is calculated using the straight line method to allocate their cost, net of their residual values over their estimated useful lives being the lesser of the remaining lease term and the life of the underlying asset.

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

BUSINESS MODEL FOR FINANCIAL ASSETS

Umgeni Water holds financial assets to meet its every day working capital requirements which includes funding capital expenditure over a period of at least 5 years or more.

The entity invests its excess cash in short and long-term financial assets so that it can fund the expenditure when the need arises. At least 12 to 18 months of working capital requirements are invested in term investments. The objective therefore is to collect contractual cash flows and redeem investments on redemption date for term investments or call upon same day liquidity investments placed with banks should an immediate funding requirement arise.

Financial assets with same day liquidity (demand deposits) are reviewed for insignificant risk of changes of value and are then classified as cash equivalents. Investments in money market funds, whilst deemed to have same day liquidity may have assets that are longer than three months duration. Therefore, it cannot be established if there is an insignificant risk of changes in value. These investments are not included in the cash and cash equivalents balance.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

2.1. BASIS OF PREPARATION AND MEASUREMENT (CONTINUED)

KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

FAIR VALUES 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 2023. Refer to note 12 for further detail on biological assets.

DEFINED BENEFIT PLANS

The key assumptions relating to the defined benefit plan sensitivity analysis are disclosed in note 25.

CALCULATION OF A LOSS ALLOWANCE

When measuring expected credit losses (ECL) the group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Further details are included under the impairment of financial assets accounting policy.

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

AMENDMENTS TO IAS 1:

CLASSIFICATION OF LIABILITIES AS CURRENT AND NON-CURRENT – EFFECTIVE 1 JANUARY 2023

The amendments in Classification of Liabilities as Current or Non-current (Amendments to IAS 1) affect only the presentation of liabilities in the statement of financial position, not the amount or timing of recognition of any asset, liability, income or expenses, or the information that entities disclose about those items. They:

- clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability;
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

DISCLOSURE OF ACCOUNTING POLICIES (AMENDMENTS TO IAS 1 AND IFRS PRACTICE STATEMENT 2) EFFECTIVE 1 JANUARY 2023 WHICH AMENDS IAS 1 IN THE FOLLOWING WAYS:

- An entity is now required to disclose its material accounting policy information instead of its significant accounting policies;
- several paragraphs are added to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material;
- the amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial;
- the amendments clarify that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements; and
- the amendments clarify that if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.

In addition, IFRS Practice Statement 2 has been amended by adding guidance and examples to explain and demonstrate the application of the "four-step materiality process" to accounting policy information in order to support the amendments to IAS 1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

2.1. BASIS OF PREPARATION AND MEASUREMENT (CONTINUED)

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

DISCLOSURE OF ACCOUNTING POLICIES (AMENDMENTS TO IAS 1 AND IFRS PRACTICE STATEMENT 2) EFFECTIVE 1 JANUARY 2023 WHICH AMENDS IAS 1 IN THE FOLLOWING WAYS (CONTINUED):

Both amendments apply to annual reporting periods beginning on or after 1 January 2023 with earlier application is permitted. The group does not anticipate the application of the amendments in the future will have a significant impact on the group's consolidated financial statements, where applicable accounting policy review processes will align with the revision to the Standard and IFRS Practice Statement 2 accordingly.

IAS 8 ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS (REVISED) – EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON/ AFTER 1 JANUARY 2023

These amendments introduce the definition of an accounting estimate and include other amendments to IAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual periods beginning on or after January 1, 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period.

The group does not anticipate the application of the amendments in the future to have a significant impact on the Group's Consolidated Financial Statements.

IFRS 10 CONSOLIDATED FINANCIAL STATEMENTS AND IAS 28 (AMENDMENTS) SALE OR CONTRIBUTION OF ASSETS BETWEEN AN INVESTOR AND ITS ASSOCIATE OR JOINT VENTURE – NO EFFECTIVE DATE SET AS YET

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture.

Similarly, gains and losses resulting from the re-measurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

The group does not anticipate the application of the amendments in the future to have a significant impact on the Group's Consolidated Financial Statements as both subsidiaries are 100% owned by Umgeni Water.

LEASE LIABILITY IN A SALE AND LEASEBACK – AMENDMENTS TO IFRS 16 – EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2024

The amendments clarify that the Lease Liability in a Sale-and-Leaseback (Amendments to IFRS 16, Leases) requires a seller-lessee to account for variable lease payments that arise in a sale-and-leaseback transaction as follows.

- On initial recognition, include variable lease payments when measuring a lease liability arising from a sale-and-leaseback transaction.
- After initial recognition, apply the general requirements for subsequent accounting of the lease liability such that no gain or loss relating to the retained right of use is recognized.

Seller-lessees are required to reassess and potentially restate sale-and-leaseback transactions entered into since the implementation of IFRS 16 in 2019.

The group does not anticipate the application of the amendments in the future to have a significant impact on the group's Consolidated Financial Statements as the group has not engaged in any sale and lease back transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

2.1. BASIS OF PREPARATION AND MEASUREMENT (CONTINUED)

DEFERRED TAX RELATED TO ASSETS AND LIABILITIES ARISING FROM A SINGLE TRANSACTION - AMENDMENTS TO IAS 12 - EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2023

The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

The group does not anticipate the application of the amendments in the future to have a significant impact on the Group's Consolidated Financial Statements as the group does not have any deferred tax implications.

CLASSIFICATION OF LIABILITIES AS CURRENT OR NON-CURRENT AND NON-CURRENT LIABILITIES WITH COVENANTS - AMENDMENTS TO IAS 1 -

This amendment clarifies that the classification of liabilities as current or noncurrent is based solely on a company's right to defer settlement for at least 12 months at the reporting date. The right needs to exist at the reporting date and must have substance. Only covenants with which a company must comply on or before the reporting date may affect this right. Covenants to be complied with after the reporting date do not affect the classification of a liability as current or noncurrent at the reporting date. However, disclosure about covenants is now required to help users understand the risk that those liabilities could become repayable within 12 months after the reporting date.

The amendments also clarify that the transfer of a company's own equity instruments is regarded as settlement of a liability. If a liability has any conversion options, they generally affect its classification as current or noncurrent, unless these conversion options are recognized as equity under IAS 32, Financial Instruments: Presentation.

The group does not anticipate the application of the amendments in the future to have a significant impact on the Group's Consolidated Financial Statements.

IFRS 17 INSURANCE CONTRACTS - EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2023.

The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The group does not anticipate the application of the amendment as Umgeni Water is not an insurance provider.

ADOPTION OF NEW AND REVISED STANDARDS

There were no new standards or revision to existing standards that had a significant impact on the consolidated group financial statements in the current financial year.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

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 by combining like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries except for investments in associates, which are included in the group's results as set out below.

ELIMINATION OF INTER-COMPANY TRANSACTIONS

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

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

BUSINESS COMBINATIONS

A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods and services to customers, generating investment income or generating other income from ordinary activities. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SUBSIDIARIES

A subsidiary is an entity controlled by the group.

The group has two subsidiaries which are wholly owned and further details are included in note 1 of the financial statements.

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 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 13 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 including transaction costs 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ASSOCIATES (CONTINUED)

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

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

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

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

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

OPERATING SEGMENTS AND SEGMENT REPORTING

The group has two reportable segments:

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

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

PROPERTY, PLANT & EQUIPMENT

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

Costs include expenditure that is directly attributable to the acquisition of the asset. Works under construction are stated at cost less accumulated impairment losses 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 if it meets the recognition criteria 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 capitalized 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 where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

| ASSET CATEGORY | ESTIMATED USEFUL LIFE (YEARS) | ESTIMATED RESIDUAL VALUE |
|---|-------------------------------|--------------------------|
| BUILDINGS AND INFRASTRUCTURE | | |
| Buildings | 40 | 0% - 2% |
| Dams and weirs | 45 | 0% - 2% |
| Pipelines | 30-45 | 0% - 2% |
| Pump stations | 10-30 | 0% - 2% |
| Reservoirs and intake works | 45 | 0% - 2% |
| Tunnels | 45 | 0% - 2% |
| Water treatment works | 10-45 | 0% - 2% |
| Waste water | 10-45 | 0% - 2% |
| Works roads | 15-30 | 0% - 2% |
| Fences and gates | 15 | 0% - 2% |
| Temporary and timber structures | 25 | 0% - 2% |
| EQUIPMENT AND VEHICLES | | |
| Plant and equipment, furniture and fittings | 5 | 0% - 10% |
| Vehicles | 5 | 0% - 10% |
| Computers | 3-5 | 0% - 10% |
| ERP Hardware | 5 | 0% - 10% |
| ERP Software | 5 | 0% - 10% |

INVESTMENT PROPERTY

Investment property, which is property held to earn rentals is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and any accumulated impairment losses. The depreciation method and rate is aligned to the buildings class under property plant and equipment. An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised. Rental income earned on investment property is included in other income.

NON-CURRENT ASSETS OR DISPOSAL GROUPS HELD FOR SALE

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

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

At the time of classification as held for sale, immediately before the initial classification of the asset as held for sale, the carrying amount of the asset is measured in accordance with applicable accounting policy. After classification as held for sale, non-current assets (and disposal groups) classified as held for sale are measured at the lower of the asset's carrying amount and fair value less costs to sell. No depreciation or amortisation is provided on non-current assets from the date they are classified as held for sale.

Upon classification of a non-current asset or disposal group as held for sale it is reviewed for impairment. Any impairment loss is recognised in profit or loss. After classification as held for sale, any impairment loss is calculated based on the difference between the adjusted carrying amounts of the asset/disposal group and fair value less costs to sell. Any impairment loss that arises is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NON-CURRENT ASSETS OR DISPOSAL GROUPS HELD FOR SALE (CONTINUED)

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

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

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

Any adjustments required to be made on reclassification are recognised in profit or loss on reclassification.

LEASES

GROUP AS A LESSEE

RIGHT OF USE ASSETS

The group recognises right of use assets at commencement of the lease when the asset is available for use. The cost of right of use assets comprise of the initial lease liability amount, initial direct costs incurred when entering into the lease less any lease incentive received.

Subsequent to initial recognition right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any re-measurement of the lease liability.

Depreciation is calculated using the straight-line method over the shorter of the assets estimated useful lives in terms of the accounting policy for that class of asset or the lease term, except for land which is depreciated over the term of the lease.

If the lease transfers ownership of the underlying asset to the group by the end of the lease term or if the cost of the right-of-use asset reflects that the group will exercise a purchase option, the group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset.

An impairment review is undertaken for any right of use lease asset that shows indicators of impairment and an impairment loss is recognised against any right of use leased assets that is impaired.

LEASE LIABILITY

The lease liability is initially measured at the present value of the lease payments that have to be paid over the lease term. There are no variable lease payments that would impact on the determination of the lease liability.

The lease payments are discounted using the group's incremental borrowing rate (weighted average cost of capital) if the interest rate implicit in the lease contract is not readily determinable.

After the commencement date the group measures the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect lease payments made, and re-measuring the carrying amount to reflect any reassessment or lease modifications.

SHORT-TERM LEASES AND LEASES OF LOW-VALUE ASSETS

The group elected to apply exemptions for short term leases that have a lease term of 12 months or less; and for leases for which the underlying asset is of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

GROUP AS A LESSOR

In case of lease contracts based on which the group is a lessor; each of its leases is classified as either operating or finance lease. Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rental income is recognised in profit or loss on a straight-line basis over the lease term as other income.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTANGIBLE ASSETS

RESEARCH AND DEVELOPMENT

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

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

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.

Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

Intangible assets are amortised to profit or loss from the time it's ready for use on a straight line basis over its useful life. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

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 as these costs do not meet the criteria for capitalisation. Development costs are capitalised if it meets the criteria for capitalising development expenditure. Costs relating to the license renewals are treated as an expense in the period in which the license is renewed.

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

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 the weighted average cost of capital that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset, or cash-generating unit, is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit, is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately.

Where an impairment loss 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.

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 training are recognised as in profit/loss in the periods necessary to match them with the related costs and are deducted in reporting the related expense.

EMPLOYEE BENEFITS

Retirement benefit costs – defined contribution

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

Retirement benefits – defined benefits

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.

Defined benefits – pension

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.

The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Defined benefit - healthcare

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. This liability is not matched with any plan assets.

Other long term employee benefits

Other long term employee benefits comprise a five-year long service leave benefit that is either taken as leave or equivalent cash value and the long term incentive bonus which is raised in terms of the group's performance policy and is based on a five-year performance period. 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 profit and loss in accordance with IAS 19 revised.

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.

CONTINGENT LIABILITIES

A contingent liability is disclosed for a possible obligation dependent on a future event, for which the timing of payment is uncertain or the amount cannot be measured reliably.

FINANCIAL ASSETS

The group classifies its financial assets as financial assets measured at amortised cost. These financial assets relating to investments comprise of redemption assets as well as money market investments. The money market investments are categorised into call (demand deposits) and term investments. To the extent that there is insignificant risk of changes in value, the demand deposits are classified as cash equivalents and term investments. The remaining money market investments are classified under investing activities. Other financial assets include trade and other receivables as well as cash and cash equivalents.

The classification is based on the group's business model to collect cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding over the life of the instruments. Management re-evaluates such designation at least at each reporting date.

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

TRADE AND OTHER RECEIVABLES

Trade and other receivables both current and non-current are initially measured at their transaction price as they do not have significant financing components. Subsequent to initial recognition these are measured at amortised cost less any impairment losses.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and demand deposits held with the banks. Cash equivalents are short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term liquidity requirements rather for investment or other purposes.

IMPAIRMENT OF FINANCIAL ASSETS

The group recognises a loss allowance for expected credit losses (ECL) on investments measured at amortised cost, trade and other receivables as well as cash and cash equivalents. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The loss allowance is recognised in the statement of financial position and the movement is accounted for in profit and loss. Interest income is calculated using the effective interest method on the financial asset's gross carrying amount when the asset is not credit impaired and on the amortised cost when the asset is credit impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Trade receivables

The Group always measures the loss allowance at an amount equal to lifetime expected credit losses for trade receivables, in accordance with IFRS 9's simplified approach. The expected credit losses on these financial assets are estimated using a provision matrix based on the group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Irrespective of the outcome of the above assessment, the group presumes that the credit risk on trade receivables has increased significantly since initial recognition when contractual payments are more than 90 days past due based on customer payment behaviours.

Short term investments and cash balances

The group's short-term investments and bank balances, which are carried at amortised cost are considered to have low credit risk, and the loss allowance recognised on these assets is therefore limited to 12-months ECLs. Short term deposits and bank balances are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. If the group considers that credit risk on a financial instrument has increased significantly since initial recognition, the expected credit losses are estimated based on the lifetime ECLs. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 months expected credit losses.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In applying the forward-looking approach, a distinction is made between:

- Financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (Stage 1); and
- Financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (Stage 2).
- Stage 3 covers financial assets that have objective evidence of impairment at the reporting date.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the group has reasonable and supportable information that demonstrates otherwise.

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 ASSETS -WRITE OFF

The Group shall derecognise the gross carrying amount and accumulated impairment of a financial asset (partially or in full) when the group has no reasonable expectations of recovering that whole or part of the financial asset, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings or all collection efforts have failed. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss, as a reduction to the impairment loss for the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL LIABILITIES

Financial liabilities are initially recognised at the transaction date when the group becomes party to a contract, at fair value, net of transaction costs incurred and are subsequently measured at amortised cost using the effective interest method. 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. Financial liabilities comprise loans as well as trade and other payables.

TRADE AND OTHER PAYABLES

Trade payables are short-term, 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 an asset or liability for disclosure purposes the group uses observable market data as far as possible. Fair values are categorised into different levels in the fair value hierarchy based on inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly (i.e. prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the assets and liabilities that are not based on observable market data (unobservable inputs).

REVENUE

The group recognises revenue from the following major sources:

- Sale of potable bulk water;
- Treatment of bulk waste water; and
- Providing other services in the bulk water value chain in terms of Section 30 of the Water Services Act

Revenue is measured based on the consideration to which the group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when its performance obligations are satisfied. Transactions prices are guided by the Pricing Policy of the organisation.

The following major revenue streams and significant judgements made for each revenue stream in applying IFRS 15 were relevant to the group.

Potable bulk water supply

Raw water is abstracted from dams; distributed via bulk water infrastructure to the bulk water treatment plants for treatment processes and stored at reservoirs. The treated Potable water is then distributed via the reservoirs and bulk water pipelines to customers and the bulk meters are the source of transfer of control of the bulk water from Umgeni Water to the customer. This revenue is recognised at a point in time when potable bulk water is metered at these bulk water metering points which is the point at which Umgeni Water satisfies its performance obligation in terms of the bulk water supply contract with its customers. Revenue is recognised based on the water volumes sold at the bulk water tariff approved by the Minister of Water and Sanitation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Treatment of bulk waster water

Operating and Maintaining: Revenue is recognised at a point in time when performance obligations are satisfied relating to operating and maintaining activities of the bulk waste water works on behalf of the customer according to the agreed upon standards in terms of the contract, when the customer accepts these invoices with supporting schedules. The transaction price is as per the contractual arrangement and based on the actual cost of carrying out these activities plus an agreed mark-up.

Bulk Waste Water treatment; which includes sewage; trade effluent and contaminated storm water: Revenue is recognised at a point in time when waste water is accepted from the municipality and treated to an acceptable standard and released to rivers, in terms of the agreed period of the contract with the customer. The performance obligation is satisfied when the customer accepts these invoices. The transaction price is a fixed fee as per the contractual arrangement and based on the expected costs associated with operating the infrastructure to treat waste water.

Other activities revenue

Other activities consist of other services included in the bulk water value chain such as laboratory services, water quality monitoring, operating and maintenance contracts acting as an implementing agent for any sphere of government for projects related to water service delivery as well as subsidiaries revenue, which includes eco-tourism. Revenue from acting as an implementing agent is recognised over time on a cost-to-cost method based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. The directors consider that this input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under IFRS 15. 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. The transaction price is determined based on the type of goods/services to be delivered in accordance with the customer policies for implementing agents' fees where these are entities that are part of the National Government and in accordance with the pricing policy of Umgeni Water. Advances relating to these contracts are recognised as contract liabilities.

The advance payments for bulk water and wastewater services encompass the costs associated with the infrastructure necessary to facilitate the consistent supply of water to our customers. The primary objective of these advance payments is to mitigate the tariff rate payable by the customer in the future in relation to the quantity of water delivered to them.

Revenue from laboratory services and water quality monitoring is recognised at a point in time when the requested service is completed. The transaction prices are determined in accordance with costs associated to perform these services and are approved annually.

Revenue from eco-tourism is recognised at a point in time when the control of goods has been transferred and title has transferred to the customer, with the exception of the wild card revenue where performance obligations are met over a period of time. The transaction prices are determined in accordance with costs associated to perform these services and are approved annually.

COST OF SALES

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

TAXATION

Umgeni Water and Msinsi Holdings SOC Ltd are tax-exempt entities in terms of Section 10 (1) (cA) (i) of the Income Tax 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.

DEFERRED TAX

Deferred tax is recognised on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax is determined using tax rates (and laws) enacted or substantively enacted at the reporting date and that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

INTEREST INCOME

Interest income is accrued 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 capitalised 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 finance costs are reflected in the statement of profit and loss in the period in which they are incurred.

FRUITLESS, WASTEFUL AND IRREGULAR EXPENDITURE

Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is defined as expenditure which was made in vain and would have been avoided had reasonable care been exercised.

Where a transaction, event or condition was undertaken without value or substance and which did not yield any desired results or outcome and careful application, attentiveness and caution was applied to ensure that the probability of a transaction, event or condition not being achieved as planned is being managed to an acceptable level, such transaction, event or condition is recognised as fruitless and wasteful expenditure.

Irregular expenditure

Where expenditure has been incurred that does not comply with any law or regulation, the group recognises that expenditure as irregular expenditure. Irregular expenditure is recognised when it is confirmed and to the extent that the expenditure is recognised in accordance with IFRS.

Irregular expenditure is derecognised when it is either:

- (a) condoned by the relevant authority if no official was found to be liable in law;
- (b) recovered from an official liable in law;
- (c) written-off if it is irrecoverable from an official liable in law; or
- (d) written-off if it is not condoned and not recoverable.

3. OPERATING SEGMENTS AND SEGMENT REPORTING

Umgeni Water has two reportable segments:

(i) The primary activities 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. Included in this segment are the subsidiaries which meet the definition of other activities in terms of Section 30 of the Water Services Act

Trade debtors comprise bulk water and wastewater sales to municipalities of which eThekweni Municipality R3 358m (2022:R3 158m) and Msunduzi Municipality R 662m (2022:R 657m) which contributes to 81.04% (2022: 80.36%) of revenue. Additional information on the major customers per segment are included in note 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. In the current year the segment report has been summarised to include reportable segments in line with the primary and secondary activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

3. OPERATING SEGMENTS AND SEGMENT REPORTING (CONTINUED)

| | Group | | |
|--|--------------------|------------------|--------------------|
| | Primary activities | Other Activities | Total |
| FOR THE YEAR ENDED 30 JUNE 2023 | R'000 | R'000 | R'000 |
| Revenue | 5 181 252 | 71 550 | 5 252 802 |
| Cost of sales | (2 164 178) | (46 076) | (2 210 254) |
| Changes in water inventory | 627 | - | 627 |
| Chemicals | (145 690) | (527) | (146 217) |
| Depreciation | (374 889) | - | (374 889) |
| Energy | (393 961) | - | (393 961) |
| Maintenance | (375 485) | (844) | (376 329) |
| Raw water | (414 273) | - | (414 273) |
| Section 30 activities | - | (43 883) | (43 883) |
| Staff costs | (375 474) | (648) | (376 122) |
| Other direct operating expenses | (85 033) | (174) | (85 207) |
| Gross profit | 3 017 074 | 25 474 | 3 042 548 |
| Other income | 190 415 | (38) | 190 377 |
| Other operating and administration expenses | (1 963 403) | (83 734) | (2 047 137) |
| Impairments of property, plant and equipment | (291 755) | - | (291 755) |
| Amortisation | (58 866) | (1) | (58 867) |
| Depreciation | (66 230) | (2 872) | (69 102) |
| Asset written off | (11 235) | - | (11 235) |
| Staff costs | (579 066) | (61 121) | (640 187) |
| Other expenses and recoveries | (956 251) | (19 740) | (975 991) |
| Expected credit losses | (580 730) | 376 | (580 354) |
| Profit from operations | 663 356 | (57 922) | 605 434 |
| Interest income | 550 882 | 3 721 | 554 603 |
| Finance costs | (277) | (341) | (618) |
| Share of profit from associate | - | 2 548 | 2 548 |
| Profit before tax | 1 213 962 | (51 994) | 1 161 967 |
| Taxation | - | (187) | (187) |
| Profit for the year | 1 213 962 | (52 181) | 1 161 780 |
| Capital expenditure | 1 809 048 | 5 839 | 1 814 887 |
| Segment assets | 10 775 742 | 57 616 | 10 833 358 |
| Interest in associate | - | 8 830 | 8 830 |
| Investments | 6 330 996 | 119 197 | 6 450 193 |
| Unallocated | | | 335 662 |
| Consolidated total assets | | | 17 628 043 |
| Segment liabilities | 1 602 080 | 119 197 | 1 721 277 |
| Unallocated | | | 1 465 696 |
| Consolidated total liabilities | | | 3 186 973 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

3. OPERATING SEGMENTS AND SEGMENT REPORTING (CONTINUED)

| | Group | | |
|--|--------------------|------------------|-------------------|
| | Primary activities | Other activities | Total |
| FOR THE YEAR ENDED 30 JUNE 2022 | R'000 | R'000 | R'000 |
| Revenue | 4 861 361 | 48 093 | 4 909 454 |
| Cost of sales | (1 938 790) | (27 294) | (1 966 084) |
| Changes in water inventory | 480 | - | 480 |
| Chemicals | (129 999) | - | (129 999) |
| Depreciation | (373 733) | - | (373 733) |
| Energy | (332 914) | - | (332 914) |
| Maintenance | (271 155) | (582) | (271 737) |
| Raw water | (421 541) | - | (421 541) |
| Section 30 activities | - | (25 535) | (25 535) |
| Staff costs | (350 681) | (1 103) | (351 784) |
| Other direct operating expenses | (59 247) | (74) | (59 321) |
| Gross profit | 2 922 571 | 20 799 | 2 943 370 |
| Other income | 13 632 | 208 | 13 840 |
| Other operating and administration expenses | (1 503 770) | (78 962) | (1 582 732) |
| Impairments of property, plant and equipment | (222 200) | - | (222 200) |
| Amortisation | (58 180) | (98) | (58 278) |
| Depreciation | (55 588) | (1 957) | (57 545) |
| Asset written off | (118 245) | - | (118 245) |
| Staff costs | (526 399) | (53 379) | (579 778) |
| Other expenses and recoveries | (523 158) | (23 528) | (546 686) |
| Expected credit losses | (462 636) | 8 759 | (453 877) |
| Profit from operations | 969 797 | (49 196) | 920 601 |
| Interest income | 325 667 | 1 384 | 327 051 |
| Finance costs | (9 942) | (393) | (10 335) |
| Share of profit from associate | - | 4 088 | 4 088 |
| Profit before tax | 1 285 522 | (44 117) | 1 241 405 |
| Taxation | - | (42) | (42) |
| Profit for the year | 1 285 522 | (44 159) | 1 241 363 |
| Capital expenditure | 1 047 550 | 2 572 | 1 050 122 |
| Segment assets | 10 222 641 | 53 380 | 10 276 021 |
| Interest in associate | - | 10 031 | 10 031 |
| Bank and Investments | 5 635 849 | 139 537 | 5 775 386 |
| Unallocated | | | 102 537 |
| Consolidated total assets | | | 16 163 975 |
| Segment liabilities | 1 541 795 | 139 537 | 1 681 332 |
| Unallocated | | | 1 297 530 |
| Consolidated total liabilities | | | 2 978 862 |

Unallocated items comprise mainly corporate assets, head office expenses, assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

4. REVENUE

The group recognises revenue for both goods and services at a point in time and over time in accordance with the accounting policies described on page 188 to 204 of the financial statements. Revenue is derived from the sale of goods and services within the KwaZulu-Natal Province from the major product/service lines as per the disaggregation of revenue table below

The group applies the practical expedient in IFRS 15 with regards to the transaction price allocated to performance obligations unsatisfied or partially satisfied. Revenue has been recognised at the amount to which the group has a right to invoice, which corresponds directly to the value to the customer of the group's performance completed to date.

Revenue recognised that was included in the contract liability balance at the beginning of the period, due to performance obligations satisfied.

Bulk water revenue comprises 93% (2022: 93%) of total revenue for the group. The average bulk water tariff was R8.26 (2022: R8.02).

DISAGGREGATION OF REVENUE

| | Primary activities | Other Activities | Total Parent | Total Group |
|---|--------------------|------------------|------------------|------------------|
| | R'000 | R'000 | R'000 | R'000 |
| For the year ended 30 June 2023 | | | | |
| Revenue from major products/service lines as a result of performance obligations satisfied | | | | |
| Bulk water sales | 4 876 486 | - | 4 876 486 | 4 876 486 |
| wastewater sales | 304 766 | - | 304 766 | 304 766 |
| Scientific and environmental services | - | 10 406 | 10 406 | 10 406 |
| Operating and Maintenance | - | 5 206 | 5 206 | 5 206 |
| Training and capacity building | - | 26 823 | 26 823 | 26 823 |
| Other | - | 12 389 | 12 389 | 29 115 |
| | 5 181 252 | 54 824 | 5 236 076 | 5 252 802 |
| Timing of revenue recognition | | | | |
| At a point in time | 5 181 252 | 15 612 | 5 196 864 | 5 209 615 |
| Over time | - | 39 212 | 39 212 | 43 187 |
| | 5 181 252 | 54 824 | 5 236 076 | 5 252 802 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

4. REVENUE (CONTINUED)

| Primary activities | Other Activities | Total Parent | Total Group |
|--------------------|------------------|--------------|-------------|
| R'000 | R'000 | R'000 | R'000 |

For the year ended 30 June 2022

Revenue from major products/service lines as a result of performance obligations satisfied

| | | | | |
|---------------------------------------|------------------|---------------|------------------|------------------|
| Bulk water sales | 4 582 109 | - | 4 582 109 | 4 582 109 |
| waste water sales | 279 252 | - | 279 252 | 279 252 |
| Scientific and environmental services | - | 9 987 | 9 987 | 9 987 |
| Operating and Maintenance | - | 4 292 | 4 292 | 4 292 |
| Training and capacity building | - | 18 783 | 18 783 | 18 783 |
| Other | - | 984 | 984 | 15 031 |
| | 4 861 361 | 34 046 | 4 895 407 | 4 909 454 |

Timing of revenue recognition

| | | | | |
|--------------------|------------------|---------------|------------------|------------------|
| At a point in time | 4 861 361 | 14 279 | 4 875 640 | 4 886 749 |
| Over time | - | 19 767 | 19 767 | 22 705 |
| | 4 861 361 | 34 046 | 4 895 407 | 4 909 454 |

| | Group | | Parent | |
|---|--------|--------|--------|--------|
| | 2023 | 2022 | 2023 | 2022 |
| REVENUE FROM CONTRACT LIABILITIES | R'000 | R'000 | R'000 | R'000 |
| Revenue recognised that was included in the contract liability balance at the beginning of the period due to performance obligations satisfied. | 40 611 | 19 035 | 40 611 | 19 035 |
| Refer to note 20.2 for the contract liabilities | | | | |

5. OTHER INCOME

| | Group | | Parent | |
|---------------------------|----------------|---------------|----------------|---------------|
| | 2023 | 2022 | 2023 | 2022 |
| | R'000 | R'000 | R'000 | R'000 |
| Sundry income | 185 502 | 8 937 | 186 080 | 8 749 |
| Rental income | 4 875 | 4 903 | 4 862 | 4 883 |
| Total other income | 190 377 | 13 840 | 190 942 | 13 632 |

Sundry income comprises primarily: Insurance proceeds of R183 million (2022: R4.2 million) and income from the sale of tender documents.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

6.1. PROFIT FROM OPERATIONS

| | Group | | Parent | |
|---|------------------|------------------|------------------|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| | R'000 | R'000 | R'000 | R'000 |
| Profit from operations is stated after taking the following items into account: | | | | |
| Total cost of sales | 2 210 254 | 1 966 084 | 2 210 254 | 1 966 084 |
| Changes in water inventory | (627) | (480) | (627) | (480) |
| Chemicals | 146 217 | 129 999 | 146 217 | 129 999 |
| Depreciation | 374 889 | 373 733 | 374 889 | 373 733 |
| Energy | 393 961 | 332 914 | 393 961 | 332 914 |
| Maintenance | 376 329 | 271 737 | 376 329 | 271 737 |
| - Internal labour | 162 332 | 133 909 | 162 332 | 133 909 |
| - Other internal costs | 21 348 | 13 334 | 21 348 | 13 334 |
| - External maintenance | 192 649 | 124 494 | 192 649 | 124 494 |
| Raw water | 414 273 | 421 541 | 414 273 | 421 541 |
| Section 30 activities | 43 883 | 25 535 | 43 883 | 25 535 |
| Staff costs | 376 122 | 351 784 | 376 122 | 351 784 |
| Other direct operating expenses | 85 207 | 59 321 | 85 207 | 59 321 |
| Amounts included in operating and admin expenses | | | | |
| Asset impairments and write-offs | 303 791 | 370 598 | 303 772 | 370 482 |
| - Buildings & infrastructure impairments (refer to note 9) | 188 978 | 13 916 | 188 978 | 13 916 |
| - Buildings & infrastructure write-offs (refer to note 9) | - | 18 021 | - | 18 021 |
| - Capital work-in-progress impairments (refer to note 9) | 102 777 | 208 284 | 102 777 | 208 284 |
| - Capital work-in-progress write-offs (refer to note 9) | 9 265 | 127 929 | 9 265 | 127 929 |
| - Intangible assets write-offs (refer to note 11) | - | 11 | - | - |
| - other asset impairments and write-offs (reversals) | 2 771 | 2 437 | 2 752 | 2 332 |
| Amortisation of intangible assets (Refer to note 11) | 58 867 | 58 278 | 58 866 | 58 180 |
| Auditors remuneration | 7 259 | 8 021 | 6 128 | 5 886 |
| - Audit fees - current year | 6 998 | 7 596 | 5 849 | 5 461 |
| - Audit fees - prior year (over) under provision | 261 | 425 | 279 | 425 |
| Board members' emoluments (note 33) | 7 594 | 11 559 | 5 894 | 10 897 |
| Depreciation | 68 883 | 57 338 | 66 523 | 55 603 |
| - Property plant and equipment | 66 339 | 56 670 | 64 952 | 55 073 |
| - Investment property (refer to note 10) | - | - | 222 | 222 |
| - Right of use Asset (refer to note 23.1) | 2 544 | 668 | 1 349 | 308 |
| Financial losses (goods and services not received) | 51 624 | 24 811 | 51 624 | 24 811 |
| Fair value adjustment of biological assets (refer to note 12) | (1 116) | (285) | - | - |
| Indirect maintenance | 21 997 | 31 628 | 16 718 | 27 649 |
| Maintenance ICT | 248 103 | 35 933 | 248 103 | 35 933 |
| Loss (Profit) on disposal of property, plant and equipment | 7 137 | (3 098) | 7 137 | (3 098) |
| Research and Development | 5 326 | 5 173 | 5 326 | 5 173 |
| Salaries and other staff costs | 579 778 | 579 778 | 579 066 | 526 399 |
| Security | 133 837 | 115 763 | 130 367 | 113 399 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

6.1. PROFIT FROM OPERATIONS (CONTINUED)

| | Group | | Parent | |
|---------------------------------------|--------------|--------------|--------------|--------------|
| | 2023 | 2022 | 2023 | 2022 |
| | No. | No. | No. | No. |
| Number of employees at 30 June | | | | |
| Permanent | 1 157 | 1 153 | 1 019 | 1 030 |
| Fixed term contracts | 362 | 221 | 362 | 221 |
| Total number of employees | 1 519 | 1 374 | 1 381 | 1 251 |

6.2 TAXATION

Taxation arose from a 100% owned subsidiary Umgeni Water Services (SOC)Ltd

| | | | | |
|-----------------------------------|------------|-----------|----------|----------|
| Taxation expense | 187 | 42 | - | - |
| Reconciliation of taxation | | | | |
| Accounting profit | 439 | 4 146 | - | - |
| Permanent differences | 237 | (3 996) | - | - |
| Profit from associate | (2 548) | (4 088) | - | - |
| Disallowed expenses | 2 785 | 92 | - | - |
| Taxable income | 676 | 150 | - | - |
| Taxation expense (@27%) | 187 | 42 | - | - |

There was a change in the tax rate as from the 1 March 2023 from 28% to 27%

7. INTEREST INCOME

| | | | | |
|-------------------------------|----------------|----------------|----------------|----------------|
| Interest income - investments | 464 808 | 242 024 | 464 808 | 242 024 |
| Interest income - other | 89 795 | 85 027 | 86 074 | 83 643 |
| Total interest income | 554 603 | 327 051 | 550 882 | 325 667 |

8. FINANCE COSTS

| | | | | |
|--|------------|---------------|------------|--------------|
| Other | 64 | 7 695 | 64 | 7 695 |
| Bonds | 105 748 | 105 749 | 105 748 | 105 749 |
| Leases | 554 | 463 | 213 | 70 |
| Loans | 13 908 | 13 562 | 13 908 | 13 562 |
| Less: borrowing costs capitalised(refer to note 9) | (119 657) | (117 134) | (119 657) | (117 134) |
| Interest was capitalised to work-in-progress at the gross weighted average cost of capital of 11.04 %.(2022: 10.79%) | | | | |
| Total finance costs | 619 | 10 335 | 277 | 9 942 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

9. PROPERTY, PLANT AND EQUIPMENT

| | Land | Buildings and infrastructure | Equipment and vehicles | Capital infrastructure work in progress | Total Parent | Total Group |
|---|--------------|------------------------------|------------------------|---|------------------|------------------|
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| Year ended 30 June 2023 | | | | | | |
| Carrying Amount 1 July | 3 940 | 6 688 607 | 205 429 | 2 072 695 | 8 970 671 | 8 987 543 |
| Cost | 3 940 | 12 619 881 | 550 113 | 2 889 932 | 16 063 866 | 16 109 469 |
| Accumulated impairments | - | (668 614) | - | (466 199) | (1 134 813) | (1 134 813) |
| Accumulated grant funding | - | (2 310 857) | - | (351 038) | (2 661 895) | (2 661 895) |
| Accumulated depreciation | - | (2 951 803) | (344 684) | - | (3 296 487) | (3 325 218) |
| Additions | - | - | 94 973 | 1 707 095 | 1 802 068 | 1 805 864 |
| Grant funding | - | - | - | (642 324) | (642 324) | (642 324) |
| Borrowing costs capitalised | - | - | - | 119 657 | 119 657 | 119 657 |
| Disposals/Asset write-offs | - | - | (2 752) | (9 265) | (12 017) | (12 036) |
| Cost | - | - | (13 269) | (9 265) | (22 534) | (22 553) |
| Accumulated depreciation | - | - | 10 517 | - | 10 517 | 10 517 |
| Transfers to non-current assets held for sale | - | - | (2 865) | - | (2 865) | (2 865) |
| Cost | - | - | (25 327) | - | (25 327) | (25 327) |
| Accumulated depreciation | - | - | 22 462 | - | 22 462 | 22 462 |
| Depreciation charge | - | (384 196) | (62 636) | - | (446 832) | (448 441) |
| Impairment | - | (188 978) | - | (102 777) | (291 755) | (291 755) |
| Commissioning | - | 1 328 166 | - | (1 328 166) | - | - |
| Total property, plant and equipment | 3 940 | 7 443 599 | 232 149 | 1 816 915 | 9 496 603 | 9 515 643 |
| Cost | 3 940 | 13 948 047 | 606 490 | 3 379 253 | 17 937 730 | 17 987 110 |
| Accumulated impairments | - | (857 592) | - | (568 976) | (1 426 568) | (1 426 568) |
| Accumulated grant funding | - | (2 310 857) | - | (993 362) | (3 304 219) | (3 304 219) |
| Accumulated depreciation | - | (3 335 999) | (374 341) | - | (3 710 340) | (3 740 680) |
| Total property, plant and equipment | 3 940 | 7 443 599 | 232 149 | 1 816 915 | 9 496 603 | 9 515 643 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| | Land | Buildings and infrastructure | Equipment and vehicles | Capital infrastructure work in progress | Total Parent | Total Group |
|--|--------------|------------------------------|------------------------|---|------------------|------------------|
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| Year ended 30 June 2022 | | | | | | |
| Carrying Amount 1 July 2021 | 3 940 | 7 042 168 | 220 878 | 1 545 182 | 8 812 168 | 8 828 820 |
| Cost | 3 940 | 12 585 226 | 546 231 | 1 953 969 | 15 089 366 | 15 133 870 |
| Accumulated impairments | - | (654 698) | - | (257 915) | (912 613) | (912 613) |
| Accumulated grant funding | - | (2 310 857) | - | (150 872) | (2 461 729) | (2 461 729) |
| Accumulated depreciation | - | (2 577 503) | (325 353) | - | (2 902 856) | (2 930 708) |
| Additions | - | - | 38 700 | 1 008 188 | 1 046 888 | 1 049 042 |
| Grant funding | - | - | - | (200 166) | (200 166) | (200 166) |
| Borrowing costs capitalised | - | - | - | 117 134 | 117 134 | 117 134 |
| Disposals/Asset write-offs | - | (18 021) | (2 332) | (127 929) | (148 282) | (148 397) |
| Cost | - | (26 471) | (35 057) | (127 929) | (189 457) | (190 512) |
| Accumulated depreciation | - | 8 450 | 32 725 | - | 41 175 | 42 115 |
| Transfers | - | (193) | 193 | (65) | (65) | (65) |
| Cost | - | (239) | 239 | (65) | (65) | (65) |
| Accumulated depreciation | - | 46 | (46) | - | - | - |
| Depreciation charge | - | (382 796) | (52 010) | - | (434 806) | (436 625) |
| Impairment | - | (13 916) | - | (208 284) | (222 200) | (222 200) |
| Commissioning | - | 61 365 | - | (61 365) | - | - |
| Total property, plant and equipment | 3 940 | 6 688 607 | 205 429 | 2 072 695 | 8 970 671 | 8 987 543 |
| Cost | 3 940 | 12 619 881 | 550 113 | 2 889 932 | 16 063 866 | 16 109 469 |
| Accumulated impairments | - | (668 614) | - | (466 199) | (1 134 813) | (1 134 813) |
| Accumulated grant funding | - | (2 310 857) | - | (351 038) | (2 661 895) | (2 661 895) |
| Accumulated depreciation | - | (2 951 803) | (344 684) | - | (3 296 487) | (3 325 218) |
| Total property, plant and equipment | 3 940 | 6 688 607 | 205 429 | 2 072 695 | 8 970 671 | 8 987 543 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

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 its useful life of 14 years. The asset has a remaining useful life of 4 years. The pump station has a carrying amount of R23m and is used by the customer to guarantee supply to a portion of its operational areas.

CHANGE IN ESTIMATE RESIDUAL VALUES AND REMAINING USEFUL LIVES

During the current year residual values and remaining useful lives of some equipment and vehicles were revised based on the age and condition of these assets and the amount expected to be obtained from the sale of these assets at the end of their useful lives. The impact of the change in estimate associated with the residual values and remaining useful lives was an increase in depreciation of R2.7million (2022: R522K). The cost of the assets that are still in use but have past it useful lives amount to R1.6 million (2022: R10.8 million)

IMPAIRMENTS & WRITE-OFFS

Due to the nature of the rural development schemes which serve indigent communities, it is necessary to calculate the recoverable amount of these assets to determine whether there is an indication of impairment. The impairment losses recognised arose from projects/bulk supply schemes relating to the 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 11.04% (2022: 10.79%). The recoverable amount of buildings and infrastructure assets impaired in the current year was nil, resulting in the impairment charge disclosed. It was not possible to determine fair value less costs to sell as there was no basis for making a reliable estimate of the amount obtainable from the sale of these assets in an arms length transaction between knowledgeable and willing parties. The impairment losses to work-in-progress were calculated as a pro-rata impairment based on the final projected impairment value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

SUMMARY OF IMPAIRMENTS

| | Accumulated Impairment 30 June 2022 | Impairment/ (Impairment reversal) 30 June 2023 | Accumulated Impairment 30 June 2023 |
|---|---|--|---|
| | R'000 | R'000 | R'000 |
| Buildings & infrastructure | | | |
| Primary activities | | | |
| Maphumulo bulk water supply scheme | 363 335 | 131 313 | 494 648 |
| Mhlabatshane bulk water supply scheme | 108 574 | - | 108 574 |
| Mpambanyoni emergency scheme | 15 465 | - | 15 465 |
| Pipeline Ngcebo bulk water | 38 774 | - | 38 774 |
| Other assets | 6 473 | - | 6 473 |
| Trustfeeds WWW | 124 069 | (16) | 124 053 |
| UMDM Waste Water assets | 11 924 | (11 924) | - |
| Lovu Emergency Scheme | - | 67 910 | 67 910 |
| KCDM assets | - | 1 695 | 1 695 |
| Total buildings and infrastructure | 668 614 | 188 978 | 857 592 |

| | Progressive Impairment 2022 | Progressive Impairment 2023 | Accumulated Impairment 30 June 2022 | Impairment / (Impairment reversal) 30 June 2023 | Accumulated Impairment 30 June 2023 |
|---|--------------------------------|--------------------------------|---|--|--|
| | % | % | R'000 | R'000 | R'000 |
| Work in progress | | | | | |
| Bulk Water | | | | | |
| Mhlabashane Bulk Water Supply Scheme | 72% | 78% | 14 795 | 2 078 | 16 873 |
| Maphumulo Ph3 and 4 | 39% | n/a | 17 447 | (17 447) | - |
| Lower Mkomazi Bulk Water Scheme | 0% | 15% | - | 75 492 | 75 492 |
| Lovu Emergency Scheme | 100% | 100% | 62 271 | (58 160) | 4 111 |
| Weza Harding Abstraction and Pipeline | 0% | 16% | - | 15 140 | 15 140 |
| Mpophomeni WWW and Mpophomeni Sewer Outfall | 100% | 100% | 315 381 | 120 546 | 435 927 |
| N3 Corridor | 100% | 25% | 33 048 | (19 346) | 13 702 |
| Trustfeeds Automation | n/a | 100% | - | 7 731 | 7 731 |
| UMDM Waste Water projects | 100% | 0% | 23 257 | (23 257) | - |
| Total work in progress | | | 466 199 | 102 777 | 568 976 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

9.1 CAPITAL COMMITMENTS

| | Group | | Parent | |
|---|------------------|------------------|------------------|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| | R'000 | R'000 | R'000 | R'000 |
| Contracted for but not provided for in the financial statements: | | | | |
| - Commitments in respect of capital expenditure for the expansion, augmentation and upgrades of pipelines and water works | 1 678 777 | 2 490 426 | 1 674 670 | 2 490 426 |
| - Commitments in respect of capital expenditure for intangible assets | 5 088 | 7 048 | 5 088 | 8 |
| Total capital commitments | 1 683 865 | 2 497 474 | 1 679 758 | 2 490 434 |

9.2. NON-CURRENT ASSETS HELD FOR SALE

The assets comprise vehicles and equipment. The assets are approved by the Disposal Committee to dispose via auction. This will ensure that the group obtains optimal value from the disposal of the assets, which is fair, equitable, transparent, competitive and cost-effective. The motor vehicles are to be disposed via an auction at a future date. Consultations are currently in progress with the appointed auctioneer to undertake the disposal of these assets in 2023. The assets held for sale relate to the primary bulk water segment of the group, with the exception of the subsidiary assets held for sale which fall within the other activities segment.

| | Equipment and vehicles | Total Parent | Total Group |
|--|------------------------|--------------|--------------|
| | R'000 | R'000 | R'000 |
| As at 30 June 2023 | | | |
| Balance as at 1 July 2022 | 548 | 548 | 548 |
| Transferred from Property, plant and equipment | 2 868 | 2 868 | 2 868 |
| Disposals | (473) | (473) | (473) |
| Balance as at 30 June 2023 | 2 943 | 2 943 | 2 943 |

As at 30 June 2022

| | | | |
|--|------------|------------|------------|
| Balance as at 1 July 2021 | 1 867 | 1 867 | 1 867 |
| Transferred from Property, plant and equipment | - | - | - |
| Disposals | (1 319) | (1 319) | (1 319) |
| Balance as at 30 June 2022 | 548 | 548 | 548 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

10. INVESTMENT PROPERTY

Umgeni water accounts for the investment property using the cost model. The fair value of the building is estimated at R11.4 million as at 30 June 2023 using level 2 input from the municipal rates property valuation roll.

| | Parent | Group |
|----------------------------------|--------------|----------|
| | R'000 | R'000 |
| Year ended 30 June 2023 | | |
| Carrying Amount 1 July 2022 | 8 696 | - |
| Cost | 9 062 | - |
| Accumulated depreciation | (366) | - |
| Depreciation charge | (222) | - |
| Total Investment property | 8 474 | - |
| Cost | 9 062 | - |
| Accumulated depreciation | (588) | - |
| Total Investment property | 8 474 | - |
| Year ended 30 June 2022 | | |
| Carrying Amount 1 July 2021 | 8 918 | - |
| Cost | 9 062 | - |
| Accumulated depreciation | (144) | - |
| Depreciation charge | (222) | - |
| Total Investment property | 8 696 | - |
| Cost | 9 062 | - |
| Accumulated depreciation | (366) | - |
| Total Investment property | 8 696 | - |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

11. INTANGIBLE ASSETS

| | Software | Work in progress | Total Parent | Total Group |
|--------------------------------|---------------|---------------------|---------------|---------------|
| | R'000 | R'000 | R'000 | R'000 |
| As at 30 June 2023 | | | | |
| SOFTWARE | | | | |
| Carrying Amount value 1 July | 134 683 | 13 882 | 148 565 | 148 988 |
| Cost | 406 674 | 13 882 | 420 556 | 421 856 |
| Accumulated amortisation | (271 991) | - | (271 991) | (272 868) |
| Additions | 6 980 | | 6 980 | 9 023 |
| Amortisation | (58 866) | - | (58 866) | (58 867) |
| Total intangible assets | 82 797 | 13 882 | 96 679 | 99 144 |
| Cost | 413 654 | 13 882 | 427 536 | 430 879 |
| Accumulated amortisation | (330 857) | - | (330 857) | (331 735) |
| Total | 82 797 | 13 882 | 96 679 | 99 144 |

As at 30 June 2022

| | | | | |
|--------------------------------|----------------|---------------|----------------|----------------|
| SOFTWARE | | | | |
| Carrying Amount value 1 July | 191 320 | 14 698 | 206 018 | 206 132 |
| Cost | 414 863 | 14 698 | 429 561 | 430 583 |
| Accumulated amortisation | (223 543) | - | (223 543) | (224 451) |
| Additions | - | 662 | 662 | 1 080 |
| Commissioning | 1 543 | (1 543) | - | - |
| Disposals and write-offs | - | - | - | (11) |
| Cost | (9 732) | - | (9 732) | (9 872) |
| Accumulated amortisation | 9 732 | - | 9 732 | 9 861 |
| Transfers | - | 65 | 65 | 65 |
| Cost | - | 65 | 65 | 65 |
| Accumulated amortisation | - | - | - | - |
| Amortisation | (58 180) | | (58 180) | (58 278) |
| Total intangible assets | 134 683 | 13 882 | 147 565 | 148 988 |
| Cost | 406 674 | 13 882 | 420 556 | 421 856 |
| Accumulated amortisation | (271 991) | - | (271 991) | (272 868) |
| Total intangible assets | 134 683 | 13 882 | 147 565 | 148 988 |

Included in intangible assets is the SAP ERP system with a carrying amount of R22.8 million (2022: R53.3 million) with a remaining amortisation period of 0.75 years (2022: 1.75 years) and SAP BI software of R32.6 million (2022: R48.3 million) with a remaining amortisation period of 3.08 years (2022: 2.08 years). Work in progress relates to software. The cost of the assets that are still in use but have past their useful lives amount to R9.3 million (2022: R9.3 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

12. BIOLOGICAL ASSETS

12.1. GAME

Opening carrying amount
Disposals
Fair value adjustment

| | Group | | Parent | |
|--------------------------------|--------------|--------------|----------|----------|
| | 2023 | 2022 | 2023 | 2022 |
| | R'000 | R'000 | R'000 | R'000 |
| | 4 531 | 3 415 | - | - |
| Opening carrying amount | 3 415 | 3 130 | - | - |
| Disposals | - | - | - | - |
| Fair value adjustment | 1 116 | 285 | - | - |
| | | | - | - |
| Total biological assets | 4 531 | 3 415 | - | - |

The carrying amount was based on an estimated 500 (2022: 389) game, the most significant categories being Buffalo, Giraffe, Zebra and Wildebeest. 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.

13. SUBSIDIARIES AND ASSOCIATE

13.1. INVESTMENTS IN SUBSIDIARIES

| | | | | |
|--|----------|----------|----------|----------|
| Cost | - | - | 30 000 | 30 000 |
| Accumulated impairment | - | - | (30 000) | (30 000) |
| Total investments in subsidiaries | - | - | - | - |

13.2 INVESTMENTS IN ASSOCIATES

| | | | | |
|--|--------------|---------------|----------|----------|
| Cost | 2 590 | 2 590 | - | - |
| Accumulated impairment | - | - | - | - |
| Share of post-acquisition reserves | 6 240 | 7 441 | - | - |
| Total investments in associates | 8 830 | 10 031 | - | - |

INVESTMENTS IN SUBSIDIARIES

| Subsidiary | Principal activity | Place of incorporation | Proportion of ownership interest | | Proportion of voting power held | |
|-----------------------------------|-----------------------------------|------------------------|----------------------------------|------|---------------------------------|------|
| | | | 2023 | 2022 | 2023 | 2022 |
| | | | % | % | % | % |
| 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.

The impairment in the parent investment in Msinsi Holdings SOC Ltd was re-assessed in 2023 based on value-in-use calculations using the projected operating cash flows of Msinsi and the weighted average cost of capital as at 30 June 2023 of 11.044% (2022:10.79%) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

13. SUBSIDIARIES AND ASSOCIATE (CONTINUED)

13.2 INVESTMENTS IN ASSOCIATES (CONTINUED)

Investments in associate of Umgeni Water Services SOC Limited

| Associate | Principal activity | Place of incorporation | Proportion of ownership interest | | Proportion of voting power held | |
|--------------------------------------|--------------------|------------------------|----------------------------------|------|---------------------------------|------|
| | | | 2023 | 2022 | 2022 | 2021 |
| | | | % | % | % | % |
| 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 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. The consolidated annual financial statements is prepared using the draft Annual financial statements of Durban water Recycling (Pty)Ltd since the final approved audited financial statements were not received as at the date of authorisation of this report. Assessments for material changes that occurred between 31 December and 30 June are done and considered as at 30 June.

| | Carrying amount | | Directors' valuation | |
|--|-----------------|---------------|----------------------|---------------|
| | 2023 | 2022 | 2023 | 2022 |
| | R'000 | R'000 | R'000 | R'000 |
| Investments in associate of Umgeni Water Services (Pty) Limited | | | | |
| Durban Water Recycling (Pty) Limited | 8 830 | 10 031 | 8 830 | 10 031 |
| Net Investment | 8 830 | 10 031 | 8 830 | 10 031 |

Summarised financial information of associates:

| | Directors' valuation | |
|---|----------------------|--------|
| | 2023 | 2022 |
| | R'000 | R'000 |
| Total non-current liabilities of associates | 161 | 657 |
| Total current assets of associates | 84 943 | 91 942 |
| Total current liabilities of associates | 18 546 | 10 766 |
| Total capital and reserves | 66 236 | 80 519 |
| Total revenue of associates | 70 611 | 91 893 |
| Total comprehensive income | 13 775 | 22 096 |
| Share of profit for the year of associates | 2 548 | 4 088 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

16. TRADE AND OTHER RECEIVABLES

16.1 CURRENT

| | Group | | Parent | |
|--|------------------|------------------|------------------|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| | R'000 | R'000 | R'000 | R'000 |
| Trade receivables | 1 608 814 | 1 786 208 | 1 608 814 | 1 786 208 |
| Less: Allowance for credit losses | (908 410) | (829 869) | (908 410) | (829 869) |
| Opening Balance | (894 257) | (585 184) | (894 257) | (585 184) |
| Written off during the year | 741 | 17 639 | 741 | 17 639 |
| Raised during the year | (14 894) | (262 324) | (14 894) | (262 324) |
| Sub-total trade receivables | 700 404 | 956 339 | 700 404 | 956 339 |
| Sundry debtors | 364 238 | 30 882 | 358 990 | 30 387 |
| Amount due from DWS - Capital unit charges | 89 613 | 89 613 | 89 613 | 89 613 |
| SARS-VAT | 35 124 | 34 535 | 35 118 | 34 535 |
| Less: Allowance for credit losses | (299) | (337) | - | - |
| Sub-total sundry debtors | 488 676 | 154 693 | 483 721 | 154 535 |
| Current trade and other receivables | 1 189 081 | 1 111 032 | 1 184 125 | 1 110 874 |
| 16.2. NON-CURRENT | | | | |
| Trade receivables | 728 120 | 217 931 | 727 806 | 217 624 |
| Less: Allowance for credit losses | (698 630) | (189 473) | (698 630) | (189 473) |
| Opening balance | (125 085) | - | (125 085) | - |
| Raised during the year | (573 545) | (189 473) | (573 545) | (189 473) |
| Non-current trade and other receivables | 29 490 | 28 458 | 29 176 | 28 151 |
| Total trade and other receivables | 1 218 571 | 1 139 490 | 1 213 301 | 1 139 025 |

Trade debtors are granted credit terms of 30 days from date of invoice to settle outstanding debts. The average credit period for Umgeni Water, at financial year-end, is 44 Days (2022: 61 days). Trade receivables to the value of R699 million (R165mil Uthukela DM; R409mil Msunduzi and R125mil Ugu) is expected to be realised beyond the 12 month period and has been fully impaired as at 30 June 2023.

The group measures the loss allowance for trade receivables at an amount equal to the lifetime expected credit loss using the simplified approach. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and the analysis of the debtors current financial position adjusted for factors that are specific to the debtors general economic conditions, its operational conditions as well as forward looking information which includes the customers subsequent payments received and possible changes in the macroeconomic conditions and provincial political landscape. The group recognises a loss allowance of 100% against receivable over 90 days past due based on historical experience and current operational and economic conditions unless there is a payment arrangement in place with the customer which is being complied with, or these are received subsequently prior to approval of the financial statements. Amounts past due in excess of 90 days follow legal recovery processes and thus considered to be credit impaired.

The disclosures that follow relate to the parent only as the impact of the subsidiaries are not material to the group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

16. TRADE AND OTHER RECEIVABLES (CONTINUED)

| | Amount due | Current | 30 Days | 60 Days | 90 Days | 120 + Days |
|---|------------------|----------------|----------------|----------------|---------------|------------------|
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| June 2023 | | | | | | |
| Customer | | | | | | |
| eThekweni Metropolitan Municipality | 390 117 | 390 106 | - | - | - | 11 |
| Msunduzi Local Municipality | 716 389 | 103 346 | 88 981 | 5 351 | 26 365 | 492 345 |
| uMgungundlovu District Municipality | 134 013 | 32 500 | 28 553 | 105 | 335 | 72 520 |
| iLembe District Municipality | 22 724 | 22 724 | - | - | - | - |
| Siza Water | 114 783 | 7 817 | 1 761 | 1 816 | 1 706 | 101 682 |
| UGu District Municipality | 231 000 | 14 433 | 11 776 | 12 449 | 11 049 | 181 293 |
| Harry Gwala District Municipality | 2 395 | 2 394 | - | - | - | 1 |
| UThukela District Municipality | 188 502 | - | - | - | - | 188 502 |
| King Cetshwayo District Municipality | 499 921 | 42 568 | 29 801 | 28 577 | 25 732 | 373 243 |
| Retail | 913 | 195 | 149 | 13 | 12 | 543 |
| Other | 6 687 | 880 | 480 | 310 | 277 | 4 739 |
| Gross carrying amount | 2 307 444 | 616 965 | 161 501 | 48 623 | 65 477 | 1 414 878 |
| Expected default rate ^{N1} | | 9.34% | 27.29% | 74.51% | 91.91% | 99.58% |
| Credit loss allowance (default rate x gross carrying amount) | (1 607 040) | (57 621) | (44 081) | (36 227) | (60 180) | (1 408 931) |
| Net carrying amount | 700 404 | 559 343 | 117 421 | 12 396 | 5 297 | 5 947 |
| June 2022 | | | | | | |
| Customer | | | | | | |
| eThekweni Metropolitan Municipality | 415 745 | 362 891 | 1 933 | 1 813 | 49 107 | - |
| Msunduzi Local Municipality | 542 812 | 98 618 | 83 957 | 91 484 | 7 613 | 261 140 |
| uMgungundlovu District Municipality | 116 717 | 33 140 | (4 982) | 7 932 | 7 350 | 73 277 |
| iLembe District Municipality | 52 293 | 22 132 | - | - | - | 30 161 |
| Siza Water | 94 362 | 6 392 | 830 | 1 676 | 1 714 | 83 751 |
| UGu District Municipality | 276 751 | 16 387 | 13 169 | 13 948 | 8 666 | 224 580 |
| Harry Gwala District Municipality | 3 540 | 2 229 | 541 | 794 | 13 | (35) |
| UThukela District Municipality | 194 501 | - | - | - | - | 194 501 |
| King Cetshwayo District Municipality | 272 394 | 27 714 | 16 796 | 21 623 | 15 894 | 190 368 |
| Retail | 636 | 178 | 22 | 3 | 12 | 421 |
| Other | 5 930 | 1 064 | 602 | 211 | 211 | 3 842 |
| Gross carrying amount | 1 975 681 | 570 745 | 112 867 | 139 485 | 90 580 | 1 062 004 |
| Average Expected default rate ^{N1} | | 7.45% | 26.44% | 25.29% | 84.47% | 78.64% |
| Credit loss allowance (default rate x Gross carrying amount) | (1 019 342) | (42 528) | (29 842) | (35 270) | (76 512) | (835 190) |
| Net carrying amount | 956 339 | 528 217 | 83 025 | 104 215 | 14 068 | 226 814 |

N1 - The Average expected default rate is calculated as: Expected default rate per customer x Gross carrying amount for each aging bracket = Credit loss allowance amount per customer (Add all Credit loss allowance amount per ageing bracket for all customers) ÷ total trade receivables balance per age category.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

16. TRADE AND OTHER RECEIVABLES (CONTINUED)

The summary of the impact of expected credit losses is as follows:

| Customer | Amount due | Allowance for credit losses | Total 2023 | Total 2022 |
|--|------------------|-----------------------------|----------------|----------------|
| | R'000 | R'000 | R'000 | R'000 |
| eThekweni Metropolitan Municipality | 390 117 | (433) | 389 684 | 362 488 |
| iLembe District Municipality | 22 724 | - | 22 724 | 52 293 |
| Msunduzi Local Municipality | 716 389 | (535 871) | 180 519 | 453 758 |
| uGu District Municipality | 231 000 | (187 831) | 43 170 | 58 744 |
| uMgungundlovu District Municipality | 134 013 | (80 146) | 53 867 | 13 046 |
| Harry Gwala District Municipality | 2 395 | - | 2 395 | 3 263 |
| Siza Water | 114 783 | (108 766) | 6 017 | 5 069 |
| uThukela District Municipality | 188 502 | (188 502) | - | - |
| King Cetshwayo District Municipality | 499 921 | (499 921) | - | - |
| Other bulk customers | 913 | (549) | 364 | 209 |
| Trade receivables - primary activities | 2 300 758 | (1 602 018) | 698 740 | 948 870 |
| Trade receivables - secondary activities | 6 686 | (5 022) | 1 665 | 7 469 |
| Total trade receivables | 2 307 444 | (1 607 040) | 700 404 | 956 339 |

A further analysis of the financial risk relating to trade receivables is included in note 29.

17. BANK AND CASH

| | Group | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2023 | 2022 | 2023 | 2022 |
| | R'000 | R'000 | R'000 | R'000 |
| Cash and cash equivalents consist of: | | | | |
| Bank and cash on hand | 68 738 | 67 712 | 3 496 | 7 801 |
| Call investments held with banks | 221 682 | 757 200 | 221 682 | 757 200 |
| The carrying amount of bank and cash approximates its fair value. | | | | |
| All cash reserves are placed with reputable, investment grade financial institutions. The estimated Probability of Default ("PD") rating is insignificant, therefore an expected credit loss of nil was raised | | | | |
| The group's outstanding guarantees are disclosed under note 24. | | | | |
| Total bank and cash | 290 420 | 824 912 | 225 178 | 765 001 |

The expected credit losses are determined to be immaterial

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

17. BANK AND CASH (CONTINUED)

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

| | Group | | Parent | |
|---|------------------|------------------|------------------|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| | R'000 | R'000 | R'000 | R'000 |
| Profit for the year | 1 161 780 | 1 241 363 | 1 151 495 | 1 222 551 |
| Interest income | (554 603) | (327 051) | (550 882) | (325 667) |
| Finance costs | 618 | 10 335 | 277 | 9 942 |
| Adjusted for non-cash items: | | | | |
| Fair value adjustment of biological assets | (1 116) | (285) | - | - |
| Asset impairments and write-offs | 303 772 | 370 482 | 303 772 | 370 482 |
| Amortisation - intangible asset | 58 867 | 58 278 | 58 866 | 58 180 |
| Depreciation - PPE | 448 441 | 436 625 | 446 832 | 434 806 |
| Depreciation - Right of use asset | 2 544 | 657 | 1 349 | 297 |
| Depreciation - Investment property | - | - | 222 | 222 |
| Loss (Profit) on disposal of property, plant and equipment | 7 156 | (2 955) | 7 137 | (3 098) |
| Increase in incentive bonuses and post-retirement benefit obligations | 51 451 | 69 523 | 50 588 | 69 968 |
| credit losses | 580 354 | 453 877 | 580 201 | 453 814 |
| Dividend receivable | 3 750 | - | - | - |
| Income Tax expense | 187 | 42 | - | - |
| Share of profit from associate | (2 548) | (4 088) | - | - |
| Tax paid | (158) | (30) | - | - |
| Operating surplus before working capital changes | 2 060 495 | 2 306 773 | 2 049 857 | 2 291 497 |
| Working capital changes | (313 909) | (434 169) | (311 232) | (434 310) |
| Increase in accounts receivable | (581 600) | (364 648) | (576 641) | (360 488) |
| Increase/(decrease) in accounts payable | 209 852 | (155 815) | 207 570 | (160 116) |
| Increase/(decrease) in contract liabilities | 64 780 | 90 220 | 64 780 | 90 220 |
| Increase in inventory | (6 941) | (3 926) | (6 941) | (3 926) |
| Cash from operating activities | 1 746 586 | 1 872 604 | 1 738 625 | 1 857 187 |

18. CAPITAL

| | Group | | Parent | |
|---|----------------|----------------|----------------|----------------|
| | 2023 | 2022 | 2023 | 2022 |
| | R'000 | R'000 | R'000 | R'000 |
| Capital consists primarily of contributions made by the Department of Water and Sanitation to provide financial capacity to the Water Board in terms of rendering water services to the water service authorities in its gazetted area. | 442 847 | 442 847 | 442 847 | 442 847 |
| Total capital | 442 847 | 442 847 | 442 847 | 442 847 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

19. DEBT - FINANCIAL LIABILITIES

| | Group | | Parent | |
|--|------------------|------------------|------------------|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| | R'000 | R'000 | R'000 | R'000 |
| Long-term | 1 058 710 | 1 083 548 | 1 058 710 | 1 083 548 |
| Short-term | 58 153 | 58 150 | 58 153 | 58 150 |
| 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 | 1 116 863 | 1 141 698 | 1 116 863 | 1 141 698 |

19.1. ANALYSIS OF DEBT HELD AT AMORTISED COST

| | Nominal Amount | | Interest Rates | | Maturity date | Group | | Parent | |
|----------------------------------|------------------|------------------|----------------|--------|---------------|------------------|------------------|------------------|------------------|
| | 2023 | 2022 | 2023 | 2022 | | 2023 | 2022 | 2023 | 2022 |
| | R'000 | R'000 | % | % | | R'000 | R'000 | R'000 | R'000 |
| Development Funding Institutions | 148 549 | 173 387 | | | | 149 124 | 173 959 | 149 124 | 173 959 |
| EIB - Fixed Rate | 77 581 | 89 516 | 9.08% | 9.08% | 17 Dec 2029 | 77 874 | 89 855 | 77 874 | 89 855 |
| EIB - Variable Rate | 70 968 | 83 871 | 9.68% | 6.79% | 15 Dec 2028 | 71 250 | 84 104 | 71 250 | 84 104 |
| Bonds | 935 000 | 935 000 | | | | 967 739 | 967 739 | 967 739 | 967 739 |
| UG26 - Fixed rate | 935 000 | 935 000 | 11.31% | 11.31% | 09 Mar 2026 | 967 739 | 967 739 | 967 739 | 967 739 |
| Total nominal debt | 1 083 549 | 1 108 387 | | | | | | | |
| Total debt | | | | | | 1 116 863 | 1 141 698 | 1 116 863 | 1 141 698 |

Refer to note 29 financial risk management and financial instruments for maturity profile and fair value of debt.

RECONCILIATION OF MOVEMENT IN DEBT FOR THE YEAR

| | | | | |
|---------------------------------------|------------------|------------------|------------------|------------------|
| Balance at the beginning of the year: | 1 141 698 | 1 166 503 | 1 141 698 | 1 166 503 |
| Loans Capital and Interest repaid | (144 587) | (144 115) | (144 587) | (144 115) |
| UG26 | (105 749) | (105 749) | (105 749) | (105 749) |
| EIB 1 | (19 045) | (17 489) | (19 045) | (17 489) |
| EIB 2 | (19 793) | (20 877) | (19 793) | (20 877) |
| Amortised interest | 119 752 | 119 310 | 119 752 | 119 310 |
| EIB 1 | 6 145 | 4 633 | 6 145 | 4 633 |
| EIB 2 | 7 858 | 8 928 | 7 858 | 8 928 |
| UG 26 | 105 749 | 105 749 | 105 749 | 105 749 |
| Total debt | 1 116 863 | 1 141 698 | 1 116 863 | 1 141 698 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

20. CONTRACT LIABILITIES

Current contract liabilities comprise of section 30 advances, which represents amounts received from customers in terms of the contractual agreements and primarily relate to implementing agent agreements. Performance obligations relating to these contract liabilities will be recognised over time and revenue will be recognised accordingly. Refer to note 4 for revenue recognised relating to performance obligations satisfied.

Non-current contract liabilities includes amounts invoiced in advance which relates to UMkomazi Bulk Water supply charge for water resource infrastructure which will be amortised to revenue over the life of the asset when the asset is capitalised.

20.1 CONTRACT LIABILITIES NON-CURRENT

Net amount invoiced in advance (Mkhomazi Bulk Water supply)

Balance as at 1 July

Mkhomazi Allowance for credit loss

Invoiced during the year

| | Group | | Parent | |
|-----------------------------------|----------------|----------------|----------------|----------------|
| | 2023 | 2022 | 2023 | 2022 |
| | R'000 | R'000 | R'000 | R'000 |
| | | | | |
| | 485 217 | 400 097 | 485 217 | 400 097 |
| | 400 097 | 314 365 | 400 097 | 314 365 |
| | (13 176) | (5 536) | (13 176) | (5 536) |
| | 98 296 | 91 268 | 98 296 | 91 268 |
| | | | | |
| | 119 197 | 139 537 | 119 197 | 139 537 |
| | 139 537 | 135 049 | 139 537 | 135 049 |
| | 20 271 | 23 523 | 20 271 | 23 523 |
| | (40 611) | (19 035) | (40 611) | (19 035) |
| Total contract liabilities | 604 414 | 539 634 | 604 414 | 539 634 |

20.2 CONTRACT LIABILITIES - CURRENT

The following table provides information about contract liabilities from contracts with customers:

Opening balance

Received during the year

Recognised in revenue during the year (Refer note 4)

Total contract liabilities **604 414** **539 634** **604 414** **539 634**

21. INCENTIVE BONUS

| | Short-term incentive bonus | Long-term incentive bonus - current portion | Sub-total current incentive bonus | Long-term incentive bonus - non current portion | Total 2023 | Total 2022 |
|---------------------------------------|----------------------------|---|-----------------------------------|---|----------------|----------------|
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| Group | | | | | | |
| Opening balance | 103 541 | 3 281 | 106 822 | 23 469 | 130 291 | 97 510 |
| Provided during the year | 118 129 | 7 523 | 125 652 | 21 878 | 147 530 | 136 398 |
| Utilised/reclassified during the year | (106 734) | (2 473) | (109 207) | (30 290) | (139 497) | (103 618) |
| Closing balance | 114 936 | 8 331 | 123 267 | 15 057 | 138 324 | 130 290 |
| Parent | | | | | | |
| Opening balance | 102 252 | 3 281 | 105 533 | 23 469 | 129 002 | 95 778 |
| Provided during the year | 115 978 | 7 523 | 123 501 | 21 878 | 145 379 | 135 392 |
| Utilised/reclassified during the year | (105 445) | (2 473) | (107 918) | (30 290) | (138 208) | (102 168) |
| Closing balance | 112 785 | 8 331 | 121 116 | 15 057 | 136 173 | 129 002 |

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

The long term incentive bonus 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 250 for further detail.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

22. ACCOUNTS PAYABLE

| | GROUP | | PARENT | |
|--|----------------|----------------|----------------|----------------|
| | 2023 | 2022 | 2023 | 2022 |
| | R'000 | R'000 | R'000 | R'000 |
| Trade accounts payable | 241 880 | 279 902 | 239 711 | 276 612 |
| Trade accruals | 515 617 | 231 384 | 515 120 | 229 999 |
| Bonus Accrual | 20 637 | 19 531 | 19 412 | 18 412 |
| Leave Accrual | 57 170 | 53 578 | 53 960 | 50 400 |
| Amounts due to related parties: | | | | |
| - Water purchases & CUC accrual: DWS | 59 141 | 74 601 | 59 141 | 74 601 |
| Sundry creditors | 45 747 | 50 071 | 56 500 | 64 731 |
| SARS - VAT | 628 | 22 423 | - | 21 517 |
| Other payables | 1 483 | 1 050 | 1 048 | 1 050 |
| Trade accounts payable and accruals comprise amounts outstanding for trade purchases. | | | | |
| Trade and other payables are carried at amortised cost using the effective interest rate method and the carrying amount approximates fair value. These are normally settled within 30 days from date of statement. | | | | |
| Total accounts payable | 942 303 | 732 422 | 944 892 | 737 322 |

Trade and other payable excluding amounts relating to employees and VAT payable are financial liabilities classified at amortised cost. These are not interest bearing and are stated at their nominal value

23. LEASES

23.1 GROUP AS A LEASSEE

The groups right of use assets include land, buildings and ICT equipment. Information about these assets is included in the table that follows:

| | Land | Buildings | ICT equipment | Parent Total | Group |
|--|------------|------------|---------------|--------------|--------------|
| | R'000 | R'000 | R'000 | R'000 | R'000 |
| As at 30 June 2023 | | | | | |
| RIGHT OF USE ASSET | | | | | |
| Carrying Amount value 1 July 2022 | 158 | 353 | 220 | 731 | 4 781 |
| Cost | 249 | 850 | 275 | 1 374 | 6 495 |
| Accumulated Depreciation | (91) | (497) | (55) | (643) | (1 714) |
| Additions | - | 1 624 | 885 | 2 509 | 2 509 |
| Depreciation | (61) | (1 266) | (22) | (1 349) | (2 544) |
| Total right of use assets | 97 | 711 | 1 083 | 1 891 | 4 746 |
| Cost | 249 | 2 474 | 1 160 | 3 883 | 9 004 |
| Accumulated Depreciation | (152) | (1 763) | (77) | (1 992) | (4 258) |
| Total right of use assets | 97 | 711 | 1 083 | 1 891 | 4 746 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

23.1 GROUP AS A LEASEE (CONTINUED)

| | Land | Buildings | ICT equipment | Parent Total | Group |
|--|------------|------------|---------------|--------------|--------------|
| | R'000 | R'000 | R'000 | R'000 | R'000 |
| As at 30 June 2022 | | | | | |
| RIGHT OF USE ASSET | | | | | |
| Carrying Amount value 1 July 2021 | 35 | 410 | 17 | 462 | 4 872 |
| Cost | 112 | 618 | 67 | 797 | 5 918 |
| Accumulated Depreciation | (77) | (208) | (50) | (335) | (1 046) |
| Additions | 137 | 232 | 208 | 577 | 577 |
| Depreciation | (14) | (289) | (5) | (308) | (668) |
| Total right of use assets | 158 | 353 | 220 | 731 | 4 781 |
| Cost | 249 | 850 | 275 | 1 374 | 6 495 |
| Accumulated Depreciation | (91) | (497) | (55) | (643) | (1 714) |
| Total right of use assets | 158 | 353 | 220 | 731 | 4 781 |

| | GROUP | | PARENT | |
|--|--------------|--------------|--------------|-------------|
| | 2023 | 2022 | 2023 | 2022 |
| | R'000 | R'000 | R'000 | R'000 |
| LEASE LIABILITIES | | | | |
| Present value of lease payments | | | | |
| | 6 412 | 5 351 | 1 875 | 693 |
| 0 - 1 year | 1 781 | 1 486 | 725 | 273 |
| 1 - 5 years | 1 920 | 1 320 | 1 149 | 420 |
| > 5 years | 2 710 | 2 545 | - | - |
| Total lease liabilities | 6 412 | 5 351 | 1 875 | 693 |
| Maturity analysis - contractual undiscounted cash flows | | | | |
| | 6 080 | 5 699 | 2 635 | 1 066 |
| 0 - 1 year | 1 170 | 1 853 | 974 | 665 |
| 1 - 5 years | 2 687 | 1 301 | 1 661 | 401 |
| > 5 years | 2 223 | 2 545 | - | - |
| Total lease liabilities | 6 080 | 5 699 | 2 635 | 1066 |
| Lease liabilities included in the statement of financial position | | | | |
| Current portion | 2 823 | 1 486 | 725 | 273 |
| Non-current portion | 3 538 | 3 865 | 1 149 | 420 |
| Recognised in Profit or loss/Project | | | | |
| Depreciation | 2 543 | 670 | 1 348 | 310 |
| Current year | 1 627 | 670 | 432 | 310 |
| Prior year | 916 | - | 916 | - |
| Interest expense on lease liabilities (included in finance cost) | 622 | 465 | 281 | 72 |
| Current year | 554 | 465 | 213 | 72 |
| Prior Year | 68 | - | 68 | - |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

23.1 GROUP AS A LEASEE (CONTINUED)

| | GROUP | | PARENT | |
|--|--------------|--------------|--------------|------------|
| | 2023 | 2022 | 2023 | 2022 |
| | R'000 | R'000 | R'000 | R'000 |
| Expense relating to low value included in operating expenses | - | 227 | - | 227 |
| Expense relating to short-term leases included in operating expenses | 249 | 249 | 249 | 249 |
| Reconciliation of lease liability | | | | |
| Opening balance | 5 351 | 5 167 | 693 | 456 |
| leases recognised/(derecognised) during the year | 1 524 | 57 | 1 890 | 410 |
| Interest included in finance cost | 622 | 465 | 281 | 72 |
| Capital repayments | (1 161) | (338) | (989) | (245) |
| Total lease liabilities | 6 336 | 5 351 | 1 875 | 693 |

23.2 GROUP AS A LESSOR

OPERATING LEASES

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 on the plants, where an insignificant portion of the property is rented out. The properties are insured as part of property, plant and equipment and deposits are held for the duration of the lease to mitigate the any risk associated with the underlying asset. Rental income of R4.9m (2022: R4.5m) was earned.

| | GROUP | | PARENT | |
|---|--------------|--------------|--------------|--------------|
| | 2023 | 2022 | 2023 | 2022 |
| | R'000 | R'000 | R'000 | R'000 |
| At the reporting date, the group had contracted with tenants for the following future minimum lease payments. | | | | |
| 0 - 1 year | 2 471 | 3 602 | 3 564 | 4 695 |
| 1 - 5 years | 1 467 | 1 271 | 2 313 | 2 117 |
| > 5 years | 1 004 | 2 331 | 1 251 | 2 578 |
| | - | - | - | - |
| Total group as a lessor | 2 471 | 3 602 | 3 564 | 4 695 |

24.1. CONTINGENT LIABILITIES & GUARANTEES

| | GROUP | | PARENT | |
|---|---------------|---------------|---------------|---------------|
| | 2023 | 2022 | 2023 | 2022 |
| | R'000 | R'000 | R'000 | R'000 |
| Guarantees | | | | |
| Guarantees have been given by certain financial institutions in respect of payments to utility service providers. | 7 269 | 7 369 | 7 269 | 7 369 |
| Contingent Liabilities | | | | |
| The contingent liabilities relate to possible obligations on supplier contracts of which both the amount and timing of cash outflows are uncertain. | 16 026 | 31 219 | 16 026 | 31 219 |
| Total contingent liabilities & guarantees | 23 295 | 38 588 | 23 295 | 38 588 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

25. POST-RETIREMENT BENEFIT OBLIGATIONS

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

Summary of net liabilities for post-retirement benefit obligations:

Defined benefit plan (refer note 25.2.)

Post-retirement healthcare benefits (refer note 25.3.)

| | Group & Parent | |
|--|----------------|----------------|
| | 2023 | 2022 |
| | R'000 | R'000 |
| Total post-retirement benefit obligations | 360 858 | 412 074 |
| Liability current | 21 835 | 18 776 |
| Liability non-current | 339 023 | 393 298 |

25.1 DEFINED BENEFIT CONTRIBUTION

The total cost charged to income represents the group's portion of the contribution payable to the provident fund scheme. At reporting date all amounts due and payable to this scheme had been paid.

| | GROUP | | PARENT | |
|--|--------|--------|--------|--------|
| | 2023 | 2022 | 2023 | 2022 |
| | R'000 | R'000 | R'000 | R'000 |
| | 37 019 | 38 031 | 33 034 | 34 316 |

25.2 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 2023. 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)"

Key assumptions used in the actuarial valuation were as follows:

| | Group & Parent | |
|-----------------------------------|----------------|--------|
| | 2023 | 2022 |
| | % | % |
| Discount rate | 12.90% | 12.50% |
| Inflation rate | 7.00% | 7.50% |
| Expected rate of salary increases | 8.00% | 8.50% |
| Future pension increase | 4.70% | 5.00% |

Amounts recognised in profit/loss in respect of the defined benefit plan are as follows:

| | Group & Parent | |
|--|----------------|---------------|
| | 2023 | 2022 |
| | R'000 | R'000 |
| Current service cost | 27 057 | 26 696 |
| Interest on obligation | 116 399 | 104 125 |
| Expected return on plan assets | (108 367) | (99 765) |
| Past service cost | 3 452 | - |
| Total included in staff costs in statement of profit and loss | 38 541 | 31 056 |

Amounts recognised in other comprehensive income in respect of the defined benefit plan are as follows:

| | | |
|---------------------------|----------|--------|
| Net actuarial (gain) loss | (62 814) | 19 864 |
|---------------------------|----------|--------|

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

25. POST-RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

25.2 DEFINED BENEFIT PLAN (CONTINUED)

| | Group & Parent | |
|--|-----------------|---------------|
| | 2023 | 2022 |
| | R'000 | R'000 |
| Total included in statement of other comprehensive income | (62 814) | 19 864 |
| 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 | 936 845 | 937 195 |
| Fair value of plan assets | (963 925) | (888 793) |
| Unrecognised due to Par 65 limit | 27 080 | - |
| Net liability in statement of financial position | - | 48 402 |
| Movement in the net liability recognised in the statement of financial position is as follows: | | |
| Net liability at start of year | 48 402 | 21 832 |
| Net expense recognised in the statement of profit and loss | 38 541 | 31 056 |
| Net expense (income) recognised in the statement of other comprehensive income | (62 814) | 19 864 |
| Company contributions | (24 129) | (24 350) |
| Net liability at end of year | - | 48 402 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

25. POST-RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

25.2 DEFINED BENEFIT PLAN (CONTINUED)

| | Group & Parent | |
|--|-----------------|-----------------|
| | 2023 | 2022 |
| | R'000 | R'000 |
| Movements in the defined benefit obligation for the year: | | |
| Defined benefit obligation at beginning of year | 937 195 | 902 885 |
| Current service cost | 27 057 | 26 696 |
| Member contributions | 8 998 | 9 112 |
| Interest cost | 116 399 | 104 125 |
| Actuarial (gain) loss | (79 420) | (30 141) |
| Benefits paid | (69 561) | (68 829) |
| Risk premiums | (5 394) | (4 966) |
| Past service cost | 3 452 | - |
| Expenses | (1 881) | (1 687) |
| Defined benefit obligation at end of year | 936 845 | 937 195 |
| Movements in the present value of plan assets in the current period were as follows: | | |
| Fair value of plan assets at beginning of year | 888 793 | 881 053 |
| Interest on plan assets | 108 367 | 99 765 |
| Member contributions | 8 998 | 9 112 |
| Employer contributions | 24 129 | 24 350 |
| Actuarial (loss)/gain | 10 474 | (50 005) |
| Benefits paid | (69 561) | (68 829) |
| Risk premiums | (5 394) | (4 966) |
| Expenses | (1 881) | (1 687) |
| Fair value of plan assets at end of year | 963 925 | 888 793 |
| Actual Return on Assets | 118 841 | 49 760 |
| The net actuarial gain is as follows: | | |
| Update of assumptions (discount rate) | (37 819) | (56 264) |
| Update of assumptions (inflation rate) | (16 216) | 54 983 |
| Update of assumptions (sattutory discount rate for minimum benefits) | (15 245) | (1) |
| Pension increases | (1 056) | 896 |
| Salary increases | (13 443) | (20 682) |
| Change in suspended pensioner liability | (108) | (275) |
| Demographic experience | 4 466 | (8 799) |
| Other miscellaneous items | 1 | 1 |
| Total | (79 420) | (30 141) |
| | % | % |
| Key assumptions used in the actuarial valuation were as follows: | | |
| Cash | 9.58% | 8.38% |
| Equity | 38.72% | 43.86% |
| Bonds | 21.70% | 21.95% |
| Property | 3.75% | 4.36% |
| International | 23.41% | 19.09% |
| Other | 2.84% | 2.36% |
| Total | 100.00% | 100.00% |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

25. POST-RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

25.2 DEFINED BENEFIT PLAN (CONTINUED)

Percentages reflected in 2023 are based on June 2022 asset composition. The group expects to make a contribution of R24.1m 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:

| Sensitivity Factor | Defined Benefit Plan | | | | |
|---|----------------------|---------|----------|---------|----------|
| | Central Assumption | | Increase | | Decrease |
| | % | % | R'000 | % | R'000 |
| 1% change in discount rates | 12.90% | (5.50%) | (51 925) | 9.90% | 93 045 |
| 1% change in inflation rates | 7.00% | 7.70% | 71 999 | (4.80%) | (44 532) |
| 1% change in salary increase rate | 8.00% | 3.80% | 35 223 | (1.50%) | (13 828) |
| 1 year change in expected future lifetime | 9.2 years | 1.00% | 9 831 | (1.00%) | (9 700) |

The sensitivity analysis presented on the table above reflect the changes to the defined benefit obligation in relation to the changes to the factors

25.3 POST-RETIREMENT HEALTHCARE BENEFITS

The scheme is unfunded and the group has recognised its full past service liability. Actuarial valuations are done annually. The effective date of the most recent valuation is 30 June 2023.

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

Key assumptions used in the actuarial valuation were as follows:

| | Group & Parent | |
|--|-----------------|-----------------|
| | 2023 | 2022 |
| | % | % |
| Discount rate | 13.00% | 12.40% |
| Expected rate of increase in medical indices | 8.50% | 8.90% |
| | R'000 | R'000 |
| Amounts recognised in profit and loss in respect of the post-retirement healthcare costs are as follows: | | |
| Current service cost | 4 557 | 5 296 |
| Interest on obligation | 43 822 | 42 797 |
| Total included in staff costs in statement of profit and loss | 48 379 | 48 093 |
| Actuarial gain | (31 363) | (36 098) |
| Total included in statement of other comprehensive income | (31 363) | (36 098) |
| 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 | 363 672 | 367 619 |
| Net expense recognised in the statement of profit and loss | 48 379 | 48 093 |
| Company contributions | (19 830) | (15 942) |
| Net (income) expense recognised in the statement of other comprehensive income | (31 363) | (36 098) |
| Liability at end of year | 360 858 | 363 672 |
| Movements in the post-retirement healthcare obligation in the current period were as follows: | | |
| Projected benefit obligation at beginning of year | 363 672 | 367 619 |
| Current service cost | 4 557 | 5 296 |
| Interest cost | 43 822 | 42 797 |
| Actuarial gain | (31 363) | (36 098) |
| Employer contributions | (19 830) | (15 942) |
| Projected benefit obligation at end of year | 360 858 | 363 672 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

25.3 POST-RETIREMENT HEALTHCARE BENEFITS (CONTINUED)

The group expects to make a contribution of R23.1m to the post retirement medical aid during the next financial year. An analysis of the impact of changes in the underlying assumptions used in the actuarial valuation are presented in the table below:

| Sensitivity Factor | Post-Retirement Healthcare Benefits | | | | |
|--|-------------------------------------|----------|----------|----------|----------|
| | Central Assumption | Increase | | Decrease | |
| | | % | R'000 | % | R'000 |
| 1% change in medical aid inflation rates | 8.50% | 11.70% | 42 303 | (9.90%) | (35 781) |
| 1 year change in expected retirement age | 60 years | 13.90% | (9 840) | (11.50%) | 9 348 |
| 1% change in discount rate | 13.00% | (9.40%) | (34 054) | 11.30% | 40 702 |

The information presented above is as per the latest valuation, which was performed on 30 June 2023. There has been no changes in the method of valuation used i.e. the Projected Unit Credit method as well as the key assumptions applied.

Under the Projected Unit Credit method, the liability accrues uniformly whilst the member is in service. In this way, the liability may be divided into two parts for each current in-service member:

- the accrued (past service) liability, based on service to date relative to total potential service, and
- the future service liability, which relates to service not yet completed.

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.
- Enforcement of eligibility criteria and rules: The risk that eligibility criteria and rules are not strictly or consistently enforced.

26. FIVE YEAR LONG SERVICE BENEFIT

The liability for the employee long service leave benefit arises when qualifying employee remains in the employ of the organisation for at least 5 years. This benefit excludes the Senior Managers and Executives on the long term incentive bonus benefit. This benefit aims at retaining employees and skills for at least 5 years and more. The employee has the option to commute the full benefit to cash or a full 30 days leave to be taken within a specified period or a combination of the both options being 50% cash and the remainder as leave.

The liability has been determined via an actuarial valuation performed as at 30 June 2023.

| Key assumptions used in the actuarial valuation were as follows: | Group & Parent | |
|--|----------------|--------------|
| | 2023 | 2022 |
| | % | % |
| Discount rate | 9.20% | 7.80% |
| Inflation rate | 4.40% | 5.60% |
| Salary increase rate | 5.40% | 6.60% |
| | R'000 | R'000 |
| Amounts recognised in profit and loss are as follows: | | |
| Current service cost | 6 170 | 5 956 |
| Interest on obligation | 1 422 | 1 074 |
| Current year (gain)/loss | 3 528 | 703 |
| Total included in staff costs in statement of profit and loss | 11 120 | 7 733 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

26. FIVE YEAR LONG SERVICE BENEFIT (CONTINUED)

| Movement in the liability recognised in the statement of financial position is as follows: | Group & Parent | |
|--|----------------|---------------|
| | 2023 | 2022 |
| | R'000 | R'000 |
| Liability at beginning of year | 17 393 | 17 485 |
| Net expense recognised in the statement of profit and loss | 11 120 | 7 733 |
| Company paid benefits | (10 664) | (7 825) |
| Net liability at end of year | 17 849 | 17 393 |
| Liability current | 5 529 | 6 568 |
| Liability non-current | 12 320 | 10 825 |

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 of Umgeni Water comprise of:

- The two 100% owned subsidiaries (Msinsi Holdings SOC Ltd and Umgeni Water Services SOC Ltd);
- the associate Durban Water Recycling Pty Ltd of the group;
- post retirement benefit plans for the benefit of the employees, refer to note 25;
- Key management personnel of Umgeni or its shareholder and close family members of the related parties. Key management personnel for Umgeni Water include the group's Board of directors and the executive management (EXCO) and their remuneration is disclosed in note 33."

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

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. Amounts receivable from related parties are included in the simplified approach for trade and other receivables. All related party transactions are carried within normal trade conditions. The following transactions were carried out with related parties.

| | Group | | Parent | |
|---|---------|---------|---------|---------|
| | 2023 | 2022 | 2023 | 2022 |
| | R'000 | R'000 | R'000 | R'000 |
| Revenue: Sale of goods and services | | | | |
| Revenue: Section 30 | | | | |
| National Department | 271 | 252 | 271 | 252 |
| Sundry Income | | | | |
| Subsidiary | - | - | 1 111 | 1 040 |
| Cost of sales | | | | |
| National Department | 300 566 | 291 721 | 300 566 | 291 721 |
| Section 30 | | | | |
| National Department | 12 381 | 252 | 12 381 | 252 |
| Other operating and administration expenses | | | | |
| Subsidiaries and associates | - | - | 80 638 | 76 572 |
| Work-in-progress: Grant funding for rural development projects | | | | |
| National Department | 642 324 | 200 166 | 642 324 | 200 166 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

27. RELATED PARTIES (CONTINUED)

| | Group | | Parent | |
|--|--------|--------|--------|--------|
| | 2023 | 2022 | 2023 | 2022 |
| | R'000 | R'000 | R'000 | R'000 |
| Investments in subsidiaries | | | | |
| Subsidiaries and associates | 6 240 | 10 031 | - | - |
| Other Receivables | | | | |
| National Departments - Capital unit charge | 89 613 | 89 613 | 89 613 | 89 613 |
| Other payables | | | | |
| Subsidiaries and associates | - | - | 12 800 | 17 574 |
| National Departments | 59 141 | 74 601 | 59 141 | 74 601 |
| Raw water purchases accrual | 59 141 | 74 601 | 59 141 | 74 601 |

28. IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

| | Group | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2023 | 2022 | 2023 | 2022 |
| | R'000 | R'000 | R'000 | R'000 |
| Irregular expenditure incurred in the current year (excluding VAT) | 566 943 | 482 065 | 566 887 | 482 014 |
| Fruitless and wasteful expenditure incurred in the current year | 36 834 | 7 367 | 36 834 | 7 362 |
| Amounts awaiting condonment or write-off | 603 777 | 489 432 | 603 721 | 489 376 |

29. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

29.1.1 CAPITAL MANAGEMENT

| | Group | | Parent | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2023 | 2022 | 2023 | 2022 |
| | R'000 | R'000 | R'000 | R'000 |
| Capital and reserves is consistent with the prior year and consists of: | | | | |
| Capital | 442 847 | 442 847 | 442 847 | 442 847 |
| Accumulated profit | 13 487 170 | 12 325 390 | 13 391 460 | 12 239 965 |
| Other comprehensive income | 511 053 | 416 876 | 511 053 | 416 876 |
| Total | 14 441 070 | 13 185 113 | 14 345 360 | 13 099 688 |
| Total interest bearing debt | 1 116 863 | 1 141 698 | 1 116 863 | 1 141 698 |

29.1.2 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:

- By targeting an optimal debt level;
- 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;
- within approved borrowing limits; and
- by maintaining an external credit rating.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

29. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

29.1.2 DEBT MANAGEMENT (CONTINUED)

DEBT MANAGEMENT STRATEGIES (CONTINUED)

(A) OPTIMAL DEBT LEVEL

Umgeni Water strives to be within an optimal debt level by not exceeding a gearing ratio of 0.30 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 | |
|---|-----------|-----------|-----------|-----------|
| | 2023 | 2022 | 2023 | 2022 |
| | R'000 | R'000 | R'000 | R'000 |
| Gross Debt - Nominal amount (Refer note 19) | 1 083 549 | 1 108 387 | 1 083 549 | 1 108 387 |
| Interest Rate Structure | | | | |
| Fixed | 93% | 91% | 93% | 91% |
| Floating | 7% | 9% | 7% | 9% |
| Gearing Ratio | 0.08 | 0.08 | 0.08 | 0.08 |

(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 3 years before redemption;
- 40% of the capital value 2 years before redemption;
- 75% of the capital value 1 years before redemption;
- the balance is funded during the year of maturity.

In terms of the redemption strategy Umgeni Water has placed a deposit as follows:

| | 2023 | 2022 |
|------------------------|----------------|----------------|
| | R'000 | R'000 |
| UG 26 | 935 000 | 935 000 |
| Redemption asset | (152 894) | - |
| Capital | (149 006) | - |
| Interest | (3 888) | - |
| Net debt - UG26 | 782 106 | 935 000 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

29. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

29.1.2 DEBT MANAGEMENT (CONTINUED)

(C) MANAGING DEBT WITHIN APPROVED BORROWING LIMITS

The borrowing limits for the period 2023 to 2025 were approved by the Minister of Water and Sanitation with the concurrence of the Minister of Finance and are as follows:

| Borrowing Limit | 2025 | 2024 | 2023 | 2022 |
|--------------------------|------------------|------------------|------------------|------------------|
| | R'000 | R'000 | R'000 | R'000 |
| Not exceed as at 30 June | 4 534 000 | 3 325 000 | 2 017 000 | 1 400 000 |
| Guarantees | 7 356 | 7 356 | 7 356 | |
| Total | 4 541 356 | 3 332 356 | 2 024 356 | 1 400 000 |

The borrowing authority is further subjected to Umgeni Water adhering to the following additional requirements

- A gearing limit of 50% calculated as follows: interest-bearing debt relative to total equity;
- A minimum cash interest cover (CIC) ratio of three (3) times,
- A minimum debt service cover ratio (DSCR) of one (1) time
- Umgeni Water submits quarterly progress reports to the Asset and Liability Management division on the Borrowing Programme and Funding Plan, including utilisation of the borrowing authority; and
- Umgeni Water submits bi-annual reports to the Asset and Liability Management division on the progress of major capital expenditure projects and the project plans for the upcoming 6 months. If there are any delays in the projects, the entity should provide reasons for such delays.
- All loan covenants were met for both financial years presented.

| Utilisation of borrowing limits | 2023 | 2022 |
|--|----------------|----------------|
| | R'000 | R'000 |
| Borrowing limit | 2 017 000 | 1 400 000 |
| Gross borrowings (refer to note 19) | (1 083 549) | (1 108 387) |
| Unutilised borrowing limits | 933 451 | 291 613 |
| Borrowing limit | 7 356 | - |
| Collateral and guarantees (refer to note 24) | (7 269) | (7 369) |
| Over/Unutilised borrowing limits | 87 | (7 369) |

GUARANTEES

At 30 June 2023 the group had R7.269m (2022:R7.369m) of guarantees outstanding and this represents the maximum exposure to the Group.

COLLATERAL

At 30 June 2023 the group has no collateral held as security

(D) MAINTAINING AN EXTERNAL CREDIT RATING

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

Umgeni Water's national credit ratings are as follows:

| Rating Agency | Review date | Details | Long-term rating | Short-term rating |
|-------------------|-------------|-----------------|------------------|-------------------|
| Standard & Poor's | 18/05/2023 | Affirmed rating | zaAAA | zaA-1+ |
| FitchRatings | 07/09/2023 | Affirmed rating | AA+(zaf) | F1+(zaf) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

29. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

29.2. 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)

29.2.1 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

| | Group | | Parent | |
|--------------------------------|-----------|-----------|-----------|-----------|
| | 2023 | 2022 | 2023 | 2022 |
| | R'000 | R'000 | R'000 | R'000 |
| a) Investments | 6 450 193 | 5 018 186 | 6 450 193 | 5 018 186 |
| b) Trade and other receivables | 2 790 785 | 2 124 634 | 2 785 223 | 2 123 832 |
| c) Cash and cash equivalents | 290 420 | 824 912 | 225 178 | 765 001 |

A) INVESTMENTS

According to its Investment Policy Umgeni Water will manage investment 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 R2 500m as approved by the Board, and limited to parties where 5% of shareholders funds exceeds R1 000m. The group limits its exposure to credit risk by investing only with counterparties with a national 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.

Deposits with banks and bank balances are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. Credit ratings are used to determine whether credit risk on an instrument has significantly increased since initial recognition. Where there has been no significant increase and the instrument remains of investment grade quality, no credit risk impairment adjustment is made.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

29. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

29.2.1 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 nominal value of the investment placed with each counterparty as 30 June.

FINANCIAL INSTRUMENTS

| Counterparty | Credit Limit | Group & Parent | |
|---------------------------------------|--------------|------------------|------------------|
| | | 2023 | 2022 |
| | | R'000 | R'000 |
| Non-current financial assets | | 152 894 | - |
| Nedbank Limited | 2 000 000 | - | - |
| ABSA Bank Limited | 1 500 000 | - | - |
| First Rand Bank Limited | 1 500 000 | 152 894 | - |
| Current financial assets | | 6 518 981 | 5 775 386 |
| ABSA Bank Limited* | 1 500 000 | 1 342 068 | 1 324 237 |
| First Rand Bank Limited | 1 500 000 | 607 824 | 763 761 |
| Standard Bank of South Africa Limited | 1 500 000 | 671 661 | 1 052 712 |
| Nedbank Limited | 2 500 000 | 2 478 089 | 1 743 595 |
| Nedgroup Money Market Fund Limited | 500 000 | 428 973 | 433 816 |
| Stanlib Money Market Fund Limited | 500 000 | 487 394 | 457 265 |
| Ninety One | 500 000 | 502 973 | - |
| Corporation for Public Deposits | 3 000 000 | - | - |
| Total | | 6 671 874 | 5 775 386 |

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 in the allowance for credit losses. Credit risk relating to bulk supply water service authorities is managed in terms of the contractual arrangements and legislation applicable to organs of state

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.

The group trade and other receivables totalled R1 219m (2022: R1 139m) which comprises both current and non-current components. trade debtor's days were 44 (2022: 61) at the end of the reporting period. The allowance for credit losses increased significantly by 58% as a result of the overdue amounts, amounting to R1, 607m (2022: R1 019m). A detailed analysis of Trade and other receivables is available on Note 16.

Financial assets relating to trade and other receivables exclude amounts relating to employees and VAT receivable

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 is disclosed in note 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

29. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

29.2.1 CREDIT RISK (CONTINUED)

B) TRADE AND OTHER RECEIVABLES (CONTINUED)

The maximum exposure to credit risk for trade and other receivables at the reporting date is disclosed in note 16.

Lifetime Expected Credit Losses

Refer to note 16 for expected credit losses on trade and other receivables.

| | Group & Parent | |
|---|----------------|---------|
| | 2023 | 2022 |
| | R'000 | R'000 |
| Analysis of the ageing of financial assets (trade receivables) which are past due but have not been impaired: | 141 061 | 428 123 |
| 30 days | 117 421 | 83 025 |
| 60 days | 12 396 | 104 215 |
| 90 days | 5 297 | 14 068 |
| 120+ days | 5 947 | 226 814 |

The group believes that the unimpaired amounts that are past due by more than 30 days are still recoverable, based on the customer payment behaviour, subsequent receipts and analysis of customer credit risk.

CASH AND CASH EQUIVALENTS

The group held cash and cash equivalents of R225m at 30 June 2023 (2022: R765m) of the following which represents the maximum credit exposure on these assets.

| Counterparty | Group | | Parent | |
|---------------------------------------|----------------|----------------|----------------|----------------|
| | 2023 | 2022 | 2023 | 2022 |
| | R'000 | R'000 | R'000 | R'000 |
| Cash | 290 126 | 824 669 | 225 148 | 764 976 |
| First Rand Bank Limited | 106 239 | 59 693 | 41 261 | - |
| ABSA | 66 125 | 547 320 | 66 125 | 547 320 |
| Standard Bank of South Africa Limited | 96 690 | - | 96 690 | - |
| Nedbank Bank Limited | 21 072 | 217 656 | 21 072 | 217 656 |
| Total | 290 126 | 824 669 | 225 148 | 764 976 |

remaining balance of R169K (2022: R244K) for the Group and R30K (2022: R25K) in for the parent represents petty cash in Rands per thousand for which there is no credit risk attached.

29.2.2 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:

- Monitoring the level of contractual cash flows of financial assets and compared to those of financial liabilities.
- Short-term funding facilities to meet on-going cash requirements for which facility options are in place with four banks.
- A domestic medium note programme, which has been established allowing for longer dated debt such as bonds to be issued with relative ease.
- A redemption strategy framework, which provides guidelines for managing the risks associated with refinancing large debt maturities (such as UG21 and UG26 bonds), and
- Management of debt within approved borrowing limits by National Treasury.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

29. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

29.2.2.1 LIQUIDITY RISK INHERENT IN CONTRACTUAL CASH FLOWS

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

| | Weighted average effective interest rate | Group | | | |
|------------------------------------|--|------------------|----------------|----------|------------------|
| | | 1 year | 1-5 years | >5 years | Total |
| | | R'000 | R'000 | R'000 | R'000 |
| Financial Assets | | | | | |
| 2023 | | | | | |
| Fixed interest rate instruments | 8.36% | (20 688) | 201 485 | - | 180 797 |
| Variable interest rate instruments | 8.63% | 6 587 719 | - | - | 6 587 719 |
| Trade and other Receivables | n/a | 2 092 155 | 698 630 | - | 2 790 785 |
| Total | | 8 659 186 | 900 115 | - | 9 559 301 |

2022

| | | | | | |
|------------------------------------|-------|------------------|----------------|----------|------------------|
| Variable interest rate instruments | 5.73% | 5 893 310 | - | - | 5 893 310 |
| Trade and other Receivables | n/a | 1 845 857 | 278 777 | - | 2 124 634 |
| Total | | 7 739 167 | 278 777 | - | 8 017 944 |

The group and parent figures remain the same with immaterial difference relating to the subsidiary.

The following tables summarises Umgeni Water's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Umgeni Water can be required to pay. The table includes both interest and principal cash flows which may differ from the carrying values of the liabilities at the reporting date.

| | Weighted average effective interest rate | Group | | | |
|------------------------------------|--|----------------|------------------|---------------|------------------|
| | | 1 year | 1-5 years | >5 years | Total |
| | | R'000 | R'000 | R'000 | R'000 |
| Financial Liabilities | | | | | |
| 2023 | | | | | |
| Fixed interest rate instruments | 11.12% | 125 869 | 1 212 094 | 26 581 | 1 364 544 |
| Variable interest rate instruments | 8.52% | 19 638 | 65 271 | 13 866 | 98 775 |
| Trade and other payables | n/a | 834 552 | - | - | 834 552 |
| Total | | 980 059 | 1 277 366 | 40 447 | 2 297 871 |

2022

| | | | | | |
|------------------------------------|--------|----------------|------------------|---------------|------------------|
| Fixed interest rate instruments | 11.12% | 125 542 | 1 320 880 | 33 903 | 1 480 325 |
| Variable interest rate instruments | 6.79% | 18 517 | 67 899 | 21 293 | 107 710 |
| Trade and other payables | n/a | 626 316 | - | - | 626 316 |
| Total | | 770 375 | 1 388 779 | 55 197 | 2 214 351 |

The group and parent figures remain the same with immaterial difference relating to the subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

29. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

29.2.1 CREDIT RISK (CONTINUED)

29.2.2.2 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 UG26 was issued at a total nominal value of R935m at a fixed rate of 11.31% on 09 March 2016, under the DMTN Programme. The unutilised portion of the programme as at the 30 June 2023 is R1 108m.

(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 | | |
| General Banking facility | 20 000 | 30 000 |

(C) BANK LOANS

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

29.2.3 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

29. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

29.2.3 INTEREST RATE RISK (CONTINUED)

| | Group & Parent | | |
|--|-------------------|--------------------|--------------------|
| | Recommended Ratio | 2023 | 2022 |
| | | R'000 | R'000 |
| Ratio of fixed to floating interest rate | | | |
| Fixed | 70% | 93% | 91% |
| Floating | 30% | 7% | 9% |
| At reporting date the interest rate profile of the group's interest bearing financial instruments is as follows: | | | |
| Fixed rate instruments | | | |
| Financial assets | | - | - |
| Financial liabilities | | (1 012 581) | (1 024 516) |
| Net position | | (1 012 581) | (1 024 516) |
| Variable rate instruments | | | |
| Financial assets | | 6 671 874 | 5 775 386 |
| Financial liabilities | | (71 250) | (84 105) |
| Net Position | | 6 600 624 | 5 691 281 |

SENSITIVITY ANALYSIS

A sensitivity analysis to a change in interest rates has been performed based on the exposure to interest rates for both derivatives and non-derivative instruments at the reporting date. For floating rate liabilities and investments, the analysis is prepared assuming the amount of liability and investment outstanding at the reporting date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonable possible change in interest rates. The sensitivity analysis assumes that all other variables remain constant and has been prepared on the same basis for the prior year.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the group's profit for the year ended 30 June 2023 would decrease/increase by R7.8m (2022: R7.7m)

29.4. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

29. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

29.4. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES (CONTINUED)

CARRYING VALUES

CATEGORIES OF FINANCIAL INSTRUMENTS

| | GROUP | | PARENT | |
|---|------------------|------------------|------------------|------------------|
| | 2023 | 2022 Restated | 2023 | 2022 Restated |
| | R'000 | R'000 | R'000 | R'000 |
| Non-current financial assets | | | | |
| Financial assets at amortised cost | 182 384 | 28 458 | 182 070 | 28 151 |
| Redemption assets | 152 894 | - | 152 894 | - |
| Money market investments | - | - | - | - |
| Trade and other receivables | 29 490 | 28 458 | 29 176 | 28 151 |
| Current financial assets | | | | |
| Financial assets at amortised cost | 7 741 676 | 6 982 588 | 7 671 484 | 6 894 061 |
| Money market investments | 6 297 299 | 5 018 186 | 6 297 299 | 5 081 186 |
| Trade and other receivables | 1 153 957 | 1 139 490 | 1 149 007 | 1 110 874 |
| Cash and cash equivalents | 290 420 | 824 912 | 225 178 | 765 001 |
| Financial Liabilities | | | | |
| Held at amortised cost | 1 951 415 | 1 768 014 | 1 958 277 | 1 755 603 |
| Long and short-term debt | 1 116 863 | 1 141 698 | 1 116 863 | 1 141 698 |
| Accounts payable | 834 552 | 626 316 | 841 414 | 613 905 |

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 VALUES

| | Fair Value Hierarchy Level | GROUP | | PARENT | |
|------------------------------|-------------------------------|-------------|-------------|-------------|-------------|
| | | 2023 | 2022 | 2023 | 2022 |
| | | R'000 | R'000 | R'000 | R'000 |
| Non-current financial assets | Level 2 | 141 623 | - | 141 623 | - |
| Redemption assets | | | | | |
| Long and short-term debt | Level 2 | (1 138 591) | (1 177 007) | (1 138 591) | (1 177 007) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

29. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONT)

29.4. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES (CONTINUED)

FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

| Financial Instrument | Valuation Technique | Significant unobservable inputs |
|-------------------------------|---|---------------------------------|
| Non-current 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 |

30. MATERIAL PRIOR PERIOD ERROR

During the year, the JSE advised Umgeni Water that its 2021/2022 financial statements were subject to the JSE's Proactive Monitoring process. In terms of this process, "matter 1 definition of investing activities per IAS 7.6" indicated that Umgeni Water's treatment of the change in investments in the cashflow statement was deemed to be not in compliance with IAS7 the statement on Cashflow Statements. In this regard the JSE were of the opinion that the change of investments disclosed as financing activity was not correct and requested that Umgeni Water change the disclosure of the movement in investments and interest to changes in investing activities. Furthermore, certain qualifying investments (call and money market fund investments) would be cash equivalents provided that the definitions of IAS 7.6 and 7.7 were met, i.e., the investments did not have a maturity of greater than 3 months from date of acquisition and there was an insignificant risk of change in value. All other investments would remain as investments on the statement of financial position.

STATEMENT OF CASH FLOWS

| | Group | | | Parent | | |
|-----------------------------------|------------------------|------------------|----------------|------------------------|------------------|----------------|
| | As previously reported | Reclassification | Restated | As previously reported | Reclassification | Restated |
| | 2022 | 2022 | 2022 | 2022 | 2022 | 2022 |
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| Cash from operating activities | | 82 476 | 82 476 | | 81 091 | 81 091 |
| Interest received | - | 82 476 | 82 476 | - | 81 091 | 81 091 |
| Cash used in financing activities | | 854 324 | - | | 855 710 | - |
| Increase in investments | (1 041 796) | 1 041 796 | - | (1 041 798) | 1 041 798 | - |
| Interest received | 187 472 | (187 472) | - | 186 088 | (186 088) | - |
| Cash used in investing activities | | (2 210 518) | (2 210 518) | | (2 210 518) | (2 210 518) |
| Movement in investments | - | (2 312 892) | (2 312 892) | - | (2 312 892) | (2 312 892) |
| Interest received | - | 102 374 | 102 374 | - | 102 374 | 102 374 |
| Cash and cash equivalents | 67 712 | 757 200 | 824 912 | 7 801 | 757 200 | 765 001 |

STATEMENT OF CASH FLOWS

| | Group | | | Parent | | |
|---------------------------|------------------------|------------------|-----------|------------------------|------------------|-----------|
| | As previously reported | Reclassification | Restated | As previously reported | Reclassification | Restated |
| | 2021 | 2021 | 2021 | 2021 | 2021 | 2021 |
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| Cash and cash equivalents | 41 434 | 2 030 917 | 2 072 351 | 203 | 2 030 917 | 2 031 120 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

30. MATERIAL PRIOR PERIOD ERROR (CONTINUED)

STATEMENT OF FINANCIAL POSITION

| | Group | Parent | Group | Parent |
|--------------------------------|-----------|-----------|-------------|-------------|
| | 2022 | 2022 | 2021 | 2021 |
| | R'000 | R'000 | R'000 | R'000 |
| ASSETS | | | | |
| Current assets | | | | |
| Investments - financial assets | (757 200) | (757 200) | (2 030 917) | (2 030 917) |
| Bank and cash | 757 200 | 757 200 | 2 031 008 | 2 030 917 |

31. SUBSEQUENT EVENTS

Mhlathuze Water was disestablished effective on 01 July 2023 and was merged with Umgeni Water, with all its staff, assets and liabilities effective on 01 July 2023, in terms of Section 46 of the Water Services Act, 1997 (Act No. 108 of 1997). This will then result in a single water entity, uMngeni-uThukela Water. The impact of transfer of assets, liabilities and employees of Mhlathuze Water to Umgeni Water will be accounted for in the 2023/24 financial year as the disestablishment occurred after 2022/23 financial year end. At the time of preparation of these annual financial statements, it was not possible to make an estimate of what will be the financial implications of incorporating former Mhlathuze Water operations into Umgeni Water as the operations, assets and liabilities of Mhlathuze Water will be wholly absorbed by Umgeni Water. Management did not identify any other subsequent event in addition to incorporation of Mhlathuze Water's operations to Umgeni Water as described above.

32. GOING CONCERN

The directors, having considered all the relevant information, have satisfied themselves that the group is in a sound financial position, it has sufficient liquidity, and that it has adequate access to sufficient borrowing facilities to meet its foreseeable cash requirements. There are adequate resources to continue operating for the foreseeable future and it is therefore appropriate to adopt the going concern basis in preparing the financial statements. The Executive Authority has proceeded with the Institutional re-alignment of Umgeni Water and Mhlathuze Water effective from 1 July 2023. As part of the reconfiguration process, there will be a transfer of the staff, assets, and liabilities of Mhlathuze Water to Umgeni Water. Concurrently, a name change for Umgeni Water has been approved, with the new name being UMngeni-UThukela Water. However, this change does not affect the going concern of entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

33. 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 Board of 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 comprises of the following components:

- **Guaranteed amount:**

The guaranteed amount comprises a fixed cash portion and compulsory benefits such as medical aid and retirement that altogether comprise the total cost to company.

- **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

| | | | | | 2023 | 2022 |
|---|--------------------------|----------------------|--------------------|--------------------------|-------|-------|
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| Non-Executive Board Members | Fees for services/salary | Allowances & Bonuses | Expense allowances | Retirement contributions | Total | Total |
| Ms. Z.B Mathenjwa (Chairperson) ^{N1} | 600 | - | 8 | - | 609 | 1 260 |
| Ms. N.B Chamane ^{N1} | 269 | - | 3 | - | 272 | 643 |
| Mr. V.G Reddy ^{N1} | 319 | - | 3 | - | 321 | 690 |
| Mrs. M. Ndlovu ^{N1} | - | - | - | - | - | 673 |
| Mr. S Shabalala ^{N1} | 450 | - | 5 | - | 455 | 803 |
| Mr. T Nkhahle ^{N1} | 279 | - | 3 | - | 281 | 637 |
| Adv. S. Chamane ^{N1} | 281 | - | 3 | - | 284 | 671 |
| Mr. W.L. Mapena ^{N1} | 323 | - | 5 | - | 329 | 761 |
| Prof. T. Mthembu ^{N1} | 59 | - | 2 | - | 61 | 763 |
| Mr. M.E. Zakwe ^{N1} | 377 | - | - | - | 377 | 689 |
| Ms. B. Zulu ^{N1} | 378 | - | - | - | 378 | 648 |
| Mr. S. Badat ^{N1} | 333 | - | - | - | 333 | 656 |
| Mrs. L. Ngcobo ^{N1, N2} | 365 | - | - | - | 365 | 475 |
| Mr. M. Mzobe (Chairperson) ^{N2} | - | - | - | - | - | 275 |
| Mr. T.J. Tselane ^{N2} | - | - | - | - | - | 162 |
| Mr. V.V. Ndara ^{N2} | - | - | - | - | - | 124 |
| Ms. P. Ntombela ^{N2} | - | - | - | - | - | 153 |
| Ms. S.F. Getyeza ^{N2} | - | - | - | - | - | 152 |
| Adv. M.T. Magigaba ^{N2} | - | - | - | - | - | 144 |
| Mr. B.I. Dladla ^{N2} | - | - | - | - | - | 133 |
| Mr. S.J. James ^{N2} | - | - | - | - | - | 153 |
| Mrs. U.P. Mhlophe ^{N2} | - | - | - | - | - | 147 |
| Mr. M.B. Ngubo ^{N2} | - | - | - | - | - | 165 |
| Mr. M. Msiwa (Chairperson) ^{N3} | 382 | - | 5 | - | 387 | - |
| Ms. H.P. Majoji ^{N3} | 214 | - | 2 | - | 216 | - |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

33. REMUNERATION REPORT (CONTINUED)

DIRECTORS' AND EXECUTIVES' EMOLUMENTS (CONTINUED)

| | | | | | 2023 | 2022 |
|--|--------------------------|----------------------|--------------------|--------------------------|---------------|---------------|
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| Non-Executive Board Members | Fees for services/salary | Allowances & Bonuses | Expense allowances | Retirement contributions | Total | Total |
| Ms. T.S. Mhlongo ^{N3} | 221 | - | 3 | - | 224 | - |
| Mr. S.W. Mkhize ^{N3} | 281 | - | 2 | - | 282 | - |
| Mr. J. Ndlovu ^{N3} | 277 | - | 3 | - | 280 | - |
| Adv. L. Gopaul ^{N3} | 207 | - | 2 | - | 209 | - |
| Ms. Mbonambi ^{N3} | 231 | - | - | - | 231 | - |
| | - | - | - | - | - | - |
| Total Non Executive Board Members | 5 846 | - | 48 | - | 5 894 | 10 975 |
| Non-Executive Board Members | | | | | | |
| Mr. T. Hlongwa (CE) | - | - | - | - | - | 2 899 |
| Dr. S. Manana (ACE) ^{N10} | 2 381 | 10 684 | 2 | - | 13 067 | 4 610 |
| Total Parent | 8 227 | 10 684 | 50 | - | 18 961 | 18 484 |
| Msinsi Holdings (SOC) Ltd | | | | | | |
| Non-Executive Board Members | 1 700 | - | - | - | 1 700 | 629 |
| Total Subsidiaries | 1 700 | - | - | - | 1 700 | 629 |
| Total Group | 9 927 | 10 684 | 50 | - | 20 661 | 19 114 |
| Exco Members | | | | | | |
| Mrs. M. Pillay | 1 190 | 14 727 | 30 | - | 15 947 | 2 841 |
| Mrs. N. Mkhize ^{N4} | - | - | - | - | - | 1 027 |
| Mr. S. Mjwara | 162 | 8 422 | - | - | 8 584 | 2 742 |
| Mr S. Dube | 145 | 21 | 25 | 24 | 216 | 2 439 |
| Ms. N. Makhubu | 155 | 13 | 3 | - | 171 | 2 051 |
| Mr T. Mkhwanazi | 2 084 | 220 | 32 | 298 | 2 633 | 1 064 |
| Mrs. K. Singh ^{N5} | - | - | - | - | - | 1 602 |
| Mr. M.O. Dlamini ^{N6} | - | - | - | - | - | 1 144 |
| Mr. X.J.Chamane ^{N11} | 1 538 | 300 | 115 | 127 | 2 080 | - |
| Mr. S.B. Mazibuko ^{N7} | 1 506 | 499 | 42 | 176 | 2 224 | - |
| Dr. N. Deppa ^{N7} | 1 745 | 102 | 284 | 283 | 2 414 | - |
| Mr D.S.D. Madonsela ^{N7} | 2 150 | 742 | 109 | - | 3 001 | - |
| Mr R. Phora ^{N7} | 1 085 | 89 | 95 | - | 1 270 | - |
| Mr T.D. Shangase ^{N8} | 1 228 | 653 | 319 | 342 | 2 543 | - |
| Mr N.E. Cele ^{N9} | 540 | 316 | 69 | 99 | 1 024 | - |
| Total Exco | 13 529 | 26 104 | 1 124 | 1 349 | 42 107 | 14 911 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

33. REMUNERATION REPORT (CONTINUED)

LONG-TERM INCENTIVE BONUS

In terms of the approved Remuneration Strategy, Umgeni Water aims to attract and retain talented high performing employees who can contribute technically, operationally and financially at a higher than average level, solving problems for customers and finding solutions that will contribute to the overall profitability of the organisation whilst operating in a safe and responsible manner. As a result remuneration consists of a variable pay portion is made up of Short-term incentives (STIs) and Long-term incentives (LTIs). It is designed to reward performance and productivity based on the achievement of specific annual performance criteria. The qualifying criteria for Variable Pay will always be conditional upon set performance outcomes/criteria and is not guaranteed and will always remain at the Board's discretion.

Performance linked to the long-term incentive is only applicable to the Chief Executives, General Managers, Senior Managers Graded level 4. The available variable pay is calculated on a maximum of 20% of the audited surplus after considering the covenant level for infrastructure sustainability. The available variable pay shall be apportioned with 70%/30% split to reflect the higher risk associated with the Executive team. Therefore, 70% of the available long-term performance bonus will be divided equally between the Chief Executive and Executives and the 30% divided equally between Grade 4 Senior Managers.

In terms of the Umgeni Water Performance Management Policy, the long-term incentive bonus, based on variable pay, is payable when the following conditions are met:

- '- Executives and Senior Managers who consistently achieve a performance rating above 75% qualify for a long term bonus.
- '- The pay-out of the long term performance bonus is calculated in accordance with an AD VALOREM schedule which reflects the cumulative incentive earned up to that point and only a given percentage is applied to be paid out, i.e. as follows:
 - a) Year 2 = 30% of incentive earned
 - b) Year 4 = 50% of incentive earned at that point
 - c) Year 5 = 85% of the incentive earned at that point is paid out

'- In the event that an Executive's contract comes to an end and the employee is not offered a contract renewal, they shall be entitled to receive the full payout due at the end of their 5 year performance contract.

Conditions met were approved by the board in February 2021, as a result the following long term incentive bonuses have accrued to Executives:

| Name | Designation | Opening Balance | Accrued/ | Sub-total | Utilised | Total provided |
|---|---|-----------------|---------------|---------------|-----------------|----------------|
| | | 1 July 2022 | (Reversed) | 30 June 2023 | 2023 | 30 June 2023 |
| | | R'000 | R'000 | R'000 | R'000 | R'000 |
| Mrs. M. Pillay | Chief Operations Officer | 8 975 | 4 698 | 13 673 | (13 673) | - |
| Mr S. Madonsela | Group Chief Governance and Compliance Officer | - | 1 167 | 1 167 | - | 1 167 |
| Dr. S. Manana | Group Chief Shared Services Officer | 4 801 | 4 585 | 9 386 | (9 386) | - |
| Total Executives | | 13 776 | 10 450 | 24 226 | (23 059) | 1 167 |
| Management | | | | | | |
| Mr D. Naidoo | | 2 469 | 2 520 | 4 989 | - | 4 989 |
| Mr. S. Dube | | - | 4 666 | 4 666 | - | 4 666 |
| Mr Mbambo | | - | 2 333 | 2 333 | - | 2 333 |
| Ms N Sikutshwa | | 2 302 | 2 508 | 4 810 | - | 4 810 |
| Mr. S. Mjwara | | 8 204 | 4 868 | 13 072 | (7 650) | 5 422 |
| Total Management | | 12 975 | 16 895 | 29 870 | (7 650) | 22 220 |
| Long - term incentive bonus provided | | 26 751 | 27 345 | 54 096 | (30 709) | 23 387 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT

FOR THE YEAR ENDED 30 JUNE 2023 (CONTINUED)

33. REMUNERATION REPORT (CONTINUED)

SERVICE CONTRACT PERIOD OF EXECUTIVES

| Executives | Designation | Date first appointed by the Board | Date last re-appointed | Date due for re-appointment/Contract terminated |
|------------------------------------|---|-----------------------------------|------------------------|---|
| Mrs. M. Pillay | Chief Operations Officer | 01 December 2018 | n/a | 01 December 2022 |
| Mrs. N. Mkhize | Chief Financial Officer | 05 December 2018 | n/a | 06 October 2021 |
| Mr. S. Mjwara | General Manager: Special Projects | 01 November 2018 | n/a | 01 November 2023 |
| Dr. S. Manana (ACE) ^{N10} | Group Chief Shared Services Officer (Acting Chief Executive) | 01 July 2022 | n/a | 30 June 2027 |
| Mr S. Dube | General Manager: Special Projects | 01 February 2021 | n/a | 31 January 2026 |
| Ms. N. Makhubu | Chief Audit Executive | 01 February 2021 | n/a | 31 October 2022 |
| Mr. T. Mkhwanazi | Group Chief Financial Officer | 01 February 2022 | n/a | 31 January 2027 |
| Mr. X.J.Chamane ^{N11} | Executive Infrastructure Development | 01 August 2022 | n/a | 30 June 2023 |
| Mr. S.B. Mazibuko ^{N7} | Executive Operations | 01 August 2022 | n/a | 31 July 2027 |
| Dr. N. Deppa ^{N7} | Executive Scientific Services | 01 August 2022 | n/a | 31 July 2027 |
| Mr R. Phora ^{N7} | Chief Audit Executive | 01 November 2022 | n/a | 16 May 2023 |
| Mr D.S.D. Madonsela ^{N7} | Group Chief Governance and Compliance Officer | 01 July 2022 | n/a | 30 June 2027 |

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 NON-EXECUTIVE DIRECTORS (EMPLOYED AS EXECUTIVE IN UMGENI WATER)

| Executives | Designation | Date first appointed by the Board | Msinsi Holdings SOC Limited | Umgeni Water Services SOC Limited | Resignation date |
|--------------|------------------------|-----------------------------------|-----------------------------|-----------------------------------|------------------|
| Dr. N. Deppa | Non Executive Director | 01 January 2023 | ✓ | N/A | N/A |

N1: Served as Board members for the 2019/2020 financial year and their contract ended on the 31st of July 2020 and reinstated on the 1st of November 2021, their contracts ended on the 7th of March

N2: Interim Board appointed on 1 August 2020 and their contracts ended on the 30th of October 2021

N3: Interim Board appointed on the 8th of March 2023

N4: Mrs N Mkhize is the Chief Financial Officer who was appointed as the Acting Chief Executive from 02 November 2020, she resigned on the 6th of October 2021

N5: Mrs K. Singh acted as Chief Financial Officer from 01 July 2020 to 31 January 2022

N6: Mr M.O. Dlamini acted as Chief Executive from 01 December 2021 to 30 June 2022

N7: New Appointments of Group Chiefs and Executives. GCSSO Acted as Chief Executive.

N8: Mr T.D. Shangase acted as Group Chief Shared Services Officer

N9: Mr N.E. Cele Acted as Executive Operations



| | |
|-------------------|-----------------------|
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