



Financial Report

Financial Review

Introduction

Umgeni Water has consistently improved its financial performance over the past five years and delivered on the commitments made to its stakeholders in 2003, when the turnaround strategy was approved. The current year's positive operating results and strong cash flows have enabled the group to strengthen its financial position and reduce its gearing levels beyond the targets set for the current financial year.

This review is an analysis of key areas of the operational results and financial position of the group for the year under review and must be read in conjunction with the annual financial statements.

Operating performance

Key indicators

The key indicators of the group's operating performance are as follows:

	2008	% change	2007
Water volume sold (kl'000)	403,754	8	373,857
	R'm		R'm
Revenue	1,289	9	1,188
Bulk water	1,191	14	1,048
Waste water	35	(20)	44
Other activities	63	(34)	96
Cost of sales	(393)	3	(382)
Bulk water	(323)	15	(281)
Waste water	(21)	17	(18)
Other activities	(49)	(41)	(83)
Gross profit	896	11	806
Other income	8	-	8
Administration expenses	(347)	1	(344)
Profit from operations	557	19	470
Net finance costs	165	(25)	220
Share of profit from associate	1	-	1
Profit for the year	393	57	251

Analysis of year on year changes

The 9% growth in revenue is primarily attributable to the increase in bulk water revenue which has grown by 14% against the prior year. This growth is due to a 5% tariff increase and an 8% volume increase. The growth of Umgeni Water's operations in the iLembe District Municipality as a result of the extension of services to Maphumulo Municipality, Ndwedwe Local Municipality and KwaDukuza Local Municipality, contributed 1.6% of the total volume increase.

The business segments which include waste water treatment and section 30 activities reflect a combined reduction in revenue of 30%. The 20% reduction in waste water revenue, results from a credit note passed in terms of a dispute settlement for a contractual arrangement with the Msunduzi Municipality. Household and school sanitation projects carried out on behalf of the Department of Education and municipalities reduced considerably in the current year thus contributing to the significant reduction in section 30 activities.

The combined direct costs of production for water and waste water reflect a 15% increase on prior year due to significant increases in energy, chemical and maintenance costs. The gross profit percentage however, remained positive with an 11% growth in gross profit.

The impact of the general increase of about 9% in administration expenses was offset by the effect of a bad debt provision release of R3m in the current year (2007: increase of R12m) and a R10m reduction in asset impairments (2007: R16m), thus reducing the net increase in administration expenses to 1%.

The positive reduction in finance costs is derived primarily from the lower debt levels and the increase in interest income arising from the increase in investments. Net finance costs reduced to 12.8% of revenue compared to 18.5% in the prior year. Interest cover ratio improved from 2 to 3 times.

Financial Review continued

Since 2004 the sales of bulk water volume increased by 19 % and further analysis of volumes sold in 2008 is shown in the table below.

Bulk water sales volume analysis

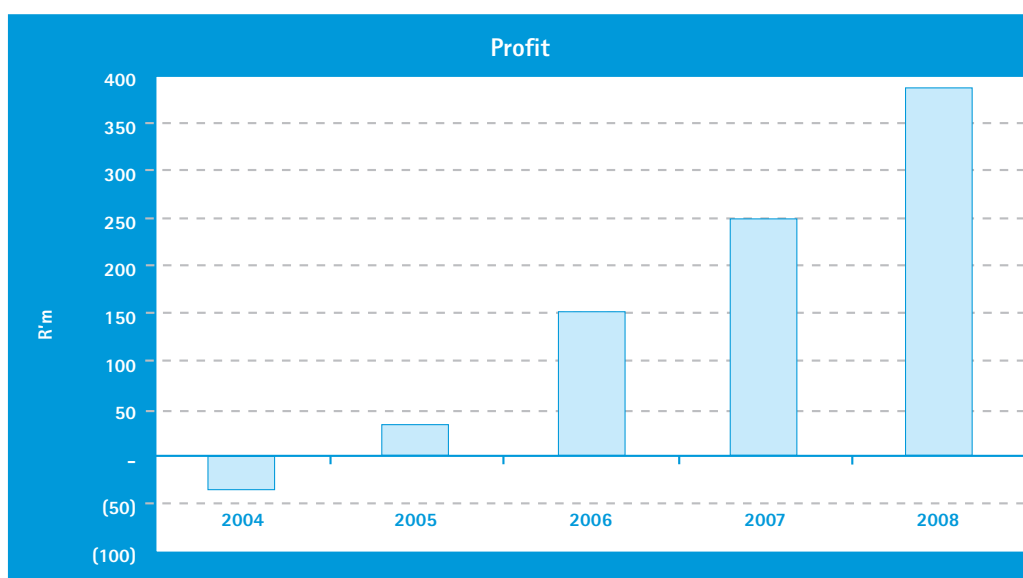
Customer	2008 bulk water sales volume			4 year average annual growth %
	Volume k'l'000	Annual growth %	% of total volume sold	
eThekwini	315,524	5.4	78.1	3.4
Msunduzi	57,732	11.8	14.3	6.2
uMgungundlovu	9,320	11.6	2.3	10.4
Siza	3,774	8.0	0.9	7.6
Ugu	5,573	16.0	1.4	10.5
iLembe	8,276	210.2	2.0	113.6
Sisonke	802	(13.7)	0.2	3.8
Other	2,753	3.9	0.7	(6.9)
Total	403,754	8.0	100.0	4.4

Profit trend analysis

The profit trend analysis reflects the success of the turnaround strategy in terms of operational performance and reinforces Umgeni Water's commitment to remaining an efficient bulk water service provider that will generate sufficient funds to target delivery of water and sanitation services through its capital expenditure programme whilst maintaining a stable and affordable bulk water tariff.

The split in profit between the three business segments continues to be skewed significantly towards bulk water which represents R381m (97%) of the total R393m in 2008.

Waste water and section 30 activities with a total profit of R11m for the year reflect a reduction from 7% of total profit to 3% in 2008 due to the reduction in revenue in both of those segments.



Financial Review continued

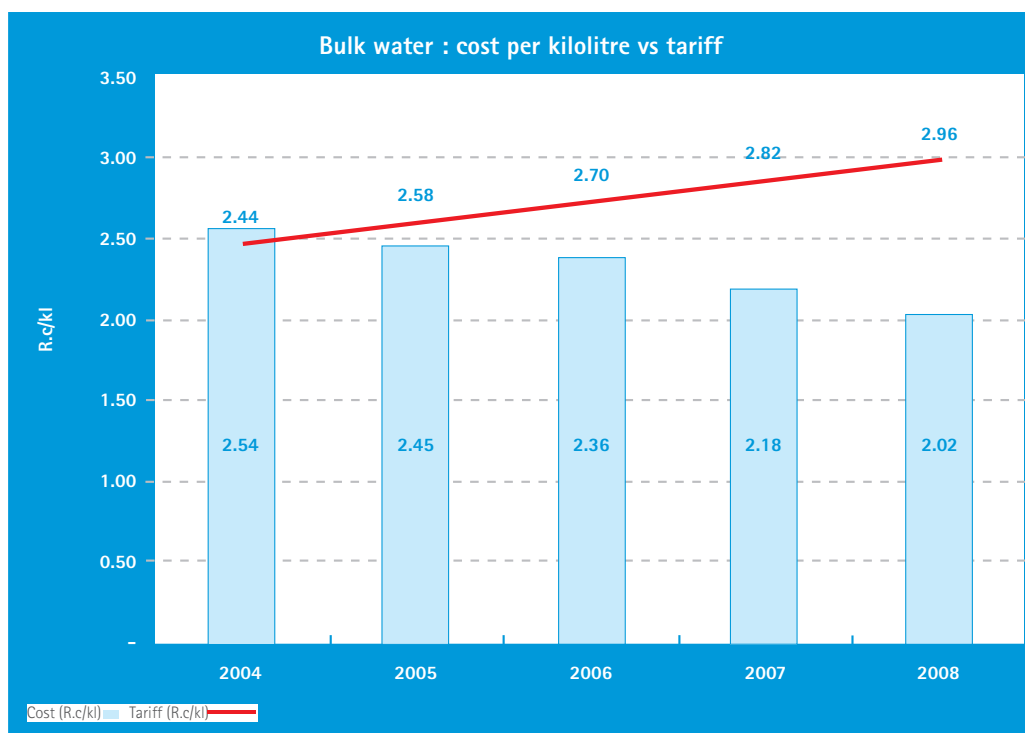
Bulk water tariff

Umgeni Water's tariff methodology is cash flow based and assumes that tariff increases will be CPIx linked, thus assuring that Umgeni Water's tariff is constant in real terms whilst allowing for the repayment of debt and infrastructure funding requirements.

The improved operational efficiencies and continued positive financial results have enabled Umgeni Water to pass a tariff increase effective 1 July 2008 below the projected inflation levels for 2008/2009.

	2004	2005	2006	2007	2008	2009
Tariff 1 (R/kl)	2.442	2.579	2.698	2.819	2.960	3.078
% Tariff Increase	8.0%	5.6%	4.6%	4.5%	5.0%	4.0%
Tariff 2 (R/kl)	2.442	2.579	2.698	2.819	2.960	3.019
% Tariff Increase	8.0%	5.6%	4.6%	4.5%	5.0%	2.0%
Average CPIx						
Year on Year Average ¹	4.8%	3.9%	4.3%	5.4%	8.7%	10.4%
Calendar Average ²	4.3%	3.9%	4.6%	6.5%	11.4% ^(f)	7.2% ^(f)
(1) Financial year: 1 July to 30 June						
(2) Calendar year: 1 January to 31 December						
(f) Denotes forecast						

The graph below illustrates the cost per kilolitre compared to the bulk water tariff over the past five years.

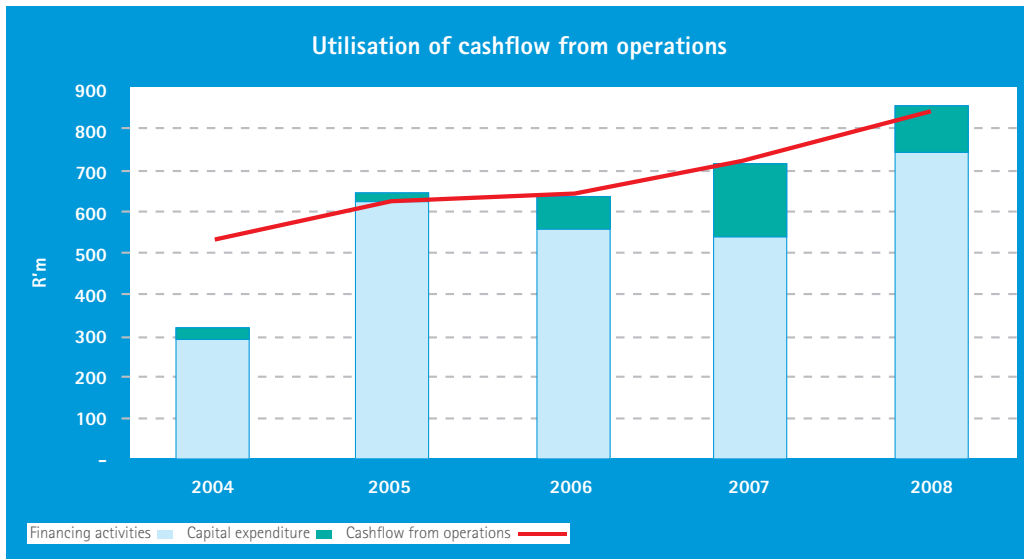


Financial Review continued

Cash flow analysis

Positive cash generated from operating activities has allowed Umgeni Water to finance its capital infrastructure programme while continuing to reduce debt and gearing levels.

The group realised R844m cash from operations which represents an increase of R120m (17%) on the prior year. This was utilised as follows: R109m for capital expenditure and R746m in financing activities. Cash used in financing activities consisted of R125m debt repayment, R379m placed in financial investments and R241m used to cover net finance costs. The graph below reflects a five year review of the utilization of cash from operating activities.



Settlement of Msunduzi debt

In 2008 a settlement was reached with Msunduzi Municipality on a dispute arising from the management fee charged for the operation and maintenance of the Darvill Waste Water Treatment Works. In terms of the settlement agreement a credit note of R60m was passed with R50m being offset against the provision for doubtful debts and the remainder against revenue for the current year.

Umgeni Water is in the process of negotiating a new contract with Msunduzi Municipality for the treatment of sewerage and trade effluent at the Darvill Waste Water Treatment Works to be effective from 1 July 2008.

Capital projects

During the year the group's capital expenditure amounted to R109m. This was significantly lower than the R426m target set for capital investment in new works as per the shareholders compact. The shortfall is due largely to the delay in the recruitment of skills for the project office, design changes required to reduce forecast project costs and delays in the appointment of engineering consultants.

A significant portion of the 2008 capital expenditure was for the South Coast pipeline which was capitalised at a cost of R218m including R22m of borrowing costs. The project was successfully commissioned in June 2008 and was critical in providing water to the South Coast area during the devastating floods which occurred during the commissioning period.

Financial Review continued

The capital expenditure programme for the next five years is estimated at R1.7bn. This will be partly funded through the raising of debt (as discussed under the debt section below). To date the following major projects have been approved:

Project	Vote number	Commissioning date	Costs as at	Future	Total costs
			30 June 2008	expected costs	
			R'm	R'm	R'm
Pipeline Greendale to Howick WW	2007/031	Sep-08	6	2	8
South Coast pipeline	2006/UI110	Dec-08	6	27	33
Durban Heights booster pump station	2007/20	Mar-09	2	56	58
Ngcebo - KwaDukuza scheme	2008/46	Jun-09	1	11	12
North Coast system	2007/050	Nov-09	2	184	186
South Coast pipeline booster pump station	2007/15	Dec-09	0	15	15
Richmond pipeline	2007/06	Mar-10	3	57	60
57 pipeline	2007/04	Jul-10	23	49	72
61 pipeline ED4 to Umlaas Road	2007/02	May-11	1	180	181
Wartburg system	2007/044	Dec-11	1	139	140
Sub-total			45	720	765
Other projects			10	7	17
Total			55	727	782

Debt

The group's debt is made up as follows:

	2008	2007
	R'm	R'm
Long term debt	1,979	2,060
Short term debt	99	120
Total debt	2,078	2,180
Decrease in funding	(102)	(105)

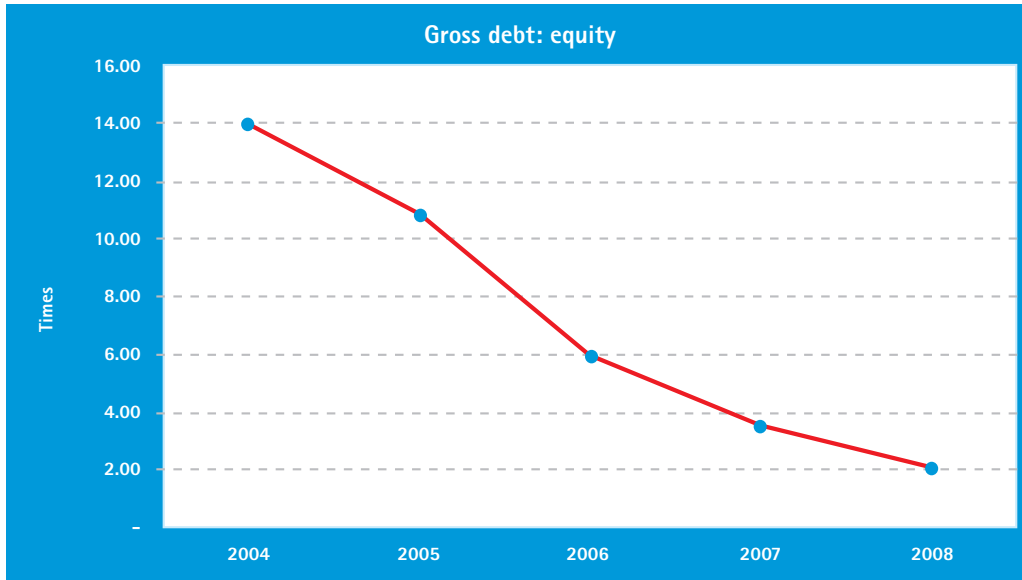
Total debt consists primarily of the UG65 of R927m which will mature on 1 June 2010 and DBSA amortising loans of R1,059m.

Financial Review continued

Leverage ratio

The debt to equity ratio continued to decline and at 2.03 (2007: 3.43) reflects the improved strength of the group's balance sheet. Equity increased by R386.7m (2007: R245.6m). Since 2004 equity has increased by R734m whilst debt reduced by R1,439m during the same period.

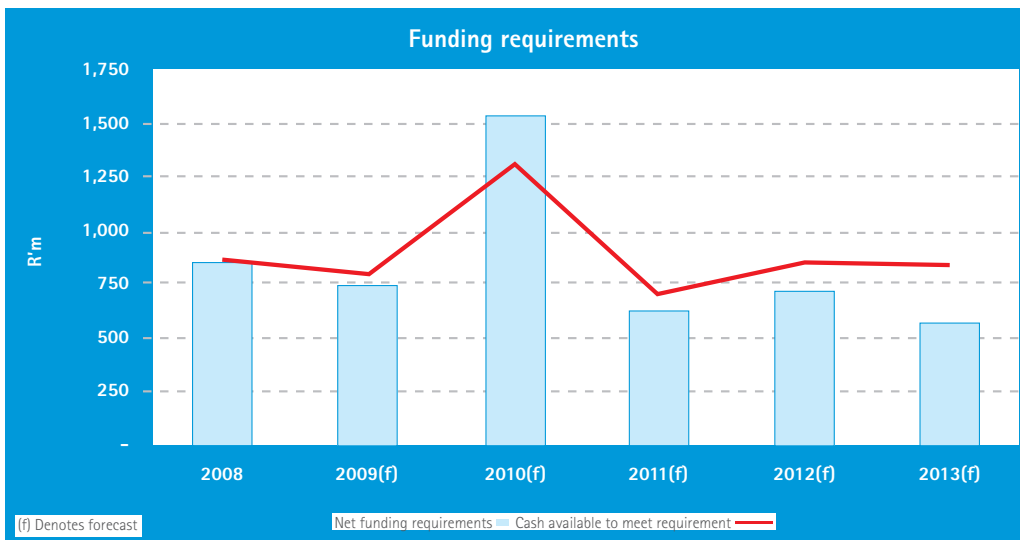
The group's target debt to equity ratio is 0.70 and is projected to be achieved in 2010.



Funding requirements

The planned capital expenditure of R1.7bn over the next five years will require the raising of approximately R300m in the short to medium term.

The following graph identifies Umgeni Water's estimated cash shortfall/surplus after taking into account the estimated capital expenditure, estimated cash from operations and loan redemptions.



Financial Review continued

Borrowing limits

National Treasury has reduced the group's borrowing limit from R3,500m to R2,800m effective from 1 July 2008. Of the adjusted R2,800m limit, only R2,300m is unconditional, special request has to be made for the use of the additional R500m.

Actual Borrowings 30 June 2008	Borrowing Limit	Under Utilization
R2,127m	R3,500m at 30 June 2008	R1,373m
R2,127m	R2,300m at 1 July 2008	R173m

The group has adequate cash on hand and banking facilities to meet its commitments. Full disclosure of these facilities are set out in the notes to capital management in the annual financial statements.

Redemption of UG65 bond

As at 30 June 2008 the group had invested the equivalent of 55% (R538m nominal) towards the redemption assets for the UG65 bond which matures in June 2010. This amount exceeds the 40% cumulative requirement which is set in terms of the redemption strategy.

Retirement benefit obligations

Defined contribution plan

The group's retirement benefit plan is in a net under funded position of R73m (2007: R97m) and a net liability of R14m has been reflected in the balance sheet in order to account for this position. Further details are disclosed in the notes to the annual financial statements.

Retirement medical aid

This scheme is currently unfunded and the group has recognised its full past service liability in the balance sheet at the actuarial valuation of R131m. Management intends to transfer this liability off balance sheet in the next financial year. Adequate provision has been made in the group's funding requirements for the transfer of the necessary funds.

Financial risks

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

The major risks and mitigating strategies are analysed in note 31 on financial risk management to the annual financial statements.

Accounting policy amendments and reclassifications

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

Impact of reclassification of operating costs to cost of sales

In terms of the guidelines issued by the Department of Water Affairs and Forestry, potable water cost of sales should only include raw water costs. Management believe that the reclassification of direct operating costs as part of cost of sales enhances disclosure and provides a more accurate gross profit margin.

The financial impact of the reclassification is as follows:

	Group		Parent	
	2008	2007	2008	2007
	R'm	R'm	R'm	R'm
Gross profit <u>before</u> inclusion of operating costs in cost of sales	1,182	1,056	1,173	1,048
GP %	92%	89%	92%	89%
Gross profit <u>after</u> inclusion of operating costs in cost of sales	896	806	887	798
GP %	69%	68%	69%	68%

Financial Review continued

Accounting policy amendments and reclassifications (continued)

Water inventory

Management have decided to include the cost of water in pipelines and reservoirs of R1.5m, in inventory at year-end. A retrospective adjustment has not been made in this regard as the amount does not fundamentally impact on any decisions users of the financial statements may make.

Future Prospects

Umgeni Water expects to continue with positive operating results that will allow the group to deliver on agreed financial targets, build value for its executive authority, the Department of Water Affairs and Forestry, and ensure that it continues to deliver affordable, efficient and sustainable water services to all its customers.

Statement of Directors' Responsibility and Approval of the Annual Financial Statements

The directors' acknowledge their responsibility for the preparation of the annual financial statements, which, in their opinion, fairly presents the results and cash flows for the financial year and the state of affairs of Umgeni Water and its subsidiaries at the end of the financial year. The annual financial statements set out in this report have been prepared in accordance with International Financial Reporting Standards, and in the manner required by the Water Services Act No. 108 of 1997 and sub-section 55(1)(b) of the Public Finance Management Act No.1 of 1999, as amended.

The directors' are also responsible for the systems of internal control. These are designed to provide reasonable but not absolute assurance as to the reliability of the annual financial statements, and to adequately safeguard, verify and maintain accountability of assets and recorded liabilities, and to prevent and detect material misstatement and loss. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the directors' to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review. The directors' are of the opinion, based on the information and explanations given by management, the internal auditors and the external auditors, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the consolidated annual financial statements.

The external auditors are responsible for reporting on the fair presentation of these annual financial statements. The entity's external auditors, Deloitte & Touche and Ngubane & Co., have audited the annual 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 auditors during their audit were valid, appropriate and complete.

The directors' have reviewed the group's forecast financial performance for the year to 30 June 2009 as well as the longer term budget and, in the light of this review and the current financial position, they are satisfied that the group has or has access to adequate resources to continue as a going concern for the foreseeable future.

Approval of annual financial statements

The annual financial statements set out on pages 99 to 143, were approved by the board of directors on 17 September 2008, and thus signed on their behalf by:



Mr Nhlanhla Gasa
Chairman of the Board



Mr Mzimkulu Msiwa
Chief Executive

Report of the Audit Committee

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

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

In the conduct of its duties, the audit committee has, inter alia, reviewed the following:

- 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 adequacy, reliability and accuracy of financial information provided by management and other users of such information;
- accounting and auditing concerns identified as a result of internal and external audits;
- the entity's compliance with legal and regulatory provisions;
- the effectiveness of internal audit;
- the activities of internal audit, including its annual work programme, co-ordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations; and
- the independence and objectivity of the external auditors.

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 audit committee 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.

The audit committee has evaluated the financial statements of Umgeni Water and the group for the year ended 30 June 2008 and, based on the information provided to the audit committee, considers that they comply, in all material respects, with the requirements of the Companies Act, 61 of 1973, as amended, the Public Finance Management Act No.1 of 1999, as amended, and International Financial Reporting Standards. The audit committee concurs 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 27 August 2008, the adoption of the financial statements by the board of directors.



Ms N Afolayan

Audit Committee Chair
27 August 2008

Independent Auditor's Report to the Minister of Water Affairs and Forestry

Report on the financial statements

We have audited the annual financial statements and the group annual financial statements of Umgeni Water, which comprise the directors' report, balance sheet and consolidated balance sheet as at 30 June 2008, the income statement and consolidated income statement, statement of changes in equity and consolidated statement of changes in equity, cash flow statement and consolidated cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 99 to 143.

Directors' responsibility for the financial statements

The entity's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Water Services Act No.108 of 1997 and sub-section 55(1)(b) of the Public Finance Management Act No.1. of 1999, as amended. This responsibility includes: designing; implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

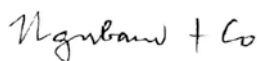
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors', as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

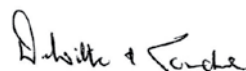
Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the entity as of 30 June 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Public Finance Management Act No. 1 of 1999, as amended, and the Public Audit Act, 25 of 2004.

The performance review furnished on page 101 in terms of sub-section 55(2)(a) of the Public Finance Management Act No. 1 of 1999, as amended, fairly presents in all material respects Umgeni Water's performance for the year ended 30 June 2008 against pre-determined objectives.



Ngubane & Co.
Per H Mpungose
Partner
Durban



Deloitte & Touche
Per D McArthur
Partner
Pietermaritzburg

Chartered Accountants (SA)
Registered Accountants and Auditors

Pietermaritzburg - 17 September 2008

Directors' Report

In terms of the Public Finance Management Act No. 1 of 1999, as amended, the board of Umgeni Water is the accounting authority and the directors have pleasure in presenting their report for the year ended 30 June 2008.

Nature of business

Umgeni Water is a state-owned business enterprise, established in 1974 to supply potable water in bulk to municipalities within its operational area. Umgeni Water defines its activities in line with the Water Services Act No. 108 of 1997. The primary activities in terms of section 29 of the Act are:

- (a) to treat raw water and distribute the treated water via its infrastructure and
- (b) the treatment and disposal of bulk waste water.

In terms of section 30 of the Act, Umgeni Water also engages in other services that complement bulk water service provision such as laboratory services, water quality monitoring and environmental management and acts as an implementing agent for any sphere of government for projects related to water service delivery.

Compliance with legislation

The annual financial statements are prepared in accordance with International Financial Reporting Standards and the following relevant statutes:

- Water Services Act No. 108 of 1997;
- Public Finance Management Act No. 1 of 1999, as amended (PFMA); and
- Public Audit Act, 25 of 2004.

These acts require preparation of the financial information to be in compliance with the Companies Act No. 61 of 1973, as amended.

Corporate governance and risk management

The board supports the principles of the Code of Corporate Practices and Conduct as set out in the King II Report and substantially complies therewith. 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 page 35.

Share capital and directors' interests

The entity has no share capital and therefore no director has any equity interest in the organisation.

Directorate

The board as it is currently constituted is set out on pages 25 to 27 of the annual report.

Members of the board and executive committee's emoluments are disclosed in the remuneration report on page 103 in terms of regulation 28.1 of the PFMA.

Tariff policy

Umgeni Water's tariff policy is to set the lowest possible constant tariff in real terms. The underlying principles of this policy are:

- 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.

Umgeni Water's tariff model uses the cash flow methodology and is based on a constant tariff in real terms. This implies that the tariff increase be linked to CPIx annually. The trade-off is a changing debt level. Debt will first increase as net cash flows are negative, and then decrease as net cash flows become positive. The higher annual tariffs and controlled expenditure will result in a growing net surplus, which will be directed towards debt repayment.

Directors' Report continued

Tariff policy (continued)

The annual tariff process encompasses the principle of consultation and transparency and aims to assist Umgeni Water's stakeholders with their long term planning. The tariff process adheres fully to Section 42 of the Municipal Finance Management Act and circular 23 issued by National Treasury. After full analysis of its projected cash flows and reduced gearing levels, the directors' were of the opinion that the tariff for 2008/2009 which is below the projected CPLx for the next 12 months, is appropriate and does not impact on Umgeni Water's funding requirements and financial sustainability. The tariff increase for 2008/2009 effective 1 July 2008 has been agreed at 2% for eThekweni Municipality and 4% for other Water Service Authorities.

	2007	2008	2009
	R/kl	R/kl	R/kl
Bulk tariff 1			
Base tariff	2.698	2.819	2.960
Tariff increase	0.121	0.141	0.118
New tariff	2.819	2.960	3.078
% increase	4.5%	5,0%	4,0%
Bulk tariff 2–eThekweni Municipality			
Base tariff	2.698	2.819	2.960
Tariff increase	0.121	0.141	0.059
New tariff	2.819	2.960	3.019
% increase	4.5%	5,0%	2,0%

Financial performance

The continued trend of positive operating results and cash flows have enabled the group to strengthen its financial position and reduce its gearing levels during the current year.

Profit for the year of R392.9m (2007: R250.5m) represents an increase of 57% on the prior year. This was derived largely from the increase in revenue of 9% and reduction in net finance costs by 25%. Cash generated from operations increased by 17% to R844.3m (2007: R724.2m) of which R109.3m was used in capital expenditure, R 125.4m used to repay debt, R378.9m placed in financial investments and R241.2m used in net finance costs. Gross debt has reduced by R102.2m to R2,078m (2007: R2,180m).

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

Capital expenditure and commitments

Capital expenditure for the year amounted to R109.3m (2007: R176.8m) for property, plant and equipment and R1m (2007 R0.4m) for intangible assets (software). The group's capital commitments set out in note 26 of the annual financial statements are expected to be funded in the short term from operating cash flows, whilst the total five year planned capex programme will require additional funding.

Changes to subsidiary and associate companies

There were no significant changes to subsidiary and associate companies during the year. Further details are set out in note 12 of the annual financial statements.

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 at R6.4m (2007: R5.9m). Management, however, also apply a qualitative aspect to all errors found.

Fruitless and wasteful expenditure

Based on the materiality framework, no significant fruitless and wasteful expenditure was incurred during the year.

Financial misconduct

There were instances of procurement fraud both at Umgeni Water and its subsidiary, Msinsi Holdings (Pty) Limited during the current financial year. In both cases the estimated amount lost by the entity is below the materiality level as established by the materiality framework.

Investigations are currently proceeding. Internal controls have been reviewed and stepped up. Disciplinary proceedings have been instituted with one employee been successfully charged. Criminal proceedings are in the process of being instituted.

Performance against financial targets

The performance of Umgeni Water (Parent) against the key financial indicators as agreed in the shareholders compact is illustrated below.

INDICATOR	UNIT	DWAF BENCHMARK	F'08 TARGET		Jun-08	Jun-07
Average potable water tariff	R/kl	#	2.96	✓	2.96	2.82
Tariff increases	%	#	CPIx	✓	5	4.5
Average CPIx for the year	%	#	n/a		8.71	5.40
Average raw water tariff	R/kl	#	0.18	✓	0.18	0.19
Capital investment in new works	R'000	#	425,563	✗	108,390	176,720
Return on assets	%	>5	> 16.48	✓	20.52	17.39
<i>Operating profit before finance costs/total assets (excl. fin assets)</i>						
Interest cover ratio	No.	>1.35	> 2.58	✓	3.36	2.14
<i>Operating profit before finance costs/net finance costs</i>						
Debt to equity	No.	<1.25	< 3.33	✓	2.04	3.44
<i>Total interest-bearing debt/capital & reserves</i>						
Current ratio	No.	>1.75	> 0.65	✓	1.38	1.23
<i>Current assets/current liabilities</i>						
Debtors collection period	Days	<38	< 37	✓	37	37
<i>Accounts receivable (excl Vat)/revenue x 365 days</i>						
Credit rating - Long term	(ZAF)	#	AA	✓	AA	AA
- Short term	(ZAF)	#	F1+	✓	F1+	F1+
(#) No benchmark set				✓	Achieved	
				✗	Not achieved	

Directors' Report continued

Post balance sheet events

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

Going concern

The going-concern basis has been adopted in preparing the financial statements. The directors' considered the following factors in reaching this opinion:

- strong positive cash flows from operating activities;
- improved operating profits;
- approved short, medium and long-term funding strategy within its borrowing limits;
- key executive management is in place;
- the budget to June 2009 reflects a continuation of strong financial performance; and
- there have been no material changes in legislation or government policy that may affect the group.

Remuneration Report

Remuneration committee

The human resources and remuneration committee assists the board in applying:

- (a) the policy set by The Department of Water Affairs and Forestry (DWAf) for the remuneration of the directors' and the chief executive; and
(b) the remuneration policy approved by the board for the executives.

Service contract period of executives

Executives	Date first appointed by the board	Date last re-elected	Date due for re-election
Mr P Jonas	01 January 2003	permanent	permanent
Ms M Gevers	01 March 2003	01 March 2008	01 March 2011
Mr O Dlamini ^{N6}	01 February 2008	n/a	01 February 2013
Mr M Msiwa (CE)*	01 February 2003	01 September 2006	01 September 2011

*Mr M Msiwa was appointed as CE by the Board on 1 September 2006.

DIRECTORS' AND EXECUTIVES' EMOLUMENTS

						2008	2007
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
	Fees for services/salary	Bonuses	Expense allowances	Other benefits	Pension contributions	Total	Total
Mr N A Gasa (Chairman)	261	-	11	-	-	272	176
Mr V Gounden (Vice Chairman)	82	-	5	-	-	87	81
Ms N Afolayan	140	-	6	-	-	146	134
Mr SM Dlamini	44	-	3	-	-	47	41
Ms TC Shezi	156	-	6	-	-	162	73
Mr NJ Dlamini	116	-	8	-	-	124	118
Mr BB Mathebula	116	-	19	-	-	135	74
Mr ZJ Dube	119	-	9	-	-	128	92
Mr NA Macleod	85	-	5	-	-	90	62
Ms R Manning ^{N1}	39	-	1	-	-	40	169
Ms RM Lesoma	127	-	6	-	-	133	139
Mr MH Buthelezi ^{N2}	78	-	3	-	-	81	103
Ms J Armstrong ^{N1}	27	-	1	-	-	28	91
Ms N Medupe ^{N3}	47	-	2	-	-	49	97
Total non executive board members	1,437	-	85	-	-	1,522	1,450

Executive Board Member

Mr M Msiwa (CE)	1,162	261	234	-	151	1,808	1,512
Total parent	2,599	261	319	-	151	3,330	2,962

Msinsi Holdings (Pty) Ltd

Total non executive board members	27	-	-	-	-	27	-
Mr T Moyo (MD) ^{N4}	-	-	-	-	-	-	574
Total subsidiaries	27	-	-	-	-	27	574
Total group	2,626	261	319	-	151	3,357	3,536

Exco Members

Mr P Jonas	883	207	202	-	111	1,403	1,155
Ms M Gevers	878	209	208	-	110	1,405	1,221
Mr S Sithole ^{N5}	286	-	82	-	25	393	767
Mr O Dlamini ^{N6}	284	-	69	-	46	399	-
Total exco	2,331	416	561	-	292	3,600	3,143

N1: Resigned 11 October 2007.

N2: Resigned 31 January 2008.

N3: Resigned 4 March 2008.

N4: Resigned 18 August 2006.

N5: Appointed 7 August 2006, resigned 30 November 2007.

N6: Appointed 1 February 2008.

Consolidated Income Statements

For the year ended 30 June 2008

	Notes	Group		Parent	
		2008	2007	2008	2007
		kI'000	kI'000	kI'000	kI'000
Treated water volume sold		403,754	373,857	403,754	373,857
		R'000	R'000	R'000	R'000
Revenue	4	1,289,035	1,188,029	1,280,747	1,180,260
Cost of sales	3	(393,282)	(381,958)	(393,265)	(381,958)
Changes in water inventory		1,509	-	1,509	-
Chemicals		(25,175)	(21,194)	(25,175)	(21,194)
Depreciation	6	(52,033)	(53,727)	(52,033)	(53,727)
Energy		(37,291)	(28,625)	(37,291)	(28,625)
Maintenance		(77,262)	(59,232)	(77,262)	(59,232)
Raw water		(74,169)	(70,391)	(74,169)	(70,391)
Section 30 activities		(38,462)	(70,751)	(38,462)	(70,751)
Staff costs	6	(79,497)	(72,836)	(79,497)	(72,836)
Other direct operating expenses		(10,902)	(5,202)	(10,885)	(5,202)
Gross profit	3	895,753	806,071	887,482	798,302
Other income	5	8,577	7,943	6,756	6,476
Administration expenses		(347,116)	(344,236)	(337,679)	(334,223)
Profit from operations	6	557,214	469,778	556,559	470,555
Net finance costs		(165,440)	(219,911)	(165,439)	(219,803)
Interest income	7	105,311	89,522	105,296	89,614
Finance costs	8	(270,751)	(309,433)	(270,735)	(309,417)
Share of profit from associate		1,092	649	-	-
Profit for the year		392,866	250,516	391,120	250,752

Consolidated Balance Sheets

As at 30 June 2008

	Notes	Group		Parent	
		2008	2007	2008	2007
		R'000	R'000	R'000	R'000
ASSETS					
Non-current assets		2,980,099	2,720,099	2,975,083	2,716,816
Property, plant and equipment	9	2,306,954	2,252,876	2,305,767	2,251,962
Intangible assets	10	1,125	1,663	1,125	1,663
Investments - financial instruments	11	440,286	177,654	440,286	177,654
Investments - subsidiaries and associates	12	4,234	4,243	4,564	7,028
Reticulation financial asset	13	220,225	276,458	220,225	276,458
Other non-current assets	14	7,275	7,205	3,116	2,051
Current assets		680,760	516,482	677,817	513,679
Current investments	15	501,029	346,973	501,029	346,973
Inventories	16	10,283	7,506	10,251	7,461
Trade and other receivables	17	150,195	137,787	148,803	136,541
Interest and premium receivable	18	5,616	3,057	5,616	3,057
Bank and cash	19.1	13,637	21,159	12,118	19,647
Total assets		3,660,859	3,236,581	3,652,900	3,230,495
EQUITY AND LIABILITIES					
Capital and reserves		1,022,534	635,808	1,018,735	633,755
Capital	20	442,847	442,847	442,847	442,847
Investment revaluation reserves		2,256	8,396	2,256	8,396
Accumulated profit		577,431	184,565	573,632	182,512
Non-current liabilities		2,143,273	2,179,811	2,143,273	2,179,811
Long-term liabilities	21	1,978,904	2,060,323	1,978,904	2,060,323
Other non-current liabilities	22	164,369	119,488	164,369	119,488
Current liabilities		495,052	420,962	490,892	416,929
Accounts payable	23	235,552	171,850	232,840	169,262
Provisions	24	119,788	86,214	118,340	84,769
Short-term funding	25	99,432	120,268	99,432	120,268
Interest payable		40,280	42,630	40,280	42,630
Total equity and liabilities		3,660,859	3,236,581	3,652,900	3,230,495

Consolidated Statements of Changes in Equity

For the year ended 30 June 2008

	Group			
	Capital	Investment revaluation reserve	Accumulated profit/(loss)	Total
	R'000	R'000	R'000	R'000
Balance as at 30 June 2006	442,847	13,275	(65,951)	390,171
Movement for the year				
Profit for the year			250,516	250,516
Mark-to-market adjustment: long-term investments		(4,879)		(4,879)
Balance as at 30 June 2007	442,847	8,396	184,565	635,808
Movement for the year				
Profit for the year			392,866	392,866
Mark-to-market adjustment: long-term investments		(6,140)		(6,140)
Balance as at 30 June 2008	442,847	2,256	577,431	1,022,534

	Parent			
	Capital	Investment revaluation reserve	Accumulated profit/(loss)	Total
	R'000	R'000	R'000	R'000
Balance as at 30 June 2006	442,847	13,275	(68,240)	387,882
Movement for the year				
Profit for the year			250,752	250,752
Mark-to-market adjustment: long-term investments		(4,879)		(4,879)
Balance as at 30 June 2007	442,847	8,396	182,512	633,755
Movement for the year				
Profit for the year			391,120	391,120
Mark-to-market adjustment: long-term investments		(6,140)		(6,140)
Balance as at 30 June 2008	442,847	2,256	573,632	1,018,735

Consolidated Cash Flow Statements

For the year ended 30 June 2008

	Notes	Group		Parent	
		2008	2007	2008	2007
		R'000	R'000	R'000	R'000
OPERATING ACTIVITIES					
Cash receipts from customers		1,287,225	1,166,257	1,277,530	1,156,876
Cash paid to suppliers and employees		(442,913)	(442,059)	(435,204)	(432,728)
Net cash from operating activities	19.2	844,312	724,198	842,326	724,148
INVESTING ACTIVITIES					
Proceeds on disposals of property, plant and equipment		1,633	234	1,630	185
Additions to property, plant and equipment		(109,276)	(176,801)	(108,390)	(176,720)
Additions to intangible assets		(1,043)	(452)	(1,043)	(452)
Proceeds on disposal of biological assets		1,364	-	-	-
Investments in subsidiaries and associates		1,098	1,582	3,556	1,087
Net cash used in investing activities		(106,224)	(175,437)	(104,247)	(175,900)
FINANCING ACTIVITIES					
Long-term borrowings repaid		(112,533)	(147,488)	(112,533)	(147,488)
Short-term borrowings (repaid) raised		(12,997)	24,059	(12,997)	24,059
Investments increased		(378,895)	(148,321)	(378,895)	(148,321)
Interest received		23,425	28,294	23,410	28,387
Finance costs paid		(264,610)	(297,575)	(264,593)	(297,559)
Net cash used in financing activities		(745,610)	(541,031)	(745,608)	(540,922)
CASH AND CASH EQUIVALENTS					
Net (decrease) increase for the year		(7,522)	7,730	(7,529)	7,326
At beginning of year		21,159	13,429	19,647	12,321
At end of year	19.1	13,637	21,159	12,118	19,647

Segmental Report

For the year ended 30 June 2008

Umgeni Water has two reportable segments, namely primary and other activities (as defined by Section 30 of the Water Services Act). The accounting policies of the segments are consistent with those described on pages 110 to 119.

The primary segment is made up of bulk water and waste water treatment. The other activities segments is made up of non-regulated activities by Umgeni Water and its subsidiaries.

	Group			Total
	Primary activities		Other activities	
	Bulk water	Waste water		
	kl'000	kl'000	kl'000	kl'000
For the year ended 30 June 2008				
Volume sold	403,754	211	-	403,965
	R'000	R'000	R'000	R'000
Revenue	1,191,044	35,084	62,907	1,289,035
Cost of sales	(323,395)	(20,571)	(49,316)	(393,282)
Changes in water inventory	1,509	-	-	1,509
Chemicals	(22,458)	(2,683)	(34)	(25,175)
Depreciation	(49,554)	(2,479)	-	(52,033)
Energy	(33,828)	(3,077)	(386)	(37,291)
Maintenance	(70,761)	(5,175)	(1,326)	(77,262)
Raw water	(74,169)	-	-	(74,169)
Section 30 activities	-	-	(38,462)	(38,462)
Staff costs	(64,842)	(6,094)	(8,561)	(79,497)
Other direct operating expenses	(9,292)	(1,063)	(547)	(10,902)
Gross profit	867,649	14,513	13,591	895,753
Other income	6,155	-	2,422	8,577
Administration expenses	(226,799)	(1,989)	(7,802)	(236,590)
Indirect depreciation and amortisation	(104,006)	(197)	(623)	(104,826)
Impairments/write-offs	(5,700)	-	-	(5,700)
Profit from operations	537,299	12,327	7,588	557,214
Interest income	105,311	-	-	105,311
Finance costs	(261,076)	(9,672)	(3)	(270,751)
Share of profit from associate	-	-	1,092	1,092
Profit for the year	381,534	2,655	8,677	392,866
Capital expenditure - for the year	105,819	2,571	886	109,276
Segment assets	2,216,158	89,610	1,186	2,306,954
Interest in associate	-	-	4,234	4,234
Unallocated				1,349,671
Consolidated total assets				3,660,859
Segment liabilities	2,036,534	41,801	-	2,078,335
Unallocated				559,990
Consolidated total liabilities				2,638,325

Segmental Report continued

For the year ended 30 June 2008

	Group			Total
	Primary activities		Other activities	
	Bulk water	Waste water		
	kl'000	kl'000	kl'000	kl'000
For the year ended 30 June 2007				
Volume sold	373,857	180	-	374,037
	R'000	R'000	R'000	R'000
Revenue	1,048,191	44,250	95,588	1,188,029
Cost of sales	(281,405)	(18,264)	(82,289)	(381,958)
Changes in water inventory	-	-	-	-
Chemicals	(18,897)	(2,261)	(36)	(21,194)
Depreciation	(51,416)	(2,311)	-	(53,727)
Energy	(24,754)	(3,520)	(351)	(28,625)
Maintenance	(52,281)	(4,224)	(2,727)	(59,232)
Raw water	(70,391)	-	-	(70,391)
Section 30 activities	-	-	(70,751)	(70,751)
Staff costs	(59,727)	(5,067)	(8,042)	(72,836)
Other direct operating expenses	(3,939)	(881)	(382)	(5,202)
Gross profit	766,786	25,986	13,299	806,071
Other income	5,786	-	2,157	7,943
Administration expenses	(201,438)	(13,205)	(4,825)	(219,468)
Indirect depreciation and amortisation	(107,710)	(23)	(845)	(108,578)
Impairments/write-offs	(16,190)	-	-	(16,190)
Profit from operations	447,234	12,758	9,786	469,778
Interest income	89,429	-	93	89,522
Finance costs	(302,528)	(6,888)	(17)	(309,433)
Share of profit from associate	-	-	649	649
Profit for the year	234,135	5,870	10,511	250,516
Capital expenditure	174,149	2,571	81	176,801
Segment assets	2,171,082	80,880	914	2,252,876
Interest in associate	-	-	4,243	4,243
Unallocated				979,462
Consolidated total assets				3,236,581
Segment liabilities	2,109,473	53,898	17,219	2,180,590
Unallocated				420,183
Consolidated total liabilities				2,600,773

Notes to the Consolidated Annual Financial Statements

For the year ended 30 June 2008

1. ACCOUNTING POLICIES

GENERAL INFORMATION

Umgeni Water is a water board established in terms of Section 28 of the Water Services Act, 108 of 1997 and a national government business entity as per Schedule 3B of the Public Finance Management Act No. 1 of 1999, as amended, domiciled in South Africa. The address of its registered office and principle place of business are disclosed in the Organisational Overview section of the annual report. The principle activities of the organisation are described in the directors report on page 99. The following principle accounting policies were applied by Umgeni Water for the year ended 30 June 2008.

STATEMENT OF COMPLIANCE

The consolidated annual financial statements are prepared in accordance with International Financial Reporting Standards and the Public Finance Management Act No. 1 of 1999, as amended.

Adoption of new and revised standards

In the current year Umgeni Water has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations.

	<u>Effective for annual periods beginning on or after</u>
● IAS 1 (Amendments) Presentation of Financial Statements: Capital disclosures	1 January 2007
● IFRS 7 Financial Instruments: Disclosures	1 January 2007
● IFRIC 10 Interim Financial Reporting and Impairment	1 November 2006

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the group's financial instruments and management of capital (see note 31).

The adoption of the interpretations has not led to any changes in the group's accounting policies.

Standards and interpretations in issue not yet adopted

At the date of authorisation of these financial statements, the following accounting standards, interpretations and amendments to published accounting standards which are relevant to Umgeni Water were in issue but not yet effective:

	<u>Effective for annual periods beginning on or after</u>
● IFRIC 12 Service Concession Arrangements	1 January 2008
● IFRIC 14 (IAS19) Limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008
● IFRS 8 Operating Segments	1 January 2009
● IAS 1 (Revised) Presentation of Financial Statements	1 January 2009
● IAS 23 (Revised) Borrowing costs	1 January 2009
● IAS 27 (Revised) Consolidated and Separate Financial Statements	1 July 2009
● IFRS 3 (Revised) Business Combinations	1 July 2009

The directors believe that the adoption of these standards and interpretations in future periods will have no material financial impact on the financial statements of Umgeni Water.

BASIS OF PREPARATION

The consolidated financial statements are prepared on the historic cost basis except for certain financial instruments and biological assets as set out in the notes to the financial statements, which are stated at fair value. The consolidated financial statements are prepared on the going concern basis. Except as otherwise disclosed, these accounting policies are consistent with those applied in all periods presented in these consolidated financial statements.

BASIS OF CONSOLIDATION

Subsidiaries

The consolidated financial statements incorporate the financial statements of Umgeni Water and other entities controlled by Umgeni Water (its subsidiaries) acquired up to 30 June each year. Control is achieved where Umgeni Water has the power to govern the financial and operating policies of the acquired entity so as to obtain benefits from its activities.

The assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

1. ACCOUNTING POLICIES (continued)

BASIS OF CONSOLIDATION (continued)

Subsidiaries (continued)

Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired, such as a discount on acquisition, is credited to profit and loss in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the group. All material inter-company balances and transactions are eliminated.

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. Consolidated financial statements incorporate the assets, liabilities, income and expenses of associates using the equity method of accounting from the acquisition date to the disposal date, except when the investment is classified as held for sale, in which case it is accounted for as non-current assets held for sale. The carrying amount of such investments is reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

Losses of associates in excess of the group's interest are not recognised unless there is a binding obligation to contribute to the losses.

Goodwill arising on the acquisition of associates is accounted for in accordance with the accounting policy for goodwill as set out below, but is included in the carrying amount of the associate.

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.

REVENUE

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for water sales to customers, revenue from waste water works, management fees from the management of waste water works and revenue from other activities conducted as defined in terms of section 30 of the Water Services Act, net of discounts and value added taxation.

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

Rental income is recognised in the income statement on a straight line basis over the term of the lease. Rental income is incidental in nature and not derived from investment property.

COST OF SALES

Cost of sales include the costs of raw water and all other direct operating costs associated with the production processes. The cost directly attributable to sales for other activities, as defined in section 30 of the Water Services Act, are disclosed as cost of sales. All other costs are considered to be administration expenses.

TAXATION

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

Umgeni Water Services (Pty) Ltd is subject to taxation as follows:

The tax expense represents the sum of the tax currently payable and deferred tax.

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

1. ACCOUNTING POLICIES (continued)

TAXATION (continued)

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement 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 balance sheet date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

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

PROPERTY, PLANT AND EQUIPMENT

Owned assets

Property, plant and equipment is stated at cost less accumulated depreciation and impairment. Land is not depreciated. Work in progress is stated at cost and is commissioned on date of significant completion. 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 income statement.

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

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

Property, plant and equipment is depreciated to its estimated residual value 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.

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

1. ACCOUNTING POLICIES (continued)

PROPERTY, PLANT AND EQUIPMENT (continued)

Owned assets (continued)

Buildings and infrastructure

Asset category	Component	Depreciable portion	Estimated useful life
		%	(years)
Dams and weirs		10	45
Reservoirs and intake works		100	45
Tunnels		10	45
Pump stations:			
	• Structural	40	30
	• Mechanical	100	15
	• Instrumentation	100	10
	• Electrical	100	10
Water treatment works:			
	• Structural	30	45
	• Mechanical	100	15
	• Instrumentation	100	10
	• Electrical	100	10
Waste water works:			
	• Structural	30	45
	• Mechanical	100	15
	• Instrumentation	100	10
	• Electrical	100	10
Pipelines:			
	• PVC and concrete pipelines	100	45
	• Steel and GRP pipelines	100	30
Buildings		100	40

Equipment and vehicles

Asset category	Component	Depreciable portion	Estimated useful life
		%	(years)
Furniture and fittings		100	5
Scientific services equipment		100	5
Vehicles and plant		100	5
Other equipment		100	5
Computers			
	• Desktops, servers, networks and printers	100	5
	• Notebooks	100	3

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

1. ACCOUNTING POLICIES (continued)

PROPERTY, PLANT AND EQUIPMENT (continued)

Leased assets

Classification

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

In the capacity of a lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the group's net investment outstanding in respect of the leases.

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

In the capacity of a lessee

Assets held under finance leases are recognised as assets of the group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the group's general policy on borrowing costs.

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

CAPITALISATION OF BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost eligible for capitalisation to those assets.

All other borrowing costs are reflected in the income statement in the period in which they are incurred.

INVESTMENT PROPERTY

Investment property, which is held to earn rentals and for capital appreciation is shown at cost, less subsequent depreciation and impairment.

INTANGIBLE ASSETS

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

For the purposes of impairment testing, goodwill is allocated to each of the group's cash generating units expected to benefit from the synergies of the combination.

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

1. ACCOUNTING POLICIES (continued)

INTANGIBLE ASSETS (continued)

Goodwill (continued)

Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent year.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous SA GAAP amounts subject to being tested for impairment at that date.

If, on a business combination, the fair value of the group's interest in the identifiable assets, liabilities and contingent liabilities exceeds the cost of acquisition, this excess is recognised in profit or loss immediately.

Research and development

Research expenditure is charged to the income statement when incurred. Development expenditure is recognised as an expense, unless it is probable that it will give rise to a product that will generate future benefits for the organisation, in which case it is capitalised.

Development costs are only recognised as assets if all the following conditions are met:

- An asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development costs of the asset can be measured reliably.

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 as follows:

- Customised software 5 years;
- shelf software 2 years

Costs associated with research and development of computer software programs are recognised as an expense as they are incurred. Development costs are capitalised if all the following conditions are met:

- A separately identifiable asset is created;
- it is probable that the asset created will generate future economic benefits or will be put to use by Umgeni Water; and
- the development costs of the asset can be measured reliably.

Costs relating to the acquisition of licences are treated as an expense in the period in which the licence is acquired.

Other intangible assets

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

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

1. ACCOUNTING POLICIES (continued)

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

Recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset, or cash-generating unit, is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit, is reduced to its recoverable amount.

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

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

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

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets and 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.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

BIOLOGICAL ASSETS

Game stock and plantations are measured at their fair value less estimated point-of-sale costs. The fair value of biological assets are determined annually based on market prices of similar age, genes, and genetic merit. All changes in fair values are recognised in the income statement in the period in which they arise.

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.

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

1. ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS

FINANCIAL ASSETS

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (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, where appropriate, a shorter period.

Available-for-sale financial assets

Investments in the long-term investment portfolio are classified as available for sale assets and stated at fair value, which is determined with reference to quoted prices in an active market at the close of business on the balance sheet date. If the market for a financial asset is not active, the entity establishes the fair value in accordance with the valuation technique which adopts a constant spread approach.

Realised profits and losses on sale of investments are reflected in the income statement as and when incurred. Umgeni Water has elected to reflect the mark to market unrealised profit or loss on valuation of these investments in equity until the asset is disposed of or determined to be impaired, at which time it is recognised in the income statement.

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs.

Held-to-maturity financial assets

Financial assets with fixed or determinable payments and fixed maturity dates that the entity has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with interest income recognised on an effective yield basis.

Investments held in the redemption portfolio are classified as held to maturity.

Loans and receivables

Loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Trade and other receivables

Short duration receivables with no stated interest rate are measured at original invoice amount less provision for doubtful debts.

Cash and cash equivalents

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

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

1. ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS (continued)

FINANCIAL ASSETS (continued)

Impairment of financial assets (continued)

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

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

Derecognition of financial assets

The entity derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the entity neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the entity recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the entity retains substantially all the risks and rewards of ownership of a transferred financial asset, the entity continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

FINANCIAL LIABILITIES

Financial liabilities other than derivatives are recognised at their original debt value less principal payments.

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest bearing financial liabilities comprise loan stock and other loans utilised to finance water supply, and other related infrastructure. Locally registered bonds in issue are stated at amortised cost, applying yield to maturity basis.

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Loan discounts are amortised over the life of the underlying loans using the effective interest rate method.

Derecognition of financial liabilities

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

Trade and other payables

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

OFFSET

Financial assets and financial liabilities are only offset if there is a 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.

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

1. ACCOUNTING POLICIES (continued)

UMGENI WATER CAPITAL AND GRANT FUNDING

Capital grants received by Umgeni Water after 1 July 2000 are reflected against property, plant and equipment. These are amortised against income over the remaining useful life of the assets to which the grants relate.

Capital grants received prior to 1 July 2000 are shown on the balance sheet as Umgeni Water capital and included under capital.

NON-DISTRIBUTABLE RESERVES

Revaluation reserve

This reserve arises as a result of the mark to market valuation of the long-term investment portfolio.

RETIREMENT BENEFITS

Pension and provident fund

Benefits are provided to all eligible employees. Current contributions to the Retirement Fund or the Provident Fund operated for employees are charged against income as incurred. The costs of any improved pension fund benefits or deficits arising from time to time on the funds are charged against income.

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method with actuarial valuations being carried out every three years.

To the extent that, at the beginning of the financial year, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of the plan assets (the corridor), that portion is charged to the income statement over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Other retirement benefits

Post retirement healthcare benefits are provided to certain of the entity's retirees. The cost of providing benefits is determined using the projected unit credit method with actuarial valuations being carried out every year. Actuarial gains and losses are recognised immediately in the year in which they arise.

PROVISIONS

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

Onerous contracts

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

Restructuring

Provisions for restructuring costs are recognised when the group has a detailed formal plan for the restructuring and the group has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Restructuring provisions only include those direct expenditures, which are necessarily incurred by the restructuring and not associated with the ongoing activities of the enterprise.

FINANCIAL GUARANTEE CONTRACTS

Financial guarantee contracts are accounted for in terms of IFRS 4 insurance contracts and consequently are measured initially at cost and thereafter in accordance with IAS 37 - Provisions, contingent liabilities and contingent assets.

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

2.1. CRITICAL JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

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

2.1.1. Other provisions

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

2.1.2. Reticulation financial asset

The judgement applied to the period of amortisation of the reticulation financial asset included in note 13 is 6 years. This was based on the debt curve of Umgeni Water at the time of raising the financial asset in 2006.

2.1.3. Held-to-maturity financial assets

The directors have reviewed the entity's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed its positive intention and ability to hold those assets to maturity. The carrying amount of the held-to-maturity financial assets is R440 million (2007: R78 million). Details of these assets are disclosed in note 11.

2.2. KEY SOURCES OF ESTIMATION UNCERTAINTY

2.2.1. Fair value of financial instruments

As described in the financial risk management section (note 31), management use their judgement in selecting an appropriate valuation technique for available-for-sale financial instruments not quoted in an active market. The valuation technique used assumes a constant spread of 13 basis points against the zero rate curve prevailing as at 30 June 2008.

Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. Details of the assumptions used and of the results of sensitivity analyses regarding these assumptions are provided in the financial risk management section (note 31).

2.2.2. Retirement medical aid

The key assumptions relating to the retirement medical aid sensitivity analysis are disclosed in note 29.3.

No further key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet 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.

3. RECLASSIFICATION OF OPERATING COSTS TO COST OF SALES

In terms of the guidelines issued by DWAF, potable water cost of sales only include raw water, with all other operating expenses included in operating and administration expenses. In order to improve disclosure, Umgeni Water deemed it appropriate to reclassify operating costs associated with the production processes to cost of sales. All other costs are regarded as administration expenses. The financial impact of the reclassification of operating costs to cost of sales is as follows:

	Group		Parent	
	2008	2007	2008	2007
	R'000	R'000	R'000	R'000
Gross Profit <u>before</u> inclusion of operating costs in cost of sales	1,181,747	1,055,847	1,173,441	1,048,078
Gross profit %	92%	89%	92%	89%
Gross Profit <u>after</u> inclusion of operating costs in cost of sales	895,753	806,071	887,482	798,302
Gross profit %	69%	68%	69%	68%

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

	Group		Parent	
	2008	2007	2008	2007
	R'000	R'000	R'000	R'000
4. REVENUE				
Water sales	1,191,044	1,048,191	1,191,044	1,048,191
Waste water	35,084	44,250	35,084	44,250
Other activities	62,907	95,588	54,619	87,819
Included in revenues arising from water sales are revenues of approximately R934m (2007: R842m) which arose from sales to the group's largest customer.				
Total revenue	1,289,035	1,188,029	1,280,747	1,180,260

5. OTHER INCOME

Sundry income	4,919	4,355	4,215	4,277
Rental income	1,969	1,978	1,939	1,966
Fair value adjustment of biological assets	1,689	723	602	233
Profit on sale of associate - Watertite Conservation (Pty) Ltd	-	887	-	-
Total other income	8,577	7,943	6,756	6,476

6. PROFIT FROM OPERATIONS

Profit from operations is stated after taking the following discloseable items into account:

Included in cost of sales:

Depreciation: Buildings and infrastructure (refer note 9)	52,033	53,727	52,033	53,727
Staff costs	79,497	72,836	79,497	72,836

Included in administration expenses:

Asset impairments and write-offs	5,700	16,190	5,700	16,190
Amortisation	93,208	97,568	93,208	97,568
- Reticulation asset (refer to note 13)	91,627	95,479	91,627	95,479
- Intangible assets (refer to note 10)	1,581	2,089	1,581	2,089
Auditors' remuneration	2,186	1,493	1,951	1,225
- Audit fees - current year	1,527	1,314	1,430	1,225
- Audit fees - prior year under provision	659	179	521	-
Depreciation (refer to note 9)	11,616	11,011	11,047	10,180
- Buildings and infrastructure	1,729	1,783	1,729	1,783
- Equipment and vehicles	9,887	9,228	9,318	8,397
Doubtful debts provision (refer to note 17)	(2,766)	12,412	(2,766)	12,483
Board members' emoluments (refer pg 103)	3,357	3,536	3,330	2,962
Investment impairments reversed	-	-	(1,092)	(806)
Losses on biological assets due to natural causes (refer to note 14)	429	939	-	804
Operating lease payments	381	252	381	252
Profit on disposal of property, plant and equipment	(1,591)	(221)	(1,630)	(185)
Staff costs	189,328	167,785	173,089	153,242
- Salaries and wages	128,822	109,487	113,782	96,108
- Retirement benefit expenses (refer to note 29)				
- Medical aid	31,646	27,637	31,646	27,637
- Defined contribution plan	6,075	4,958	4,876	3,794
- Defined benefit plan	22,785	25,703	22,785	25,703

Average number of employees during the year for the group were 895 (2007: 897), and for the parent were 799 (2007: 791).

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

	Group		Parent	
	2008	2007	2008	2007
	R'000	R'000	R'000	R'000
7. INTEREST INCOME				
Interest received	105,311	89,522	105,296	89,614
Total interest income	105,311	89,522	105,296	89,614

8. FINANCE COSTS

Interest expense	285,536	316,160	285,520	316,144
Realised capital loss	-	3,294	-	3,294
Less: borrowing costs capitalised	(14,785)	(10,021)	(14,785)	(10,021)
Gross weighted average cost of capital 13.22% (2007: 12.50%)				
Net weighted average cost of capital 14.40% (2007: 13.30%)				
Interest was capitalised to work-in-progress at the net weighted average cost of capital.				
Total finance costs	270,751	309,433	270,735	309,417

	Buildings and Land	Infrastructure	Equipment and vehicles	Capital work in progress	Total parent	Subsidiaries	2008 Group
	R'000	R'000	R'000	R'000	R'000	R'000	R'000

9. PROPERTY, PLANT AND EQUIPMENT

Year ended 30 June 2008

Net book value 1 July 2007	7,139	2,047,192	20,949	176,682	2,251,962	914	2,252,876
Cost	7,139	2,447,206	105,963	176,682	2,736,990	7,623	2,744,613
Accumulated depreciation	-	(400,014)	(85,014)	-	(485,028)	(6,709)	(491,737)
Additions	-	-	-	108,390	108,390	886	109,276
Borrowing costs capitalised	-	-	-	14,785	14,785	-	14,785
Disposals/asset write-offs	-	-	-	-	-	(44)	(44)
Cost	-	-	(6,240)	-	(6,240)	(1,270)	(7,510)
Accumulated depreciation	-	-	6,240	-	6,240	1,226	7,466
Transfers to non-current assets	-	(590)	-	-	(590)	-	(590)
Cost	-	(2,285)	-	-	(2,285)	-	(2,285)
Accumulated depreciation	-	1,695	-	-	1,695	-	1,695
Depreciation charge	-	(53,762)	(9,318)	-	(63,080)	(569)	(63,649)
Impairment	-	(5,700)	-	-	(5,700)	-	(5,700)
Transfers/commissioning	-	230,184	14,507	(244,691)	-	-	-
Total property, plant and equipment	7,139	2,217,324	26,138	55,166	2,305,767	1,187	2,306,954
Cost	7,139	2,668,829	114,230	55,166	2,845,364	7,239	2,852,603
Accumulated depreciation	-	(451,505)	(88,092)	-	(539,597)	(6,052)	(545,649)
Total property, plant and equipment	7,139	2,217,324	26,138	55,166	2,305,767	1,187	2,306,954

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

	Buildings and Land infrastructure	Equipment and vehicles	Capital work in progress	Total parent	Subsidiaries	2007 Group
	R'000	R'000	R'000	R'000	R'000	R'000
9. PROPERTY, PLANT AND EQUIPMENT						
Year ended 30 June 2007						
Net book value 1 July 2006	7,139	2,087,002	18,688	37,972	2,150,801	1,677 2,152,478
Cost	7,139	2,435,929	99,750	37,972	2,580,790	8,157 2,588,947
Accumulated depreciation	-	(348,927)	(81,062)	-	(429,989)	(6,480) (436,469)
Additions	-	-	-	176,720	176,720	81 176,801
Borrowing costs capitalised	-	-	-	10,021	10,021	- 10,021
Disposals/asset write-offs	-	-	(154)	-	(154)	(13) (167)
Cost	-	-	(4,599)	-	(4,599)	(615) (5,214)
Accumulated depreciation	-	-	4,445	-	4,445	602 5,047
Transfers to financial asset	-	(5,483)	-	-	(5,483)	- (5,483)
Cost	-	(6,166)	-	-	(6,166)	- (6,166)
Accumulated depreciation	-	683	-	-	683	- 683
Depreciation charge	-	(55,510)	(8,397)	-	(63,907)	(831) (64,738)
Impairment	-	(16,036)	-	-	(16,036)	- (16,036)
Transfers/commissioning	-	37,219	10,812	(48,031)	-	- -
Total property, plant and equipment	7,139	2,047,192	20,949	176,682	2,251,962	914 2,252,876
Cost	7,139	2,447,206	105,963	176,682	2,736,990	7,623 2,744,613
Accumulated depreciation	-	(400,014)	(85,014)	-	(485,028)	(6,709) (491,737)
Total property, plant and equipment	7,139	2,047,192	20,949	176,682	2,251,962	914 2,252,876

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

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

The impairment losses on infrastructure arose due to the cession of use in the production of income.

During the current year buildings with a carrying value of R0.6m were transferred to non-current assets held for sale in accordance with IFRS 5 (Refer note 14).

A schedule of land and buildings is available for inspection at the registered office of Umgeni Water. A number of properties, which are not significant in nature and do not impact on Umgeni Water's operations, are subject to land claims in terms of the Restitution of Land Rights Act 22 of 1994.

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

	Group		Parent	
	2008	2007	2008	2007
	R'000	R'000	R'000	R'000
10. INTANGIBLE ASSETS				
SOFTWARE				
Net book value 1 July	1,663	3,300	1,663	3,300
Cost	29,900	29,448	29,900	29,448
Accumulated amortisation	(28,237)	(26,148)	(28,237)	(26,148)
Additions	1,043	452	1,043	452
Amortisation	(1,581)	(2,089)	(1,581)	(2,089)
Net book value 30 June	1,125	1,663	1,125	1,663
Cost	30,943	29,900	30,943	29,900
Accumulated amortisation	(29,818)	(28,237)	(29,818)	(28,237)
Total intangible assets	1,125	1,663	1,125	1,663

11. INVESTMENTS – FINANCIAL INSTRUMENTS

11.1. Capital market investments	440,286	177,654	440,286	177,654
Available-for-sale - zero coupon bonds	-	99,746	-	99,746
Held-to-maturity - Redemption portfolio UG65	440,286	77,908	440,286	77,908
Loans and receivables	26,065	48,457	26,065	48,457
Provision for impairment	(26,065)	(48,457)	(26,065)	(48,457)
11.2. Cash flow analysis of capital market investments	440,286	177,654	440,286	177,654
Capital investments - cost	410,321	107,897	410,321	107,897
Interest and premiums accrued	27,709	61,361	27,709	61,361
Mark-to-market adjustments	2,256	8,396	2,256	8,396
Interest and premiums have been accrued for where biannual coupon bonds and zero-coupon bonds have earned interest, but have not been received at year-end.				
Capital market investments comprise investments in local listed bonds with credit ratings from AA to AAA. Refer to financial asset risk analysis in note 31.				
11.3. Maturity profile	440,286	177,654	440,286	177,654
Available-for-sale				
1 - 5 years	-	99,746	-	99,746
Held-to-maturity				
1 - 5 years	440,286	77,908	440,286	77,908
11.4. Fair value	440,286	177,654	440,286	177,654
Total investments – financial instruments	440,286	177,654	440,286	177,654

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

	Group		Parent	
	2008	2007	2008	2007
	R'000	R'000	R'000	R'000
12. INVESTMENTS – SUBSIDIARIES AND ASSOCIATES				
Investments in associates	4,234	4,243	-	-
Cost	2,695	2,695	-	-
Share of post-acquisition reserves	1,539	1,548	-	-
Loans to subsidiaries and associates	-	-	4,564	7,028
Msinsi Holdings (Pty) Ltd	-	-	421	2,784
Umgeni Water Services (Pty) Ltd	-	-	4,143	4,244
Total investments – subsidiaries and associates	4,234	4,243	4,564	7,028

Name	Principal activity	Place of incorporation	Proportion of ownership interest		Proportion of voting power held	
			2008	2007	2008	2007
			%	%	%	%
Investments in subsidiaries						
Umgeni Water Services (Pty) Ltd	Water analysis	RSA	100	100	100	100
Msinsi Holdings (Pty) Ltd	Land and environmental management	RSA	100	100	100	100

The above entities remained subsidiaries throughout the year.

Umgeni Water has subordinated its right to claim payment of debt of R4.1m (2007:R4.2m) owing by Umgeni Water Services (Pty) Ltd until the assets, fairly valued, exceed the liabilities.

Umgeni Water continues to provide financial support to Msinsi Holdings (Pty) Ltd to ensure that the company continues to trade in the foreseeable future without any disruption in its business.

Investment in associate of Umgeni Water Services (Pty) Ltd

Durban Water Recycling (Pty) Ltd	Water recycling	RSA	18.5	18.5	18.5	18.5
Investment in associate of Msinsi Holdings (Pty) Ltd						
Powaprops 31 (Pty) Ltd	Investment	RSA	16.67	16.67	16.67	16.67

	Carrying Amount		Directors' valuation	
	2008	2007	2008	2007
	R'000	R'000	R'000	R'000
Investments in associate of Umgeni Water Services (Pty) Ltd				
Durban Water Recycling (Pty) Ltd	4,129	4,138	4,129	4,138
Investment in associate of Msinsi Holdings (Pty) Ltd				
Powaprops 31 (Pty) Ltd	105	105	105	105
Net investment	4,234	4,243	4,234	4,243

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

	2008	2007
	R'000	R'000
Summarised financial information of associates:		
Total non-current assets of associates	48,262	51,646
Total non-current liabilities of associates	53,170	52,001
Total current assets of associates	34,553	32,255
Total current liabilities of associates	7,324	9,535
Total capital and reserves	22,321	22,365
Total revenue of associates	43,540	39,894
Share of profit for the year of associates	1,092	649

	Group		Parent	
	2008	2007	2008	2007
	R'000	R'000	R'000	R'000
13. RETICULATION FINANCIAL ASSET				
Opening balance	276,458	326,949	276,458	326,949
Amortisation	(91,627)	(95,479)	(91,627)	(95,479)
Interest income	35,394	44,988	35,394	44,988
The reticulation financial asset is classified as loans and receivables, the carrying value approximates fair value.				
Total reticulation financial asset	220,225	276,458	220,225	276,458

14. OTHER NON-CURRENT ASSETS

14.1. Long-term loans to municipalities	-	127	-	127
Carrying amount	127	1,548	127	1,548
Recognised as short-term portion	(127)	(1,421)	(127)	(1,421)
The long-term loans to municipalities are classified as loans and receivables, and the carrying value approximates its fair value.				
14.2. Non-current assets held for sale	590	-	590	-
Transferred from property, plant and equipment in accordance with IFRS 5				
14.3. Biological assets	6,685	7,078	2,526	1,924
Opening carrying amount	7,078	7,294	1,924	2,495
Disposals	(1,653)	-	-	-
Losses due to natural causes	(429)	(939)	-	(804)
Fair value adjustment - plantation	602	233	602	233
Fair value adjustment - game stock	1,087	490	-	-
14.4. Fair value	7,275	7,205	3,116	2,051
Total other non-current assets	7,275	7,205	3,116	2,051

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

	Group		Parent	
	2008	2007	2008	2007
	R'000	R'000	R'000	R'000
15. CURRENT INVESTMENTS				
15.1. Current investments	501,029	346,973	501,029	346,973
Available-for-sale - Money market investments	365,000	263,000	365,000	263,000
Available-for-sale - Other investments	106,956	-	106,956	-
Loans and receivables - Other investments	29,073	83,973	29,073	83,973
15.2. Maturity profile	501,029	346,973	501,029	346,973
Overnight	77,073	146,973	77,073	146,973
1 to 7 days	6,000	-	6,000	-
8 to 30 days	66,000	100,000	66,000	100,000
31 to 180 days	245,000	100,000	245,000	100,000
181 to 365 days	106,956	-	106,956	-
15.3. Fair value	501,029	346,973	501,029	346,973
Total current investments	501,029	346,973	501,029	346,973

16. INVENTORIES

16.1. Stores	8,774	7,506	8,742	7,461
Pipe inventories	1,077	829	1,077	829
Maintenance spares	2,352	1,874	2,352	1,874
Chemicals	2,207	2,103	2,207	2,103
Stock-in-transit	179	-	179	-
Miscellaneous	2,959	2,700	2,927	2,655
16.2. Water Inventory	1,509	-	1,509	-
Water inventory consists of closing stock of raw and treated water as at 30 June 2008. This was recognised for the first time in the current financial year.				
Total inventories	10,283	7,506	10,251	7,461

17. TRADE AND OTHER RECEIVABLES

Trade debtors	142,507	191,492	142,151	191,399
Sundry debtors	8,420	8,134	7,384	6,981
Less: provision for doubtful debts	(732)	(61,839)	(732)	(61,839)
Opening Balance	(61,839)	(39,464)	(61,839)	(39,393)
Utilised during the year	60,323	304	60,323	304
Provision for reticulation debt previously included in trade debtors	-	(10,267)	-	(10,267)
Reversed during the year	10,281	-	10,281	-
Provided for during the year.	(9,497)	(12,412)	(9,497)	(12,483)
Total trade and other receivables	150,195	137,787	148,803	136,541

Trade debtors comprise bulk water and waste water sales to a number of municipalities of which eThekweni Municipality and Msunduzi Municipality comprise a significant proportion - 92% (2007: 94%) of sales.

Trade debtors are granted credit terms of 30 days from date of invoice to settle outstanding debts. The average credit period, at financial year-end, is 37.3 days (2007: 37.1 days).

Following the settlement of a dispute which arose in the prior years, a credit note to the value of R60m was passed to Msunduzi municipality, and thus R50m of the respective provision for doubtful debts was reversed.

Of the trade receivables balance at the end of the year, R89m (2007: R81m) is due from eThekweni Municipality, the group's largest customer.

Trade and other receivables are classified as loans and receivables, the carrying value approximates fair value. Refer to credit risk included in the financial risk management in note 31 for further disclosures relating to trade receivables in accordance with IFRS 7.

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

	Group		Parent	
	2008	2007	2008	2007
	R'000	R'000	R'000	R'000
18. INTEREST AND PREMIUM RECEIVABLE				
Interest and premiums have been accrued for where biannual coupon bonds and zero-coupon bonds have earned interest, but have not been received at year-end.	5,616	3,057	5,616	3,057
Interest and premium receivable relating to current investments are classified as loans and receivables, the carrying value approximates fair value.				
Total interest and premium receivable	5,616	3,057	5,616	3,057

19.1. BANK AND CASH

Cash and cash equivalents consist of:				
Bank and cash on hand	13,637	21,159	12,118	19,647
The balance comprises cash held by the group, classified as loans and receivables, the carrying amount of these assets approximate their fair value.				
The group's outstanding guarantees are disclosed under note 28.				
Total bank and cash	13,637	21,159	12,118	19,647

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

Profit for the year	392,866	250,516	391,120	250,752
Adjusted for non-cash items:				
Interest income	(105,311)	(89,522)	(105,296)	(89,614)
Finance costs	270,751	309,433	270,735	309,417
Fair value adjustment of biological assets	(1,689)	(723)	(602)	(233)
Losses on biological assets (on sale and death)	719	939	-	804
Asset impairments and write-offs	5,700	16,190	5,700	16,190
Investment impairments reversed	-	-	(1,092)	(806)
Amortisation - reticulation asset	91,627	95,479	91,627	95,479
Amortisation - intangible asset	1,581	2,089	1,581	2,089
Depreciation	63,649	64,738	63,080	63,907
Profit on disposal of property, plant and equipment	(1,591)	(221)	(1,630)	(185)
Increase in provisions and non-current liabilities	78,454	78,417	78,452	78,265
(Decrease)/increase in doubtful debts provision	(2,766)	12,412	(2,766)	12,483
Profit from associate	(1,092)	(649)	-	-
Operating surplus before working capital changes	792,898	739,098	790,909	738,548
Working capital changes	51,414	(14,900)	51,417	(14,400)
Increase in accounts receivable	(9,516)	(31,338)	(9,370)	(30,427)
Increase in inventory	(2,778)	(566)	(2,790)	(591)
Increase in accounts payable	63,708	17,004	63,577	16,618
Net cash from operating activities	844,312	724,198	842,326	724,148

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

	Group		Parent	
	2008	2007	2008	2007
	R'000	R'000	R'000	R'000
20. CAPITAL				
Capital consists primarily of contributions made by the Department of Water Affairs and Forestry.	442,847	442,847	442,847	442,847
Total capital	442,847	442,847	442,847	442,847

21. LONG-TERM LIABILITIES

21.1. Capital market financial liabilities at amortised cost

Long-term interest-bearing debt consists of:

Locally registered stock including finance leases

Loan discount - long term

Less: nominal amounts due within 12 months (see note 25)

- Net amount

- Loan discount - short-term

	1,978,904	2,060,323	1,978,904	2,060,323
	2,134,262	2,239,774	2,134,262	2,239,774
	(47,394)	(66,898)	(47,394)	(66,898)
	(107,964)	(112,553)	(107,964)	(112,553)
	(85,210)	(93,049)	(85,210)	(93,049)
	(22,754)	(19,504)	(22,754)	(19,504)

21.2. Maturity profile

1 - 5 years

6 - 10 years

> 10 years

	1,978,904	2,060,323	1,978,904	2,060,323
	1,427,745	1,382,936	1,427,745	1,382,936
	477,293	539,138	477,293	539,138
	73,866	138,249	73,866	138,249

21.3. Nominal value reconciliation

Individual loan stock - as per annexure 1

Loan discount

Unrealised mark-to-market adjustments are charged to the income statement.

	1,978,904	2,060,323	1,978,904	2,060,323
	2,003,544	2,107,717	2,003,544	2,107,717
	(24,640)	(47,394)	(24,640)	(47,394)

21.4. Fair value

Interest rates for the loans are disclosed in annexure 1.

	1,951,253	2,301,932	1,951,253	2,301,932
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Total long-term liabilities	1,978,904	2,060,323	1,978,904	2,060,323
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Umgeni Water has a financial structure that underlies loan 56 in terms of the final settlement thereof and has made a deposit with and ceded it in favour of Rand Merchant Bank, for future settlement and with right of set-off against an equal liability. Accordingly these assets and liabilities have been offset and are not reflected in the annual financial statements. A provision has been made for the potential liability which may arise due to the uncertainty of revenue previously recognised (refer to note 24).

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

	Group		Parent	
	2008	2007	2008	2007
	R'000	R'000	R'000	R'000
22. OTHER NON-CURRENT LIABILITIES				
22.1. Retirement benefit – medical aid				
The retirement benefit medical aid is the value of the past service liabilities at financial year-end and is based on an actuarial valuation. (Refer to note 29.3 for additional information.)	131,162	101,908	131,162	101,908
22.2. Retirement benefit – defined benefit plan				
Liability for the net under funded position (Refer to note 29.2 for additional information.)	14,057	17,580	14,057	17,580
22.3. Amounts owing to customer				
Amounts owing to a customer in terms of a settlement agreement, held at amortised cost which approximates fair value.	19,150	-	19,150	-
Total other non-current liabilities	164,369	119,488	164,369	119,488

23. ACCOUNTS PAYABLE				
Accounts payable	38,694	26,353	35,979	23,766
Accruals	75,531	55,304	75,531	55,304
Amounts due to related parties:				
– DWAF water purchases accrual	73,781	64,338	73,781	64,338
Sundry creditors	31,568	14,060	31,571	14,059
Section 30 advances	15,978	11,795	15,978	11,795
Accounts payable comprise amounts outstanding for trade purchases.				
Trade and other payables are carried at amortised cost and the carrying value approximates fair value.				
Total accounts payable	235,552	171,850	232,840	169,262

					Total	Total
	Leave pay	Legal fees	Bonus	Other	2008	2007
	R'000	R'000	R'000	R'000	R'000	R'000
24. PROVISIONS						
Group						
Opening balance	18,258	5,595	7,715	54,646	86,214	29,369
Provided for during the year	3,858	3,792	8,036	27,327	43,013	66,839
Utilised during the year	(1,679)	(388)	(7,372)	-	(9,439)	(9,994)
Closing balance	20,437	8,999	8,379	81,973	119,788	86,214
Parent						
Opening balance	17,286	5,595	7,715	54,173	84,769	28,076
Provided for during the year	3,923	3,792	8,036	27,259	43,010	66,687
Utilised during the year	(1,679)	(388)	(7,372)	-	(9,439)	(9,994)
Closing balance	19,530	8,999	8,379	81,432	118,340	84,769

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

The provision for bonus is raised to recognise the performance bonus provision, which is payable at the board's discretion in line with the Performance Management Scheme.

Note 21 provides more detail on the balance included in other provisions.

Legal fees are raised to the extent that it is probable Umgeni Water will be required to honour obligations.

All provisions are raised in the ordinary course of business and no material unutilised provisions were written back. Provisions are carried at amortised cost and the carrying value approximates fair value.

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

	Group		Parent	
	2008	2007	2008	2007
	R'000	R'000	R'000	R'000
25. SHORT-TERM FUNDING				
Financial liabilities at amortised cost consist of:	99,432	120,268	99,432	120,268
Call funding	14,222	27,219	14,222	27,219
Current portion of long-term liabilities	85,210	93,049	85,210	93,049
Nominal value reconciliation	99,432	120,268	99,432	120,268
Individual loan stock - as per annexure 1	122,186	139,772	122,186	139,772
Current portion of loan discount (see note 21)	(22,754)	(19,504)	(22,754)	(19,504)
Fair value	157,703	134,414	157,703	134,414
Total short-term funding	99,432	120,268	99,432	120,268
26. CAPITAL COMMITMENTS				
Commitments in respect of capital expenditure:				
- contracted for but not provided for in the financial statements	35,643	55,888	35,643	55,888
- authorised but not contracted for	691,444	552,570	691,444	552,570
The proposed capital expenditure will be financed through internally generated funds.				
The expenditure is substantially for the augmentation and upgrades of pipelines				
Total capital commitments	727,087	608,458	727,087	608,458
27. OPERATING LEASE ARRANGEMENTS				
At the balance sheet date, the group had no outstanding commitments under non-cancellable operating leases.				
The group as the lessor – rental income				
The group owns a number of properties from which rental income of R1.97m (2007: R1.98m) is earned.				
At the balance sheet date, the group had contracted with tenants for the following future minimum lease payments.				
0 - 1 year	1,784	1,238	1,784	1,238
1 - 5 years	2,962	2,658	2,962	2,658
Total operating lease arrangements	4,746	3,896	4,746	3,896
28. CONTINGENT LIABILITIES				
Collateral				
Collateral security has been given to certain financial institutions in respect of mortgage loans advanced to employees under the home ownership scheme.	90	1,009	90	1,009
Guarantees				
Guarantees have been given by certain financial institutions with respect to payments to utility service providers.	1,196	822	1,196	822
Total contingent liabilities	1,286	1,831	1,286	1,831

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

	Group		Parent	
	2008	2007	2008	2007
	R'000	R'000	R'000	R'000
29. RETIREMENT BENEFIT PLANS				
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.				
29.1 Defined contribution plan				
The total cost charged to income represents the group's portion of the contribution payable to this scheme. At reporting date all amounts due and payable to this scheme had been paid.	6,075	4,958	4,876	3,794
29.2 Defined benefit plan				
The scheme is funded and actuarially valued every three years. The effective date of the most recent valuation is 30 June 2008. The defined benefit retirement fund was closed to new employees with effect from 6 February 2007.				
The net under funded position of the plan at financial year-end is as follows and is based on the actuarial valuation done on 30 June 2008:				
Defined benefit obligation	368,499	339,601	368,499	339,601
Assets at fair value	(295,917)	(242,983)	(295,917)	(242,983)
Under funded status	72,582	96,618	72,582	96,618
Unrecognised actuarial losses	(58,525)	(79,038)	(58,525)	(79,038)
Net liability in balance sheet (note 22)	14,057	17,580	14,057	17,580
Current service cost	15,795	14,372	15,795	14,372
Interest on obligation	27,358	28,455	27,358	28,455
Actuarial loss	2,443	2,885	2,443	2,885
Expected return on plan assets	(22,811)	(20,009)	(22,811)	(20,009)
Total included in staff costs	22,785	25,703	22,785	25,703
Movement in the net liability recognised in the balance sheet is as follows:				
Net liability at start of year	17,580	21,543	17,580	21,543
Net expense recognised in the income statement	22,785	25,703	22,785	25,703
Company contributions	(26,308)	(29,666)	(26,308)	(29,666)
Net liability at end of year	14,057	17,580	14,057	17,580
Key assumptions used in the actuarial valuation performed on 30 June 2008				
Discount rate	10.25%	7.75%	10.25%	7.75%
Expected return on plan assets	10.75%	9.00%	10.75%	9.00%
Expected rate of salary increases	8.25%	5.75%	8.25%	5.75%
Future pension increase	4.83%	3.17%	4.83%	3.17%

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

	Group		Parent	
	2008	2007	2008	2007
	R'000	R'000	R'000	R'000
29. RETIREMENT BENEFIT PLANS (continued)				
29.3 Retirement medical aid				
The scheme is unfunded and the group has recognised its full past service liability and has reflected this in other-non current liabilities (see note 22). The scheme is actuarially valued every year.				
Employees who joined Umgeni Water after 28 February 2002 cannot elect to join this scheme.				
Current service cost	4,440	3,151	4,440	3,151
Interest on obligation	8,309	7,156	8,309	7,156
Actuarial loss	18,897	17,330	18,897	17,330
Total included in staff costs	31,646	27,637	31,646	27,637
The movement in the reserve is reflected as below:				
Opening balance	101,908	76,373	101,908	76,373
Net expense recognised in the income statement	31,646	27,637	31,646	27,637
Company contributions	(2,392)	(2,102)	(2,392)	(2,102)
Net liability at end of year	131,162	101,908	131,162	101,908

Key assumptions used in the actuarial valuation, performed at 31 December 2007:

Discount rate	8.00%	8.25%	8.00%	8.25%
Expected rate of increase in medical indices	6.75%	7.25%	6.75%	7.25%

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

Sensitivity Factor	Central Assumption	Accrued Liability			
		Increase		Decrease	
		%	R'000	%	R'000
1% change in medical aid inflation rates	6.75%	22.8%	29,952	(17.5%)	(22,918)
1 year change in expected retirement age	60 years	(4.6%)	(6,083)	4.9%	6,445
1% change in discount rate	8.0%	(17.2%)	(22,514)	22.8%	29,887

The information presented above is as per the latest valuation, which was performed on 31 December 2007.

	Group		Parent	
	2008	2007	2008	2007
	R'000	R'000	R'000	R'000
30. RELATED PARTIES				
Umgeni Water, its subsidiaries and other public entities enter into various sale, purchase and service transactions in the ordinary course of business. Material related party transactions are as follows:				
Management fee paid to Msinsi Holdings (Pty) Ltd	-	-	14,917	14,207
Interest charged on Msinsi Holdings (Pty) Ltd's loan	-	-	77	181
Purchases from Msinsi Holdings (Pty) Ltd	-	-	-	2
Management fee paid to TCTA	-	654	-	654
Raw water purchases from DWAF	74,169	70,391	74,169	70,391
Loans to subsidiaries and associates:				
Msinsi Holdings (Pty) Ltd	-	-	421	2,784
Umgeni Water Services (Pty) Ltd	-	-	4,143	4,244

Refer to Remuneration Report on page 103 for directors' and executives' emoluments.

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

31. FINANCIAL INSTRUMENTS

CAPITAL MANAGEMENT

Capital management consists of the parent, Umgeni Water only, as the impact of the subsidiaries is considered to be insignificant.

As a government business enterprise, Umgeni Water strives towards a target optimal capital structure, which is made up of a combination of financial liabilities (refer notes 21, and 25) and capital and reserves as disclosed in the Statement of Changes in Equity on page 106. This structure is agreed annually between Umgeni Water and its Executive Authority (DWAF) in the shareholders compact and is managed in terms of the targeted debt to equity ratio and Umgeni Water's tariff policy.

Umgeni Water's objective for managing capital is to enhance shareholder (The Executive Authority) value by providing efficient and reliable water services to customers at the lowest economic cost whilst reducing debt, remaining financially self sufficient and generating sufficient funds to meet the required capital expenditure programme.

Capital and reserves managed by Umgeni Water is consistent with the prior year and consists of:

	2008	2007
	R'000	R'000
Capital	442,847	442,847
Investment revaluation reserves	2,256	8,396
Accumulated profit	573,632	182,512
Total	1,018,735	633,755

Performance against the corporate strategic objectives to enhance shareholder value

Indicator	2008 Target	Jun-08	Jun-07
Capital & reserves (R'000)	909,925	1,018,735	633,755
Profit for the year (R'000)	300,358	391,120	250,752
Debt: equity ratios <i>Total interest-bearing debt / capital & reserves</i>	< 3.33	2.04	3.44

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 through:

- Maintaining an optimal debt level.
- Asset liability matching.
- Adoption of a redemption strategy framework to pro-actively manage liquidity and refinancing risk associated with large maturities such as the UG65 bond.
- Managing debt within borrowing limits approved by National Treasury and DWAF.
- Maintaining an external credit rating.

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

31. FINANCIAL INSTRUMENTS (continued)

DEBT MANAGEMENT (continued)

Optimal debt level

Umgeni Water strives towards its current optimal debt level of R1.4bn with the target debt interest rate structure of 70% fixed and 30% floating so as to minimise volatility of both the tariff and income statement.

Gross debt (refer to annexure 1)
Optimal debt level

	2008	2007
	R'000	R'000
Gross debt (refer to annexure 1)	2,125,730	2,247,489
Optimal debt level	1,400,000	1,400,000
	725,730	847,489

Over funded

Existing debt levels are above the current optimal debt level but will reduce in accordance with set targets agreed with the Executive Authority. By 2010 it is projected that debt will reduce by R973 million following the redemption of the UG65 bond on 1 June 2010.

The UG65 bond together with the Development Bank of Southern Africa (DBSA) loans constitute 95.7% (2007: 94.7%) of the total funding structure of R2,125.7m. Further details relating to the loan structures can be found in annexure 1 of the annual financial statements.

Ratio of fixed to floating interest rate

Fixed
Floating

Recommended Ratio

70%
30%

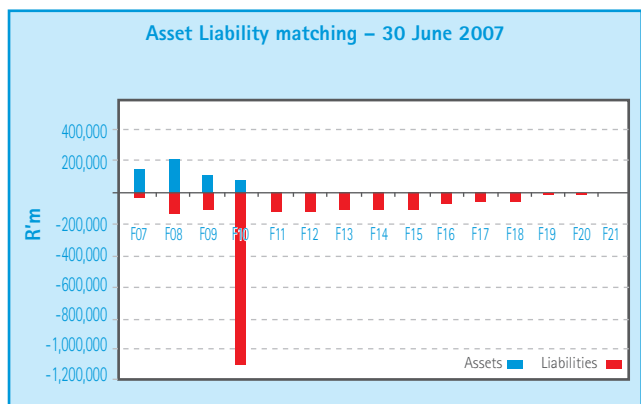
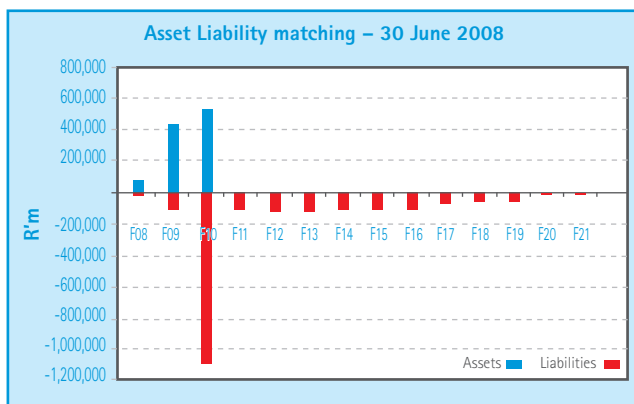
	2008	2007
	R'000	R'000
Fixed	73%	72%
Floating	27%	28%

At year end, Umgeni Water's interest rate profile indicates a bias to fixed rate debt. This is considered to be favourable in light of the current interest rate environment of high interest rates in the short term (250 basis points increase since June 2007).

Asset liability management

Asset and liability matching focuses on two components:

- The first being the matching of maturity dates of financial assets and liabilities whereby financial assets will be used to repay debt on its maturity. This will typically be applied in a redemption strategy.
- The second component is whereby debt is matched with periods when the business will generate excess cash after operating expenditure and interest cost. The surplus cash will therefore be applied to debt redemption.



Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

31. FINANCIAL INSTRUMENTS (continued)

DEBT MANAGEMENT (continued)

Asset liability management (continued)

As can be seen from the graphs, there still exists a mismatch between liabilities and assets. This needs to be pro-actively managed on an ongoing basis.

Redemption strategy framework

Taking the business environment and market conditions into account, the following framework is adopted in managing the redemption portfolio build-up over a 3-year period for the settlement of the UG65 bond:

- 10% of the capital redemption value is provided for 3 years before maturity (FY07);
- 40% is provided for 2 years before maturity (FY08);
- 75% is provided for 1 year before maturity (FY09); and
- the balance of 25 % is funded during the year of maturity (FY10).

As at 30 June 2008 , Umgeni Water had already invested R538 million (nominal value) (2007: R100m) or 55% (2007: 10%) of the capital redemption which is in excess of the 40% required in terms of the redemption strategy.

Redemption portfolio as at 30 June 2008

Instrument code	Maturity Date	Rate NACS	Asset Amount
UG65 Redemption PH1	31-May-10	8.90%	100,000,000
UG65 Redemption PH2	31-May-10	10.76%	159,723,247
UG65 Redemption PH3	31-May-10	12.18%	150,028,058
UG65 Redemption PH4	01-Jun-10	14.31%	128,624,932
TOTAL			538,376,237

Managing debt within borrowing limits approved by National Treasury and DWAF

In 2005 National Treasury issued a three-year borrowing limit of R3,500m for Umgeni Water for the period 2006 to 2008. All existing borrowings are within the borrowing limit and the unutilised portion was R1,373m (2007: R1,251m).

As the 3 year borrowing limit of R3,500m expired on 30 June 2008, the limits for the period 2009 to 2011 have been approved by National treasury with the concurrence of the Minister of Water Affairs and Forestry as follows:

- Umgeni Water may utilise up to R2,300m (2008/2009), R2,200m (2009/2010) and R1,400m (2010/11); and
- National Treasury's approval has to obtained for the utilisation of the remaining R500m (2008/09), R600m (2009/2010) and R1,400m (2010/2011) for each respective year.

Managing debt within the approved borrowing limits involves monthly monitoring of existing debt against the limits and evaluation of future cash flows and funding requirements against the approved limits to ensure that there is no breach of borrowing limits.

Utilisation of Borrowing limits

Borrowing limit approved
Gross borrowings (refer to annexure 1)
Collateral and guarantees

Unutilised borrowing limits

	2008	2007
	R'000	R'000
Borrowing limit approved	3,500,000	3,500,000
Gross borrowings (refer to annexure 1)	(2,125,730)	(2,247,489)
Collateral and guarantees	(1,286)	(1,831)
Unutilised borrowing limits	1,372,984	1,250,680

Maintaining an external credit rating (Fitch) – AA long term and F1+ short-term

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

Umgeni Water continues to enjoy its Fitch national ratings of: F1+ short-term and AA long-term and these ratings were reaffirmed in October 2007.

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

31. FINANCIAL INSTRUMENTS (continued)

CATEGORIES OF FINANCIAL INSTRUMENTS

Financial Assets

	2008	2007
	R'000	R'000
Available-for-sale	471,956	362,746
Held-to-maturity	440,286	77,908
Loans and receivables	415,835	519,803
Financial instruments	29,073	83,973
Reticulation financial asset	220,225	276,458
Long-term loans to municipalities	-	127
Trade and other receivables	148,803	136,451
Interest and premium receivable	5,616	3,057
Cash and cash equivalents	12,118	19,647

Financial Liabilities

Amortised cost	2,370,606	2,392,483
Long-term liabilities	1,978,904	2,060,323
Amounts owing to customer	19,150	-
Trade and other payables	232,840	169,262
Short-term funding	99,432	120,268
Interest payable	40,280	42,630

FINANCIAL RISK MANAGEMENT

Qualitative and quantitative disclosures about the financial risks facing Umgeni Water and strategies used to manage the risks are discussed in this note. This note includes the parent entity, Umgeni Water, only as the impact of the subsidiaries is considered to be insignificant. 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 highlighting the risk implications of various financial transactions.

Therefore the exposure of the treasury function to the major financial risks is unique to its activities and therefore different to the other divisions within Umgeni Water.

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, the use of financial derivatives and non-derivative financial instruments, 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.

Risk management objectives and policies

The principal financial risks to which Umgeni Water is exposed as a result of its financial instruments are:

- (1) Interest rate risk;
- (2) liquidity risk; and
- (3) credit risk (which includes counterparty risk)

1. Interest rate risk

Interest rate risk is the risk that adverse changes in interest rates cause a reduction in net income for Umgeni Water. Umgeni Water is exposed to interest rate risk as funds are borrowed at both fixed and floating interest rates. Borrowings issued at floating interest rates exposes Umgeni Water to cashflow interest rate risk. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings (70% fixed to 30% floating interest rate profile).

The interest rate profile of Umgeni Water is summarised as follows:

	2008	2007
	R'000	R'000
Loans linked to JIBAR	550,000	600,000
Short-term borrowings linked to SA money market	14,222	27,219
Loans with a fixed interest rate	1,561,508	1,620,270
Total gross debt	2,125,730	2,247,489

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

31. FINANCIAL INSTRUMENTS (continued)

FINANCIAL RISK MANAGEMENT (continued)

1. Interest rate risk continued

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities and investments, the analysis is prepared assuming the amount of liability and investment outstanding at the balance sheet 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.

	2008	2007	2008	2007
	R'000	R'000	R'000	R'000
	50 Basis Points increase		50 Basis Points decrease	
Floating investments – Money Market				
Call investments	48,000	63,000	48,000	63,000
Rate	11.65%	9.02%	11.65%	9.02%
Average interest for the year	5,592	5,684	5,592	5,684
Adjusted interest rate	12.15%	9.52%	11.15%	8.52%
Average interest for the year	5,832	5,999	5,352	5,369
Difference	240	315	(240)	(315)
Floating Liabilities – Money Market				
Call loans	-	10,000	-	10,000
Rate	-	9.30%	-	9.30%
Average interest for the year	-	930	-	930
Adjusted interest rate	-	9.80%	-	8.80%
Average interest for the year	-	980	-	880
Difference	-	50	-	(50)
Department Of Education (advance)	(14,222)	(17,219)	(14,222)	(17,219)
Rate	10.00%	8.00%	10.00%	8.00%
Average interest for the year	(1,422)	(1,378)	(1,422)	(1,377)
Adjusted interest rate	10.50%	8.50%	9.50%	7.50%
Average interest for the year	(1,493)	(1,464)	(1,351)	(1,291)
Difference	(71)	(86)	71	86
Floating Liabilities – Long term Liabilities				
Floating against JIBAR	(550,000)	(600,000)	(550,000)	(600,000)
Rate	13.41%	11.13%	13.41%	11.13%
Average interest for the year	(73,772)	(66,768)	(73,772)	(66,768)
Adjusted interest rate	13.91%	11.63%	12.913%	10.628%
Average interest for the year	(76,522)	(69,768)	(71,022)	(63,768)
Difference	(2,750)	(3,000)	2,750	3,000
Total adjustment to net interest expense	(2,581)	(2,721)	2,581	2,721
NDR				
Balance as at June	2,256	8,396	2,256	8,396
Balance as at June assuming 50 basis points increase/decrease	1,753	7,450	2,763	9,355
Adjustments to reserves – Short term investment (STI)	(503)	(946)	507	959

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

31. FINANCIAL INSTRUMENTS (continued)

FINANCIAL RISK MANAGEMENT (continued)

1. Interest rate risk (continued)

If interest rates had been 50 basis points higher/lower and all other variables were held constant, Umgeni Water's:

- profit for the year ended 30 June 2008 would decrease/increase by R2,6m (2007: R2,7m). This is mainly attributable to Umgeni Water's exposure to interest rates on variable rate borrowings and investments; and
- other equity reserves would decrease/increase by R0.5m (2007: R0.9m) mainly as a result of the changes in the fair value of available-for-sale fixed rate instruments.

2. Liquidity risk

Liquidity risk is the risk that Umgeni Water will not be able to secure funding to meet its commitments or will have to do so at higher than market prices. Liquidity risk arises from:

- changes in the market environment which could lead to a mismatch between revenues and operational and capital expenditure;
- Umgeni Water's reputation within the market to enable the entity to access liquidity for capital expenditure at the required terms and when required; and
- incomplete or inaccurate data used in compiling of cashflow forecasts.

The management of liquidity risk is centralised in the treasury department in accordance with practices and limits set by the board. Liquidity risk is managed by using amortising loans when raising new debt and through a redemption portfolio in accordance with the concentration and profile of debt maturities. Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of Umgeni Water's short, medium and long-term funding and liquidity management requirements. Umgeni Water further manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, matching the maturity profiles of financial assets and liabilities and monitoring balance sheet liquidity ratios.

2.1. 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:

Commercial Paper Programme (CPP)

The programme has an authorised amount of R600m, and is a useful funding tool in terms of the following:

- Refining the duration of the stock of debt.
- Refining the fixed to floating ratio of the debt book.
- Meeting short-term liquidity requirements.
- Filling gaps in the debt maturity profile.

In terms of commercial paper regulations Umgeni Water can issue paper for a tenor of up to 5 years under this programme. The Commercial Paper Programme therefore provides Umgeni Water with the option of issuing both short and medium-term instruments.

Bank short-term funding

Umgeni Water has the following committed and uncommitted bank facilities available:

Type of facility	Committed	Uncommitted
Working capital facility	R35 million	R50 million
Multipurpose treasury facility	R30 million	R70 million
General credit facility	-	R50 million
Call borrowings facility	R60 million	-
Primary lending	R5 million	-

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

31. FINANCIAL INSTRUMENTS (continued)

FINANCIAL RISK MANAGEMENT (continued)

2. Liquidity risk (continued)

2.1. Primary source of funding and unused facilities (continued)

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. Specifically, Umgeni Water has a R1.5bn loan facility with the DBSA, of which R350m was drawn in 2006.

2.2. Liquidity risk inherent in contractual cash flows

The following tables detail 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.

	Weighted average effective interest rate						Total
		< 1 month	1-3 months	3 months-1 year	1-5 years	>5 years	
Financial liabilities		R'000	R'000	R'000	R'000	R'000	R'000
2008							
Fixed interest rate instruments	13.17%	-	46,275	193,356	1,648,124	129,528	2,017,283
Variable interest rate instruments	13.35%	14,222	62,439	62,953	446,238	445,504	1,031,356
2007							
Fixed interest rate instruments	13.03%	-	361	246,275	1,710,832	306,451	2,263,919
Variable interest rate instruments	11.07%	27,219	-	118,784	571,630	445,504	1,163,137

The following table details Umgeni Water's expected maturity for its non-derivative financial assets which are primarily used to manage the liquidity risk inherent in the contractual maturities for its non-derivative financial liabilities. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where Umgeni Water anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate						Total
		< 1 month	1-3 months	3 months-1 year	1-5 years	>5 years	
Financial assets		R'000	R'000	R'000	R'000	R'000	R'000
2008							
Fixed interest rate instruments	12.05%	101,073	180,000	185,000	538,376	-	1,004,449
Variable interest rate instruments	11.48%	50,758	-	-	-	-	50,758
2007							
Fixed interest rate instruments	10.34%	183,897	-	100,000	195,321	-	479,218
Variable interest rate instruments	8.47%	78,631	-	-	-	-	78,631

3. Credit risk

Credit risk refers to the risk of financial loss resulting from failure of a counterparty to an asset, for any reason, to fully honour its financial and contractual obligations. Potential areas of credit risk consist of cash and cash equivalents, investments, trade debtors and other receivables. Umgeni Water limits its exposure in relation to cash balances by only dealing with well established financial institutions of high quality credit standing. Investments are only placed with counterparties who have a national short-term credit rating of F1 and above and/or a national long-term credit rating of AA and above. This information is supplied by independent rating agencies where available and if not available, Umgeni Water uses other publicly available financial information to rate its counterparties. A limit cap of R350m applies to all counterparties that are not government guaranteed. Umgeni Water's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of the transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the audit committee annually.

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

31. FINANCIAL INSTRUMENTS (continued)

FINANCIAL RISK MANAGEMENT (continued)

3. Credit risk (continued)

3.1. Trade and other receivables

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

- The entity aims to minimise loss caused by default of customers through specific policies and procedures.
- Compliance with these policies and procedures are the responsibility of the general manager finance and financial manager. Monitoring of compliance with these policies is carried out by internal audit. All known risks are required to be fully disclosed and accounted for and are provided against as doubtful debts.

Umgeni Water monitors exposures on an ongoing basis utilising various reporting tools and flagging potential risks. The following reports are used to monitor credit risk:

- Trade debtors report;
- Age analysis reports; and
- Status report for significant overdue debtors.

The average credit period allowed is 30 days from invoice date. Interest is charged at prime rate on any debt over 30 days from date of invoice. Umgeni Water has provided fully for all receivables over 90 days because historical experience is such that receivables that are past due beyond 90 days are generally not recoverable. Trade receivables between 30 and 90 days are provided for based on estimated irrecoverable amounts from the sale, determined by reference to past default experience.

	2008	2007
	R'000	R'000
Analysis per credit rating level of the credit risk of trade and other receivables is as follows:		
AA/A1+	89,133	81,259
A/A1-	24,863	75,696
Unrated	35,539	41,425
There were no financial assets past due or impaired and whose terms have been renegotiated	-	-
Carrying amount of financial assets impaired during the year	732	61,839
Analysis of the ageing of financial assets (trade receivables) which are past due but have not been impaired:		
30 days	4,658	3,283
60 days	657	7,707
90 days	1,212	-
120+ days	3,804	-
Total	10,331	10,990

The amounts included in 90 days and greater for the current year relate to interest and management fees short paid which have not been provided for as a result of correspondence from customers confirming this will be received. This was subsequently received in July 2008.

3.2. Financial assets

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 R350m and limited to parties where 5% of shareholders funds exceeds R100m. Only counterparties with a long-term rating of AA and short-term rating of F1 and better can qualify for a credit limit. Consumption of the credit limit is measured at nominal value except in the case of zero coupon bonds where credit limit consumption is based on current market value.

Maximum credit risk exposure to the entity:

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

Notes to the Consolidated Annual Financial Statements continued

For the year ended 30 June 2008

31. FINANCIAL INSTRUMENTS (continued)

FINANCIAL RISK MANAGEMENT (continued)

3. Credit risk (continued)

3.2. Financial Assets (continued)

Counterparty	Rating	Credit Limit R'000	Held-to-Maturity		Available-for-sale		Loans and receivables		Total	
			R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Investec Bank Limited	AA-/F1+	350	131,736	-	106,956	149,746	-	-	238,692	149,746
ABSA Bank Limited	AAA/F1+	350	84,866	77,908	139,000	-	1,862	12,981	225,728	90,889
First Rand Bank Limited	AA+/F1+	350	-	-	-	64,000	27,211	70,992	27,211	134,992
Standard Bank of South Africa Limited	AA+/F1+	350	122,887	-	-	-	-	-	122,887	-
Nedbank Limited	AA/F1+	350	100,797	-	202,000	121,000	-	-	302,797	121,000
Calyon Corporate & Investment Bank	AA/F1+	350	-	-	24,000	28,000	-	-	24,000	28,000
Total			440,286	77,908	471,956	362,746	29,073	83,973	941,315	524,627

4. Fair Value of financial instruments

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

The financial statements include an available-for-sale financial asset which is measured at fair value. Fair value is estimated using a constant spread approach i.e., the assumption is that the price has a constant spread against the government curve. In determining the fair value, the risk free rate plus the constant spread as at 30 June 2008 was 11.85% (2007: 9.46%). If these inputs to the valuation model were 50 basis points higher/lower while all variables held constant, the carrying amount of the investment would decrease/increase by R503,100 and R506,664 respectively (2007: decrease/increase by R958,128 and R946,752 respectively).

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

	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	R'000	R'000	R'000	R'000
Financial liabilities				
Bank loans	1,152,038	1,125,824	1,273,797	1,410,744
Bond at fixed interest rate (UG65)	926,298	983,132	906,793	1,025,602
Total	2,078,336	2,108,956	2,180,591	2,436,346

Annexure 1 – Schedule of Liabilities

As at 30 June 2008

LONG-TERM LIABILITIES

Loan	Fixed or floating interest rate	Authorised nominal value	NACM 2008	NACM 2007	Year of maturity	Issued nominal value 2008	Issued nominal value 2007
		R'000	%	%		R'000	R'000
27	Fixed	39,939	14.55	14.55	2012	18,228	22,041
30	Fixed	5,214	16.52	16.52	2013	2,563	2,982
37	Fixed	4,006	16.80	16.80	2009	332	920
47	Fixed	33,665	9.80	9.80	2017	22,418	24,119
54	Fixed	200,000	11.60	11.60	2013	45,221	53,595
56	Fixed	200,000	12.44	12.44	2014	17,878	16,229
65	Fixed	1,900,000	15.50	15.50	2010	973,691	973,691
71 Sub 1 and 2	Floating	750,000	13.41	11.13	2019	500,000	550,000
71 Sub 3	Fixed	161,000	10.95	10.95	2019	107,333	118,067
72	Fixed	50,000	4.95	4.95	2021	42,721	45,268
73	Fixed	350,000	8.16	8.16	2016	273,159	300,805
Total issued nominal value						2,003,544	2,107,717

SHORT-TERM LIABILITIES

Loan	Fixed or floating interest rate	Authorised nominal value	NACM 2008	NACM 2007	Year of maturity	Issued nominal value 2008	Issued nominal value 2007
		R'000	%	%		R'000	R'000
27	Fixed	39,939	14.55	14.55	2012	3,746	3,234
30	Fixed	5,214	16.52	16.52	2013	418	355
37	Fixed	4,006	16.80	16.80	2009	587	497
47	Fixed	33,665	9.80	9.80	2017	1,701	1,550
54	Fixed	200,000	11.60	11.60	2013	8,461	18,273
56	Fixed	200,000	12.44	12.44	2014	2,122	-
71 Sub 1 and 2	Floating	750,000	13.41	11.13	2019	50,000	50,000
71 Sub 3	Fixed	161,000	10.95	10.95	2019	10,733	10,733
72	Fixed	50,000	4.95	4.95	2021	2,547	2,425
73	Fixed	350,000	8.16	8.16	2016	27,649	25,486
Call liabilities	Floating					14,222	27,219
Term deals	Floating					-	-
Total issued nominal value						122,186	139,772

Total gross debt

2,125,730 2,247,489

Acronyms

ABE	Adult Basic Education
AE	Assisted Education
ASA	Africa/South Africa
ATWP	Appropriate Technology Water Programme
BEE	Black Economic Empowerment
BSC	Balanced Scorecard
CBO	Community Based Organisation
CCMA	Commission for Conciliation, Mediation and Arbitration
CMA	Catchment Management Agency
CMF	Catchment Management Forum
CN	Cyanide
COD	Chemical Oxygen Demand
COSATU	Congress of South African Trade Unions
CPM	Competency-based Performance Management
CWSS	Community Water Supply and Sanitation
DAEA	Department of Agriculture and Environmental Affairs
DANCED	Danish Corporation for Environment and Development
DBSA	Development Bank of South Africa
DEAT	Department of Environmental Affairs and Tourism
DI	Disabling injury
DIFR	Disabling Incident Frequency Rate
DWAF	Department of Water Affairs and Forestry
EPWP	Expanded Public Works Programme
EAP	Environmental Assessment Practitioner
E&CS	Engineering and Construction Services
EE	Employment Equity
EES	External Education Services
EESC	Employment Equity Steering Committee
EIA	Environmental Impact Assessment
EMP	Environmental Management Plan
EMS	Environmental Management System
EXCO	Executive Committee
FSL	Full Supply Level
GRI	Global Reporting Initiative
HDI	Historically Disadvantaged Individual
HWG	Hot Water Generator
ILO	International Labour Organisation
INR	Institute of Natural Resources
ISO	International Organisation for Standardisation
IWRM	Institute of Water Resources Management
KZN	KwaZulu-Natal

LED	Local Economic Development
LRA	Labour Relations Act
m.a.s.l.	Mean above sea level
MMTS	Mooi-Mgeni Transfer Scheme
MI	Megalitre (1 000 000 litres)
MIG	Municipal Infrastructure Grant
NEHAWU	National Education and Health Allied Workers' Union
NEMA	National Environmental Management Act
NEPAD	New Partnership for Africa's Development
NETU	National Employees' Trade Union
NGO	Non-government Organisation
NOSA	National Occupational Safety Association
NWA	National Water Act
OA	Oxygen Absorbed
OSH	Occupational Safety and Health
PFMA	Public Finance Management Act
RAWSP	Rural Areas Water and Sanitation Plan
RDP	Reconstruction and Development Programme
RHP	River Health Programme
SABS	South African Bureau of Standards
SADC	Southern Africa Development Community
SAMWU	South African Municipal Workers' Union
SASS	South African Scoring System
SHE	Safety, Health and Environment
SHEQ	Safety, Health, Environment and Quality
SoE	State of the Environment
SOG	Soap, Oil and Grease
SR	Severity Rate
SRP	Soluble Reactive Phosphorus
SS	Suspended Solids
TLC	Transitional Local Councils
UW	Umgeni Water
WfW	Working for Water
WRC	Water Research Commission
WSA	Water Services Authority
WW	Waterworks
WWW	Wastewater Works

For more information contact:

Umgeni Water Corporate Stakeholder Unit | P.O. Box 9 Pietermaritzburg | 3200

Telephone Number: 27 33 341-1010 | Fax Number: 27 33 341-1167

Email address: info@umgeni.co.za

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