

# UMGENI WATER REVIEWED INTERIM FINANCIAL RESULTS AS AT 31 DECEMBER 2014



*Improving Quality of Life and Enhancing Sustainable Economic Development*

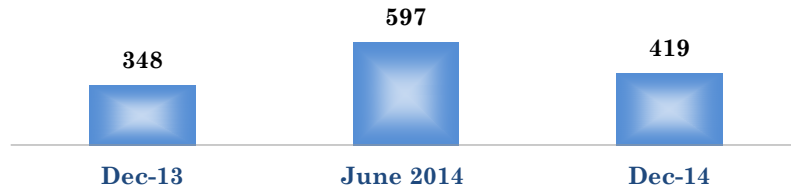
## PERFORMANCE HIGHLIGHTS

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### OPERATING PROFIT

(2013: R348m)

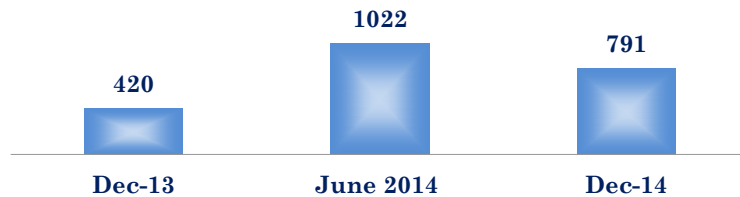
**R419m**



### CAPEX SPEND

(2013: R 420m)

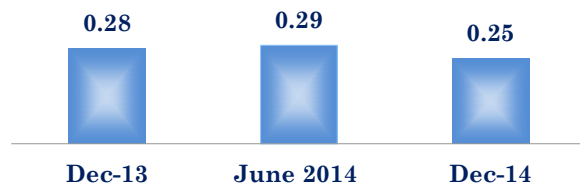
**R791m**



### DEBT EQUITY RATIO

(2013: 0.28)

**0.25**



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UMGENI WATER REVIEWED INTERIM FINANCIAL RESULTS FOR THE SIX MONTHS ENDED  
31 DECEMBER 2014

UMGENI WATER STATEMENT OF PROFIT AND LOSS			
For the			
	6 Months ended 31 December 2014	Restated 6 Months ended 31 December 2013	12 Months ended 30 June 2014
	Reviewed	Reviewed	Audited
	R'000	R'000	R'000
Revenue	1 108 288	1 066 695	2 187 886
Cost of sales	(485 532)	(505 380)	(1 034 890)
<b>Gross profit</b>	<b>622 756</b>	<b>561 315</b>	<b>1 152 996</b>
Other income	26 191	19 901	28 486
Other operating and administration expenses	(230 111)	(233 119)	(584 561)
<b>Profit from operations</b>	<b>418 836</b>	<b>348 097</b>	<b>596 921</b>
Net finance income	72 035	22 272	77 048
<b>Profit for the period</b>	<b>490 871</b>	<b>370 369</b>	<b>673 969</b>

UMGENI WATER STATEMENT OF OTHER COMPREHENSIVE INCOME			
For the			
	6 Months ended 31 December 2014	Restated 6 Months ended 31 December 2013	12 Months ended 30 June 2014
	Reviewed	Reviewed	Audited
	R'000	R'000	R'000
<b>Other Comprehensive income for the period:</b>	-	-	119 883
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>119 883</b>

December results have no other comprehensive income recorded for the period, as the costs are not incurred evenly during the year, hence these will only be recognised in June 2015 once an actuarial valuation is obtained.

UMGENI WATER STATEMENT OF FINANCIAL POSITION			
As at			
	31 December 2014	Restated 31 December 2013	30 June 2014
	Reviewed	Reviewed	Audited
	R'000	R'000	R'000
<b>ASSETS</b>			
<b>Non-current assets</b>	<b>4 872 013</b>	<b>3 812 537</b>	<b>4 131 361</b>
Property, plant & equipment	4 768 684	3 782 844	3 984 471
Intangible assets	15 929	12 788	18 104
Subsidiaries and associates	33 627	2 065	33 967
Investments	43 360	2 638	83 561
Other financial assets	10 413	12 201	11 258
<b>Current assets</b>	<b>2 232 935</b>	<b>2 369 629</b>	<b>2 658 958</b>
Investments - financial instruments	1 729 813	1 973 264	2 156 793
Inventories	12 720	12 007	11 456
Trade and other receivables	444 587	333 454	448 047
Interest and premium receivable	45 352	36 788	40 722
Bank	463	14 116	1 940
<b>TOTAL ASSETS</b>	<b>7 104 948</b>	<b>6 182 166</b>	<b>6 790 319</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>	<b>4 886 480</b>	<b>3 972 125</b>	<b>4 395 609</b>
Capital	442 847	442 847	442 847
OCI Reserve	(64 217)	(184 100)	(64 217)
Accumulated profit	4 507 850	3 713 378	4 016 979
<b>Non-current liabilities</b>	<b>1 619 357</b>	<b>1 604 415</b>	<b>1 630 540</b>
Long-term debt	1 132 570	1 031 887	1 171 766
Other non-current liabilities	7 162	9 474	8 391
Post retirement benefit obligations	479 625	563 054	450 383
<b>Current liabilities</b>	<b>599 111</b>	<b>605 626</b>	<b>764 170</b>
Short-term debt	78 349	67 618	78 263
Provisions	40 687	33 714	49 053
Accounts payable	452 292	476 747	609 448
Interest payable	27 783	27 547	27 406
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>7 104 948</b>	<b>6 182 166</b>	<b>6 790 319</b>

UMGENI WATER				
STATEMENT OF CHANGES IN EQUITY				
For the 6 Months ending 31 December 2014				
	Capital	OCI reserve	Accumulated profit	Total
	R'000	R'000	R'000	R'000
<b>Balance as at 30 June 2013 (Audited)</b>	<b>442 847</b>	<b>(184 100)</b>	<b>3 343 010</b>	<b>3 601 757</b>
Total comprehensive income for the 6 month period 31 December 2013	-	-	370 369	370 369
Profit for the 6 month period 31 December 2013	-	-	370 369	370 369
Other comprehensive Income for the 6 month period 31 December 2013	-	-	-	-
<b>Balance as at 31 December 2013 (Reviewed)</b>	<b>442 847</b>	<b>(184 100)</b>	<b>3 713 379</b>	<b>3 972 126</b>
Total comprehensive income for the 6 month period 30 June 2014	-	119 883	303 600	423 483
Profit for the 6 month period 30 June 2014	-	-	303 600	303 600
Other comprehensive Income for the 6 month period 30 June 2014	-	119 883	-	119 883
<b>Balance as at 30 June 2014 (Audited)</b>	<b>442 847</b>	<b>(64 217)</b>	<b>4 016 979</b>	<b>4 395 609</b>
Total comprehensive income for the 6 month period 31 December 2014	-	-	490 871	490 871
Profit for the 6 month period 31 December 2014	-	-	490 871	490 871
Other comprehensive Income for the 6 month period 31 December 2014	-	-	-	-
<b>Balance as at 31 December 2014</b>	<b>442 847</b>	<b>(64 217)</b>	<b>4 507 850</b>	<b>4 886 480</b>

UMGENI WATER			
STATEMENT OF CASH FLOWS			
For the			
	6 Months ended 31 December 2014	Restated 6 Months ended 31 December 2013	12 Months ended 30 June 2014
	Reviewed	Reviewed	Audited
	R'000	R'000	R'000
<b>Net cash from operating activities</b>	352 622	333 758	860 017
<b>Net cash used in investing activities</b>	(790 703)	(372 563)	(805 461)
<b>Net cash from (used in) financing activities</b>	436 604	47 904	(57 633)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1 477)</b>	<b>9 099</b>	<b>(3 077)</b>
<b>Opening balance</b>	1 940	5 017	5 017
<b>Closing balance</b>	<b>463</b>	<b>14 116</b>	<b>1 940</b>

UMGENI WATER  
SEGMENTAL REPORT

	Primary activities											
	Bulk Water			Waste water			Other activities			Total		
	6 months ending 31 December 2014	Restated 6 months ending 31 December 2013	12 months ending 30 June 2014	6 months ending 31 December 2014	Restated 6 months ending 31 December 2013	12 months ending 30 June 2014	6 months ending 31 December 2014	Restated 6 months ending 31 December 2013	12 months ending 30 June 2014	6 months ending 31 December 2014	Restated 6 months ending 31 December 2013	12 months ending 30 June 2014
	Reviewed	Reviewed	Audited	Reviewed	Reviewed	Audited	Reviewed	Reviewed	Audited	Reviewed	Reviewed	Audited
	k'l'000	k'l'000	k'l'000	k'l'000	k'l'000	k'l'000	k'l'000	k'l'000	k'l'000	k'l'000	k'l'000	k'l'000
Volume sold	221 701	215 187	439 542	-	-	-	-	-	-	221 701	215 187	439 542
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Revenue	1 003 713	896 274	1 830 552	34 029	29 429	59 766	70 546	140 992	297 567	1 108 288	1 066 695	2 187 885
Cost of sales	(395 347)	(349 596)	(707 827)	(26 249)	(21 459)	(45 966)	(63 936)	(134 325)	(281 097)	(485 532)	(505 380)	(1 034 890)
<b>Gross profit</b>	<b>608 366</b>	<b>546 678</b>	<b>1 122 725</b>	<b>7 780</b>	<b>7 970</b>	<b>13 800</b>	<b>6 610</b>	<b>6 667</b>	<b>16 470</b>	<b>622 756</b>	<b>561 315</b>	<b>1 152 995</b>
Other income	24 378	17 861	16 889	1 813	2 040	3 871	-	-	7 726	26 191	19 901	28 486
Other operating and administration expenses	(225 677)	(231 563)	(587 259)	(3 555)	(3 930)	(8 095)	(879)	2 374	10 793	(230 111)	(233 119)	(584 561)
<b>Profit from operations</b>	<b>407 067</b>	<b>332 976</b>	<b>552 355</b>	<b>6 038</b>	<b>6 080</b>	<b>9 576</b>	<b>5 731</b>	<b>9 041</b>	<b>34 989</b>	<b>418 836</b>	<b>348 097</b>	<b>596 920</b>
Net finance income (costs)	71 319	26 960	81 549	716	(4 688)	(4 501)	-	-	-	72 035	22 272	77 048
<b>Profit for the year</b>	<b>478 386</b>	<b>359 936</b>	<b>633 904</b>	<b>6 754</b>	<b>1 392</b>	<b>5 075</b>	<b>5 731</b>	<b>9 042</b>	<b>34 989</b>	<b>490 871</b>	<b>370 369</b>	<b>673 968</b>
Other comprehensive income	-	-	119 883	-	-	-	-	-	-	-	-	119 883
<b>Total comprehensive income</b>	<b>478 386</b>	<b>359 936</b>	<b>753 787</b>	<b>6 754</b>	<b>1 392</b>	<b>5 075</b>	<b>5 731</b>	<b>9 042</b>	<b>34 989</b>	<b>490 871</b>	<b>370 369</b>	<b>793 851</b>
Capital expenditure - for the period	681 175	413 000	1 006 194	109 868	7 113	15 558	-	-	-	791 043	420 113	1 021 752
Segment assets	6 574 773	5 759 162	6 220 304	94 161	91 627	86 452	333 438	254 198	132 005	7 002 372	6 104 987	6 438 761
Unallocated										102 576	77 179	351 558
<b>Consolidated total assets</b>	<b>6 574 773</b>	<b>5 759 162</b>	<b>6 220 304</b>	<b>94 161</b>	<b>91 627</b>	<b>86 452</b>	<b>333 438</b>	<b>254 198</b>	<b>132 005</b>	<b>7 104 948</b>	<b>6 182 166</b>	<b>6 790 319</b>
Segment liabilities	1 192 102	1 075 826	1 228 781	18 818	23 679	21 249	129 752	144 486	142 116	1 340 672	1 243 991	1 392 146
Unallocated										877 796	966 050	1 002 564
<b>Consolidated total liabilities</b>	<b>1 192 102</b>	<b>1 075 826</b>	<b>1 228 781</b>	<b>18 818</b>	<b>23 679</b>	<b>21 249</b>	<b>129 752</b>	<b>144 486</b>	<b>142 116</b>	<b>2 218 468</b>	<b>2 210 041</b>	<b>2 394 710</b>

## Nature of Business

Umgeni Water is a schedule 3B public entity and referred to as a National Government business enterprise. As such it is regulated by and operates in accordance with the Water Services Act No. 108 of 1997, and the Public Finance Management Act No. 1 of 1999, as amended. Its primary function is to supply bulk water services, both potable and waste water to its customers. However the organisation is also involved in other activities (as defined in section 30 of the Water Services Act) which are related and support its primary activities.

## Financial Overview

The operating results for the six months ended 31 December 2014 reflects a profit of R491m (December 2013: R370m) which represents an increase of 33% on the previous year. Volume growth for the period was 3.0%, marginally lower than the 3.4% in the prior year; the decline has been attributed to the drought experienced in its operational area which resulted in water restrictions particularly in areas supplied from Hazelmer Dam. Revenue has increased by 3.9%, due to a combination of the volume growth, and an average 8.7% increase in the tariff for bulk water. Cost of sales decreased by 3.9%, primarily due to a reduction in s30 activities and a decrease in the raw water costs due to the exclusion of O&M costs from the tariff in the current year. Administration costs have decreased by 1.3% primarily due to reductions in the retirement benefit costs of 49.8%. Retirement benefit costs are based on forecasted actuarial valuations. Net finance income has increased by R51.6m (231.9%) as a result of higher interest income earned from higher interest rates on investments and lower finance costs as more finance costs were capitalised from the increased capital spend experienced this year.

The net cash from operating activities totalled R353m (December 2013: R334m).

The net cash used in investing activities was R791m (December 2013: R373m). The increase is primarily attributable to higher capital expenditure where R791m was spent in the current period compared to R492m in 2013.

Cash used in financing activities increased by R389m from Dec 2013, mainly from a R438m reduction in investments as the operating cash flows were not sufficient to supplement operating and capital expenditure, with the latter increasing by 60%.

Trade and other receivables totalled R444.5m (December 2013: R333.4m), while debtors days were 42 (Dec 2013: 35 days). A delay in the receipt of refunds from SARS was a major contributor in increased debtors days.

Property, plant and equipment increased by R782.4m since June 2014. This was primarily due to the higher spend of R791m (December 2013: R420m) on Capex projects, such as, Lower Thukela Bulk Water Supply Phase 1 (R209.2m); Nagle Aqueducts 2 Joint Refurbishment (R110.2m) and Darvill WWW Plant Capacity Increase (85ML/d) (R104.3m) projects. Capital Commitments as at 31 December 2014 were R3,912m (December 2013: R2,833m). Impairment assessments on Property, plant and equipment were not performed during this period as they are done annually in May each year in terms of the approved policies and procedures.

Total interest bearing debt as at 31 December 2014 was R1,211m (December 2013: R1,100m). The debt to equity ratio has also improved to 0.25 since the beginning of the financial year when the ratio was 0.29, whilst the interest cover ratio has improved to 7.12 times from 5.95 times in June 2014.

Umgeni Water's credit ratings are reaffirmed at F1+ short-term and AA+ long-term, effective from 21 January 2015.

There was no significant movement in contingent liabilities since the 2014 financial year end.

## Going Concern

The going-concern basis has been adopted in preparing the interim financial statements and the directors believe that the entity has adequate resources to continue as a going concern in the foreseeable future.

## Related parties

Significant related party transactions and balances during the interim period are listed on the following table:

	December 2014 R'000	December 2013 R'000
<b>Sale of goods and services:</b>		
Water Service Authorities	1,015,491	896,699
National Departments	45,141	119,220
<b>Cost of Sales and raw water purchases:</b>		
Water Service Authorities	22,378	9,126
National Departments	124,821	281,875
<b>Other operating and Administration expenses:</b>		
Subsidiaries and Associates	13,202	12,645
<b>Grant Funding for Rural development projects:</b>		
National Departments	-	44,700
<b>Subsidiaries and associates:</b>		
Loans to subsidiaries and associates	3,627	2,065
Intercompany Payables	3,037	5,954
Investments	30,000	-
<b>Debtors:</b>		
Water Service Authorities	251,488	212,638
National Departments	16,074	107,812
<b>Accrual - Raw Water:</b>		
National Departments	30,062	80,750

## 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 services should be affordable; and
- The solvency and sound financial management of Umgeni Water.
- The approved tariffs are as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Average bulk tariff (R/kl)	3.863	4.183	4.547
Tariff increase (%)	5.6%	7.7%	8.7%
Capital Unit Charge – Spring Grove Dam	0.408	0.408	0.426
Total Tariff	4.271	4.591	4.973
Total Tariff increase (%)	16.8%	7.5%	8.3%

## Outlook

The group anticipates continuing with the positive operating performance with a specific focus on cost containment of controllable costs; however the following critical factors are expected to impact on operating performance:

- Rising direct operating costs in excess of projected CPI while bulk water tariffs are under pressure to be aligned with CPI;
- escalating capital expenditure costs in comparison to budgeted costs;
- the uncertainty around the confirmation and receipt of Rural Bulk Infrastructure Grant funding to subsidise capital expenditure on Rural Development schemes and;
- the effect of droughts on the water resources and availability of raw water.

Umgeni Water has begun work on emergency pipelines to supplement the supply of water to the North Coast and South Coast region in order to circumvent the severe effects of the drought experienced in these regions.

## Basis of preparation and Accounting Policies

The interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and comply with all the new and amended accounting standards effective during the current reporting period.

## Restatement of the prior year results

### Reclassification: Capital Unit Charge

The capital unit charge has been accounted for on the agency basis, as Umgeni Water does not hold significant risks and rewards associated with the contract.

	31 December 2013
	R'000
<b>Statement of Profit and loss</b>	
Decrease in Revenue	(87,926)
Increase in Cost of sales	87,926

### Reclassification: Subsidiaries and Associates

The intercompany payables have been reclassified separately from the intercompany loans.

These have all impacted on the December 2013 results and the impact is reflected below:

	31 December 2013
	R'000
<b>Statement of Financial Position</b>	
Increase in Subsidiaries and Associates	2,065
Increase in Accounts payable	(2,065)

The accounting policies and methods of computation followed in the interim financial statements are consistent with the most recent annual financial statements.

The interim financial statements have only been presented for the parent entity Umgeni Water due to the insignificant impact of subsidiary and associate results.

## Fair value disclosures

The carrying amounts of financial assets and liabilities are a reasonable approximation of the fair values with the exception of loans and borrowings where the fair value is estimated to be R1, 236m. The fair

value of the loans and borrowings were based on discounted cashflows, using prices from observable current market transactions for similar instruments. These are classified as Level 2 fair values in line with IFRS 13.

Umgeni Water does not account for its financial assets and liabilities at fair value; however IFRS 13 requires disclosure of such.

## Review of the Interim Financial statements

The interim financial statements have been reviewed by the Auditor General.

## Events after the reporting period

No significant subsequent events have occurred since the end of the financial year and the date of this report.



**Mr Andile Mahlalutye**  
Chairman of the Board



**Mr Cyril Gamede**  
Chief Executive