

UMGENI WATER REVIEWED INTERIM FINANCIAL RESULTS AS AT 31 DECEMBER 2019



Durban Heights water treatment plant

Improving Quality of Life and Enhancing Sustainable Economic Development

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UMGENI WATER
STATEMENTS OF PROFIT AND LOSS

	6 Months ended		
	6 Months ended 31 December 2019 Reviewed	31 December 2018 (Restated) Reviewed	12 Months ended 30 June 2019 Audited
	R'000	R'000	R'000
Revenue	2,055,222	1,695,965	3,524,469
Cost of sales	(739,936)	(626,087)	(1,328,620)
Gross profit	1,315,286	1,069,878	2,195,849
Other income	8,705	12,067	36,436
Other operating and administration expenses	(680,584)	(451,788)	(1,032,865)
Profit from operations	643,407	630,157	1,199,420
Net finance income	85,301	99,958	216,541
Profit for the period	728,708	730,115	1,415,961

UMGENI WATER
STATEMENTS OF OTHER COMPREHENSIVE INCOME

	6 Months ended	6 Months ended	12 Months ended
	31 December 2019 Reviewed	31 December 2018 Reviewed	30 June 2019 Audited
	R'000	R'000	R'000
Other Comprehensive income for the period:	-	-	50,001
Total comprehensive income for the period	-	-	50,001

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 at financial year end once actuarial valuations are obtained.

UMGENI WATER
STATEMENTS OF FINANCIAL POSITION

	31 December 2019	31 December 2018	30 June 2019
	Reviewed	(Restated) Reviewed	Audited
	R'000	R'000	R'000
ASSETS			
Non-current assets	9,919,538	9,251,833	9,907,707
Property, plant & equipment	9,224,574	8,670,411	9,180,251
Intangible assets	219,500	205,581	204,036
Subsidiaries and associates	9,752	10,743	11,164
Investments - financial instruments	465,712	365,098	512,256
Current assets	3,847,153	3,096,537	3,255,829
Investments - financial instruments	2,934,215	2,443,905	2,341,507
Other financial assets	-	6,844	-
Inventories	21,753	21,718	18,985
Trade and other receivables	705,822	503,974	738,538
Interest and premium receivable	96,201	59,081	79,381
Bank	89,162	61,015	77,418
TOTAL ASSETS	13,766,691	12,348,370	13,163,536
EQUITY AND LIABILITIES			
Capital and reserves	10,221,923	8,757,368	9,493,215
Capital	442,847	442,847	442,847
OCI Reserve	120,721	70,720	120,721
Accumulated profit	9,658,355	8,243,801	8,929,647
Non-current liabilities	2,552,458	2,543,403	2,488,270
Long-term debt	1,747,975	1,777,307	1,762,669
Other non-current liabilities	194,674	126,131	159,102
Post retirement benefit obligations	593,472	584,107	565,421
Provisions	16,337	55,858	1,078
Current liabilities	992,310	1,047,599	1,182,051
Short-term debt	29,331	54,115	29,221
Provisions	69,517	21,426	131,240
Accounts payable	710,299	800,799	838,312
Contract liabilities	128,522	116,374	129,549
Interest payable	54,641	54,885	53,729
TOTAL EQUITY AND LIABILITIES	13,766,691	12,348,370	13,163,536

UMGENI WATER
STATEMENT OF CHANGES IN EQUITY
For the 6 Months ending 31 December 2019

	Capital	OCI reserve	Accumulated profit	Total
	R'000	R'000	R'000	R'000
Balance as at 30 June 2018 (Audited - Restated)	442,847	70,720	7,513,686	8,027,253
Total comprehensive income for the 6 month period 31 December 2018	-	-	730,115	730,115
Profit for the 6 month period 31 December 2018 (Restated)	-	-	730,115	730,115
Other comprehensive Income for the 6 month period 31 December 2018	-	-	-	-
Balance as at 31 December 2018 (Reviewed)	442,847	70,720	8,243,801	8,757,368
Total comprehensive income for the 6 month period 30 June 2019	-	50,001	685,846	735,847
Profit for the 6 month period 30 June 2019	-	-	685,846	685,846
Other comprehensive Income for the 6 month period 30 June 2019	-	50,001	-	50,001
Balance as at 30 June 2019 (Audited)	442,847	120,721	8,929,647	9,493,215
Total comprehensive income for the 6 month period 31 December 2019	-	-	728,708	728,708
Profit for the 6 month period 31 December 2019	-	-	728,708	728,708
Other comprehensive Income for the 6 month period 31 December 2019	-	-	-	-
Balance as at 31 December 2019 (Reviewed)	442,847	120,721	9,658,355	10,221,923

UMGENI WATER
STATEMENTS OF CASH FLOWS

	6 Months ended 31 December 2019 Reviewed	6 Months ended 31 December 2018 Reviewed	12 Months ended 30 June 2019 Audited
	R'000	R'000	R'000
Net cash from operating activities	743,243	855,976	1,574,283
Net cash used in investing activities	(198,215)	(428,755)	(1,051,081)
Net cash used in financing activities	(533,284)	(376,124)	(455,702)
Net increase in cash and cash equivalents	11,744	51,097	67,500
Opening balance	77,418	9,918	9,918
Closing balance	89,162	61,015	77,418

	Primary activities											
	Bulk Water			Waste water			Other activities			Total		
	6 months ending 31 December 2019	6 months ending 31 December 2018 (Restated)	12 months ending 30 June 2019	6 months ending 31 December 2019	6 months ending 31 December 2018 (Restated)	12 months ending 30 June 2019	6 months ending 31 December 2019	6 months ending 31 December 2018 (Restated)	12 months ending 30 June 2019	6 months ending 31 December 2019	6 months ending 31 December 2018 (Restated)	12 months ending 30 June 2019
	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	252,191	226,736	471,801	12,049	13,037	26,918	-	-	-	264,240	239,773	498,719
	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	1,928,964	1,581,729	3,291,481	108,580	99,453	199,792	17,678	14,783	33,196	2,055,222	1,695,965	3,524,469
Cost of sales	(659,650)	(563,551)	(1,198,180)	(66,530)	(50,799)	(103,772)	(13,756)	(11,737)	(26,668)	(739,936)	(626,087)	(1,328,620)
Gross profit	1,269,314	1,018,178	2,093,301	42,050	48,654	96,020	3,922	3,046	6,528	1,315,286	1,069,878	2,195,849
Other income	8,248	11,655	19,329	457	412	1,055	-	-	16,052	8,705	12,067	36,436
Other operating and admin expenses	(662,620)	(444,682)	(961,159)	(12,105)	(7,049)	(69,676)	(5,859)	(57)	(2,030)	(680,584)	(451,788)	(1,032,865)
Profit from operations	614,942	585,151	1,151,471	30,402	42,017	27,399	(1,937)	2,989	20,550	643,407	630,157	1,199,420
Net finance income (costs)	85,473	99,609	214,955	(172)	349	739	-	-	847	85,301	99,958	216,541
Profit for the year	700,415	684,760	1,366,426	30,230	42,366	28,138	(1,937)	2,989	19,703	728,708	730,115	1,415,961
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	700,415	684,760	1,366,426	30,230	42,366	28,138	(1,937)	2,989	19,703	728,708	730,115	1,415,961
Capital expenditure - for the period	325,598	428,478	1,015,994	55,333	112,262	187,612	-	-	-	380,931	540,740	1,203,891
Segment assets	12,402,244	11,756,929	12,618,653	851,462	133,109	180,884	296,117	214,469	177,051	13,549,823	12,188,969	12,976,588
Unallocated										216,868	159,401	186,948
Consolidated total assets										13,766,691	12,348,370	13,163,536
Segment liabilities	1,648,784	1,715,048	1,662,341	-	-	-	128,522	116,374	129,549	1,777,306	1,831,422	1,791,890
Unallocated										1,767,463	1,759,580	1,878,431
Consolidated total liabilities										3,544,769	3,591,002	3,670,321

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 wastewater to its customers. The organisation is also involved in other activities (as defined in section 30 of the Water Services Act) which complement and support its primary activities.

Financial Overview

Stable operating performance has been maintained with profits for the period totalling R729m (Dec 2018: R730m). Revenue grew by 21.2% year on year. In terms of the primary business, bulk water revenue increased by 22% due to the 9.6% bulk water tariff increase combined with a 11.3% sales volumes growth, whilst the bulk water direct operating costs increased by 16.8% arising from the main cost drivers. Section 30 activity revenue increased by 19.6% year on year. Cost of sales increased by 18.2% mainly due to the 31% increase in depreciation in line with the new plants commissioned during 2019 calendar year; as well as an average of 15% increase in the main cost drivers. Administration costs increased by 50.6% year on year mainly attributable to the allowance for credit loss on debtors, which was R123m at the end of the 6 month reporting period. Other significant increases were primarily due to higher staff costs as a result of additional personnel to service the newly acquired customer (Uthukela District Municipality) coupled with a general salary increase as negotiated in the central bargaining for the sector (i.e. Amanzi Central Bargaining). In line with Executive Authority pronouncement, Executives did not receive salary increases in the current financial year; and were kept at the same level as prior year. Net finance income decreased by 14.7% year on year as a result of higher finance costs as interest capitalised to capital projects reduced as a result of major projects commissioned, whilst capital expenditure was less than expected during the 6 months under review.

The net cash from operating activities was R743m (Dec 2018: R856m). The decrease of R113m year on year is primarily due to increase in working capital requirements resulting from net decreases in accounts payable since June 2019.

The net cash used in investing activities was R198m (Dec 2018: R429m). Capital expenditure including intangible assets for the 6 month period was R381m (Dec 2018: R541m) and R182m grant funding was received during the period (Dec 2018: R115m) towards the development projects.

Net cash used in financing activities totalled R533m (Dec 2018: R376m) which consisted of R522m increase in investments, R15m repayment of loans and R4m net interest received.

Trade and other receivables were R706m (Dec 2018: R504m) and debtors days were 45 (Dec 2018: 40 days).

Capital expenditure for the 6 month period totalled R381m (Dec 2018: R527m) against the target of R810m. The under-expenditure in Capex is mainly due to the tough economic conditions resulting in major construction firms being placed under Business Rescue and delays in finalisation of contract adjudication due to Tender appeals. The accumulated cost of capital work in progress for

development projects was R821m (Dec 2018: R1 026m) while accumulated grant funding was R182m (Dec 2018: R115m).

Capital Commitments as at 31 December 2019 were R6 945m (Dec 2018: R2 829m). 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 2019 was R1 777m (Dec 2018: R1 831m). The debt to equity ratio has improved to 0.17 since the beginning of the financial year when the ratio was 0.19, whilst the interest cover ratio has improved to 6.67 times (Dec 2018: 6.54)

Umgeni Water is rated by both Standard & Poors & Fitch Ratings. The national scale ratings are as follows:

Rating Agency	Date of rating re-affirmation or change	Long-term Rating	Short-term rating
Standard & Poor's (National Scale)	03 December 2019	zaAAA	zaA-1+
Fitch Ratings	29 November 2019	AA+(zaf)	F1+(zaf)

There was no significant movement in contingent liabilities since the 2019 financial year end.

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.

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.

Comparative interim financial results restatement

The prior period error as disclosed in the June 2019 annual financial statements note 33 has resulted in a restatement of the comparative period interim financial results that were previously reported. The impact of the restatement is as follows:

December 2018	R'000
Increase in Intangible asset cost	123,302
Increase in accounts payable	123,302
Increase in accumulated amortisation intangible assets	27,743
Increase in amortisation intangible assets	11,097
Decrease in accumulated profits	38,840

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.

There are adequate resources to continue operating for the foreseeable future and it is therefore appropriate to adopt the going concern basis in preparing the financial statements.

In the previous three annual reports the Directors reported that the Executive Authority of Umgeni Water had initiated a process towards the establishment of a single provincial water board in KwaZulu-Natal. This process was envisaged to culminate in a merger between Umgeni Water and Mhlathuze Water, with the former absorbing the latter. This process was initially envisaged to be concluded during the 2016/2017 financial year, however due to a number of strategic steps that needed to be taken to inform the final decision making process (which included parliamentary processes, legislative processes and financial commitments confirmed for National Treasury). This was not achieved. With the changes in the National Executive in 2018, the then Minister of Water and Sanitation resolved not to go ahead with this process, albeit this decision was communicated to the courts. A court order has been issued to this effect. The accounting authority believes that the 2018 Executive Authority's decision positions the entity in a clear and positive going concern position for the 2019/2020 financial year and going forward; and removes the uncertainties that would have prevailed due to the envisaged merger, notwithstanding that this decision has not been formally withdrawn through an official proclamation.

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:

	2018	2019	2020
Weighted average bulk tariff (R/kl)	6.207	7.057	7.734
<i>Bulk Water Tariff increase (%)</i>	<i>15.0 %</i>	<i>13.7%</i>	<i>9.6%</i>
Capital Unit Charge – Spring Grove Dam	0.518	0.552	1.498
uMkhomazi bulk water supply charge	0.124	0.141	0.155
Total Tariff	6.849	7.750	9.387
<i>Total Tariff increase (%)</i>	<i>14.4%</i>	<i>13.2%</i>	<i>21.1%</i>

Related parties

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

Related Parties	31 December 2019	31 December 2018	30 June 2019
	Reviewed	Reviewed	Audited
	R'000	R'000	R'000
Sale of goods and services			
Water Service Authorities	2,021,179	1,629,341	3,470,935
Bulk Water	1,908,363	1,529,888	3,268,849
Waste Water	108,580	99,453	199,792
Section 30	4,236		2,294
National Departments	12,447	7,425	19,542
Cost of Sales			
Water Service Authorities	98,714	93,315	162,760
Energy	95,541	93,315	161,173
Section 30	3,174	-	1,587
National Departments	214,969	123,923	129,626
Other operating and Administration expenses			
Subsidiaries and Associates	27,122	21,095	42,189
Grant Funding for Rural development projects			
National Departments	181,739	115,069	151,590
Subsidiaries and associates			
Loans to subsidiaries and associates	9,752	10,743	11,164
Intercompany Payables	10,485	7,164	9,649
Trade and other receivables			
Water Service Authorities	541,299	383,315	654,531
National Departments	360	861	421
Trade and other payables			
Water Service Authorities	513	1,730	701
National Departments	253,255	287,075	253,061

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 931m (Dec 2018: R1 952m). The fair value of the loans and borrowings were based on discounted cash flows, 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

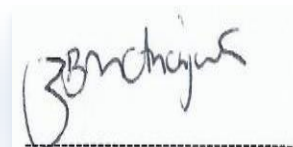
The interim financial statements have been reviewed by the Auditor General. No significant findings were made and reported on.

Events after the reporting period

No significant subsequent events have occurred since the end of the reporting period and the date of this report.

Outlook

Umgeni Water will continue with maintaining financial resilience and continuing to build financial resources via the strength of the balance sheet which is essential to implement the key water resource infrastructure in the next five years. Directed by the Board, the Ministry of Human Settlement, Water and Sanitation and in collaboration with all stakeholders Umgeni Water will continue with implementing its strategies of: Positioning Umgeni Water as a sector leader and increasing its footprint both within the existing area of operation as well as within the Kwa-Zulu Natal province; and Innovative and Enabled growth.



Ms Ziphazethu Mathenjwa
Chairperson of the Board



Mr Thami Hlongwa CA (SA)
Chief Executive