

UMGENI WATER REVIEWED INTERIM FINANCIAL RESULTS AS AT 31 DECEMBER 2016



Mshwathi Bulk Water Supply project



'Improving Quality of Life and Enhancing Sustainable Economic Development'

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UMGENI WATER
STATEMENTS OF PROFIT AND LOSS

	6 Months ended 31 December 2016 Reviewed	6 Months ended 31 December 2015 Reviewed	12 Months ended 30 June 2016 Audited
	R'000	R'000	R'000
Revenue	1,260,495	1,162,568	2,363,290
Cost of sales	(587,699)	(447,738)	(1,040,846)
Gross profit	672,796	714,830	1,322,444
Other income	13,177	3,747	40,583
Other operating and administration expenses	(328,557)	(272,271)	(704,779)
Profit from operations	357,416	446,306	658,248
Net finance income	72,484	57,672	131,260
Profit for the period	429,900	503,978	789,508

UMGENI WATER
STATEMENTS OF OTHER COMPREHENSIVE INCOME

	6 Months ended 31 December 2016 Reviewed	6 Months ended 31 December 2015 Reviewed	12 Months ended 30 June 2016 Audited
	R'000	R'000	R'000
Other Comprehensive income for the period:	-	-	(36,540)
Total comprehensive income for the period	-	-	(36,540)

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 2016 Reviewed	31 December 2015 Reviewed	30 June 2016 Audited
	R'000	R'000	R'000
ASSETS			
Non-current assets	7,596,026	6,439,820	7,445,282
Property, plant & equipment	7,271,641	6,255,476	7,026,173
Intangible assets	109,703	42,239	95,801
Subsidiaries and associates	19,547	21,531	21,250
Investments	189,266	112,781	295,142
Other financial assets	5,869	7,793	6,916
Current assets	2,374,142	1,728,124	2,075,206
Investments - financial instruments	1,825,031	1,373,158	1,619,900
Inventories	15,931	12,902	14,721
Trade and other receivables	500,704	328,000	392,381
Interest and premium receivable	32,477	14,064	28,366
Bank	-	-	19,838
TOTAL ASSETS	9,970,168	8,167,944	9,520,488
EQUITY AND LIABILITIES			
Capital and reserves	6,375,341	5,696,451	5,945,441
Capital	442,847	442,847	442,847
OCI Reserve	(104,822)	(68,282)	(104,822)
Accumulated profit	6,037,316	5,321,886	5,607,416
Non-current liabilities	2,592,464	1,617,992	2,570,194
Long-term debt	1,910,333	1,054,047	1,949,712
Other non-current liabilities	2,232	4,851	3,152
Loans from subsidiaries and associates	-	-	-
Post retirement benefit obligations	628,468	534,048	592,284
Provisions	51,432	25,046	25,046
Current liabilities	1,002,363	853,501	1,004,853
Short-term debt	78,713	78,523	78,618
Provisions	40,441	42,793	85,365
Accounts payable	657,539	704,762	782,005
Interest payable	58,286	26,386	58,865
Bank overdraft	167,383	1,037	-
TOTAL EQUITY AND LIABILITIES	9,970,168	8,167,944	9,520,488

UMGENI WATER
STATEMENT OF CHANGES IN EQUITY
For the 6 Months ending 31 December 2016

	Capital	OCI reserve	Accumulated profit	Total
	R'000	R'000	R'000	R'000
Balance as at 30 June 2015 (Audited)	442,847	(68,282)	4,817,908	5,192,473
Total comprehensive income for the 6 month period 31 December 2015	-	-	503,978	503,978
Restated Profit for the 6 month period 31 December 2015	-	-	503,978	503,978
Restated Other comprehensive income for the 6 month period 31 December 2015	-	-	-	-
Balance as at 31 December 2015 (Reviewed)	442,847	(68,282)	5,321,886	5,696,451
Total comprehensive income for the 6 month period 30 June 2016	-	(36,540)	285,530	248,990
Profit for the 6 month period 30 June 2016	-	-	285,530	285,530
Other comprehensive Income for the 6 month period 30 June 2016	-	(36,540)	-	(36,540)
Balance as at 30 June 2016 (Audited)	442,847	(104,822)	5,607,416	5,945,441
Total comprehensive income for the 6 month period 31 December 2016	-	-	429,900	429,900
Profit for the 6 month period 31 December 2016	-	-	429,900	429,900
Other comprehensive Income for the 6 month period 31 December 2016	-	-	-	-
Balance as at 31 December 2016 (Reviewed)	442,847	(104,822)	6,037,316	6,375,341

UMGENI WATER
STATEMENTS OF CASH FLOWS

	6 Months ended 31 December 2016 Reviewed	6 Months ended 31 December 2015 Reviewed	12 Months ended 30 June 2016 Audited
	R'000	R'000	R'000
Net cash from operating activities	225,822	644,060	1,152,330
Net cash used in investing activities	(235,116)	(789,519)	(1,747,946)
Net cash from financing activities	(177,927)	142,960	613,992
Net decrease in cash and cash equivalents	(187,221)	(2,499)	18,376
Opening balance	19,838	1,462	1,462
Closing balance	(167,383)	(1,037)	19,838

UMGENI WATER SEGMENTAL REPORT

	Primary activities											
	Bulk Water			Waste water			Other activities			Total		
	6 months ending 31 December 2016	6 months ending 31 December 2015	12 months ending 30 June 2016	6 months ending 31 December 2016	6 months ending 31 December 2015	12 months ending 30 June 2016	6 months ending 31 December 2016	6 months ending 31 December 2015	12 months ending 30 June 2016	6 months ending 31 December 2016	6 months ending 31 December 2015	12 months ending 30 June 2016
	Reviewed	Reviewed	Audited	Reviewed	Reviewed	Audited	Reviewed	Reviewed	Audited	Reviewed	Reviewed	Audited
k'000	k'000	k'000	k'000	k'000	k'000	k'000	k'000	k'000	k'000	k'000	k'000	k'000
Volume sold	206,337	221,586	465,120	14,952	-	-	-	-	-	206,337	221,586	465,120
	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	1,100,597	1,084,076	2,131,950	67,700	55,810	116,336	92,198	22,682	115,004	1,260,495	1,162,568	2,363,290
Cost of sales	(463,318)	(391,048)	(856,495)	(37,251)	(35,526)	(75,308)	(87,130)	(21,164)	(109,043)	(587,699)	(447,738)	(1,040,846)
Gross profit	637,279	693,028	1,275,455	30,449	20,284	41,028	5,068	1,518	5,961	672,796	714,830	1,322,444
Other income	11,289	1,917	36,761	1,888	1,830	3,822	-	-	-	13,177	3,747	40,583
Other operating and administration expen	(301,884)	(266,869)	(692,130)	(7,351)	(5,724)	(12,557)	(19,322)	322	(92)	(328,557)	(272,271)	(704,779)
Profit from operations	346,684	428,076	620,086	24,986	16,390	32,293	(14,254)	1,840	5,869	357,416	446,306	658,248
Net finance income (costs)	72,652	58,059	131,975	(168)	(387)	(715)	-	-	-	72,484	57,672	131,260
Profit for the year	419,336	486,135	752,061	24,818	16,003	31,578	(14,254)	1,840	5,869	429,900	503,978	789,508
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	419,336	486,135	752,061	24,818	16,003	31,578	(14,254)	1,840	5,869	429,900	503,978	789,508
Capital expenditure - for the period	488,673	814,896	1,654,156	120,158	217,266	356,596	-	-	23,054	608,831	1,032,162	2,033,806
Segment assets	9,601,734	7,824,117	8,299,276	114,842	99,243	834,609	179,768	188,294	319,055	9,896,345	8,111,654	9,452,940
Fixed Assets	7,280,929	6,210,658	6,298,491	100,414	87,057	823,483	-	-	17,147	7,381,344	6,297,715	7,121,974
Investments	1,870,837	1,362,551	1,785,438	-	-	-	143,460	123,388	129,604	2,014,297	1,485,939	1,915,042
Trade and other receivables	449,968	250,908	215,347	14,428	12,186	11,126	36,308	64,906	172,304	500,704	328,000	392,381
Unallocated										73,823	56,290	67,548
Consolidated total assets										9,970,168	8,167,944	9,520,488
Segment liabilities	1,984,502	1,125,408	2,019,197	4,544	7,162	10,191	116,786	155,186	127,208	2,105,832	1,287,757	2,156,596
Liabilities	1,984,502	1,125,408	2,019,197	4,544	7,162	10,191	116,786	155,186	127,208	2,105,832	1,287,756	2,156,596
Unallocated										1,488,995	1,183,737	1,418,451
Consolidated total liabilities										3,594,827	2,471,493	3,575,047

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 complement and support its primary activities.

Financial Overview

The difficult operating environment continued to be a challenge due to the prevailing drought which has impacted negatively on the operating results for the period under review. Profits for the period declined by 15% to R430m (December 2015: R504m). Revenue grew by 8.4%, due to a combination reduction of volumes of water sold of 6.9%, and an average 9.0% increase in the tariff for bulk water. The decline in bulk water sales volumes is primarily attributed to the drought which has resulted in water restrictions of up to 15% in areas supplied from the Mgeni system. Cost of sales increased by 31.3%, as a result of higher S30 activities costs, higher maintenance costs in line with the asset maintenance strategy and higher energy costs as a result of additional pumping required to assist in cushioning the effects of the drought. Administration costs have increased by 20.7% primarily due increased staff costs arising from an average 8% wage increase combined with a higher establishment to support new schemes, increase in the retirement benefit costs which are based on forecasted actuarial valuations as well as an increase to the provision for bad debt primarily due to Section 30 activities. Net finance income has increased by 25.7% as a result of higher interest income earned.

The net cash from operating activities was R226m (December 2015: R644m). The decrease is mainly due to higher working capital requirements arising from increases in trade and other receivables and decreases in accounts payable.

The net cash used in investing activities was R235m (December 2015: R790m). Capital expenditure for the 6 month period was R609m (December 2015: R1032m) and R371m grant funding was received during the period (Dec 2015: R255m) towards the development projects.

Cash used in financing activities totalled R178m (Dec 2015: R143m) which consisted of R39m repayment of loans, increases in investments of R81m and net interest paid of R58m.

Trade and other receivables were R501m (December 2015: R328m) and debtors days declined to 57 (Dec 2015: 38 days). This was due to a late payment by the eThekweni Municipality of R167m in December 2016, as a result of an isolated technical glitch.

Property, plant and equipment increased by R245m since June 2016. This was driven by the increased spend on capex projects. Major capex projects' accumulated spend include Lower Thukela Bulk Water Supply Phase 1 (R864m); uMshwathi bulk water supply scheme (R612m) Greater Mpofana Regional scheme phase 1 (R113m) and Darvill WWW Plant Capacity Increase (85Ml/d) (R837m). Capital Commitments as at 31 December 2016 were R1 994m (December 2015: R2 459m). 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 2016 was R1 989m (December 2015: R1 133m). The debt to equity ratio has improved to 0.31 since the beginning of the financial year when the ratio was 0.34, whilst the interest cover ratio remains strong at 3.33 times even though there is a decline from the 4.60 times at June 2016.

Umgeni Water is rated by both Standard & Poors & Fitch Ratings. Both Rating agencies maintained Umgeni Water rating during the period under review. The national scale ratings are as follows:

Rating Agency	Long-term Rating	Short-term rating
Standard & Poors	zaAAA	zaA-1
FitchRatings	AA+(zaf)	F1+(zaf)

There was no significant movement in contingent liabilities since the 2016 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.

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.

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>2014</u>	<u>2015</u>	<u>2016</u>
Weighted average bulk tariff (R/kl)	4.163	4.526	4.896
Tariff increase (%)	8.3%	8.7%	8.2%
Capital Unit Charge – Spring Grove Dam	0.408	0.426	0.458
Total Tariff	4.571	4.952	5.354
Total Tariff increase (%)	7.5%	8.3%	8.1%

Related parties

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

	<u>December 2016</u>	<u>December 2015</u>
	<u>R'000</u>	<u>R'000</u>
Sale of goods and services		
Water Service Authorities	1,200,240	1,133,680
Bulk Water	1,088,164	1,072,790
Waste Water	67,700	55,810
Section 30	44,376	5,080
National Departments	44,210	15,780
Cost of Sales		
Water Service Authorities	162,431	64,071
Energy	76,955	57,620
Section 30	85,476	6,451
National Departments	87,261	95,631
Other operating and Administration expenses		
Subsidiaries and Associates	13,122	14,128
Grant Funding for Rural development projects		
National Departments	371,056	255,393
Subsidiaries and associates		
Loans to subsidiaries and associates	13,123	16,022
Intercompany Payables	5,056	3,279
Investments- Msinsi Holdings	6,424	5,509
Trade and other receivables		
Water Service Authorities	434,366	252,679
National Departments	21,059	5,619
Trade and other payables		
Water Service Authorities	5,400	1,280
National Departments	162,715	313,818

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 R2 102m (Dec 2015: R889m). 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.

Outlook

Umgeni Water will focus on remaining a financially sustainable water utility and continue to deliver crucial bulk water services in line with the shareholder compact with the Executive Authority.

The focus in the ensuing period will be improvements in efficiencies and systems as the organisation implements a new ERP system. There will also be an increased focus on managing controllable costs under the difficult operating conditions of the drought and increased efforts to secure grant funding for development projects.



Mr Andile Mahlalutye
Chairman of the Board



Mr Cyril Gamede
Chief Executive