

**UMGENI WATER UNAUDITED INTERIM FINANCIAL RESULTS FOR THE SIX MONTHS ENDED
31 DECEMBER 2009**

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 to its municipal 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 2009 reflect a profit of R265.9m which represents an increase of 16.5% on the previous year. This positive performance was possible due to the reduction in administration and finance costs which offset the impact of the slow down in volume growth and the 14.6% increase in cost of sales. The latter is primarily driven through increased energy, chemical and maintenance costs.

The net cash from operating activities totalled R358.4m reflecting an increase of 12.1% compared to the same period in the previous year. The increase is due primarily to a reduction in working capital requirements.

The net cash used in investing activities was R158.5m which was primarily used for capital expenditure.

Total interest bearing debt as at 31 December 2009 totalled R1,936m reflecting a reduction of R43m since 30 June 2009. The debt to equity ratio has also improved to 1.07 since the beginning of the financial year when the ratio was 1.28. The UG 65 bond with a value of R974m matures on 1 June 2010 and is matched with a redemption investment portfolio representing 81% of the bond. Due to its planned capital expenditure programme Umgeni Water has a funding requirement of approximately R600m which it expects to raise in the capital market prior to the year ending 30 June 2010.

Umgeni Water's Fitch national credit ratings were reaffirmed on 16 October 2009 as F1+ short-term and AA+ longterm.

There was no significant movement in contingent liabilities since the 2009 financial year end. 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.

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Average bulk tariff (R/kl)	2.960	3.034	3.229
Tariff increase (%)	5.0%	2.5%(average)	6.5%

Outlook

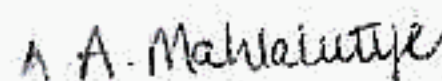
Despite the slow down in volume growth in the last 6 months Umgeni Water expects to continue to deliver on its agreed financial targets through a continual process of cost optimization which will assist in reducing the impact of the increases in cost of production. Thus Umgeni Water will continue as an efficient bulk water service provider that will generate sufficient funds to target delivery of water and sanitation services through its capital expenditure programme.

Basis of preparation and Accounting Policies

The interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The accounting policies and methods of computation followed in the interim financial statements are consistent with the most recent annual financial statements and comply with all the new accounting standards effective during the current reporting period. The Interim financial statements have only been presented for the parent entity Umgeni Water due to the insignificant impact of subsidiary and associate results.

Post balance sheet events

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


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UMGENI WATER
STATEMENT OF COMPREHENSIVE INCOME
For the

	6 Months ended 31 December 2009	6 Months ended 31 December 2008	12 Months ended 30 June 2009
	Reviewed	Reviewed	Audited
	R'000	R'000	R'000
Revenue	757,104	703,052	1,485,496
Cost of sales	(270,043)	(235,636)	(545,024)
Gross profit	487,061	467,416	940,472
Other income	4,178	19,720	30,826
Administration expenses	(184,737)	(193,460)	(329,164)
Profit from operations	306,502	293,676	642,134
Net finance costs	(40,562)	(65,380)	(116,496)
Profit for the period	265,940	228,296	525,638
Other Comprehensive income for the period:			
Mark-to-market adjustment- long term investments	-	(65)	(2,256)
Total comprehensive income for the period	265,940	228,231	523,382
EBIDTA	392,819	374,595	809,069

UMGENI WATER
STATEMENT OF FINANCIAL POSITION
As at

	31 December 2009	31 December 2008	30 June 2009
	Reviewed	Reviewed	Audited
	R'000	R'000	R'000
ASSETS			
Non-current assets	2,762,818	2,979,230	2,660,141
Property, plant & equipment	2,611,965	2,318,811	2,471,835
Intangible assets	3,397	970	3,185
Investments - financial instruments	20,594	464,086	22,481
Investments - subsidiaries and associates	1,971	2,653	3,440
Reticulation financial asset	122,726	189,594	157,034
Other non-current assets	2,165	3,116	2,166
Current assets	1,520,720	837,128	1,413,580
Investments - financial instruments	1,299,066	620,790	1,213,416
Inventories	8,785	10,183	9,129
Accounts receivable	205,413	195,146	182,978
Interest receivable	4,045	5,115	3,282
Bank	3,411	5,894	4,775
TOTAL ASSETS	4,283,538	3,816,358	4,073,721
EQUITY AND LIABILITIES			
Capital and reserves	1,808,057	1,246,966	1,542,117
Umgeni water capital	442,847	442,847	442,847
Non-distributable reserves	-	2,191	-
Accumulated profit	1,365,210	801,928	1,099,270
Non-current liabilities	1,063,344	2,120,485	1,105,045
Net long-term liabilities	859,572	1,935,840	917,448
Other non-current liabilities	203,772	184,645	187,597
Current liabilities	1,412,137	448,907	1,426,559
Short-term funding	1,076,504	86,162	1,061,455
Accounts payable	248,155	201,822	273,818
Provisions	55,830	120,525	58,120
Interest payable	31,648	40,398	33,166
TOTAL EQUITY AND LIABILITIES	4,283,538	3,816,358	4,073,721

UMGENI WATER
STATEMENT OF CASH FLOWS
For the

	6 Months ended 31 December 2009	6 Months ended 31 December 2008	12 Months ended 30 June 2009
	Reviewed	Reviewed	Audited
	R'000	R'000	R'000
Net cash from operating activities	358,389	319,842	743,157
Net cash used in investing activities	(158,506)	(43,647)	(219,599)
Net cash used in financing activities	(201,247)	(282,419)	(530,899)
Net cash decrease in cash and cash equivalents	(1,364)	(6,224)	(7,343)
Opening balance	4,775	12,118	12,118
Closing balance	3,411	5,894	4,775

UMGENI WATER
STATEMENT OF CHANGES IN EQUITY
For the 6 Months ending 31 December 2009

	Capital	Investment revaluation reserve	Accumulated profit	Total
	R'000	R'000	R'000	R'000
Balance as at 30 June 2008	442,847	2,256	573,632	1,018,735
Total comprehensive income for the 6 month period 31 December 2008	-	(65)	228,296	228,231
Profit for the 6 month period 31 December 2008	-	-	228,296	228,296
Other comprehensive income for the 6 month period 31 December 2008	-	(65)	-	(65)
Balance as at 31 December 2008	442,847	2,191	801,928	1,246,966
Total comprehensive income for the 6 month period 30 June 2009	-	(2,191)	297,342	295,151
Profit for the 6 month period 30 June 2009	-	-	297,342	297,342
Other comprehensive income for the 6 month period 30 June 2009	-	(2,191)	-	(2,191)
Balance as at 30 June 2009	442,847	-	1,099,270	1,542,117
Total comprehensive income for the 6 month period 31 December 2009	-	-	265,940	265,940
Profit for the 6 month period 31 December 2009	-	-	265,940	265,940
Other comprehensive income for the 6 month period 31 December 2009	-	-	-	-
Balance as at 31 December 2009	442,847	-	1,365,210	1,808,057

UMGENI WATER
SEGMENTAL REPORT

	Primary activities											
	Bulk water			Waste water			Other activities			Total		
	6 months ending 31 December 2009	6 months ending 31 December 2008	12 months ending 30 June 2009	6 months ending 31 December 2009	6 months ending 31 December 2008	12 months ending 30 June 2009	6 months ending 31 December 2009	6 months ending 31 December 2008	12 months ending 30 June 2009	6 months ending 31 December 2009	6 months ending 31 December 2008	12 months ending 30 June 2009
	Reviewed	Reviewed	Audited	Reviewed	Reviewed	Audited	Reviewed	Reviewed	Audited	Reviewed	Reviewed	Audited
k'000			k'000			k'000			k'000			
Volume sold (k'000)	207,859	205,573	415,956	135	131	273	-	-	-	207,994	205,705	416,229
	R'000											
Revenue	670,690	624,994	1,259,555	22,325	20,930	41,930	64,089	57,128	184,011	757,104	703,052	1,485,496
Cost of sales	(203,070)	(174,246)	(370,235)	(12,276)	(12,191)	(26,151)	(54,697)	(49,199)	(148,638)	(270,043)	(235,636)	(545,024)
Gross profit	467,620	450,748	889,320	10,049	8,739	15,779	9,392	7,929	35,373	487,061	467,416	940,472
Other income	2,090	17,626	26,451	1,786	1,786	3,572	302	308	803	4,178	19,720	30,826
Administration expenses	(180,111)	(186,460)	(312,212)	(2,760)	(2,956)	(5,747)	(1,866)	(4,044)	(11,205)	(184,737)	(193,460)	(329,164)
Profit from operations	289,599	281,914	603,559	9,075	7,569	13,604	7,828	4,193	24,971	306,502	293,676	642,134
Net finance costs	(36,516)	(61,045)	(107,936)	(4,044)	(4,333)	(8,460)	(2)	(2)	(100)	(40,562)	(65,380)	(116,496)
Profit for the year	253,083	220,869	495,624	5,031	3,236	5,144	7,826	4,190	24,871	265,940	228,296	525,638
Capital expenditure - for the period	156,526	45,348	230,800	3,178	211	2,571	-	-	-	159,702	45,559	233,371
Segment assets	2,665,540	2,356,316	2,507,556	89,524	91,611	91,066	62,313	66,031	56,191	2,817,377	2,513,956	2,654,813
Unallocated										1,466,161	1,302,402	1,418,907
Consolidated total assets	2,665,540	2,356,316	2,507,556	89,524	91,611	91,066	62,313	66,031	56,191	4,283,538	3,816,358	4,073,721
Segment liabilities	1,898,028	1,981,350	1,900,697	38,049	40,652	39,351	35,500	26,698	38,856	1,971,576	2,048,700	1,978,904
Unallocated										503,906	520,693	552,699
Consolidated total liabilities	1,898,028	1,981,350	1,900,697	38,049	40,652	39,351	35,500	26,698	38,856	2,475,482	2,569,392	2,531,604