

UMGENI WATER REVIEWED INTERIM FINANCIAL RESULTS AS AT 31 DECEMBER 2021



Darvill Wastewater works

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CONDENSED CONSOLIDATED STATEMENTS OF PROFIT AND LOSS

	Group			Parent		
	6 Months ended 31 December 2021	6 Months ended 31 December 2020	12 Months ended 30 June 2021	6 Months ended 31 December 2021	6 Months ended 31 December 2020	12 Months ended 30 June 2021
	Reviewed	Reviewed	Audited	Reviewed	Reviewed	Audited
	R'000	R'000	R'000	R'000	R'000	R'000
Revenue	2,446,903	2,205,798	4,528,237	2,440,373	2,197,481	4,515,189
Cost of sales	(928,396)	(768,418)	(1,788,513)	(928,396)	(768,418)	(1,788,513)
Gross profit	1,518,507	1,437,380	2,739,724	1,511,977	1,429,063	2,726,676
Other income	9,132	11,349	81,688	9,628	11,150	82,104
Other operating and administration expenses	(693,893)	(759,152)	(1,749,848)	(698,250)	(761,562)	(1,754,626)
Profit from operations	833,745	689,577	1,071,564	823,355	678,651	1,054,154
Net finance income	123,582	102,597	199,376	123,419	102,538	199,017
Share of profit from associates	2,819	2,419	4,853	-	-	-
Profit before tax	960,146	794,593	1,275,793	946,774	781,189	1,253,171
Taxation	(13)	(11)	(23)	-	-	-
Profit for the period	960,133	794,582	1,275,770	946,774	781,189	1,253,171

CONDENSED CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

	Group			Parent		
	6 Months ended 31 December 2021	6 Months ended 31 December 2020	12 Months ended 30 June 2021	6 Months ended 31 December 2021	6 Months ended 31 December 2019 Restated	12 Months ended 30 June 2021
	Reviewed	Reviewed	Audited	Reviewed	Reviewed	Audited
	R'000	R'000	R'000	R'000	R'000	R'000
Profit for the year	960,133	794,582	1,275,770	946,774	781,189	1,253,171
Other Comprehensive income for the period:						
Items that will not be reclassified to profit and loss:						
Remeasurement of gains and losses - retirement plans	-	-	(13,771)	-	-	(13,771)
Total comprehensive income for the period	960,133	794,582	1,261,999	946,774	781,189	1,239,400

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.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Group			Parent		
	31 December 2021	31 December 2020	30 June 2021	31 December 2021	31 December 2020	30 June 2021
	Reviewed	Reviewed	Audited	Reviewed	Reviewed	Audited
	R'000	R'000	R'000	R'000	R'000	R'000
ASSETS						
Non-current assets	9,257,898	9,268,608	9,145,529	9,230,000	9,248,769	9,119,060
Property, plant & equipment	8,997,185	8,977,248	8,854,798	8,981,404	8,969,810	8,838,146
Investment property	-	-	-	8,806	-	8,918
Intangible assets	177,575	207,907	206,506	177,515	207,813	206,392
Biological Assets	3,043	2,677	3,130	-	-	-
Investments in associates	13,677	8,424	10,858	-	-	-
Investments - financial instruments	-	-	-	-	-	-
Trade and other receivables	62,186	68,748	65,365	61,879	68,528	65,142
Right of use assets - leases	4,233	3,604	4,872	396	2,618	462
Current assets	6,554,179	5,744,468	5,823,969	6,502,525	5,710,130	5,781,802
Investments - financial instruments	5,380,514	4,829,142	4,677,895	5,380,514	4,853,693	4,677,895
Inventories	23,358	23,215	22,155	23,358	23,215	22,155
Trade and other receivables	1,099,042	858,814	1,082,485	1,098,467	833,101	1,081,549
Bank and cash	51,264	33,297	41,434	186	121	203
Assets held for sale	1,867	336	1,867	1,867	336	1,867
TOTAL ASSETS	15,813,944	15,013,412	14,971,365	15,734,392	14,959,235	14,902,729
EQUITY AND LIABILITIES						
Capital and reserves	12,900,767	11,473,216	11,940,634	12,820,795	11,415,810	11,874,021
Capital	442,847	442,847	442,847	442,847	442,847	442,847
OCI Reserve	400,642	414,413	400,642	400,642	414,413	400,642
Accumulated profit	12,057,278	10,615,956	11,097,145	11,977,306	10,558,550	11,030,532
Non-current liabilities	1,864,644	1,746,363	1,829,960	1,861,127	1,745,555	1,826,375
Long-term debt	1,095,968	1,118,532	1,108,387	1,095,968	1,118,532	1,108,387
Contract liabilities	356,627	267,535	314,365	356,627	267,535	314,365
Provisions	10,086	17,112	20,158	10,086	17,112	20,158
Lease liability-Long term	3,805	2,960	3,873	288	2,152	288
Post retirement benefit obligations	386,798	329,529	371,817	386,798	329,529	371,817
Five year long service benefit	11,360	10,695	11,360	11,360	10,695	11,360
Current liabilities	1,048,533	1,793,832	1,200,770	1,052,471	1,797,869	1,202,333
Short-term debt	58,110	683,895	58,116	58,110	683,895	58,116
Provisions	4,577	55,687	77,351	3,691	54,746	75,618
Accounts payable	823,117	894,238	905,201	828,057	899,405	909,622
Contract liabilities	137,120	136,528	135,049	137,120	136,528	135,049
Lease liability-Short term	200	607	1,294	84	418	168
Post retirement benefit obligations	18,380	16,832	17,635	18,380	16,832	17,635
Five year long service benefit	7,029	6,045	6,124	7,029	6,045	6,125
TOTAL EQUITY AND LIABILITIES	15,813,944	15,013,412	14,971,365	15,734,392	14,959,235	14,902,729

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Group - Attributable to equity holders of the parent

	Capital		OCI reserve	Accumulated	Total
	R'000	R'000	R'000	profit	R'000
Balance as at 30 June 2020 (Audited)	442,847	414,413		9,821,374	10,678,634
Total comprehensive income for the 6 month period 31 December 2020	-	-		794,582	794,582
Profit for the 6 month period 31 December 2020	-	-		794,582	794,582
Other comprehensive Income for the 6 month period 31 December 2020	-	-		-	-
Balance as at 31 December 2020 (Reviewed)	442,847	414,413		10,615,956	11,473,216
Total comprehensive income for the 6 month period 30 June 2021	-	(13,771)		481,189	467,418
Profit for the 6 month period 30 June 2021	-	-		481,189	481,189
Other comprehensive Income for the 6 month period 30 June 2021	-	(13,771)		-	(13,771)
Balance as at 30 June 2021 (Audited)	442,847	400,642		11,097,145	11,940,634
Total comprehensive income for the 6 month period 31 December 2021	-	-		960,133	960,133
Profit for the 6 month period 31 December 2021	-	-		960,133	960,133
Other comprehensive Income for the 6 month period 31 December 2021	-	-		-	-
Balance as at 31 December 2021 (Reviewed)	442,847	400,642		12,057,278	12,900,767

	Capital		OCI reserve	Accumulated	Total
	R'000	R'000	R'000	profit	R'000
Balance as at 30 June 2020 (Audited)	442,847	414,413		9,777,361	10,634,621
Total comprehensive income for the 6 month period 31 December 2020	-	-		781,189	781,189
Profit for the 6 month period 31 December 2020	-	-		781,189	781,189
Other comprehensive Income for the 6 month period 31 December 2020	-	-		-	-
Balance as at 31 December 2020 (Reviewed)	442,847	414,413		10,558,550	11,415,810
Total comprehensive income for the 6 month period 30 June 2021	-	(13,771)		471,982	458,211
Profit for the 6 month period 30 June 2021	-	-		471,982	471,982
Other comprehensive Income for the 6 month period 30 June 2021	-	(13,771)		-	(13,771)
Balance as at 30 June 2021 (Audited)	442,847	400,642		11,030,532	11,874,021
Total comprehensive income for the 6 month period 31 December 2021	-	-		946,774	946,774
Profit for the 6 month period 31 December 2021	-	-		946,774	946,774
Other comprehensive Income for the 6 month period 31 December 2021	-	-		-	-
Balance as at 31 December 2021 (Reviewed)	442,847	400,642		11,977,306	12,820,795

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Group			Parent		
	6 Months ended 31 December 2021	6 Months ended 31 December 2020	12 Months ended 30 June 2021	6 Months ended 31 December 2021	6 Months ended 31 December 2020	12 Months ended 30 June 2021
	Reviewed	Reviewed	Audited	Reviewed	Reviewed	Audited
	R'000	R'000	R'000	R'000	R'000	R'000
Net cash from operating activities	1,004,168	699,349	1,432,284	992,623	689,714	1,414,268
Net cash used in investing activities	(318,395)	(206,384)	(438,254)	(316,713)	(210,049)	(440,741)
Net cash used in financing activities	(675,896)	(480,374)	(973,376)	(675,929)	(480,191)	(973,972)
Net increase in cash and cash equivalents	9,877	12,591	20,654	(18)	(526)	(445)
Opening balance	41,386	20,706	20,780	203	647	648
Closing balance	51,264	33,297	41,434	186	121	203

CONDENSED CONSOLIDATED SEGMENTAL REPORT

	Primary activities											
	Bulk Water			Waste water			Other activities			Total		
	6 months ending	6 months ending	12 months ending	6 months ending	6 months ending	12 months ending	6 months ending	6 months ending	12 months ending	6 months ending	6 months ending	12 months ending
	31 December 2021	31 December 2020	30 June 2021	31 December 2021	31 December 2020	30 June 2021	31 December 2021	31 December 2020	30 June 2021	31 December 2021	31 December 2020	30 June 2021
Reviewed	Reviewed	Audited	Reviewed	Reviewed	Audited	Reviewed	Reviewed	Audited	Reviewed	Reviewed	Audited	
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	2,285,363	2,061,354	4,235,486	137,655	119,880	246,115	23,885	24,564	46,636	2,446,903	2,205,798	4,528,237
Cost of sales	(856,008)	(686,918)	(1,613,705)	(58,360)	(68,631)	(148,109)	(14,028)	(12,869)	(26,699)	(928,396)	(768,418)	(1,788,514)
Gross profit	1,429,355	1,374,436	2,621,781	79,295	51,249	98,006	9,857	11,695	19,937	1,518,507	1,437,380	2,739,723
Other income	9,224	10,741	8,862	404	409	71,793	(496)	199	1,033	9,132	11,349	81,688
Other operating and admin expenses	(556,209)	(746,002)	(1,461,570)	(111,609)	(16,108)	(203,087)	(26,075)	2,958	(85,190)	(693,893)	(759,152)	(1,749,848)
Profit from operations	882,370	639,175	1,169,073	(31,910)	35,551	(33,288)	(16,715)	14,852	(64,220)	833,745	689,577	1,071,563
Net finance income (costs)	123,113	102,267	198,358	306	272	787	163	58	231	123,582	102,597	199,376
Share of profit from associate	-	-	-	-	-	-	2,819	2,419	4,853	2,819	2,419	4,853
Profit before tax	1,005,483	741,442	1,367,431	(31,604)	35,823	(32,501)	(13,733)	17,329	(59,136)	960,146	794,593	1,275,792
Taxation	-	-	-	-	-	-	(13)	(11)	(23)	(13)	(11)	(23)
Profit for the year	1,005,483	741,442	1,367,431	(31,604)	35,823	(32,501)	(13,746)	17,318	(59,159)	960,133	794,582	1,275,769
Capital expenditure - for the period	313,757	347,383	587,980	97,641	76,861	237,217	-	1,816	2,955	411,398	424,244	828,152
Segment assets	9,354,160	9,141,746	9,159,186	857,949	832,570	980,604	123,880	138,400	69,364	10,335,989	10,112,717	10,209,154
Investments	5,243,395	4,692,614	4,542,846	-	-	-	137,120	136,548	135,049	5,380,514	4,829,142	4,677,895
Interest in associate	-	-	-	-	-	-	13,677	8,424	10,858	13,677	8,424	10,858
Unallocated	-	-	-	-	-	-	-	-	-	83,764	63,129	73,458
Consolidated total assets										15,813,944	15,013,412	14,971,365
Segment liabilities	1,510,705	1,933,434	1,480,868	-	-	-	137,120	136,528	135,049	1,647,825	2,069,962	1,615,917
Unallocated	-	-	-	-	-	-	-	-	-	1,265,352	1,470,233	1,414,813
Consolidated total liabilities										2,913,177	3,540,195	3,030,730

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

The group operating profits for the period under review totalled R959m (Dec 2020: R795m). Revenue growth was 11% which was attributable to the primary business relating to bulk water as a result of the 4.9% sales volumes growth and the approved tariff increase for 2021/2022 of 5%. The bulk water direct operating costs increased by 25% arising from the main cost drivers, namely energy; direct maintenance and raw and potable water purchases. Other administration and operating cost reduced by 8.6% due to lower social facilitation costs, consultants' fees and ICT maintenance contract fees. Net finance income increased by 21% year on year as a result of lower finance costs, mostly resulting from reduced finance costs as a result of the reduction in borrowings.

The net operating cash flows totalled R1 004m (Dec 2020: R699m). The increase of R305m year on year is primarily due to increase in cash from operations before the working capital changes.

Net cash used in investing activities was R318m (Dec 2020: R206m) due to additions to property, plant and equipment of R421m (Dec 2020: R418m).

Net cash used in financing activities totalled R676m (Dec 2020: R480m) which consisted of R694m increase in investments and R31m net interest received.

Trade and other receivables were R1 161m (Dec 2020: R903m) and debtors' days were 56 (Dec 2020: 58 days).

Umgeni Water (Parent) capital expenditure for the 6-month period totalled R419m (Dec 2020: R422m) against the target of R917m. The accumulated cost of capital work in progress for

development projects was R569m (Dec 2020: R666m) while accumulated grant funding was R524m (Dec 2020: R201m).

Capital commitments as at 31 December totalled R971m (Dec 2020: R1 126m). Impairment assessments on Property, plant and equipment were not performed during this period as they are done annually in June each year in terms of the approved business processes.

The nominal amount of total interest bearing debt as at 31 December 2021 was R1 121m (Dec 2020: R1 742m). The debt to equity ratio remained at 0.09 (Dec 2020: 0.15) in line the 2021 year end, whilst the interest cover ratio was 12.45 times (Dec 2020: 7.25)

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)	25 May 2021	zaAAA	zaA-1+
Fitch Ratings	19 November 2020	AA+(zaf)	F1+(zaf)

There was no significant movement in contingent liabilities since the 2021 financial year end.

Basis of preparation and Accounting Policies

The consolidated 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 results of the associate are for the 6-month period to 30 June 2021 and are unaudited.

Going Concern

The directors, having considered all the relevant information, have satisfied themselves that the group is in a sound financial position and that it has adequate access to sufficient borrowing facilities to meet its foreseeable cash requirements. Though COVID-19 still persists, there are no indicators that COVID-19 has negatively impacted on the financial sustainability of the organisation. Any increase in credit risk has been adequately taken into account in the allowance for credit losses. 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 interim condensed financial statements.

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>2020</u>	<u>2021</u>	<u>2022</u>
Weighted average bulk tariff (R/kl)	7.64	7.64	8.14
Total Tariff increase (%)*	9.6%	0%	6.5%

**The total tariff increase is a weighted increase of price and volumes, of which 5.0% comprises the approved bulk water tariff increase for 2022.*

Revenue

Umgeni Water recognises revenue for both goods and services at a point in time and over time in accordance with the accounting policies. Revenue is derived from the sale of goods and services within the KwaZulu-Natal Province as disclosed in the disaggregation of revenue.

DISAGGREGATION OF REVENUE

For the six months ended 31 December 2021

	Primary activities	Other Activities	Total Parent	Subsidiary	Total Group
	R'000	R'000	R'000	R'000	R'000
Revenue from major products/service lines as a result of performance obligations satisfied					
Bulk water sales	2,285,363	-	2,285,363	-	2,285,363
Waste water sales	137,655	-	137,655	-	137,655
Scientific and environmental services	-	4,988	4,988	-	4,988
Operating and Maintenance	-	2,268	2,268	-	2,268
Training and capacity building	-	10,100	10,100	-	10,100
Other	-	-	-	6,529	6,529
	2,423,018	17,356	2,440,373	6,529	2,446,903
Timing of revenue recognition					
At a point in time	2,423,018	7,255	2,430,273	5,110	2,435,383
Over time	-	10,100	10,100	1,419	11,519
	2,423,018	17,356	2,440,373	6,529	2,446,903

For the six months ended 31 December 2020

	Primary activities	Other Activities	Total Parent	Subsidiary	Total Group
	R'000	R'000	R'000	R'000	R'000
Revenue from major products/service lines as a result of performance obligations satisfied					
Bulk water sales	2,061,354	-	2,061,354	-	2,061,354
Waste water sales	119,880	-	119,880	-	119,880
Scientific and environmental services	-	4,424	4,424	-	4,424
Operating and Maintenance	-	1,974	1,974	-	1,974
Training and capacity building	-	9,850	9,850	-	9,850
Other	-	-	-	8,316	8,316
	2,181,234	16,247	2,197,482	8,316	2,205,798
Timing of revenue recognition					
At a point in time	2,181,234	6,398	2,187,632	6,426	2,194,058
Over time	-	9,850	9,850	1,890	11,740
	2,181,234	16,247	2,197,482	8,316	2,205,798

REVENUE FROM CONTRACT LIABILITIES

	Group		Parent	
	December 2021 Reviewed	December 2020 Reviewed	December 2021 Reviewed	December 2020 Reviewed
	R'000	R'000	R'000	R'000
Revenue recognised that was included in the contract liability balance at the beginning of the period, due to performance obligations satisfied.	10,100	9,850	10,100	9,850

Related parties

The group is wholly owned by its shareholder, the Department of Water and Sanitation. Umgeni Water group comprise subsidiaries of Umgeni Water: Msinsi Holdings SOC Limited and Umgeni Water Services SOC Limited (UWS) and associate of UWS: Durban Water Recycling Pty Ltd. Related parties also include post-retirement benefit plans for the benefit of the employees and key management personnel of Umgeni or its shareholder. Key management personnel for Umgeni Water include the group's Board of directors and the executive management (EXCO).

IAS 24 Related Party disclosures provides government related entities an exemption which eliminates the requirements to disclose information that is costly to gather and of less value to users. The group applies the exemption in respect of its relationship with government related entities at national and local levels of government. Significant related party transactions and balances during the interim period are listed on the following table:

Related Parties

	Group		Parent	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
	Reviewed	Reviewed	Reviewed	Reviewed
	R'000	R'000	R'000	R'000
Revenue: Sale of goods and services				
Revenue: Section 30				
National Department	-	9,850	-	9,850
Sundry Income				
Subsidiaries	-	-	512	-
Cost of sales				
National Department	145,111	155,738	145,111	155,738
Cost of Sales: Section 30				
National Department	-	8,954	-	8,954
Other operating and administration expenses				
Subsidiaries and associates	-	-	38,520	34,500
Finance Income				
Subsidiaries and associates				
Interest received on loan from Msinsi Holdings SOC Limited	-	-	-	158
Work-in-progress: Grant funding for rural development projects				
National Department	102,775	201,396	102,775	201,396
Loans to (from) entities:				
Subsidiaries and associates	-	-	-	105
Investments in associates				
Subsidiaries and associates	13,677	8,424	-	-
Other payables				
Subsidiaries and associates	-	-	14,970	13,950
National Department	198,004	234,363	198,004	234,363
Raw water purchases accrual	31,863	104,852	31,863	104,852
Capital Unit Charge Recovery	69,880	71,013	69,880	71,013
Capital Unit Charge accrual	96,261	58,498	96,261	58,498

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 257m (Dec 2020: R1 994m). 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.

Review of the Interim Financial statements

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

Events after the reporting period

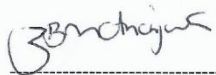
No significant subsequent events have occurred since the end of the financial year and the date of this report.

Outlook

The sustainability of financial resources available to fund the strategic objectives is crucial and is dependent on robust financial systems and controls being implemented to prevent deviations from planned expenditure that could impact the financial viability of the organisation, as well as close monitoring and management of the operating cash flows in the current operating environment where the organisation is exposed to increased credit risk with its customers

In this regard there will be a continued focus on preserving the financial resources to maintain financial sustainability whilst delivering on the strategic objectives of:

- Key bulk water resource infrastructure in the next five years,
- Provision of efficient and cost-effective water and sanitation;
- Enhanced security of water supply to support economic growth; and
- Enabled and innovative growth to quicken the pace of infrastructure implementation and finding sustainable and innovative solutions for current and future markets in the water service provision value chain.



Ms. Ziphazethu Mathenjwa
Chairperson of the Board



Mr Moonisani Dlamini
Acting Chief Executive