

UMGENI WATER CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS AT 31 DECEMBER 2022



Inanda Dam

CONTENTS	PAGE
CONDENSED INTERIM FINANCIAL STATEMENTS	2 - 6
NATURE OF BUSINESS	7
FINANCIAL OVERVIEW	7
GOING CONCERN	8
TARIFF POLICY	8
REVENUE	9
RELATED PARTIES	10
REVIEW OF THE INTERIM FINANCIAL STATEMENTS	11
EVENTS AFTER THE REPORTING PERIOD	11
OUTLOOK	11

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT AND LOSS

	Group			Parent		
	6 Months ended 31 December 2022	6 Months ended 31 December 2021	12 Months ended 30 June 2022	6 Months ended 31 December 2022	6 Months ended 31 December 2021	12 Months ended 30 June 2022
	Reviewed	Reviewed	Audited	Reviewed	Reviewed	Audited
	R'000	R'000	R'000	R'000	R'000	R'000
Revenue	2,607,580	2,446,903	4,909,454	2,599,660	2,440,373	4,895,407
Cost of sales	(1,095,263)	(928,396)	(1,966,084)	(1,095,263)	(928,396)	(1,966,084)
Gross profit	1,512,317	1,518,507	2,943,370	1,504,397	1,511,977	2,929,323
Other income	55,613	9,132	13,840	55,811	9,628	13,632
Allowance for credit loss	(315,734)	(154,316)	(454,151)	(315,459)	(153,967)	(453,814)
Other operating and administration expenses	(732,715)	(539,577)	(1,582,458)	(729,567)	(544,283)	(1,582,315)
Profit from operations	519,481	833,746	920,601	515,182	823,355	906,826
Net finance income	238,899	123,582	316,716	237,623	123,419	315,725
Share of profit from associates	625	2,819	4,088	-	-	-
Profit before tax	759,006	960,146	1,241,405	752,806	946,774	1,222,551
Taxation	(76)	(13)	(42)	-	-	-
Profit for the period	758,930	960,133	1,241,363	752,806	946,774	1,222,551

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Group			Parent		
	31 December 2022	31 December 2021	30 June 2022	31 December 2022	31 December 2021	30 June 2022
	Reviewed	(Restated) Reviewed	Audited	Reviewed	(Restated) Reviewed	Audited
	R'000	R'000	R'000	R'000	R'000	R'000
ASSETS						
Non-current assets	9 591 193	9 257 898	9 183 216	9 566 081	9 230 000	9 156 813
Property, plant & equipment	9 390 758	8 997 185	8 987 543	9 375 997	8 981 404	8 970 671
Investment property	-	-	-	8 584	8 806	8 696
Intangible assets	126 871	177 575	148 988	125 268	177 515	148 565
Biological Assets	3 291	3 043	3 415	-	-	-
Investments in associates	10 657	13 677	10 031	-	-	-
Investments - financial instruments	24 880	-	-	24 880	-	-
Trade and other receivables	29 469	62 186	28 458	29 162	61 879	28 151
Right of use assets - leases	5 268	4 233	4 781	2 190	396	731
Current assets	7 245 449	6 554 179	6 980 211	7 179 010	6 502 525	6 920 142
Investments - financial instruments	6 058 761	5 380 514	5 775 386	6 058 761	5 380 514	5 775 386
Inventories	32 511	23 358	26 081	32 511	23 358	26 081
Trade and other receivables	905 691	1 099 042	1 111 032	905 559	1 098 467	1 110 874
Bank and cash	248 485	51 264	67 712	182 178	186	7 801
Assets held for sale	147	1 867	548	147	1 867	548
TOTAL ASSETS	16 836 789	15 813 944	16 163 975	16 745 239	15 734 392	16 077 504
EQUITY AND LIABILITIES						
Capital and reserves	13 944 044	12 887 649	13 185 113	13 852 493	12 807 677	13 099 687
Capital	442 847	442 847	442 847	442 847	442 847	442 847
OCI Reserve	416 876	400 642	416 876	416 876	400 642	416 876
Accumulated profit	13 084 321	12 044 160	12 325 390	12 992 770	11 964 188	12 239 964
Non-current liabilities	1 961 450	1 864 644	1 915 102	1 958 087	1 861 127	1 911 658
Long-term debt	1 071 129	1 095 968	1 083 548	1 071 129	1 095 968	1 083 548
Contract liabilities	441 019	356 627	400 097	441 019	356 627	400 097
Provisions	23 715	10 086	23 469	23 715	10 086	23 469
Lease liability-Long term	5 092	3 805	3 865	1 728	288	420
Post retirement benefit obligations	409 670	386 798	393 298	409 670	386 798	393 298
Five year long service benefit	10 825	11 360	10 825	10 825	11 360	10 825
Current liabilities	931 295	1 061 651	1 063 760	934 660	1 065 589	1 066 159
Short-term debt	58 168	58 110	58 150	58 168	58 110	58 150
Provisions	1 987	4 577	106 821	809	3 691	105 533
Accounts payable	706 304	836 235	732 422	710 998	841 175	737 322
Contract liabilities	137 601	137 120	139 537	137 601	137 120	139 537
Lease liability-Short term	573	200	1 486	422	84	273
Post retirement benefit obligations	20 062	18 380	18 776	20 062	18 380	18 776
Five year long service benefit	6 602	7 029	6 568	6 602	7 029	6 568
TOTAL EQUITY AND LIABILITIES	16 836 789	15 813 944	16 163 975	16 745 239	15 734 392	16 077 504

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Group - Attributable to equity holders of the parent

	Capital	OCI reserve	Accumulated profit	Total
	R'000	R'000	R'000	R'000
Balance as at 30 June 2021 Restated (Audited)	442,847	400,642	11,084,027	11,927,516
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 Restated (Reviewed)	442,847	400,642	12,044,160	12,887,649
Total comprehensive income for the 6 month period 30 June 2022	-	16,234	281,230	297,464
Profit for the 6 month period 30 June 2022	-	-	281,230	281,230
Other comprehensive Income for the 6 month period 30 June 2022	-	16,234	-	16,234
Balance as at 30 June 2022 (Audited)	442,847	416,876	12,325,390	13,185,113
Total comprehensive income for the 6 month period 31 December 2022	-	-	758,930	758,930
Profit for the 6 month period 31 December 2022	-	-	758,930	758,930
Other comprehensive Income for the 6 month period 31 December 2022	-	-	-	-
Balance as at 31 December 2022 (Reviewed)	442,847	416,876	13,084,321	13,944,044

Parent

	Capital	OCI reserve	Accumulated profit	Total
	R'000	R'000	R'000	R'000
Balance as at 30 June 2021 Restated (Audited)	442,847	400,642	11,017,414	11,860,903
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 Restated (Reviewed)	442,847	400,642	11,964,188	12,807,677
Total comprehensive income for the 6 month period 30 June 2022	-	16,234	275,776	292,010
Profit for the 6 month period 30 June 2022	-	-	275,776	275,776
Other comprehensive Income for the 6 month period 30 June 2022	-	16,234	-	16,234
Balance as at 30 June 2022 (Audited)	442,847	416,876	12,239,964	13,099,687
Total comprehensive income for the 6 month period 31 December 2022	-	-	752,806	752,806
Profit for the 6 month period 31 December 2022	-	-	752,806	752,806
Other comprehensive Income for the 6 month period 31 December 2022	-	-	-	-
Balance as at 31 December 2022 (Reviewed)	442,847	416,876	12,992,770	13,852,493

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Group			Parent		
	6 Months ended	6 Months ended	12 Months ended	6 Months ended	6 Months ended	12 Months ended
	31 December 2022	31 December 2021	30 June 2022	31 December 2022	31 December 2021	30 June 2022
	Reviewed	Reviewed		Reviewed	Reviewed	Audited
R'000	R'000	R'000	R'000	R'000	R'000	
Cash receipts from customers	2,585,752	2,312,223	4,595,040	2,577,206	2,305,693	4,548,555
Cash paid to suppliers and employees	(1,656,394)	(1,308,055)	(2,722,436)	(1,654,894)	(1,313,070)	(2,691,368)
Net cash from operating activities	929,358	1,004,168	1,872,604	922,313	992,623	1,857,187
Proceeds on disposal of assets	1,977	-	4,932	1,977	-	4,909
Receipt of Regional bulk Infrastructure grants	242,804	102,775	200,166	242,804	102,775	200,166
Additions to property, plant and equipment	(805,862)	(420,719)	(1,049,042)	(805,187)	(419,037)	(1,046,888)
Additions to intangible assets	(8,161)	(451)	(1,080)	(6,980)	(451)	(662)
Dividend received from associate	-	-	4,913	-	-	-
Net cash used in investing activities	(569,242)	(318,395)	(840,111)	(567,386)	(316,713)	(842,476)
Long - term borrowing repaid	(12,419)	(12,419)	(24,839)	(12,419)	(12,419)	(24,839)
(Increase) / decrease in investments	(264,127)	(693,845)	(1,041,798)	(264,127)	(693,845)	(1,041,798)
Interest received	157,877	97,452	187,472	156,416	97,452	186,088
Finance costs paid	(60,359)	(66,949)	(126,713)	(60,174)	(66,949)	(126,320)
Lease payments	(314)	(134)	(338)	(244)	(168)	(245)
Net cash used in financing activities	(179,341)	(675,895)	(1,006,216)	(180,548)	(675,929)	(1,007,113)
Net increase in cash and cash equivalents	180,773	9,876	26,277	174,377	(18)	7,598
Opening balance	67,712	41,386	41,434	7,801	203	203
Closing balance	248,485	51,264	67,712	182,178	186	7,801

CONDENSED CONSOLIDATED SEGMENTAL REPORT

	Primary activities			Other activities			Total		
	6 months ending 31 December 2022	6 months ending 31 December 2021	12 months ending 30 June 2022	6 months ending 31 December 2022	6 months ending 31 December 2021	12 months ending 30 June 2022	6 months ending 31 December 2022	6 months ending 31 December 2021	12 months ending 30 June 2022
	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
Revenue	2,578,968	2,423,018	4,861,361	28,612	23,885	48,093	2,607,580	2,446,903	4,909,454
Cost of sales	(1,078,398)	(914,368)	(1,938,790)	(16,865)	(14,028)	(27,294)	(1,095,263)	(928,396)	(1,966,084)
Gross profit	1,500,570	1,508,650	2,922,571	11,747	9,857	20,799	1,512,317	1,518,507	2,943,370
Other income	55,270	9,116	13,632	344	16	208	55,613	9,132	13,840
Allowance for credit loss	(315,862)	(163,062)	(462,636)	128	8,746	8,485	(315,734)	(154,316)	(454,151)
Other operating and admin expenses	(688,512)	(513,174)	(1,511,537)	(44,203)	(26,403)	(70,921)	(732,715)	(539,577)	(1,582,458)
Profit from operations	551,467	841,530	962,030	(31,983)	(7,784)	(41,429)	519,481	833,746	920,601
Net finance income (costs)	237,622	123,419	315,725	1,277	163	991	238,899	123,582	316,716
Share of profit from associate	-	-	-	625	2,819	4,088	625	2,819	4,088
Profit before tax	789,088	964,949	1,277,755	(30,080)	(4,802)	(36,350)	759,006	960,146	1,241,405
Taxation	-	-	-	(76)	(13)	(42)	(76)	(13)	(42)
Profit for the year	789,088	964,949	1,277,755	(30,156)	(4,815)	(36,392)	758,930	960,133	1,241,363
Capital expenditure - for the period	812,167	419,488	1,047,550	1,855	-	2,572	814,023	419,488	1,050,122
Segment assets	10,173,154	10,212,109	10,222,641	279,636	123,880	53,380	10,452,789	10,335,989	10,276,021
Investments	5,946,040	5,243,395	5,635,849	137,601	137,120	139,537	6,083,641	5,380,514	5,775,386
Interest in associate	-	-	-	10,657	13,677	10,031	10,657	13,677	10,031
Unallocated	-	-	-	-	-	-	289,702	83,764	102,537
Consolidated total assets							16,836,789	15,813,944	16,163,975
Segment liabilities	1,570,317	1,510,705	1,541,795	137,601	137,120	139,537	1,707,918	1,647,825	1,681,332
Unallocated	-	-	-	-	-	-	1,184,828	1,265,352	1,297,530
Consolidated total liabilities							2,892,745	2,926,295	2,978,862

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 R759m (Dec 2021: R960m). Revenue growth was 7% which was attributable to the primary business as a result of the 3% sales volumes growth and the approved tariff increase for 2022/2023 of 5%. The primary activities direct operating costs increased by 18% arising from the main cost drivers, namely energy; direct maintenance and raw and potable water purchases. Other operating and administration expenses increased by 36% year on year mainly attributable to the increases in staff costs and maintenance -ICT. The increase of 105% in credit losses is reflective of the current operating environment with customers struggling to pay on time resulting in an increase in credit risk. Net finance income increased by 93% 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 R929m (Dec 2021: R1 004m). The reduction of R75m year on year is primarily due to increase in the working capital changes.

Net cash used in investing activities was R569m (Dec 2021: R318m) due to additions to property, plant and equipment as well as intangible assets of R814m (Dec 2021: R421m) less RBIG received of R243m (Dec 2021: R103m).

Net cash used in financing activities totalled R179m which consisted of R264m increase in investments year to date and R98m net interest received, net cash used in financing activities for December 2021 amounted to R676m.

Trade and other receivables were R935m (Dec 2021: R1 161m) and debtors' days were 45 (Dec 2021: 56 days).

Umgeni Water (Parent) capital expenditure for the 6-month period totalled R812m (Dec 2021: R419m) against the target of R672m. The total accumulated cost of capital work in progress for

development projects was R1 221m (Dec 2021: R569m) while accumulated grant funding was R329m (Dec 2021: R524m).

Capital commitments as at 31 December totalled R1 920m (Dec 2021: R971m). 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 2022 was R1 096m (Dec 2021: R1 133m). The debt to equity ratio remained at 0.08 (Dec 2021: 0.09) in line the 2022 year end, whilst the interest cover ratio was 8.56 times (Dec 2021: 12.45)

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)	27 May 2022	zaAAA	zaA-1+
Fitch Ratings	16 November 2021	AA+(zaf)	F1+(zaf)

There was no significant movement in contingent liabilities since the 2022 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 2022 and are unaudited.

Going Concern

The Directors have reviewed the group's forecast financial performance for the year to 30 June 2023 as well as the longer term business plans and, in light of this review and the current financial position, they are satisfied that the group has access to adequate resources to continue as a going concern for the foreseeable future. The Directors have considered the impact of COVID-19, the July 2021 civil unrest and the April 2022 floods in their review which has not 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>2021</u>	<u>2022</u>	<u>2023</u>
Weighted average bulk tariff (R/kl)	7.64	8.14	8.37
Total Tariff increase (%)*	0%	6.5%	2.83%

**The total tariff increase is a weighted increase of price and volumes, of which 5.0% comprises the approved bulk water tariff increase for 2023.*

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

As at 31 December 2022

For the six month period ending 31 December 2022

	Primary activities	Other Activities	Total Parent	Total Group
	R'000	R'000	R'000	R'000
Revenue from major products/service lines as a result of performance obligations satisfied				
Bulk water sales	2 426 404	-	2 426 404	2 426 404
Waste water sales	152 564	-	152 564	152 564
Scientific and environmental services	-	5 099	5 099	5 099
Operating and Maintenance	-	2 673	2 673	2 673
Training and capacity building	-	12 645	12 645	12 645
Other	-	275	275	8 195
Total Revenue	2 578 968	20 692	2 599 660	2 607 580
Timing of revenue recognition				
At a point in time	2 578 968	7 772	2 586 740	2 592 707
Over time	-	12 921	12 921	14 873
Total Revenue	2 578 968	20 692	2 599 660	2 607 580

For the six month period ending 31 December 2021

	Primary activities	Other Activities	Total Parent	Total Group
	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
Total Revenue	2 423 018	17 356	2 440 373	2 446 903
Timing of revenue recognition				
At a point in time	2 423 018	7 255	2 430 273	2 435 383
Over time	-	10 100	10 100	11 519
Total Revenue	2 423 018	17 356	2 440 373	2 446 903

REVENUE FROM CONTRACT LIABILITIES

	December 2022		December 2021
	Group	Parent	Parent
	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.	13 241	10 180	10 180

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 2022	31 December 2021	31 December 2022	31 December 2021
	Reviewed	Reviewed	Reviewed	Reviewed
	R'000	R'000	R'000	R'000
Revenue: Sale of goods and services				
Revenue: Section 30				
National Department	13,110	-	13,110	-
Sundry Income				
Subsidiaries	-	-	542	512
Cost of sales				
National Department	139,757	145,111	139,757	145,111
Other operating and administration expenses				
Subsidiaries and associates	-	-	39,860	38,520
Work-in-progress: Grant funding for rural development projects				
National Department	242,804	102,775	242,804	102,775
Investments in associates				
Subsidiaries and associates	10,657	13,677	-	-
Trade and other receivables				
National Departments- Capital unit charge	89,613	-	89,613	-
Other payables				
Subsidiaries and associates	-	-	14,354	14,970
National Department	32,598	198,004	32,598	198,004
Raw water purchases accrual	32,598	31,863	32,598	31,863
Capital Unit Charge Recovery	-	69,880	-	69,880
Capital Unit Charge accrual	-	96,261	-	96,261

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 160m (Dec 2021: R1 257m). 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.



Mr. Mzimkulu Msiwa
Chairperson of the Board



Dr Siphon Manana
Acting Chief Executive