

RAND WATER GROUP

Condensed Consolidated Interim
Financial Statements for the six
months ended 31 December 2014

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	31 Dec 2014 Reviewed	31 Dec 2013 Reviewed	30 Jun 2014 Audited
In thousands of Rands				
Assets				
Non-current assets		13 872 141	11 401 535	12 798 533
Property, plant and equipment	5	13 171 821	10 923 707	12 110 426
Intangible assets		203 703	181 554	202 894
Investments		495 696	294 714	483 193
Loans receivable		921	1 560	2 020
Current assets		2 457 981	2 579 590	2 530 619
Inventories		150 619	183 161	244 815
Trade and other receivables		1 510 128	1 128 385	1 411 322
Loans receivable		3 443	3 182	2 968
Cash and cash equivalents		793 791	1 264 862	871 514
Assets of disposal groups held for sale		1 499	1 908	1 589
Total assets		16 331 621	13 983 033	15 330 741
Equity and liabilities				
Equity		10 581 899	9 327 782	9 750 414
Accumulated funds		10 529 455	9 351 249	9 713 184
Reserves		52 444	(23 466)	37 230
Non-current liabilities		3 144 375	3 107 266	3 114 219
Interest bearing borrowings		2 506 015	2 511 605	2 510 093
Income received in advance		220 127	206 362	200 742
Provision for rehabilitation costs		59 562	52 094	57 462
Retirement benefit obligation		358 671	337 205	345 922
Current liabilities		2 602 534	1 545 199	2 463 285
Trade and other payables		2 599 597	1 543 009	2 460 827
Interest bearing borrowings		2 937	2 190	2 458
Liabilities of disposal groups held for sale		2 813	2 786	2 823
Total equity and liabilities		16 331 621	13 983 033	15 330 741

CONDENSED CONSOLIDATED INCOME STATEMENT

As at 31 December 2014

		6 months ended 31 Dec 2014 Reviewed	6 months ended 31 Dec 2013 Reviewed	12 months ended 30 Jun 2014 Audited
In thousands of Rands				
Continuing operations				
Revenue		4 914 075	4 423 799	8 664 894
Cost of sales		(3 506 802)	(3 135 300)	(6 273 313)
Gross income		1 407 273	1 288 499	2 391 581
Other operating income	7	259 064	241 558	729 167
Staff costs		(481 946)	(402 363)	(1 073 945)
Depreciation		(26 936)	(25 605)	(55 696)
Amortisation		(6 004)	(4 515)	(12 231)
Operating expenses	7	(373 422)	(305 716)	(867 105)
Operating income		778 029	791 858	1 111 771
Finance income		39 719	30 246	75 182
Finance expense		(1 340)	(1 693)	(4 542)
Income from continuing operations		816 408	820 411	1 182 411
Discontinued operations				
Loss for the period from discontinuing operations		(137)	(541)	(606)
Net income for the period		816 271	819 870	1 181 805

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2014

	6 months ended 31 Dec 2014 Reviewed	6 months ended 31 Dec 2013 Reviewed	12 months ended 30 Jun 2014 Audited
In thousands of Rands			
Net income for the period	816 271	819 870	1 181 805
Other comprehensive gain/(loss):			
Available for sale financial assets adjustments	15 124	(3 541)	(196)
Exchange differences on translating foreign operations	90	(202)	(1 258)
Other comprehensive income/(loss) for the period	15 214	(3 743)	(1 454)
Total comprehensive income	831 485	816 127	1 180 351

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2014

	Foreign currency translatio n reserve	Fair value adjustment assets – available for sale reserve	Transfer of function	Total reserves	Accumulated funds	Total equity
In thousands of Rands						
Balance at 1 July 2013	(500)	(19 223)	-	(19 723)	8 531 379	8 511 656
Changes in equity						
Total comprehensive income for the six month period	(202)	(3 541)	-	(3 743)	819 870	816 127
Total changes	(202)	(3 541)	-	(3 743)	819 870	816 127
Balance at 31 December 2013	(702)	(22 764)	-	(23 466)	9 351 249	9 327 783
Balance at 1 July 2013	(500)	(19 223)	-	(19 723)	8 531 379	8 511 656
Changes in equity						
Total comprehensive income for the twelve month period	(196)	(1 258)	-	(1 454)	1 181 805	1 180 351
Transfer of function			58 407	58 407	-	58 407
Total changes	(196)	(1 258)	58 407	56 953	1 181 805	1 238 758
Balance at 30 June 2014	(696)	(20 481)	58 407	37 230	9 713 184	9 750 414
Balance at 1 July 2014	(696)	(20 481)	58 407	37 230	9 713 184	9 750 414
Changes in equity						
Total comprehensive income for the six month period	90	15 124	-	15 214	816 271	831 485
Total changes	90	15 124	-	15 214	816 271	831 485
Balance at 31 December 2014	(606)	(5 357)	58 407	52 444	10 529 455	10 581 899

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2014

	6 months ended 31 Dec 2014 Reviewed	6 months ended 31 Dec 2013 Reviewed	12 months ended 30 Jun 2014 Audited
In thousands of Rands			
Cash flows from operating activities			
Cash receipts from customers	4 876 491	4 443 845	8 647 467
Cash paid to suppliers and employees	(3 770 229)	(3 937 085)	(7 087 464)
Cash generated from operations	1 106 262	506 760	1 560 003
Finance income	39 994	30 522	75 182
Finance expense	(126 011)	(82 712)	(206 197)
Cash flows from discontinued operations	170	-	90
Net cash from operating activities	1 020 415	454 570	1 429 078
Cash flows from investing activities			
Acquisitions of property, plant and equipment	(1 097 454)	(1 052 801)	(2 216 211)
Acquisitions of intangible assets	(54)	(1 429)	(27 816)
Proceeds from disposal of property, plant and equipment	-	-	1 000
Acquisition of investment	-	-	(183 573)
Transfer of function	-	-	5 472
Loans receivable repaid	624	612	365
Net cash in investing activities	(1 096 884)	(1 053 618)	(2 420 763)
Cash flows from financing activities			
Interest bearing borrowings raised	-	1 000 000	1 000 000
Interest-bearing borrowings repaid	(1 254)	-	(710)
Net cash from/(in) financing activities	(1 254)	1 000 000	999 920
Net increase /(decrease) in cash and cash equivalents	(77 723)	400 952	7 604
Cash and cash equivalents at the beginning of the period	871 514	863 910	863 910
Cash and cash equivalents at the end of the period	793 791	1 264 862	871 514

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2014

1. Reporting entity

Rand Water is an organisation domiciled in South Africa. The condensed consolidated interim financial statements of Rand Water for the six months ended 31 December 2014 comprise of Rand Water and its subsidiaries (including a special purpose entity) and the Group's interest in a joint venture, (together referred to as the "Group").

2. Statement of compliance

The condensed consolidated interim financial statements as set out in this report have been prepared in accordance with AC127 (IAS34) (Interim Financial Reporting) the framework concepts and measurement and recognition requirements of South African Statements of Generally Accepted Accounting Practice (SA GAAP), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, and the Financial Reporting Pronouncements as issued by the Financial Reporting Council, the Water Services Act, Act 108 of 1997 and the Public Finance Management Act, Act 1 of 1999 as amended.

The accounting policies used to prepare these condensed consolidated interim financial statements are consistent with those applied in the consolidated annual financial statements for the year ended 30 June 2014. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at 30 June 2014. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated annual financial statements of the Group for the year ended 30 June 2014.

The condensed consolidated interim financial statements were approved by the Board members on 23 March 2015.

3. Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated annual financial statements for the year ended 30 June 2014.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2014

(a) Change in accounting frameworks

The Accounting Standards Board has withdrawn the SA GAAP framework. The Group is currently awaiting the Accounting Standards Board's pronouncement on the accounting framework that will be applicable to public entities. The Accounting Practices Board has agreed for Public entities continue using SA GAAP until their pronouncement is made.

4. Estimates

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated annual financial statements for the year ended 30 June 2014.

5. Capital expenditure

The Group incurred capital expenditure to the value of R1 098 million (2013: R1 054 million) during the six months ended 31 December 2014 as part of its capital investment programme, which excludes borrowing costs of over R124 million (2013: R81 million) that was capitalised during the period.

6. Capital commitments

During the review period the Group entered into contracts totalling R295 million (2013: R684 million) as a result of the augmentation and rehabilitation of its capital infrastructure.

7. Growth project revenue and costs

Included in other operating income is growth project revenue of R256 million (2013: R203 million). The corresponding project costs of R251 million (2013: R197 million) is included in other operating expenses.

8. Contingencies

There were no significant changes in contingencies since 30 June 2014. For a detailed disclosure on contingent liabilities refer to Rand Water's consolidated annual financial statements report for the year ended 30 June 2014.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2014

8. Contingencies (continued)

Guarantees

At 31 December 2014, the Group had contingent liabilities in respect of guarantees given to Eskom in connection with the installation of a third 40MVA Transformer at System's 488/11KV Substation in Zuikerbosch that amount to R5.7 million (2013: R0 million).

9. Related parties

Rand Water is a schedule 3B entity in terms of the Public Finance Management Act and falls within the national sphere of government. As a result the Group has a significant number of related parties that fall within the national sphere. There have been no material changes to the relative nature or quantum of related party transactions as described in the 30 June 2014 annual report.

10. Operating segments

An operating segment is a distinguishable component of the Group that is engaged in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entities chief operating decision maker to make decisions about resources to be allocated to the segment and assesses its performance and for which discrete financial information is available. The Group has no reportable operating segments as required by IFRS 8.

11. Subsequent events

There are no subsequent events that the Group is required to report on.

12. Independent review by external auditors

The condensed consolidated interim financial statements for the six month period ended 31 December 2014 have been reviewed by the auditors of Rand Water, Nexia SAB&T. The review was conducted in accordance with ISRE 2410, Review of Interim Financial Information performed by the Independent Auditor of the Entity. Their unmodified review conclusion is available for inspection at the registered offices of Rand Water.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2014

13. Performance review

The performance results of the Group are as follows:

Rand Water's area of supply increased to incorporate the greater Mpumalanga area. The current period's results include the disestablished Bushbuckridge Water Board referred to as Rand Water Mpumalanga (RWM).

The group reports total revenue growth of 11.1%, mainly driven by annual tariff increases, volume growth and the inclusion of RWM.

Cost of sales increased at a much faster rate than revenue by 11.8% year on year, which is greater than anticipated and as a result impacted the gross profit margin. Increases in raw water tariffs, high energy costs caused by the marginal increase in demand and the deteriorating raw water quality requiring additional chemical dosing, have been the primary contributors to this increase.

Other operating expenses have increased by approximately 9% with the exclusion of RWM costs which were not there in the previous Interim financial period of review and cost of sales of secondary activities.

Net interest received increased by R10 million (34.4%), mainly from long term investments.

Earnings before interest, taxation, depreciation and amortisation (EBITDA) increased by 2.4% from R916 million in 2013 to R937 million in 2014. Net income for the six months ended 31 December 2014 decreased by 0.4% in comparison to the six months ended 31 December 2013, as a result of higher than anticipated increases in cost of sales and depreciation & amortization which has increased as a result of the commissioning of new assets that have been created from the capital programme.

The current ratio has decreased to 0.94:1 in 2014 from 1.7:1 in 2013 primarily as a result of decrease in cash reserves; and growth in trade & other payables which was mainly driven by the capital expenditure rollout, implementation of the secondary activities as well as amounts owing to suppliers. The decrease in cash reserves is due to the decline in short term investments as compared to stronger cash reserve in 2013 which emanated from bond issuance done in December 2013. The group has tightened its working capital management considerably and managed to extend the cash conversion cycle that has contributed to the reduction in gearing levels and improved cash generated from operations.

Cash generated from operations has increased by 118% to R1 106 million from R507 million in December 2013 with cash reserves closing at R794 million. The cash generated from operations was utilised to fund capital expenditure programme amounting to R1.1 billion. Capital investment

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2014

expenditure undertaken during the six month period equated to R1 098 million which is 4.2% higher than the same period last year.

The gearing ratio decreased to 27.7% in December 2014 from 30.6% in December 2013, this was mainly attributable to the strong growth in capital and reserves over the period.

14. Prospects

The prospects for the Group remain positive, supported by the anticipated benefits arising from growth in revenue streams as well as by an improvement in secondary activities margin creation.

Although the current results for the half year ended 31 December 2014 is marginally lower than the comparative figures for the six months ended 31 December 2013, this performance is in line with the plan and reflects a 18% outperformance of the budget for the period under review. The Group continues to look for cost synergies, maintain internal cost efficiencies and adopt stringent debt control measures. These measures continue to yield the desired results and Rand Water remains optimistic of exceeding the annual results attained in the previous year.

The organisation has placed significant focus on its CAPEX programme. Through a process of reprioritisation and ranking, Rand Water has accelerated key projects to ensure that short term demand will continue to be met in spite of the nation's energy challenges which resulted in water interruptions during the six months period ended 31 December 2014. This process of acceleration of projects is in the context of the overall augmentation programme currently being implemented, which caters for demand in the short and long term. In addition to the current programme there are plans underway which consider alternate energy sources that will ensure that the risk of energy outages impacting the system is largely mitigated.

To fund the capital expenditure rollout, the organisation will undertake fund raising activities during the second half of the financial year. The Group also expects a significant contribution from growth initiatives. Secondary Activities returns are expected to increase considerably in the second half of 2014/2015 financial period. This follows the conclusion of feasibility studies and stakeholder engagements whereby Rand Water expects to see more traction on the implementation of water supply and sanitation projects, both in and beyond our traditional area of supply.

Our financial position remains sound and management is confident that we will deliver an improved performance for the year ending June 2015.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2014

15. Corporate information

Board members:

Executive:

Mr DKP Sechemane (Chief Executive)

Non-executive:

Adv. M Hashatse (Chairperson)

Ms S Molokoane-Machika

Mr N Govender

Ms BC Bam

Mr D Coovadia

Ms L Kaunda

Mrs NGJ Mbileni

Mr I Mmushi

Mr LL Makibinyane

Ms MM Nakene

Prof F.A.O Otieno

Group Company Secretary:

Ms. P Mohlabi

522 Impala Road

Glenvista

Johannesburg, 2000

PO Box 1127

Johannesburg

2000

Auditors:

Nexia SAB&T

119 Witch-Hazel Avenue

Highveld TechnoPark

Centurion