

## UNAUDITED INTERIM FINANCIAL RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

### Nature of Business

Umgeni Water is a schedule 3B public entity and referred to as a National Government Business Enterprise. Its primary function is to supply treated water in bulk to its municipal customers. The organisation is also involved in wastewater treatment as part of its primary activities. Umgeni Water 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.

### Financial Overview

The operating results as at 31 December 2008 reflect a year to date net profit of R228.3m (2007: R196.1m) which is above expectations. Year on year the net profit achieved represents a 16.4% increase which is primarily attributable to a 4.9% growth in bulk water volumes combined with a 2.3% average tariff increase, and a 8% decrease in net finance costs. The reduction in gross profit percentage from 72% to 66.5% is primarily due to the impact of increased direct costs of production. Administration expenses have been contained and reflect a minor increase of 1% as compared to December 2007.

During this period the amount spent on the capital expenditure programme has been low and did not reach projected targets, thus contributing to lower than expected finance costs. The net cash from operating activities shows a 10.5% reduction from December 2007. This is due to an increase in working capital requirements. The net debt at R937m has reduced by R200m, thus resulting in a lower net debt to equity ratio of 0.75 as compared to 1.12 as at 30 June 2008.

There was no significant movement in contingent liabilities since the 2008 financial year end. The going-concern basis has been adopted in preparing the interim financial statements. The directors believe that the entity has adequate resources to continue as a going concern in the foreseeable future.

Umgeni Water's Fitch national credit ratings of: F1+ short-term was reaffirmed and long-term upgraded to AA+ on 22 October 2008.

### 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>2007</u>	<u>2008</u>	<u>2009</u>
<u>Bulk tariff 1 (R/k)</u>	2.819	2.960	3.078
<u>% increase</u>	4.5%	5.0%	4.0%
<u>Bulk tariff 2: eThekweni Municipality (R/k)</u>	2.819	2.960	3.019
<u>% increase</u>	4.5%	5.0%	2.0%

The profits generated reinforce Umgeni Water's commitment to remaining an efficient bulk water service provider that will generate sufficient funds to target delivery of water and sanitation services through its capital expenditure programme whilst maintaining a stable and affordable bulk water tariff.

### Outlook

Umgeni Water expects to continue with the positive operating results of the first six months, however management will continue to closely monitor the reduced margins arising from increased costs. The potential impacts of the volatile financial markets and the slowdown in economic growth will continue to be actively monitored by management.

### Basis of preparation and Accounting Policies

The interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The same accounting policies and methods of computation are followed in the interim financial statements as compared 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.

### Reclassification of operating costs to cost of sales

During the year ended 30 June 2008 Umgeni Water reclassified operating costs associated with production processes to cost of sales, and all other costs were regarded as administration expenses. Consequently, the summarised income statement of the 31 December 2008 interim financial statements reflects this reclassification.

### 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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Chairman of the Board

  
Mr Mzimkulu Msiwa  
Chief Executive

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**INCOME STATEMENTS**  
6 MONTHS ENDING 31 DECEMBER 2008

	Unaudited 31 Dec 2008	Unaudited 31 Dec 2007	Audited Year-end 30 Jun 2008
	R'000	R'000	R'000
Gross revenue	703,052	634,162	1,280,747
Cost of sales	(235,636)	(177,325)	(393,265)
<b>Gross profit</b>	<b>467,416</b>	<b>456,837</b>	<b>887,482</b>
Gross profit %	66.5%	72.0%	69.3%
Other income	19,720	1,944	6,756
Administration expenses	(193,460)	(191,620)	(337,679)
<b>Profit from operations</b>	<b>293,676</b>	<b>267,161</b>	<b>556,559</b>
Net finance costs	(65,380)	(71,036)	(165,439)
<b>Profit for the period</b>	<b>228,296</b>	<b>196,125</b>	<b>391,120</b>

**BALANCE SHEETS AT 31 DECEMBER 2008**

	Unaudited 31 Dec 2008	Unaudited 31 Dec 2007	Audited Year-end 30 June 2008
	R'000	R'000	R'000
<b>ASSETS</b>			
<b>Non-current assets</b>	<b>2,979,230</b>	<b>2,975,927</b>	<b>2,975,083</b>
Property, plant & equipment	2,318,811	2,290,504	2,305,767
Intangible assets	970	1,423	1,125
Investments - financial instruments	464,086	427,142	440,286
Investments - subsidiaries and associates	2,653	5,764	4,564
Reticulation financial asset	189,594	249,171	220,225
Other non-current assets	3,116	1,923	3,116
<b>Current assets</b>	<b>837,128</b>	<b>399,800</b>	<b>677,817</b>
Investments - financial instruments	620,790	233,948	501,029
Inventories	10,183	7,461	10,251
Accounts receivable	195,146	151,555	148,803
Interest receivable	5,115	1,415	5,616
Bank	5,894	5,421	12,118
<b>TOTAL ASSETS</b>	<b>3,816,358</b>	<b>3,375,727</b>	<b>3,652,900</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>	<b>1,246,966</b>	<b>827,500</b>	<b>1,018,735</b>
Umgeni water capital	442,847	442,847	442,847
Non-distributable reserves	2,191	6,016	2,256
Accumulated profit/(loss)	801,928	378,637	573,632
<b>Non-current liabilities</b>	<b>2,120,485</b>	<b>2,173,369</b>	<b>2,143,273</b>
Net long-term liabilities	1,935,840	2,023,795	1,978,904
Other non-current liabilities	184,645	149,574	164,369
<b>Current liabilities</b>	<b>448,907</b>	<b>374,858</b>	<b>490,892</b>
Accounts payable	201,822	155,904	232,840
Provisions	120,525	96,429	118,340
Short-term funding	86,162	77,858	99,432
Interest payable	40,398	44,667	40,280
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3,816,358</b>	<b>3,375,727</b>	<b>3,652,900</b>

**CASH FLOW STATEMENTS**  
6 MONTHS ENDING 31 DECEMBER 2008

	Unaudited 31 Dec 2008	Unaudited 31 Dec 2007	Audited Year-end 30 June 2008
	R'000	R'000	R'000
Net cash from operating activities	319,842	357,179	842,300
Net cash used in investing activities	(43,647)	(54,430)	(104,200)
Net cash used in financing activities	(282,419)	(316,975)	(745,600)
<b>Net (decrease)/increase in cash &amp; cash equivalents</b>	<b>(6,224)</b>	<b>(14,226)</b>	<b>(7,500)</b>
Opening balance	12,118	19,647	19,647
<b>Closing balance</b>	<b>5,894</b>	<b>5,421</b>	<b>12,118</b>

**STATEMENTS OF CHANGES IN EQUITY**  
6 MONTHS ENDING 31 DECEMBER 2008

	Capital	Investment Revaluation reserve	Accumulated (loss)/profit	Total
	R'000	R'000	R'000	R'000
<b>Balance as at 30 June 2007</b>	<b>442,847</b>	<b>8,396</b>	<b>182,512</b>	<b>633,755</b>
Profit for the 6 month period 31 December 2007			196,125	196,125
Mark-to-market adjustment - long-term investments		(2,380)		(2,380)
<b>Balance as at 31 December 2007</b>	<b>442,847</b>	<b>6,016</b>	<b>378,637</b>	<b>827,500</b>
Profit for the 6 month period 30 June 2008			194,995	194,995
Mark-to-market adjustment - long-term investments		(3,760)		(3,760)
<b>Balance as at 30 June 2008</b>	<b>442,847</b>	<b>2,256</b>	<b>573,632</b>	<b>1,018,735</b>
Profit for the 6 month period 31 December 2008			228,296	228,296
Mark-to-market adjustment - long-term investments		(65)		(65)
<b>Balance as at 31 December 2008</b>	<b>442,847</b>	<b>2,191</b>	<b>801,928</b>	<b>1,246,966</b>