

**RAND WATER
GROUP**

CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS FOR THE SIX
MONTHS ENDED 31 DECEMBER 2010

CONDENSED CONSOLIDATED INCOME STATEMENT

For the period

| | 6 months ended 31 Dec 2010 Reviewed | 6 months ended 31 Dec 2009 Unaudited | 12 months ended 30 Jun 2010 Audited |
|-------------------------------|--|---|--|
| <i>In thousands of Rands</i> | | | |
| Revenue | 3 043 568 | 2 528 071 | 4 997 701 |
| Water purchased | (1 398 194) | (1 208 961) | (2 435 412) |
| Other cost of sales | (5 355) | (776) | (21 065) |
| Gross income | 1 640 019 | 1 318 334 | 2 541 224 |
| Other operating income | 58 436 | 44 495 | 112 075 |
| Staff costs | (491 281) | (451 139) | (965 648) |
| Energy | (434 235) | (348 414) | (687 543) |
| Depreciation | (84 665) | (72 069) | (155 649) |
| Amortisation | (6 660) | (10 042) | (12 187) |
| Chemicals | (105 849) | (69 091) | (170 747) |
| Operating expenses | (178 687) | (140 787) | (343 850) |
| Operating profit | 397 078 | 271 287 | 317 675 |
| Finance income | 33 110 | 47 647 | 94 179 |
| Finance expense | (42 297) | (59 721) | (104 910) |
| Profit before taxation | 387 891 | 259 213 | 306 944 |
| Taxation | 1 982 | (630) | (5 310) |
| Profit for the period | 389 873 | 258 583 | 301 634 |

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the period

| | 6 months ended 31 Dec 2010 Reviewed | 6 months ended 31 Dec 2009 Unaudited | 12 months ended 30 Jun 2010 Audited |
|--|--|---|--|
| <i>In thousands of Rands</i> | | | |
| Profit for the period | 389 873 | 258 583 | 301 634 |
| Other comprehensive income: | | | |
| Available for sale financial assets adjustments | (345) | (2 522) | (4 604) |
| Exchange differences on translating foreign operations | 25 | 223 | 359 |
| Other comprehensive income for the period net of taxation | (320) | (2 299) | (4 245) |
| Total comprehensive income | 389 553 | 256 284 | 297 389 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at

| | 31 Dec 2010 Reviewed | 31 Dec 2009 Unaudited | 30 Jun 2010 Audited |
|---|----------------------------|-----------------------------|---------------------------|
| <i>In thousands of Rands</i> | | | |
| Assets | | | |
| Non-current assets | 6 869 697 | 6 181 014 | 6 585 887 |
| Property, plant and equipment | 6 678 344 | 5 943 202 | 6 345 602 |
| Intangible assets | 188 680 | 192 540 | 194 519 |
| Investment | - | 42 519 | 42 608 |
| Investment in subsidiary | - | - | - |
| Loans receivable | 2 409 | 2 753 | 2 855 |
| Deferred tax | 264 | - | 303 |
| Current assets | 1 685 898 | 1 778 342 | 1 874 717 |
| Inventories | 49 852 | 45 324 | 46 848 |
| Investment | 42 608 | 42 519 | 40 345 |
| Trade and other receivables | 659 998 | 649 933 | 857 615 |
| Loans receivable | 4 472 | 5 567 | 5 051 |
| Cash and cash equivalents | 928 968 | 1 034 999 | 924 858 |
| Non-current assets held for sale | - | 454 | - |
| Total assets | 8 555 595 | 7 959 810 | 8 460 604 |
| Equity and liabilities | | | |
| Equity | | | |
| Accumulated reserves | 6 611 737 | 6 181 079 | 6 222 184 |
| Non-current liabilities | 959 723 | 927 843 | 948 488 |
| Interest bearing borrowings | 630 371 | 628 959 | 629 665 |
| Income received in advance | 61 637 | 57 060 | 64 517 |
| Retirement benefit obligation | 267 715 | 241 824 | 254 306 |
| Current liabilities | 984 135 | 850 888 | 1 289 932 |
| Trade and other payables | 983 032 | 850 752 | 1 285 649 |
| Current tax payable | 1 103 | 136 | 4 283 |
| Total equity and liabilities | 8 555 595 | 7 959 810 | 8 460 604 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period

| | Foreign currency translation reserve | Fair value reserve | Total reserves | Accumulated reserves | Total Equity |
|---|---|--------------------------|-------------------|-------------------------|------------------|
| <i>In thousands of Rands</i> | | | | | |
| Balance at 1 July 2009 | (751) | 7 557 | 6 806 | 5 917 989 | 5 924 795 |
| Changes in equity | | | | | |
| Total comprehensive income for the six month period | 223 | (2 522) | (2 299) | 258 583 | 256 284 |
| Total changes | 223 | (2 522) | (2 299) | 258 583 | 256 284 |
| Balance at 31 December 2009 | (528) | 5 035 | 4 507 | 6 176 572 | 6 181 079 |
| Balance at 1 July 2009 | (751) | 7 557 | 6 806 | 5 917 989 | 5 924 795 |
| Changes in equity | | | | | |
| Total comprehensive income for the twelve month period | 359 | (4 604) | (4 245) | 301 634 | 297 389 |
| Total changes | 359 | (4 604) | (4 245) | 301 634 | 297 389 |
| Balance at 30 June 2010 | (392) | 2 953 | 2 561 | 6 219 623 | 6 222 184 |
| Balance at 1 July 2010 | (392) | 2 953 | 2 561 | 6 219 623 | 6 222 184 |
| Changes in equity | | | | | |
| Total comprehensive income for the six month period | 25 | (345) | (320) | 389 873 | 389 553 |
| Total changes | 25 | (345) | (320) | 389 873 | 389 553 |
| Balance at 31 December 2010 | (367) | 2 608 | 2 241 | 6 609 496 | 6 611 737 |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period

| | 6 months ended 31 Dec 2010 Reviewed | 6 months ended 31 Dec 2009 Unaudited | 12 months ended 30 Jun 2010 Audited |
|---|--|---|--|
| <i>In thousands of Rands</i> | | | |
| Cash flows from operating activities | | | |
| Cash receipts from customers | 3 251 964 | 2 547 066 | 4 722 040 |
| Cash paid to suppliers and employees | (2 860 967) | (2 382 150) | (4 176 026) |
| Cash generated from operations | 390 997 | 164 916 | 546 014 |
| Finance income | 33 110 | 50 049 | 94 179 |
| Finance expense | (41 632) | (59 014) | (103 497) |
| Taxation paid | (1 159) | (1 474) | (1 366) |
| Net cash from operating activities | 381 316 | 154 477 | 535 330 |
| Cash flows from investing activities | | | |
| Acquisitions of property, plant and equipment | (417 414) | (409 370) | (905 205) |
| Acquisitions of intangible assets | (816) | (3 048) | (4 824) |
| Proceeds from disposal of property, plant and equipment | - | 37 | 6 242 |
| Proceeds from disposal of financial assets | 40 000 | 40 000 | 40 000 |
| Loans repaid | 1 024 | 1 698 | 2 112 |
| Net cash from investing activities | (377 206) | (370 683) | (861 675) |
| Cash flows from financing activities | | | |
| Interest bearing borrowings redeemed | - | (100 000) | (100 000) |
| Net cash from financing activities | - | (100 000) | (100 000) |
| Net increase/(decrease) in cash and cash equivalents | 4 110 | (316 206) | (426 345) |
| Cash and cash equivalents at the beginning of the period | 924 858 | 1 351 205 | 1 351 203 |
| Cash and cash equivalents at the end of the period | 928 968 | 1 034 999 | 924 858 |

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period ended 31 December 2010

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 2010 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 accounting policies applied in the preparation of these condensed consolidated interim financial statements, which are based on reasonable judgments and estimates, are in accordance with South African Statements of Generally Accepted Accounting Practices (SA GAAP) and are consistent with those applied in the consolidated annual financial statements for the year ended 30 June 2010.

These reviewed condensed consolidated interim financial statements as set out in this report have been prepared in terms of IAS 34 – Interim Financial Reporting, the Water Services Act, Act 108 of 1997, Companies Act No 61 of 1973 and the Public Finance Management Act, Act 1 of 1999 as amended. They 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 2010.

The condensed consolidated interim financial statements were approved by the Board members on 15 February 2011.

3. Significant accounting policies

Except as described below, 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 2010.

(a) Change in accounting policies

The Group has adopted all the new standards and interpretations as issued by the IASB which were effective for the Group from 1 July 2010. The new standards and interpretations that have had an impact on the Group are as follows:

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period ended 31 December 2010

(i) IAS 17: Leases (amended)

The amendment now requires that the lease classification for land be assessed in the same manner as for all leases. Existing leases shall be reclassified based on the facts and circumstances existing at the date of the adoption of the amendment.

The change in accounting policy did not have a significant impact on the Groups interim financial statements.

(ii) IAS 1: Presentation of financial statements

The amendment clarifies that a liability which could, at the option of the counterparty, result in its settlement by the issue of equity instruments, does not affect its classification as current or not current.

This amendment has not had an impact on the Groups interim financial statements.

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 2010.

5. Property, plant and equipment

Capital expenditure

The Group incurred capital expenditure to the value of R417m during the six months ended 31 December 2010 as part of its capital investment programme.

6. Capital commitments

The Group entered into contracts totalling R144m during the review period in respect of the purchase of items of property, plant and equipment.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period ended 31 December 2010

7. Investment in subsidiary

On 6 November 2010 the Board of Rand Water resolved that the current operations of its subsidiary, Rand Water Services (Pty) Ltd, be divisionalised into Rand Water. The effective date of the divisionalisation is 1 November 2010.

8. Interest bearing borrowings

There have been no significant movements in interest bearing borrowings during the period due to cash flow from operations meeting funding requirements.

9. Retirement benefit obligation

The Group's obligation in respect of the Post Retirement Medical Aid Benefit has increased by R13.4m for the six months ended 31 December 2010. The provision is based on the actuaries forecast for 30 June 2011 that is contained within the 30 June 2010 actuarial valuation.

10. Contingencies

There have been no material movements in contingencies and guarantees since 30 June 2010.

11. 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. Full details are presented in the consolidated annual financial statements for 30 June 2010.

12. Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group has not reportable segments, subject to risks and rewards that are different from those of other segments

13. Subsequent events

There are no subsequent events to report on.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period ended 31 December 2010

14. Independent review by external auditors

The condensed consolidated interim results for the period ended 31 December 2010 have been reviewed by the auditors of Rand Water, SAB&T Incorporated. Their unqualified review opinion is available for inspection at the offices of Rand Water.

15. Performance review

The performance results of the Group are as follows:

Revenue increased by 20.5% to R3.0b as compared to R2.5b at December 2009 with volume increase contributing 5.56% towards the growth. Net operating costs have increased by 18.7% compared to the same period last year primarily as a result of the energy tariff and chemical cost increases implemented over the period.

Earnings before interest, taxation, depreciation and amortization (EBITDA) increased by 38.2% from R354m in 2009 to R488m in 2010 and EBITDA margin from 14.0% to 16.0%. Profit before taxation for the period has also increased by 49.6% to R388m with a corresponding increase in the profit margin of 12.7%.

The current ratio has declined marginally to 1.72:1 primarily as a result of declining cash reserves and increased trade payables as the Group continues with its capital investment programme rollout. The gearing ratio continues to reduce from 14.1% in December 2009 to 13.6% reflecting the Groups increasing borrowing capacity.

Cash generated from operations has increased significantly by 137.1% to R391m compared to December 2009 with cash reserves closing at almost R930m. Capital investment expenditure undertaken during the six month period equated to R417m which is 1.9% higher than the same period last year.

16. Prospects

Prospects for the Group in the second half of the 2011 financial year remain positive as the Group anticipates maintaining the returns generated in the first half of the year through continued focus on delivering on its cost saving and efficiency initiatives and through aggressive pursuit of its growth strategy.

The Group is also well underway in terms of achieving its infrastructure development objectives in line with its strategic objective to maintain operational integrity and anticipates achieving similar levels as those attained in the previous year.