

RAND WATER
CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
31 DECEMBER 2022



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

31 DECEMBER 2022

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APPROVAL BY THE BOARD

The Board is required by the Water Services Act, No. 108 of 1997 and Public Finance Management Act, No. 1 of 1999, to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements of Rand Water and its subsidiaries, and related financial information included in this report.

The reviewed condensed consolidated interim financial statements for the six months ended 31 December 2022 have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards (IFRS) and the presentation and disclosure requirements of International Accounting Standards (IAS) 34 Interim Financial Reporting.

The Board has the overall responsibility for maintaining a system of internal controls that constitutes control procedures put in place by Rand Water Management to ensure efficient and effective operation of business activities for the attainment of its mandate and objectives. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve expected results and strategic objectives.

The Board has every reason to believe that Rand Water is a going concern as the business has adequate resources in place to continue its operation for the foreseeable future. The interim financial statements have therefore been prepared on this basis.

The accounting policies and methods of computation used in the preparation of these consolidated interim financial statements are consistent in all material respects with those applied in the prior year.

The reviewed condensed consolidated interim financial statements which appear on pages 15 to 44 have been approved for release to Rand Water's stakeholders by the Board at its meeting held on 24 March 2023 and signed on its behalf by:



Mr. Ramateu Monyokolo
Chairperson



Mr. Siphos Mosai
Chief Executive

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CORPORATE INFORMATION

BOARD MEMBERS

Executive

Mr. Siphos Mosai
(Chief Executive)

Non-executive

Mr. Ramateu Monyokolo
(Chairperson)

Ms. Malande Tonjeni
(Deputy Chairperson)

Mr. Simphiwe Khondlo

Ms. Gwendolyn Mahuma-Madida

Ms. Lethabo Mashamaite

Mr. Anthony Mhlongo

Mr. Solomon Mngomezulu

Ms. Zanele Monnakgotla

Mr. Luvuyo Ntoyi

Ms. Clarinda Simpson

Mr. Gcinumzi Qotywa

Dr. Nomusa Qunta

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CORPORATE INFORMATION (CONTINUED)

COMPANY SECRETARY AND BUSINESS ADDRESS:

Ms. Bessie Bulunga

522 Impala Road

PO Box 1127

Glenvista

Johannesburg

Johannesburg

2000

2058

STATUTORY AUDITOR:

Auditor General of South Africa

4 Daventry Street

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INTERIM REVIEW AUDITOR:

Nexia SAB&T

119 Witch-Hazel Avenue

Highveld Technopark

Centurion

0169

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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FOREWORD

INTRODUCTION

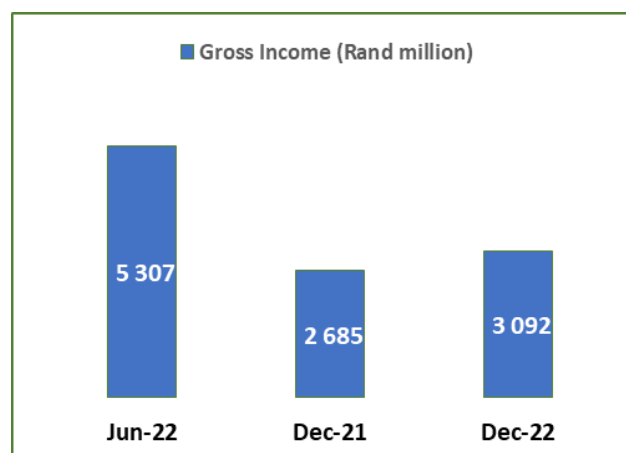
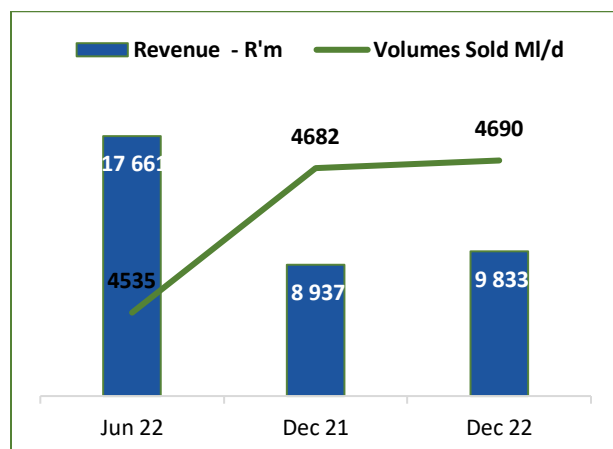
The six months ending 31 December 2022, continued to be very challenging as we find ourselves operating in a global and domestic economy that is struggling to recover from a dire economic condition. The trading environment is plagued by the effects of high unemployment, high inflation, a higher cost of living for citizens, rising interest rates, extreme load shedding and a general erratic political climate. The energy crisis is a major cause for failing small to medium businesses and the reduction in financial performance of larger businesses which has ultimately decreased economic growth for now as we remain hopeful for a potential uptick from 2024 onwards.

Rand Water persists in applying proactive measures to maintain a strong financial profile amidst the domestic and global crisis. The Group reports strong financial results for the period ending 31 December 2022. The improvement in earnings is attributable to increased water demand, sustainable cost management strategies and significantly higher finance income as a result of interest rate hikes.

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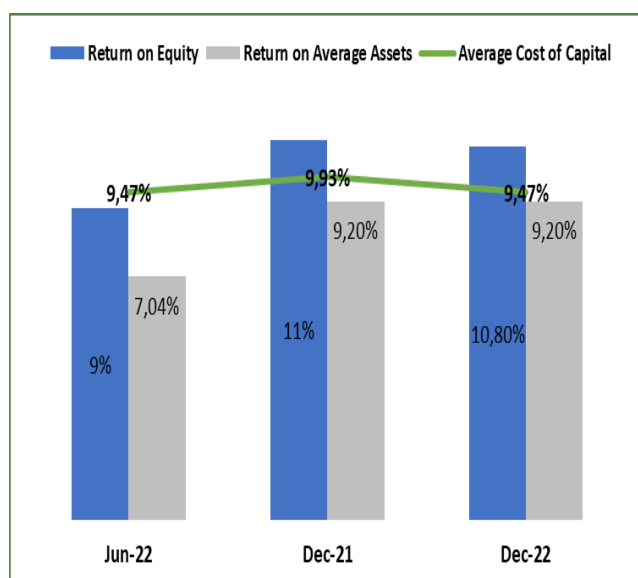
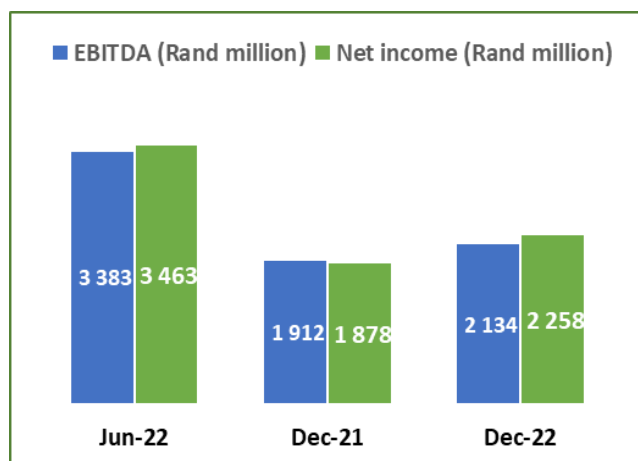
FINANCIAL PERFORMANCE SNAPSHOT



- Revenue grew by 10% to R9 833 million (2021: R8 937 million) driven primarily by a cost reflective tariff of 8.8% and higher sales volumes.
- Gross income increased by 15% to R3 092 million (2021: R2 685 million) for the six-months reporting period attributable to stronger revenue performance primarily driven by the higher demand from customers considering changes in weather patterns.
- The increase in the cost of water purchased is primarily attributable to a 1.4% increase in volumes to meet demand of an average daily of 5 066 MI/d (2021: 4 996 MI/d) and a tariff increase of 4.5% to 468.26 cents (2021: 448.05 cents).
- Higher energy costs were incurred due to a consumption increase of 1.89% aligned to higher raw water volumes treated, coupled with an increase in cost per kWh of 5.5% to 166.27 cents per kWh (2021: 157.63 cents per kWh).
- The increase in the chemical costs is primarily driven by the 27% increase in organic coagulants as a result of exchange rate volatility on imported raw material pricing and the unavailability of local raw material. In addition, higher organic coagulant dosages were required due to higher raw water turbidity.

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- The increase in the cost of recoverable projects is driven by the National Treasury Graduate program which recruited additional graduates in the current financial year.
- Net income increasing by 20% to R2 258 million (2021: R1 879 million) which has been positively impacted by an increase in net finance income boosted by the interest rates hikes experienced over the period.
- Earnings before interest, tax, depreciation, and amortisation increased by 12%, negatively affected by the increase in expected credit losses of R93.8 million compared to the reversal of R129 million in the December 2021. The reason for the increase in expected credit losses is as a result of an increased rate of default/non-payment by municipal customers.
- The return on average assets of 9.2% (2021: 9.2%) remained the same as prior year. This is due to the increase in earnings offset by similar percentage increase in total assets.
- Total assets have increased by 10% driven by increases in non-current assets.

TARIFFS

Rand Water tariffs are determined in line with the guideline set in Section 34 of the Water Services Act. Tariffs are applied on a cost-recovery basis which includes the recovery of all operational expenditure including the abstraction, purification, pumping and distribution costs. In line with best practice the refurbishment of existing infrastructure is a key component in the tariff although the expenditure on all augmentation projects may be funded through a combination of internally generated cash and external funding sourced through the issuance of Rand Water bonds.

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- Tariffs are set a year in advance with the financial year 2023 tariffs approved at an increase of 8.8%, coming from a 5.8% increase in 2022 and a zero tariff increase for 2021, due to the impact of the covid-19 pandemic.
- The approved projected tariff increase for the financial year ending 2024 of 9.2% as reflected in Note 26: Event after the reporting period.

Tariffs have returned to normalcy in response to the operating environment that has an annual increasing cost base. Rand Water's policy is to recover all operational costs from the set tariffs as outlined in the norms and standard regulation for potable water tariffing. Water demand Management interventions continue to be rolled out in partnership with municipalities to encourage curtailment of demand, in the absence of implementation of stepped tariffs, which can be introduced as an alternative to curtail demand and water losses.

The tariff increase consultation process includes Department of Water and Sanitation, National Treasury, SALGA, and other stakeholders with the final determination by the Minister:

- Municipal Finance Management Act: 6 months' advance notice.
- National Treasury and SALGA: 40 days for consideration.
- Bulk Water Supply Contract: prior consultation and information sharing.

Department of Water and Sanitation tables the tariff increases to Parliament on or before 15 March each year and implementation is on 1 July, as the start of Rand Water's financial year.

The established Economic Regulator within the Department of Water and Sanitation (DWS) limits any political concerns in respect of tariff determination.

ELECTRICITY INTERRUPTIONS

Eskom supplies a total of fifteen (15) Rand Water operational sites and municipalities are supplying only six (6) pumping stations, of these only 11 stations are exempt from loadshedding. The municipalities are however supplied directly by Eskom Distribution from their substations. Electricity trips such as power failure/power dips are experienced frequently throughout the Rand Water network and have the following impact:

- Failure to supply and meet potable water demand resulting in the inability to supply consumers with water continues to erode the reputation of the organisation.

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- The intermittent power supply leads to significantly reduced reservoir levels due which results in a slow recovery to healthy reservoir levels of 60% and above.
- Increase in electricity costs due to red-time starting of pumps.
- The frequent start-ups causing equipment failures, reducing system availability with a resultant increase in maintenance costs.
- Excessive water discharges to the river.
- Non-compliance to water standards due to treatment process disturbances.

Rand Water though not immune to the electrical trips, has implemented mitigating measures to ensure that the impact to the consumers is reduced as much as possible.

SECONDARY ACTIVITIES

Secondary Activities revenue increased to R20.9 million (2021: R18.2 million) and is primarily supported by government assignments and Rand Water's interventions to assist municipalities with water services related infrastructure projects.

For the six-month period under review, key focus was on:

- The Emfuleni Local Municipality Section 63 Intervention Project which is intended to rehabilitate the Integrated Vaal River System, and simultaneously capacitate the municipality to efficiently manage its water services, and
- The National Treasury Graduate Internship Programme (NTGIP) for professionalising water sector graduates.

CREDIT MANAGEMENT

A growing number of municipalities with financial difficulties are now being placed under preliminary administration which continues to threaten the water supply value chain. Credit management remains a critical aspect for the Group to achieve some of its strategic and operational objectives. Through constant monitoring and robust collection solutions employed, the Group remains positive in curbing the escalating debt and non-payment from the non-performing municipalities. The increase in the Days Sales Outstanding (DSO) to 81 days (June 2022: 77 days), is predominantly as a result of instituting payment arrangements over a longer period, which is only a temporary aid provided in light of the current dire economic condition.

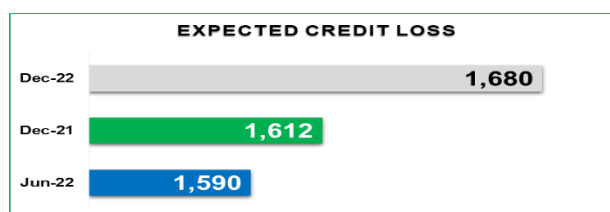
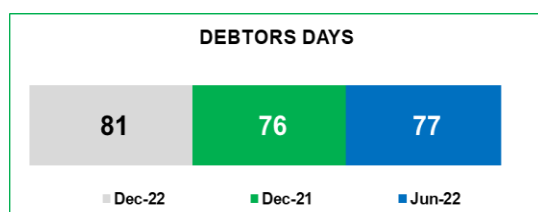
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The expected credit loss has increased by 6% compared to the prior reporting period. This emanated from the deteriorating recovery rate when the trade receivable balance was tested for the probability of default.

Rand Water has implemented a legal recovery process to recover the outstanding monies due, to ensure its financial sustainability and viability. With this initiative and other collection solutions the Group managed to collect from one of the non-performing municipalities by exercising the writ of execution that was obtained in the last financial year, however, this had minimal impact on the overall overdue debt because two (2) of our top three (3) major customers defaulted on their current account payment at month end.

The Group continues with robust engagement and negotiations with a few municipal customers for affordable repayment arrangements over longer periods that can be made an order of court, as the Group understands that the after effect of the Covid- 19 pandemic will take some time to rectify. The group is also having engagements with the provincial executives' committees, administration functions and other stakeholders (Department of Water and Sanitation, Provincial Corporative Governance and Traditional Affairs, National Treasury) as part of managing the escalating debt.



PROPERTY, PLANT AND EQUIPMENT

The Groups' strategy is to proactively manage the operational and capital investment requirements in a manner that limits locking the organisation at unreasonably high prices for goods and services whilst deploying efforts to bring the assets under construction into operation. The refurbishment projects are a priority and requires the water flow to be shut down to allow for the existing pipes, valves, actuators, and other assets to be renewed. The Group is currently finding ways to educate the public to partner in this process as these projects require shut down for a considerable amount of time to enable the organisation not to only address aging infrastructure but to augment it simultaneously to meet increasing demand.

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The Group projected a target of R2.1 billion for projects that should achieve beneficial use for the financial year 2022/23. The target is also centered around Rand Water obtaining all the necessary approvals to shutdown supply of water in order to integrate and commission these assets.

DECOMMISSIONED AND SOLD ASSETS

During the six-month period, Emhlangeni special workshop was decommissioned and a decision to dispose of the assets via an open auction process was approved as a result of the plant inefficiencies over the years; and the structure was no longer in good condition and refurbishment of the workshop would require a significant capital investment which is not a viable option.

The proceeds of the sale of these assets resulted in a R7.1 million income. It is expected that further disposal of assets via open auction will be undertaken during the remainder of the year which will include redundant pipes, valves, and other movable assets that have become obsolete within operations.

LIQUIDITY AND FUNDING

| Millions | 2022 | 2021 |
|--------------------------------|-------|-------|
| Net Cash | 3 406 | 2 254 |
| Committed Facilities Headroom | 1 000 | 1 250 |
| Cash Generated from Operations | 1 247 | 724 |
| Debt To Equity Ratio | 13% | 14% |

Liquidity and funding management are pivotal to Rand Water's sustainability and ensuring the Group continues to operate as a going concern for the foreseeable future. Rand Water reports a solid liquidity position as of 31 December 2022, demonstrated by the improved total liquidity of R10 518 million (December 2021: R8 850 million). The Group has access to adequate financial resources in the form of cash resources, term deposit investments, and strategic investments in the Sovereign and State-Owned Entity bonds entrenched by committed facilities, with a headroom of R1 000 million (December 2021: R1 250 million) and a liquidity buffer of R1 900 million (December 2021: R1 900 million).

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Strategic liquidity investment in bonds and highly liquid short-term investments demonstrates Rand Water's ability to continue its operations into the foreseeable future under normal and stressed conditions. Cash and cash equivalents increased to R6 941 million (December 2021: R4 057 million).



The Group's funding position remains healthy as the gearing ratio has improved to 13% (31 December 2021: 14%), which is well below the threshold of 50% prescribed in the National Treasury Borrowing Limit approval. The Group's borrowings remain unchanged, with total interesting bearing borrowings of R4 385 million (31 December 2021: R4 385 million) consisting of senior and sustainability-linked bonds. The Group continues to maintain its funding strategy and plans to meet its external funding requirements by utilising diverse funding sources encompassing; the ZAR10 billion DMTN Programme; a mixture of bilateral long-dated loans from development finance; and banking institutions.

To manage refinancing risks, the Group continues to provide (Sinking fund) for the ultimate redemption of the RW23 bond maturing in December 2023.

ROADMAP TO CLEAN AUDIT

The Roadmap to a Clean Audit (RMCA) Project was established to reinforce the drive to a clean audit, build a culture of ethics and compliance and encourage behaviors across all organisational levels that give effect to Rand Water's values. The RMCA Programme has successfully progressed to the Execution Phase, with AGSA noting some improvements in areas of quality of submitted financial statements and regular reporting for the financial year ended 2022. There has also been a significant reduction in the number of material audit findings.

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SECTION 63 INTERVENTION

Rand Water was appointed by the Minister of Water and Sanitation as an Implementing Agent for the Emfuleni Local Municipality Section 63 Intervention (ELM s63 Intervention). This programme entails taking over of water services (both sanitation and water reticulation) in ELM by the Minister as per the provisions of the Water Services Act section 63. Rand Water project execution teams are currently on the ground in ELM predominantly taking care of operations and maintenance activities. The scope of the intervention includes the capacitation of Metsi-a-Lekoa, a water services unit of ELM, and replacements and renewal of major water services infrastructure. A business model to house the whole intervention within Rand Water Services, a subsidiary of Rand Water, is currently being assessed. The business case is focusing on adequately ringfencing the programme to ensure focused management. It is anticipated that this will facilitate decision making and ensure adherence to the Rand Water compliance universe as it would be closely monitored by a dedicated management team.

RECONFIGURATION OF MAGALIES WATER AND RAND WATER

In line with the proposed institutional realignment of Water Boards, DWS initiated a due diligence for the possible reconfiguration of Rand Water and Magalies Water. A task team consisting of Rand Water, Magalies Water and DWS employees was formed to look into the implications of this reconfiguration with the guideline that Rand Water would hand over its assets in the North West province to Magalies Water, while Magalies Water would hand over their assets in Gauteng to Rand Water. A report detailing the assets owned by Rand Water in the North West was submitted to the Task Team. Magalies Water is expected to similarly disclose their assets in Gauteng in the report of the Task Team. The due diligence report is expected to be finalised by the end of March 2023.

GOING CONCERN

For the six-month reporting period, the consolidated interim financial statements have been prepared on a going-concern basis. The following are some considerations assessed by the Board in concluding that the Group has the ability to continue as a going concern in the foreseeable future:

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1. Rand Water has secured access to funding as per the Gazetted borrowing limits approved by the Minister of Finance and our Shareholder for the period ending 30 June 2024. The borrowing limits applicable to interest-bearing borrowings may not exceed the approved limits of R9 527 million for 2023.
2. The Group's funding position remains healthy as the gearing ratio has improved to 13% as of December 2022, which is well below the 50% prescribed in the National Treasury Borrowing Limit approval.
3. The approval of the 2023 8.8% tariff increase on the back of a 5.8% tariff increase for 2022 is indicative that the trend is in the right direction to support the recovery of operational costs.
4. The Group continues to offer payment relief options which includes extension of payment terms from 30 days to 45 days, ringfencing of outstanding debt, and longer payment terms to assist some of the municipalities that are experiencing a greater impact from the financial distress resulting from the current economic condition and the pandemic.

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| Figures in Rand thousand | Notes | 31 December 2022 Reviewed | 31 December 2021 Reviewed | 30 June 2022 Audited |
|-------------------------------------|-------|---------------------------------|---------------------------------|----------------------------|
| Assets | | | | |
| Non-current assets | | 31 061 290 | 28 795 035 | 30 156 379 |
| Property, plant and equipment | 4 | 28 825 320 | 27 545 917 | 28 309 130 |
| Intangible assets | | 313 939 | 271 041 | 287 018 |
| Investments | 5 | 1 727 052 | 962 088 | 1 475 403 |
| Trade and other receivables | 9 | 184 676 | 15 694 | 84 431 |
| Retirement benefit asset | 6 | 3 122 | - | - |
| Loans receivable | 7 | 7 181 | 295 | 397 |
| Current assets | | 11 332 402 | 9 806 208 | 10 435 847 |
| Inventories | 8 | 176 106 | 145 060 | 169 860 |
| Trade and other receivables | 9 | 3 254 662 | 2 909 061 | 2 960 417 |
| Loans receivable | 7 | 1 059 | 744 | 1 063 |
| Contract assets | 10 | 110 149 | 113 403 | 102 553 |
| Term deposit investments | 11 | 849 898 | 2 581 233 | 2 289 394 |
| Cash and cash equivalents | 12 | 6 940 528 | 4 056 707 | 4 912 560 |
| Non-current assets held for sale | 13 | 2 | 2 726 | 156 |
| Total Assets | | 42 393 694 | 38 603 969 | 40 592 382 |
| Equity and liabilities | | | | |
| Equity | | 34 488 950 | 30 667 631 | 32 189 438 |
| Retained earnings | | 34 295 311 | 30 453 513 | 32 037 784 |
| Reserves | | 193 639 | 214 118 | 151 654 |
| Non-current liabilities | | 3 392 053 | 4 626 670 | 4 644 762 |
| Interest bearing borrowings | 14 | 3 155 437 | 4 384 045 | 4 384 355 |
| Retirement benefit obligation | 6 | - | 16 520 | 22 634 |
| Deferred income | | 131 043 | 134 909 | 134 865 |
| Provisions | 16 | 105 573 | 91 196 | 102 908 |
| Current liabilities | | 4 512 691 | 3 309 668 | 3 758 182 |
| Trade and other payables | 15 | 3 066 664 | 2 912 117 | 3 558 677 |
| Provisions | 16 | 1 039 | 151 119 | 5 663 |
| Interest bearing borrowings | 14 | 1 229 236 | - | - |
| Contract liabilities | 17 | 213 045 | 242 986 | 190 930 |
| Deferred income | | 2 707 | 2 740 | 2 740 |
| Lease liability | | - | 706 | 172 |
| Total liabilities | | 7 904 744 | 7 936 338 | 8 402 944 |
| Total equity and liabilities | | 42 393 694 | 38 603 969 | 40 592 382 |

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CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| Figures in Rand thousand | Notes | 31 December 2022 | 31 December 2021 | 30 June 2022 |
|---|-------|---------------------|---------------------|------------------|
| Revenue | 18 | 9 832 962 | 8 937 139 | 17 661 457 |
| Cost of sales | 19 | (6 740 866) | (6 251 811) | (12 354 723) |
| Gross income | | 3 092 096 | 2 685 328 | 5 306 734 |
| Other operating income/(loss) | | 16 613 | 20 604 | 38 120 |
| Net impairment reversals/(losses) on financial and contract assets | 20 | (93 780) | 129 278 | 137 398 |
| Other operating expenses | 21 | (1 153 378) | (1 145 395) | (2 588 436) |
| Operating income | | 1 861 551 | 1 689 815 | 2 893 816 |
| Finance income | 22 | 426 792 | 217 552 | 625 824 |
| Finance costs | 23 | (30 816) | (28 884) | (56 879) |
| Net income for the period | | 2 257 527 | 1 878 483 | 3 462 761 |

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

| Figures in Rand thousand | Notes | 31 December 2022 | 31 December 2021 | 30 June 2022 |
|---|-------|---------------------|---------------------|------------------|
| Net income for the period | | 2 257 527 | 1 878 483 | 3 462 761 |
| Other comprehensive income/(loss) Items that will not be reclassified to net income: | | | | |
| Re-measurement gain on net defined medical benefit plan | | 31 436 | 6 361 | 5 022 |
| Items that may be reclassified to net income: | | | | |
| Re-measurement gain/(loss) of items at fair value through other comprehensive income | | 10 549 | 2 698 | (58 427) |
| Other comprehensive income/(loss) for the period | | 41 985 | 9 059 | (53 405) |
| Total comprehensive income | | 2 299 512 | 1 887 542 | 3 409 356 |

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| Figures in Rand thousand | Fair value through comprehensive income | Re-measurements on employee benefit obligation | Total reserves | Retained earnings | Total equity |
|--|---|--|-----------------|-------------------|-------------------|
| Balance at 1 July 2021 | 16 755 | 188 304 | 205 059 | 28 575 023 | 28 780 089 |
| Income for the six months period | - | - | - | 1 878 483 | 1 878 483 |
| Other comprehensive income | 2 698 | 6 361 | 9 059 | - | 9 059 |
| Total other comprehensive income for the six-month period | 2 698 | 6 361 | 9 059 | 1 878 483 | 1 887 542 |
| Balance at 31 December 2021 | 19 453 | 194 665 | 214 118 | 30 453 513 | 30 667 631 |
| Balance at 1 July 2021 | 16 755 | 188 304 | 205 059 | 28 575 023 | 28 780 082 |
| Income for the year | - | - | - | 3 462 761 | 3 462 761 |
| Other comprehensive income | (58 427) | 5 022 | (53 405) | - | (53 405) |
| Total other comprehensive income for the year | (58 427) | 5 022 | (53 405) | 3 462 761 | 3 409 356 |
| Balance at 30 June 2022 | (41 672) | 193 326 | 151 654 | 32 037 784 | 32 189 438 |
| Income for the six-month period | - | - | - | 2 257 527 | 2 257 527 |
| Other comprehensive income | 10 549 | 31 436 | 41 985 | - | 41 985 |
| Total other comprehensive income for the six-month period | 10 549 | 31 436 | 41 985 | 2 257 527 | 2 299 512 |
| Balance at 31 December 2022 | (31 123) | 224 762 | 193 639 | 34 295 311 | 34 488 950 |

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| Figures in Rand thousand | Notes | 31 December 2022 | 31 December 2021 | 30 June 2022 |
|---|-------|---------------------|---------------------|--------------------|
| Cash flows from operating activities | | | | |
| Cash receipts from customers | | 9 366 111 | 8 746 066 | 17 426 777 |
| Cash paid to suppliers and employees | | (8 119 540) | (8 022 068) | (14 786 849) |
| Cash generated from operations | | 1 246 571 | 723 998 | 2 639 928 |
| Finance income | 22 | 390 304 | 163 503 | 524 783 |
| Finance costs | 23 | (216 387) | (214 299) | (429 212) |
| Net cash from operating activities | | 1 420 488 | 673 202 | 2 735 499 |
| Cash flows from investing activities | | | | |
| Acquisitions of property, plant and equipment | | (581 468) | (682 350) | (1 565 179) |
| Proceeds from disposal of property, plant and equipment | | 11 753 | 6 414 | 7 396 |
| Acquisitions of intangible assets | | (11 329) | (1 582) | (25 082) |
| Funds received from investments | | 3 165 000 | 857 989 | 4 289 989 |
| Funds paid for investments | | (1 969 832) | (2 418 676) | (6 149 133) |
| Loans receivable issued | | (8 129) | - | - |
| Loans receivable repaid | | 1 345 | 762 | 342 |
| Net cash from investing activities | | 607 340 | (2 237 444) | (3 441 667) |
| Cash flows from financing activities | | | | |
| Repayment of lease liability | | (172) | (845) | (1 379) |
| Net cash from financing activities | | (172) | (845) | (1 379) |
| Net increase in cash and cash equivalents | | | | |
| Cash and cash equivalents at the beginning of the period | 12 | 4 915 010 | 5 622 557 | 5 622 557 |
| Cash and cash equivalents at the end of the period | 12 | 6 942 666 | 4 057 470 | 4 915 010 |

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. STATEMENT OF COMPLIANCE

The interim financial statements have been prepared in accordance with the historical cost convention, except for certain financial instruments, which are measured at fair value.

The condensed consolidated interim financial statements are prepared in accordance with the International Financial Reporting Standards: IAS 34 – Interim Financial Reporting, Financial Pronouncements as issued by the Financial Reporting Standards Council. The consolidated interim financial statements comply with the requirements of the Water Services Act, No. 108 of 1997 (WSA) and the South African Companies Act No.71 of 2008.

The accounting policies applied in the preparation of these interim financial statements are in accordance with the recognition and measurement requirements of IFRS, the presentation and disclosure requirements of IAS 34 and are consistent with those applied in the previous consolidated annual financial statements. While the 31 December 2022 consolidated interim financial statements are reviewed, the 30 June 2022 consolidated annual financial statements from which the results below have been derived were audited by the Auditor General of South Africa (AGSA) who expressed an unmodified opinion thereon. The audit report does not necessarily report on all the information contained in this report.

2. REPORTING ENTITY

Rand Water is an organisation domiciled in South Africa and a Schedule 3B public entity in terms of the Public Finance Management Act, Act No 1 of 1999 as amended. The condensed consolidated interim financial statements of Rand Water for the six months ended 31 December 2022 comprise of Rand Water and its subsidiaries (together referred to as the “Group”).

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3. CAPITAL COMMITMENTS

| Figures in Rand thousand | 31 December 2022 | 31 December 2021 | 30 June 2022 |
|--------------------------|---------------------|---------------------|------------------|
| Total | 2 086 725 | 2 122 203 | 2 182 900 |

The Group is committed in respect of capital expenditure including expected contract price adjustments. The expenditure will be financed from internal resources.

The Group incurred capital expenditure to the value of R590 million (December 2021: R948 million) against a budget of R655 million (December 2021: R947 million) relating to the strategic infrastructure development plan, excluding capitalised borrowing costs of R212 million (December 2021: R208 million) at a weighted average capitalisation rate of 9.84%. The majority of the spend was targeted towards pipelines, mechanical and civil construction works.

4. PROPERTY, PLANT AND EQUIPMENT

| Figures in Rand thousand | 31 December 2022 | 31 December 2021 | 30 June 2022 |
|-----------------------------|---------------------|---------------------|-------------------|
| Opening balance | 28 309 130 | 26 568 449 | 26 568 449 |
| Additions | 597 311 | 981 015 | 1805 426 |
| Transfers | (27 429) | 2 709 | (6 652) |
| Disposal | (1 711) | (26) | (444) |
| Borrowing costs capitalised | 212 379 | 208 491 | 415 533 |
| Depreciation | (264 360) | (214 721) | (474 995) |
| Change in estimates | - | - | 9 679 |
| Impairment loss | - | - | (7 867) |
| Closing balance | 28 825 320 | 27 545 917 | 28 309 130 |

During the current reporting period, assets under construction amounting to R193 million (December 2021: R586 million) achieved beneficial use. The major component is attributable to B6 pipeline works amounting to R176 million.

In addition, the group incurred R14.9 million to replace computer equipment that have reached the end of their useful lives mostly during the Covid-19 national lock down, which led to difficulties in procuring replacement assets. The procurement process has since been fast tracked.

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5. INVESTMENTS

| Figures in Rand thousand | 31 December 2022 | 31 December 2021 | 30 June 2022 |
|--|---------------------|---------------------|-----------------|
| Fair value through other comprehensive income | | | |
| Bonds | 1 727 052 | 962 088 | 1 475 403 |

The Group holds sovereign and the state-owned entity bonds with a total nominal value of R1 900 million. Fair values were estimated using the Johannesburg Stock Exchange market rates. Coupons are payable quarterly and bi-annually for the respective bonds by the Group.

During the current reporting period, the Group acquired an additional state-owned entity bond with a total nominal value of R250 million at a discount, with an interest rate of 8.297 per cent and a maturity date of 4 February 2029.

The Group amortised R371 thousand (December 2021: R871 thousand) relating to a net premium that was recognised at initial purchase of the bonds.

6. POST RETIREMENT BENEFIT

| Figures in Rand thousand | 31 December 2022 | 31 December 2021 | 30 June 2022 |
|---|---------------------|---------------------|-----------------|
| Non-current asset | 359 557 | 349 856 | 343 314 |
| Non-current liability | (356 435) | (366 376) | (365 948) |
| Net benefit | 3 122 | (16 520) | (22 634) |
| Amounts recognised in other comprehensive income | | | |
| Actuarial gain on retirement benefit obligation | 25 170 | 16 427 | 31 518 |
| Actuarial gain on plan asset | 6 266 | (10 066) | (26 496) |
| Total | 31 436 | 6 361 | 5 022 |

The post-retirement medical benefit obligation arises due to Rand Water's commitment to continue to fund a portion i.e., two-thirds of the qualifying employees' contributions to the Rand Water Medical Scheme after retirement. The eligible employees are member employees that were employed by Rand Water prior to 1 January 2002 and were on option A of the Rand Water Medical Scheme. The scheme is a closed scheme.

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Actuarial valuations are conducted on a bi-annually basis by independent actuaries using the projected credit unit method to value the present value of the defined benefit obligation.

The Group's plan assets amounted to R360 million (June 2022: R343 million) relating to the post - retirement medical benefit. The plan asset is a matching asset as defined under IAS 19 to ensure the obligation is funded. The switch to the net asset plan position is driven by re-measurements mainly due to changes in discount rates used for the valuation.

7. LOANS RECEIVABLE

| Figures in Rand thousand | 31 December 2022 | 31 December 2021 | 30 June 2022 |
|--------------------------|---------------------|---------------------|-----------------|
| Non-current | 7 181 | 295 | 397 |
| Current | 1 059 | 744 | 1 063 |
| Total | 8 240 | 1 039 | 1 460 |

During the current reporting period, the micro loans balance increased to R8.2 million (June 2022: R1.8 million).

Loans receivables consist of micro loans granted to qualifying employees. These loans are unsecured however the credit quality of the loan book has been assessed as a low risk by reference to historical default rates, as loan repayments are deducted directly from the employees' salaries and employees are required to take an insurance policy on the outstanding balance.

The loans have repayment periods varying from 1 to 3 years at a closing interest rate of 10.5% (June 2022: 8.25%).

Loans receivable is shown net of expected credit losses of R82 thousand (June 2022: R78 thousand).

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8. INVENTORIES

| Figures in Rand thousand | 31 December 2022 | 31 December 2021 | 30 June 2022 |
|---|---------------------|---------------------|-----------------|
| Raw materials, chemicals, and water inventory | 119 435 | 97 612 | 120 689 |
| Maintenance and consumable stores | 56 671 | 47 448 | 49 171 |
| Total | 176 106 | 145 060 | 169 860 |

Inventories are shown net of write down amounting to R16 thousand (June 2022: R385 thousand).

9. TRADE AND OTHER RECEIVABLES

| Figures in Rand thousand | 31 December 2022 | 31 December 2021 | 30 June 2022 |
|-----------------------------|---------------------|---------------------|------------------|
| Non-current | 184 676 | 15 694 | 84 431 |
| Current | 3 254 662 | 2 909 061 | 2 960 417 |
| Water and trade receivables | 2 932 084 | 2 725 887 | 2 758 112 |
| Other receivables | 322 578 | 183 174 | 202 305 |
| Total | 3 439 338 | 2 924 755 | 3 044 848 |

The table below depicts trade receivables by type:

| Figures in Rand thousand | 31 December 2022 | 31 December 2021 | 30 June 2022 |
|--|---------------------|---------------------|------------------|
| Current trade receivables | | | |
| Local and National Governments | 2 808 071 | 2 634 292 | 2 666 531 |
| Mines | 45 353 | 38 810 | 31 886 |
| Retail | 69 609 | 48 695 | 53 314 |
| Industries | 9 051 | 4 089 | 6 381 |
| Total | 2 932 084 | 2 725 887 | 2 758 112 |
| Other current receivables | 322 578 | 183 174 | 202 305 |
| Prepayments | 82 803 | 93 164 | 112 226 |
| VAT receivable | 125 | - | 296 |
| Other receivables | 239 650 | 90 010 | 89 783 |
| Current trade and other receivables | 3 254 662 | 2 909 061 | 2 960 417 |
| Non-current trade receivables | 184 676 | 15 694 | 84 431 |
| Trade and other receivables | 3 439 338 | 2 924 755 | 3 044 848 |

During the current reporting period, trade and other receivables increased to R3,4 billion (June 2022: R3.0 billion) largely attributable to an 8.8% water tariff increase and the increasing municipal debt balance as a result of late payments and non-adherence to payment term by non-performing municipalities. The continuing failure by municipalities to honor their debt as it

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becomes due led to increased expected credit losses to R1 680 billion (June 2022: R 1 590 billion). In line with the accounting policy adopted, revenue of R390 million (June 2022: R357 million) was not recognised for the customers where the probability of default was met at initial recognition.

The financial health of some customers remains a key concern post covid-19 leading to the Group intensifying the debt collection measures through legal recovery processes.

The Group extended its debt relief payment options to customers post covid-19. Municipalities opted for the longer repayment arrangement over a 36 months' period wherein the overdue debt is ring-fenced and expected to be paid over a specific extended period, resulting in the reclassification of trade receivables from current to non-current with an increase to R185 million (June 2022: R84 million) in the non-current trade receivables.

10. CONTRACT ASSETS

| Figures in Rand thousand | 31 December 2022 | 31 December 2021 | 30 June 2022 |
|------------------------------|---------------------|---------------------|-----------------|
| Water debtors | 100 864 | 91 532 | 94 098 |
| Potable water | 99 897 | 90 828 | 93 244 |
| Non potable water | 967 | 704 | 854 |
| Other debtors | - | 206 | - |
| Recoverable projects debtors | 9 285 | 21 665 | 8 455 |
| Total | 110 149 | 113 403 | 102 553 |

Contract assets increased to R110 million (June 2022: R103 million) primarily driven by the tariff increase. Included in contract assets are excess days and recoverable projects debtors not yet billed. Excess days relate to the period between the meter reading dates and the end of the reporting period i.e., the period that the customers are not billed.

11. TERM DEPOSIT INVESTMENTS

| Figures in Rand thousand | 31 December 2022 | 31 December 2021 | 30 June 2022 |
|--------------------------|---------------------|---------------------|------------------|
| Current | 849 898 | 2 581 233 | 2 289 394 |
| Non-current | - | - | - |
| Total | 849 898 | 2 581 233 | 2 289 394 |

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| | | | |
|--------------------------------------|----------------|------------------|------------------|
| Investments at amortised cost | | | |
| Gross investment | 850 000 | 2 582 000 | 2 290 000 |
| Expected credit losses | (102) | (767) | (606) |
| Net investment | 849 898 | 2 581 233 | 2 289 394 |

Term deposit investments consist of financial instruments with an original maturity of greater than 3 months such as fixed deposits, and Promissory Notes (PN).

Term deposit investments decreased to R850 million at 31 December 2022 (June 2022: R2 289 million). The decrease was driven by term deposit investments that matured during the six months ending 31 December 2022 and were classified as cash and cash equivalents. The Group invested in instruments with an original maturity of less than 3 months in order to take advantage of the opportunity presented by the interest rate hikes.

The ECL decreased to R0.1 million (June 2022: R0.6 million) as a result of a reduced amount of term deposit investments and improved probability of default for respective counterparties.

12. CASH AND CASH EQUIVALENTS

| Figures in Rand thousand | 31 December 2022 | 31 December 2021 | 30 June 2022 |
|-----------------------------|---------------------|---------------------|------------------|
| Call and short-term deposit | 6 927 124 | 4 036 237 | 4 893 785 |
| Bank and cash balances | 13 404 | 20 470 | 18 775 |
| Total | 6 940 528 | 4 056 707 | 4 912 560 |

| Reconciliation of cash and cash equivalents | | | |
|---|------------------|------------------|------------------|
| Gross cash and cash equivalents | 6 942 666 | 4 057 470 | 4 915 021 |
| Expected credit losses | (2 138) | (763) | (2 461) |
| Total | 6 940 528 | 4 056 707 | 4 912 560 |

Cash and cash equivalents comprise of funds that are available on demand or have a maturity of less than 3 months. The funds include bank balances, cash on hand, call deposits, fixed deposits, notice deposits, Promissory Notes (PN), and investments in money market instruments with financial institutions that have an investment-grade credit rating.

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The Group ECL relating to cash and cash equivalents at 31 December 2022 decreased to R2.1 million (June 2022: R2.5 million) as a result of improved probability of default for respective counterparties.

13. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale comprises of movable assets that been identified as redundant, no longer in use or have reached the end of their useful lives, these assets amounted to R2 million (June 2022: R156 million). In October 2022 the decommissioned Emhlangeni pipe plant was disposed piecemeal at an auction to the value of R7.1 million.

14. INTEREST BEARING BORROWINGS

| Figures in Rand thousand | 31 December 2022 | 31 December 2021 | 30 June 2022 |
|--|---------------------|---------------------|------------------|
| Interest bearing borrowing maturity profile | | | |
| Less than one year | 1 229 236 | - | - |
| Subtotal | 3 155 437 | 4 384 045 | 4 384 355 |
| Two to five years | 585 820 | 1 813 133 | 1 814 085 |
| Five years | 2 569 617 | 2 570 912 | 2 570 270 |
| Total | 4 384 673 | 4 384 045 | 4 384 355 |

Interest bearing borrowings relate to unsecured bonds issued by the Group under its ZAR10 billion Domestic Medium-Term Note (DMTN) programme amounting to R4 385 million which includes two Sustainability Linked Bonds issued by the Group. The bonds are listed on the Johannesburg Stock Exchange. The Group continues to set aside funds (sinking fund) for the ultimate redemption of the RW23 bond in order to manage the refinancing risk.

| Issued notes | Maturity | Nominal interest rate % | Type | 31 December 2022 | 31 December 2021 | 30 June 2022 |
|-----------------|-----------|-------------------------|---------------|------------------------|------------------------|------------------|
| Unsecured bonds | | | | | | |
| RW23 | 10 Dec 23 | 9.510 | Fixed rate | 1 231 000 | 1 231 000 | 1 231 000 |
| RW28 | 10 Dec 28 | 10.245 | Fixed rate | 1 439 000 | 1 439 000 | 1 439 000 |
| RWL26* | 30 Jun 26 | 9.508 | Floating rate | 586 000 | 586 000 | 586 000 |
| RWL28* | 30 Jun 28 | 9.705 | Fixed rate | 579 000 | 579 000 | 579 000 |
| RW31 | 30 Jun 31 | 10.685 | Fixed rate | 544 000 | 544 000 | 544 000 |
| Amortised costs | | | | 5 673 | 5 045 | 5 613 |
| Total | | | | 4 384 673 | 4 384 045 | 4 384 613 |

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The Sustainability Linked Bonds contain a step-down margin of 0.05% on 30 June 2023 and 30 June 2025 upon attainment of Key Performance Indicators and Targets.

During the current reporting period, all contractual obligations relating to the interest-bearing borrowings were met by the Group.

15. TRADE AND OTHER PAYABLES

The trade payables decreased to R3 067 million (June 2022: R3 559 million) mainly due to the organisation settling all operational commitments as they fall due and the incentive bonus payout.

16. PROVISIONS

| Figures in Rand thousand | 31 December 2022 | 31 December 2021 | 30 June 2022 |
|--------------------------|---------------------|---------------------|-----------------|
| Current liabilities | 1 039 | 151 119 | 5 663 |
| Non-current liabilities | 105 573 | 91 196 | 102 908 |
| Total | 106 612 | 242 315 | 108 571 |

Included in the current liabilities provisions are amounts which are claimed from Rand Water as a result of contractual obligations.

The non-current liabilities relate to Rand Water's sludge disposal site. The Group has an obligation to undertake the restoration, rehabilitation and environmental work at the end of the sludge disposal's useful life.

17. CONTRACT LIABILITIES

Contract liabilities increased to R213 million (June 2022: R191 million) primarily driven by the advance payment received from the Emfuleni Local Municipality Section 63 Intervention project.

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18. REVENUE

The tables below reflect the revenue split type per customer:

| 31 December 2022 | Gauteng | Mpumalanga | North-West | Free State/ Other | Total |
|---------------------------------|------------------|-------------------|-------------------|------------------------------|------------------|
| Figures in Rand thousand | | | | | |
| National Government | 26 928 | - | - | 361 | 27 289 |
| Local Government | 8 626 911 | 266 176 | 245 458 | 107 468 | 9 246 013 |
| Mines | 116 181 | 10 482 | 188 970 | - | 315 633 |
| Retail | 199 963 | 833 | 18 194 | 74 | 219 064 |
| Industries | 24 963 | - | - | - | 24 963 |
| Total | 8 994 946 | 277 491 | 452 622 | 107 903 | 9 832 962 |

| 31 December 2021 | Gauteng | Mpumalanga | North-West | Free State/ Other | Total |
|---------------------------------|------------------|-------------------|-------------------|------------------------------|------------------|
| Figures in Rand thousand | | | | | |
| National Government | 21 734 | 27 | - | 1 065 | 22 826 |
| Local Government | 7 909 984 | 261 306 | 205 800 | 97 449 | 8 474 539 |
| Mines | 37 623 | 19 278 | 155 717 | - | 212 618 |
| Retail | 192 900 | 861 | 17 578 | 16 | 211 355 |
| Industries | 15 801 | - | - | - | 15 801 |
| Total | 8 178 042 | 281 472 | 379 095 | 98 530 | 8 937 139 |

| NATIONAL GOVERNMENT DEPARTMENTS | | 31 December 2022 | | | |
|--|----------------|-------------------------|-------------------|------------------------------|---------------|
| Figures in Rand thousand | Gauteng | Mpumalanga | North-West | Free State/ Other | Total |
| Water debtors | 23 242 | - | - | - | 23 242 |
| Potable | 23 242 | - | - | - | 23 242 |
| Non-potable | - | - | - | - | - |
| Construction projects | 3 686 | - | - | 360 | 4 046 |
| Operating and maintenance | - | - | - | - | - |
| Training and consulting | - | - | - | 1 | 1 |
| Meter installation | - | - | - | - | - |
| Revenue not recognised | - | - | - | - | - |
| Total | 26 928 | - | - | 361 | 27 289 |
| Timing of recognition | | | | | |
| At a point in time | 3 686 | - | - | 361 | 4 047 |
| Over time | 23 242 | - | - | - | 23 242 |
| Total | 26 928 | - | - | 361 | 27 289 |

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| LOCAL GOVERNMENT/ MUNICIPALITIES | | | | | |
|---|------------------|-------------------|-------------------|------------------------------|------------------|
| 31 December 2022 | | | | | |
| Figures in Rand thousand | Gauteng | Mpumalanga | North-West | Free State/ Other | Total |
| Water debtors | 8 620 526 | 285 980 | 245 458 | 107 468 | 9 259 432 |
| Potable | 8 620 526 | 285 980 | 245 458 | 107 468 | 9 259 432 |
| Non-potable | - | - | - | - | - |
| Construction projects | - | - | - | - | - |
| Operating and maintenance | 3 903 | - | - | - | 3 903 |
| Training and consulting | 348 | 12 604 | - | - | 12 952 |
| Meter installation | 2 134 | - | - | - | 2 134 |
| Revenue not recognised | - | (32 408) | - | - | (32 408) |
| Total | 8 626 911 | 266 176 | 245 458 | 107 468 | 9 246 013 |
| Timing of revenue recognition | | | | | |
| At a point in time | 6 385 | 12 604 | - | - | 18 989 |
| Over time | 8 620 526 | 253 572 | 245 458 | 107 468 | 9 225 455 |
| Total | 8 626 911 | 266 176 | 245 458 | 107 468 | 9 246 013 |

| MINES | | | | | |
|---------------------------------|----------------|-------------------|-------------------|------------------------------|----------------|
| 31 December 2022 | | | | | |
| Figures in Rand thousand | Gauteng | Mpumalanga | North-West | Free State/ Other | Total |
| Water debtors | 116 181 | 10 482 | 188 970 | - | 315 633 |
| Potable | 116 182 | 10 482 | 188 970 | - | 315 633 |
| Non-potable | - | - | - | - | - |
| Construction projects | - | - | - | - | - |
| Operating and maintenance | - | - | - | - | - |
| Training and consulting | - | - | - | - | - |
| Meter installation | - | - | - | - | - |
| Revenue not recognised | - | - | - | - | - |
| Total | 116 181 | 10 482 | 188 970 | - | 315 633 |
| Timing of revenue recognition | | | | | |
| At a point in time | - | - | - | - | - |
| Over time | 116 181 | 10 482 | 188 970 | - | 315 633 |
| Total | 116 181 | 10 482 | 188 970 | - | 315 633 |

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| RETAIL | | | | | | 31 December 2022 | | | | | |
|---------------------------------|----------------|-------------------|-------------------|------------------------------|----------------|-------------------------|--|--|--|--|--|
| Figures in Rand thousand | Gauteng | Mpumalanga | North-West | Free State/ Other | Total | | | | | | |
| Water debtors | | | | | | | | | | | |
| Potable | 100 476 | 833 | 18 194 | 74 | 119 577 | | | | | | |
| Non-potable | 99 487 | - | - | - | 99 487 | | | | | | |
| Construction projects | - | - | - | - | - | | | | | | |
| Operating and maintenance | - | - | - | - | - | | | | | | |
| Training and consulting | - | - | - | - | - | | | | | | |
| Meter installation | - | - | - | - | - | | | | | | |
| Revenue not recognised | - | - | - | - | - | | | | | | |
| Total | 199 963 | 833 | 18 194 | 74 | 219 064 | | | | | | |
| Timing of revenue recognition | | | | | | | | | | | |
| At a point in time | - | - | - | - | - | | | | | | |
| Over time | 199 963 | 833 | 18 194 | 74 | 219 064 | | | | | | |
| Total | 199 963 | 833 | 18 194 | 74 | 219 064 | | | | | | |

| INDUSTRIES/RAILWAYS | | | | | | 31 December 2022 | | | | | |
|---------------------------------|----------------|-------------------|-------------------|------------------------------|---------------|-------------------------|--|--|--|--|--|
| Figures in Rand thousand | Gauteng | Mpumalanga | North-West | Free State/ Other | Total | | | | | | |
| Water debtors | | | | | | | | | | | |
| Potable | 24 963 | - | - | - | 24 963 | | | | | | |
| Non-potable | - | - | - | - | - | | | | | | |
| Construction projects | - | - | - | - | - | | | | | | |
| Operating and maintenance | - | - | - | - | - | | | | | | |
| Training and consulting | - | - | - | - | - | | | | | | |
| Meter installation | - | - | - | - | - | | | | | | |
| Revenue not recognised | - | - | - | - | - | | | | | | |
| Total | 24 963 | - | - | - | 24 963 | | | | | | |
| Timing of revenue recognition | | | | | | | | | | | |
| At a point in time | - | - | - | - | - | | | | | | |
| Over time | 24 963 | - | - | - | 24 963 | | | | | | |
| Total | 24 963 | - | - | - | 24 963 | | | | | | |

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| NATIONAL GOVERNMENT DEPARTMENTS | | | | | | 31 December 2021 | | | | | |
|--|----------------|-------------------|-------------------|------------------------------|---------------|-------------------------|--|--|--|--|--|
| Figures in Rand thousand | Gauteng | Mpumalanga | North-West | Free State/ Other | Total | | | | | | |
| Water debtors | 21 325 | - | - | - | 21 325 | | | | | | |
| Potable | 21 325 | - | - | - | 21 325 | | | | | | |
| Non-potable | - | - | - | - | - | | | | | | |
| Construction projects | 409 | 27 | - | 693 | 1 129 | | | | | | |
| Operating and maintenance | - | - | - | - | - | | | | | | |
| Training and consulting | - | - | - | 372 | 372 | | | | | | |
| Meter installation | - | - | - | - | - | | | | | | |
| Revenue not recognised | - | - | - | - | - | | | | | | |
| Total | 21 734 | 27 | - | 1 065 | 22 826 | | | | | | |
| Timing of recognition | | | | | | | | | | | |
| At a point in time | 409 | 27 | - | 1 065 | 1 501 | | | | | | |
| Over time | 21 325 | - | - | - | 21 325 | | | | | | |
| Total | 21 734 | 27 | - | 1 065 | 22 826 | | | | | | |

| LOCAL GOVERNMENT/ MUNICIPALITIES | | | | | | 31 December 2021 | | | | | |
|---|------------------|-------------------|-------------------|------------------------------|------------------|-------------------------|--|--|--|--|--|
| Figures in Rand thousand | Gauteng | Mpumalanga | North-West | Free State/ Other | Total | | | | | | |
| Water debtors | 7 905 913 | 277 369 | 205 800 | 97 449 | 8 486 531 | | | | | | |
| Potable | 7 905 913 | 277 369 | 205 800 | 97 449 | 8 486 531 | | | | | | |
| Non-potable | - | - | - | - | - | | | | | | |
| Construction projects | - | - | - | - | - | | | | | | |
| Operating and maintenance | 3 606 | - | - | - | 3 606 | | | | | | |
| Training and consulting | - | 12 976 | - | - | 12 976 | | | | | | |
| Meter installation | 465 | - | - | - | 465 | | | | | | |
| Revenue not recognised | - | (29 309) | - | - | (29 039) | | | | | | |
| Total | 7 909 984 | 261 306 | 205 800 | 97 449 | 8 474 539 | | | | | | |
| Timing of revenue recognition | | | | | | | | | | | |
| At a point in time | 4 071 | 12 976 | - | - | 17 048 | | | | | | |
| Over time | 7 905 913 | 248 330 | 205 800 | 97 449 | 8 457 492 | | | | | | |
| Total | 7 909 984 | 261 306 | 205 800 | 97 449 | 8 474 539 | | | | | | |

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| MINES | | 31 December 2021 | | | |
|---------------------------------|----------------|-------------------------|-------------------|------------------------------|----------------|
| Figures in Rand thousand | Gauteng | Mpumalanga | North-West | Free State/ Other | Total |
| Water debtors | 37 661 | 19 278 | 155 717 | - | 212 656 |
| Potable | 37 661 | 19 278 | 155 717 | - | 212 656 |
| Non-potable | - | - | - | - | - |
| Construction projects | - | - | - | - | - |
| Operating and maintenance | - | - | - | - | - |
| Training and consulting | - | - | - | - | - |
| Meter installation | - | - | - | - | - |
| Revenue not recognised | (38) | - | - | - | (38) |
| Total | 37 623 | 19 278 | 155 717 | - | 212 618 |
| Timing of revenue recognition | | | | | |
| At a point in time | - | - | - | - | - |
| Over time | 37 623 | 19 278 | 155 717 | - | 212 618 |
| Total | 37 623 | 19 278 | 155 717 | - | 212 618 |

| RETAIL | | 31 December 2021 | | | |
|---------------------------------|----------------|-------------------------|-------------------|------------------------------|----------------|
| Figures in Rand thousand | Gauteng | Mpumalanga | North-West | Free State/ Other | Total |
| Water debtors | 193 247 | 861 | 17 578 | 16 | 211 702 |
| Potable | 94 051 | 861 | 17 578 | 16 | 112 506 |
| Non-potable | 99 196 | - | - | - | 99 196 |
| Construction projects | - | - | - | - | - |
| Operating and maintenance | - | - | - | - | - |
| Training and consulting | - | - | - | - | - |
| Meter installation | - | - | - | - | - |
| Revenue not recognised | (347) | - | - | - | (347) |
| Total | 192 900 | 861 | 17 578 | 16 | 211 355 |
| Timing of revenue recognition | | | | | |
| At a point in time | - | - | - | - | - |
| Over time | 192 900 | 861 | 17 578 | 16 | 211 355 |
| Total | 192 900 | 861 | 17 578 | 16 | 211 355 |

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| INDUSTRIES/RAILWAYS | | 31 December 2021 | | | |
|---------------------------------|----------------|-------------------------|-------------------|------------------------------|---------------|
| Figures in Rand thousand | Gauteng | Mpumalanga | North-West | Free State/ Other | Total |
| Water debtors | 15 801 | - | - | - | 15 801 |
| Potable | 15 801 | - | - | - | 15 801 |
| Non-potable | - | - | - | - | - |
| Construction projects | - | - | - | - | - |
| Operating and maintenance | - | - | - | - | - |
| Training and consulting | - | - | - | - | - |
| Meter installation | - | - | - | - | - |
| Revenue not recognised | - | - | - | - | - |
| Total | 15 801 | - | - | - | 15 801 |
| Timing of revenue recognition | | | | | |
| At a point in time | - | - | - | - | - |
| Over time | 15 801 | - | - | - | 15 801 |
| Total | 15 801 | - | - | - | 15 801 |

Revenue improved by 10% primarily driven by the tariff increase of 8.8%. In addition, the Group experienced increased sales volume as a result of an increase in the demand for water. For the disaggregated revenue notes for the period ended on 30 June 2022, refer to the Consolidated Annual Financial Statements for the year ended 30 June 2022 as published on the Rand Water website.

Revenue not recognised is attributable to the non-performing customers for the six-month period ended 31 December 2022 is R32 million (31 December 2021: R29 million).

19. COST OF SALES

| Figures in Rand thousand | 31 December 2022 | 31 December 2021 | 30 June 2022 |
|---------------------------------|-----------------------------|-----------------------------|-------------------------|
| Potable Water | 6 615 558 | 6 137 229 | 12 145 236 |
| Raw Water | 3 491 112 | 3 284 781 | 6 576 078 |
| Energy | 1 921 038 | 1 771 344 | 3 277 082 |
| Overheads | 883 260 | 846 617 | 1 738 331 |
| Chemicals | 320 148 | 234 487 | 553 745 |
| Non-potable Water | 109 714 | 99 134 | 178 193 |
| Raw Water | 92 317 | 89 202 | 161 156 |
| Energy | 14 626 | 7 278 | 12 173 |
| Overheads | 2 771 | 2 654 | 4 864 |
| Recoverable Projects | 15 595 | 15 448 | 31 294 |
| Total | 6 740 866 | 6 251 811 | 12 354 723 |

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The increase in cost of sales is primarily driven by the cost raw water, energy, and chemical as explained in detail in the foreword.

20. NET IMPAIRMENT (REVERSALS)/LOSSES

| Figures in Rand thousand | 31 December 2022 | 31 December 2021 | 30 June 2022 |
|--|---------------------|---------------------|------------------|
| Allowance for expected credit losses | 131 685 | 6 275 | 21 849 |
| Allowances for expected credit losses reversal | (37 905) | (135 553) | (159 247) |
| Total | 93 780 | (129 278) | (137 398) |

The increase in expected credit losses is mainly attributable to non-adherence to payment terms and municipalities not honouring the debt arrangements.

21. OTHER OPERATING EXPENSES

Other operating expenses increased significantly to R1 153 million at 31 December 2022 (December 2021: R1 145 million). The slight increase in operating expenses is mainly driven by various factors including increases in insurance costs in response to the increasing asset base, the current risk profile of state-owned entities and the current insurance market conditions.

22. FINANCE INCOME

| Figures in Rand thousand | 31 December 2022 | 31 December 2021 | 30 June 2022 |
|---|---------------------|---------------------|-----------------|
| Interest on current account | 798 | 220 | 561 |
| Interest on investments | 335 767 | 193 964 | 432 933 |
| Interest on trade and other receivables | 69 382 | 4 745 | 153 692 |
| Other interest received | 327 | 57 | 401 |
| | 406 274 | 198 929 | 587 587 |
| Interest on post retirement plan asset | 20 518 | 18 623 | 38 237 |
| Total finance income | 426 792 | 217 552 | 625 824 |
| Adjusted for: | | | |
| Amortised and not received interest | (36 488) | (54 049) | (101 041) |
| Finance income received | 390 304 | 163 503 | 524 783 |

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23. FINANCE COSTS

| Figures in Rand thousand | 31 December 2022 | 31 December 2021 | 30 June 2022 |
|---|---------------------|---------------------|-----------------|
| Interest on interest bearing borrowings | 214 649 | 208 491 | 415 533 |
| Interest on post retirement obligation | 22 597 | 19 533 | 39 106 |
| Other interest paid | 5 949 | 9 350 | 17 773 |
| | 243 195 | 237 374 | 472 412 |
| Less: capitalised to qualifying assets | (212 379) | (208 491) | (415 533) |
| Total finance costs | 30 816 | 28 884 | 56 879 |
| Adjusted for: | | | |
| Capitalised interest on qualifying assets | 212 379 | 208 491 | 415 533 |
| Amortised interest | (26 808) | (23 076) | (43 200) |
| Finance costs paid | 216 387 | 214 299 | 429 212 |

24. CONTINGENCIES

The Group's contingent liabilities and contingent assets at 31 December 2022 are estimated at R258 million (June 2022: R347 million) and R358 million (June 2022: R358 million) respectively.

The reduction in contingent liabilities is driven by the settlement of two matters that were previously reported relating to:

- a) the 'standing time' emanating from the Covid-19 lockdown (June 2022: R38.4 million) settlement amounted to R29.2 million and;
- b) a contract that was terminated as it was declared irregular (June 2022: R50.2 million) settlement amounted to R5.5 million.

The Group's guarantees issued increased to R654 million (30 June 2022: R653 million).

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25. FINANCIAL INSTRUMENTS

The fair values approximate the carrying amounts of assets.

| Figures in Rand thousand | 31 December 2022 | 31 December 2021 | 30 June 2022 |
|--|---------------------|---------------------|-------------------|
| Fair value through other comprehensive income | | | |
| Investments | 1 727 052 | 962 088 | 1 475 403 |
| At amortised cost | | | |
| Term deposit investments | 849 898 | 2 581 233 | 2 290 000 |
| Cash and cash equivalents | 6 940 528 | 4 056 707 | 4 912 560 |
| Loans receivable | 8 240 | 1 039 | 1 460 |
| Contract assets | 110 149 | 113 403 | 102 553 |
| Trade and other receivables | 3 343 207 | 2 924 755 | 3 044 848 |
| Total | 12 979 074 | 10 639 225 | 11 826 824 |

The fair values approximate the carrying amounts of liabilities.

| Figures in Rand thousand | 31 December 2022 | 31 December 2021 | 30 June 2022 |
|--------------------------|---------------------|---------------------|------------------|
| At amortised cost | | | |
| Unsecured bonds | 4 384 673 | 4 316 326 | 4 384 355 |
| Trade and other payables | 2 689 033 | 2 668 554 | 3 206 963 |
| Lease liabilities | - | 706 | 172 |
| Contract liabilities | 213 045 | 242 986 | 190 930 |
| Total | 7 286 751 | 7 228 572 | 7 782 420 |

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Investment - fair value through other comprehensive income

The Group's financial assets measured at fair value through other comprehensive income comprise of investments in sovereign and state-owned entity bonds. The fair value of the bonds is determined using quoted market prices at the reporting date without any deduction for transaction costs.

Term deposit investments and cash and cash equivalents

The Group measures the above financial assets at amortised cost. The carrying value of these financial assets are approximates of their value.

Trade and other receivables

The Group's trade and other receivables include micro loans issued by the Group to qualifying employees and are measured at amortised costs. The fair value of the micro loans approximates their carrying value.

Financial liabilities

The Group's financial liabilities comprise of unsecured bonds listed on the Johannesburg Stock Exchange and are measured at amortised cost. The fair value of the bonds is determined using quoted market prices at the reporting date without any deduction for transaction costs.

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26. EVENTS AFTER THE REPORTING PERIOD

Vandalism affecting supply to Palmiet and Mapleton booster stations.

On 22 February 2023, pipelines that supplies water to Palmiet and Mapleton Booster was vandalised. The incident resulted in the damage of a meter supplying Eden Park township in the City of Ekurhuleni, this resulted in an emergency shutdown to replace the valves. The immediate impact of the vandalism was a reduction in pumping water of 52% and 27% at the Palmiet Booster pumping station and Mapleton Booster pumping station respectively. The repairs were concluded on 25 February, and the stations are pumping at full load.

Emfuleni Local Municipality (ELM)

On 04 January 2023 ELM formally communicated inability to honor its obligations to service the overdue debt, this was as a result of Eskom attaching the Municipality's Bank Account. ELM further requested that the payment arrangements in place be held in abeyance pending the upliftment of the writs by Eskom. In spite of the communication, on 23 February from ELM, a part payment amounting to R10 million was made reflecting its intent to service the debt.

Annual increase in Bulk water tariff for the year 2023/2024

On 20 March 2023, the Board received approval of the proposed annual increase in bulk water tariffs for the year 2023/2024 of 9.2%, effective 1 July 2023.

27. 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.

Transactions with key management personnel

Key management personnel compensation has remained in line with the remuneration philosophy outlined in the Remuneration Report in the 30 June 2022 consolidated annual financial statements.

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Rand Water

| Figures in Rand thousand | Fees for service as board member | Salary | Reimbursements | Group life | Total 31 December 2022 | Total 30 June 2022 |
|--|----------------------------------|--------------|----------------|------------|------------------------|--------------------|
| Executive board member | | | | | | |
| Mr. S Mosai (Chief Executive) | - | 2 847 | - | 85 | 2 932 | 5 155 |
| | - | 2 847 | - | 85 | 2 932 | 5 155 |
| Non-executive board members | | | | | | |
| <i>Current members effective 21 September 2022</i> | | | | | | |
| Mr. R Monyokolo (Chairperson) | 636 | - | - | - | 636 | 698 |
| Ms. M Tonjeni (Deputy Chairperson) | 246 | - | - | - | 246 | - |
| Mr. S Khondlo | 210 | - | - | - | 210 | - |
| Ms. G Mahuma-Madida | 186 | - | - | - | 186 | - |
| Ms. L Mashamaite | 260 | - | - | - | 260 | - |
| Mr. A Mhlongo | 226 | - | - | - | 226 | - |
| Mr. S Mngomezulu | 237 | - | - | - | 237 | - |
| Ms. Z Monnakgotla | 370 | - | - | - | 370 | 269 |
| Mr. L Ntoyi | 246 | - | - | - | 246 | - |
| Ms. C Simpson | 195 | - | - | - | 195 | - |
| Mr G Qotywa | 200 | - | - | - | 200 | - |
| Dr. N Qunta | 237 | - | - | - | 237 | - |
| Total | 3 249 | - | - | - | 3 249 | 967 |

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| Figures in Rand thousand | Fees for service as board member | Salary | Reimbursements | Group life | Total 31 December 2022 | Total 30 June 2022 |
|-------------------------------------|----------------------------------|----------|----------------|------------|------------------------|--------------------|
| Outgoing members* | | | | | | |
| Adv. FM Hashatse (Chairperson) | 262 | - | - | - | 262 | 1 212 |
| Ms. M Mbonambi (Deputy Chairperson) | 197 | - | - | - | 197 | 757 |
| Ms. S Molokoane-Machika | 189 | - | - | - | 189 | 641 |
| Ms. MM Kabi | 151 | - | - | - | 151 | 653 |
| Ms. SN Maziya | 101 | - | - | - | 101 | 443 |
| Ms. P Mbanjwa | - | - | - | - | - | - |
| Mr. P Phili | 215 | - | - | - | 215 | 695 |
| Ms. M Ntsaba | 157 | - | - | - | 157 | 634 |
| Mr. A Pandor | 142 | - | - | - | 142 | 624 |
| Ms. NGJ Mbileni | 145 | - | - | - | 145 | 543 |
| Mr. LL Makibinyane | 11 | - | - | - | 11 | 595 |
| Total | 1 570 | - | - | - | 1 570 | 6 797 |
| Current and outgoing members | 4 819 | - | - | - | 4 819 | 7 764 |

*The term of office in the current reporting period for the outgoing members is 1 July 2022 to 19 September 2022.

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| Figures in Rand thousand | Fees for service as board member | Salary | Reimbursements | Group life | Total 31 December 2022 | Total 30 June 2022 |
|---|----------------------------------|--------|----------------|------------|------------------------|--------------------|
| Executive committee members | | | | | | |
| Ms. M Nyembe (Chief Financial Officer) | - | 1 955 | 5 | 63 | 2 023 | 3 601 |
| Mr. M Mehlo (Chief Operating Officer) | - | 2 025 | 7 | 56 | 2 088 | 3 418 |
| Mr. V Kubheka (Chief Strategy Officer) | - | 1 606 | - | 53 | 1 659 | 3 031 |
| Mr. T Joala (Chief Shared Services Officer) | - | 1 764 | 26 | 45 | 1 835 | 3 399 |
| Top management committee members | | | | | | |
| Mr. G Mulzack (Acting GM Communications and Stakeholder Management) | - | 1 185 | 10 | 33 | 1 228 | 2 134 |
| Mr. T Bekker (GM Information Technology) | - | 1 334 | 146 | 41 | 1 522 | 2 637 |
| Mr. M Makhubela (GM Corporate Services) | - | 1 269 | 130 | 39 | 1 438 | 2 354 |
| Ms. W Mohamed (GM Strategic Human Capital) | - | 1 535 | - | 42 | 1 577 | 2 988 |
| Ms. A Bosch (Acting GM Legal and Risk) | - | 1 283 | 59 | 36 | 1 379 | 2 417 |
| Mr. S Xaba (GM Operations) | - | 1 535 | 12 | 45 | 1 592 | 2 764 |
| Ms. E Ncube (Acting GM Scientific Services) | - | 856 | 32 | 28 | 915 | 1 995 |
| Mr. B Xaba (GM Strategic Asset Management) | - | 1 592 | 11 | 46 | 1 648 | 3 212 |

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| Figures in Rand thousand | Fees for services as board member | Salary | Reimbursements | Group life | Total 31 December 2022 | Total 30 June 2022 |
|--|-----------------------------------|---------------|----------------|------------|------------------------|--------------------|
| Mr. M Xulu (Acting GM Sector Growth and Development) | - | 1 091 | 67 | 32 | 1 190 | 2 165 |
| Mr. L Ncobela (Funding Manager) | - | 1 396 | 11 | 41 | 1 448 | 2 726 |
| Mr. M Mahlare (Financial Planner) | - | 1 185 | 47 | 38 | 1 271 | 2 393 |
| Mr. T Nyandoro (Financial and Economic Planner) | - | 1 002 | 34 | 30 | 1 065 | 2 034 |
| Ms. M Chauke (Corporate Planner) | - | 1 085 | 10 | 29 | 1 124 | - |
| Ms. T Minya (Chief Procurement Officer) | - | 1 087 | 62 | 28 | 1 177 | 1 065 |
| Dr. FM Ngoatje (Head of Rand Water Institute) | - | 1 698 | - | 49 | 1 747 | 3 385 |
| Ms. T Mange (Regulatory and Compliance Manager) | - | 1 060 | 66 | 31 | 1 157 | 2 138 |
| Mr. R Thagwana (Acting Group Head Internal Audit) | - | 245 | 90 | 9 | 344 | 1 488 |
| Mr. K Badenhorst (GM Integrity and Probity Assurance) | - | 1 337 | 7 | 39 | 1 383 | 2 477 |
| Mr. H De Lange (Manager Analytics and Project Assurance) | - | 829 | 8 | 26 | 863 | 1 623 |
| Ms. I Mosupye (Chief Information Officer) | - | 1 113 | 11 | 29 | 1 153 | 908 |
| Ms. L Swartbooi (Policy Development Manager) | - | 897 | 50 | 28 | 975 | - |
| Ms. S Motloug (Group Audit Executive) | - | 640 | - | 16 | 656 | - |
| Total | | 32 604 | 901 | 952 | 34 457 | 56 352 |

*Salaries exclude incentive bonuses.

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Rand Water Foundation

| Figures in Rand thousand | Fees for services as board member | Salary | Reimbursements | Group life | Total 31 December 2022 | Total 30 June 2022 |
|---|-----------------------------------|--------------|----------------|------------|------------------------|--------------------|
| Executive board members | | | | | | |
| Ms. M Sekoaila (GM Rand Water Foundation) | - | 1 051 | 10 | 34 | 1 095 | 2 119 |
| | - | 1 051 | 10 | 34 | 1 095 | 2 119 |
| Non- executive board members | | | | | | |
| Mr. ML Mngomezulu (Chairperson) | 231 | - | - | - | 231 | 428 |
| Ms. APZ Mafuleka | 133 | | | | 133 | 270 |
| Ms. LN Netshitenzhe | 152 | | | | 152 | 238 |
| Mr. EN Ratshikhopha | 117 | | | | 117 | 234 |
| Ms. BM Lekwane | 116 | | | | 116 | 227 |
| Mr. S Mosai | - | - | - | - | - | - |
| Total | 749 | | | | 749 | 1 397 |

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Department of Water and Sanitation

The Group is 100% controlled by the government of South Africa represented by the Department of Water and Sanitation. Below are the balances and transactions with the Department.

Transactions with the Department of Water and Sanitation

| Figures in Rand thousand | 31 December 2022 | 31 December 2021 | 30 June 2022 |
|--|---------------------|---------------------|-----------------|
| Transactions with related parties | | | |
| Sale of goods and services | 9 037 | - | 46 425 |
| Purchases of goods and services | 3 460 220 | 121 943 | 6 033 710 |
| Year-end balances arising from transactions | | | |
| Payables | 1 424 832 | 17 018 | 1 381 657 |
| Expected credit losses | 175 925 | 190 655 | 177 072 |
| Receivables | 205 329 | 226 358 | 237 061 |

Other public entities

The Group is exempt from disclosing balances and transactions with other spheres of Government therefore the disclosure includes only those entities that are within the same ministerial control.

Transactions with public entities within the same ministerial control:

| Figures in Rand thousand | 31 December 2022 | 31 December 2021 | 30 June 2022 |
|--|---------------------|---------------------|-----------------|
| Transactions with related parties | | | |
| Sale of goods and services | - | - | - |
| Purchases of goods and services | 131 635 | 121 943 | 226 343 |
| Year-end balances arising from transactions | | | |
| Payables | 14 606 | 17 018 | 13 616 |
| Expected credit losses | 188 | 190 655 | 189 |
| Receivables | 226 | 226 358 | 226 |
| Levy expenditure | 58 009 | 59 226 | 114 732 |