

# RAND WATER GROUP

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**31 December 2019**

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**Condensed Consolidated  
Interim Financial Statements**



**RAND WATER**

# Condensed Consolidated Interim Financial Statements for the six months ended 31 December 2019

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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 2019 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, with the exception of the adoption of IFRS 16: Leases, which has had an impact on the recognition and measurement of specific leases that were previously accounted for as operating leases under IAS 17: Leases.

The reviewed condensed consolidated interim financial statements which appear on pages 10 to 30 have been approved for release to Rand Water's stakeholders by the Board at its meeting held on 27 March 2020 and signed on its behalf by:



Adv Faith Hashatse

Chairperson of Rand Water



Mr Siphosiso Mosai

Chief Executive



## **CORPORATE INFORMATION**

### **Board members:**

#### **Executive**

Mr Siphon Mosai

(Chief Executive)

#### **Non-executive:**

Adv. Tshidi Faith Hashatse (Chairperson)

Ms Khulekelwe Glynnis Mbonambi (Deputy  
Chairperson)

Ms Sophie Molokoane-Machika

Mr Ramateu Monyokolo

Mr Ahmed Mohamed Pandor

Mr Protas Thamsanqa Phili

Ms Nonhlanhla Savannah Maziya

Mr Lefadi Lucas Makibinyane

Mrs Nomsa Georgina Judy Mbileni

Ms Phindile Sweetness Mbanjwa

Ms Mankone Mabataung Ntsaba

Ms Mahlatse Martha Kabi

## **CORPORATE INFORMATION**

### **Company Secretary and Business Address:**

Ms Bessie Bulunga

522 Impala Road

PO Box 1127

Glenvista

Johannesburg

Johannesburg, 2058

2000

### **External Auditors:**

The Rand Water Group Statutory auditor's remains:

Auditor General of South Africa

Lefika House

300 Middel Street

Brooklyn

Pretoria

The Interim review performed by:

Ngubane & Co.

1 Superior Rd

Halfway House Estate

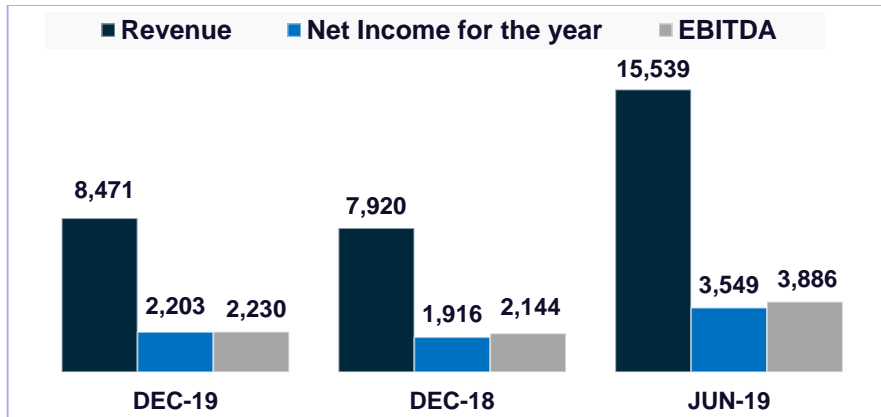
Midrand

1685

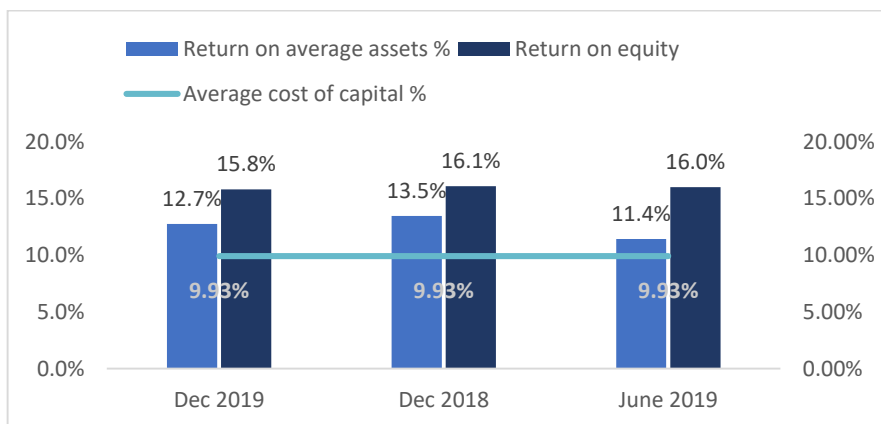
# Condensed Consolidated Interim Financial Statements for the six months ended 31 December 2019

## FOREWORD

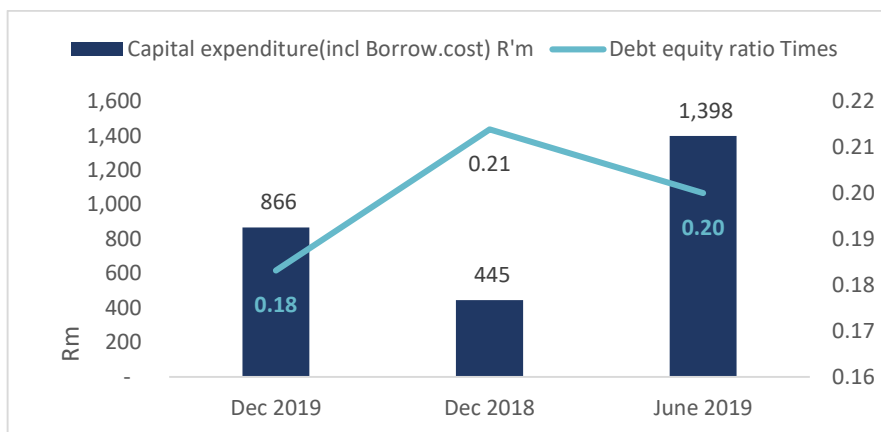
### 1. Financial Highlights



**“Earnings indicate Strong, Persistent Revenue Growth”**



**“Returns Consistently Outperforming Cost of Capital”**



**“Strong Balance Sheet Position demonstrates resilience in tough economic conditions”**

# Condensed Consolidated Interim Financial Statements for the six months ended 31 December 2019

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## 2. Operating Environment

Rand Water continues to produce solid financial results in a very tough economic climate and remains dedicated to place an increased focus to the changes that are required to adapt to the political, economic, social, technological and legal transformation both locally and internationally. For this purpose, the organisation has embarked on a new innovation driven risk based strategy, that seeks to disrupt our business model through innovative solutions to ensure that we remain resilient in the face of climate change, and other changes such as the current pandemic. Financial ratios relating to financial sustainability and viability of the organisation remain above set targets. This demonstrates that the organisation is on sound footing and will be able to fund its critical infrastructure. Rand Water is putting all its efforts in ensuring that Capex performance is improved whilst adhering to all legislative requirements. The organisation remains heavily engaged with its stakeholders and customers in this challenging environment.

The drought situation experienced by the country is an issue that Rand Water is closely monitoring. The erratic weather patterns have created a sense of unease and concern in the whole country. Low rainfall in particular parts of the country has placed livelihoods and economic activities at great risk. In Rand Water's area of operation, the Vaal dam levels have benefited from the recent rainfall patterns experienced in this season. The current dam levels are dependent on the behaviour of Rand Water's major customers', the local municipalities, commitment to implement water conservation and water demand management strategies aimed at managing the availability of the raw water. The Department of Water and Sanitation (DWS) has developed an emergency response mechanism aimed at alleviating this challenge.

The completion of phase 2 of the Lesotho Highlands Water Project is expected in 2026. The periods leading to the year 2026 requires concerted effort to ensure that water conservation and water demand management are effectively applied.

In this period of low and erratic rainfall patterns Rand Water continues to seek an opportunity for its Management to work with the Department of Water and Sanitation (DWS) to develop a comprehensive framework and policy guideline that will enable Rand Water to engage with local municipalities on the issue of a stepped tariff (or a package to manage exceeding set water demand limits) in the event that a drought is announced by the Honourable Minister. The framework will enhance the consultation process as part of the organisation's overall stakeholder engagement strategy at this crucial era where the need for water conservation and water demand management is needed.

Rand Water's award of work to BBBEE entities continues to exceed target; its percentage spend on Corporate Social Investment has exceeded its half-yearly target.

# Condensed Consolidated Interim Financial Statements for the six months ended 31 December 2019

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Rand Water remains committed to deliver value to Stakeholders through ongoing engagement as a key focus. Modernising communications and making it more proactive is paramount and will enable the organisation to respond to changing operating and economic conditions without delay.

## 3. Financial Performance Overview

The group is reporting an increase in revenue of 7% to R8,4 billion for the six months under review, on the back of a 7,9% tariff increase and a reduction in water volumes sold to 4 661 average megalitres per day. This is attributable to 20% water restrictions imposed on all local Municipalities as part of water conservation and demand initiatives and the discontinued operations in Bushbuckridge.

Net income margin continued to grow, edging up to 26%. This is an increase of 7.5% compared to December 2018. This is due to savings on chemicals, curtailment of secondary activities and various other cost containment initiatives, however, raw water purchases and energy costs have increased by 8% and 19% respectively.

Cash generated from operations has improved from R1,26 billion to R1,7 billion for the six months' period, reflecting the organisation's ability to still generate a positive return from its operations.

The increase of 16.6% in accumulated reserves resulted in a decrease in the debt equity ratio from 0.21 to 0.18. The balance sheet strength is further demonstrated by the 20.8% improvement in the current ratio, the increase in cash generated from operations which was boosted by a delay in capital expenditure and a marginal increase in accounts receivable.

The organisation achieved R0,865 billion (December 2018: R0,445 billion) (excluding borrowing costs) capital expenditure including intangible assets for the financial year. The performance although on an upper trajectory is still largely impacted by the knock-on effect from the change in legislation within the supply chain environment and the delays in approvals to grant access to wayleaves, encroachments on servitudes, and unavailability of shutdowns on infrastructure.

Following the decision to curtail secondary activities, especially projects from municipalities, the only significant contracts that remained were the War on Leaks project and the Sedibeng Regional Sewer Scheme project which are both funded by the Department of Water and Sanitation. The lack of funds in the Department resulted in low activity on these projects, and the relevant project executing business units could not generate enough revenue to cover their overheads. However, the recovery of long outstanding debt on the Sedibeng Regional Sewer Scheme contributed to the improved net income margin. Revenue from secondary activities dropped to R23,8 million (December 2018: R37,6 million).

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Rand Water has unsecured bonds amounting to R4,4 billion as at 31 December 2019 under the ZAR10 billion Domestic Medium Term programme (DMTN). In line with the Group's redemption strategies and policy it has set aside R0,876 billion (30 June 2019: R0,686 billion) in sinking funds and treasury bills, as at 31 December 2019 and, partially bought back RW21 notes to the value of R17,1 million and R51,0 million on the 21<sup>st</sup> January and 31<sup>st</sup> January 2020 respectively in the secondary market for the ultimate redemption of the RW21 bond maturing in April 2021.

## 4. New accounting standards adopted

Rand Water adopted International Financial Reporting Standards (IFRS 16) – Leases effective from 01 July 2019. At initial application of the standard, the Group elected to apply the new standard using the modified retrospective approach to adjust opening balances of retained income. There is no significant impact as assessed to date. The adoption resulted in a right of use asset and related lease liability of R4,3 million, with minimal impact on the statement of financial performance. Refer to note 3 for additional information on the adoption of IFRS 16.

## 5. Tariff determination

From 01 July 2019 Rand Water increased its tariff by 7.9% from R9.35 per kilolitre to R10.09 per kilolitre. The increase was driven by a number of costs that were above the CPI range of 3% to 6%. Raw water, energy and labour cost were major contributors to this tariff increment.

## 6. Prospects

### Credit Risk Management

Rand Water's external environment continues to see major shifts in the financial viability of its customers, as a result we have observed some local municipalities experiencing challenges in honouring their debt repayment arrangements. This is demonstrated by debtor's days, which marginally increased from 56 days in June 2019 to 57 days in December 2019. The Rand Water Foundation, a subsidiary of Rand Water, is partnering with our municipalities to address the ineffective revenue collection model by running awareness campaigns through the Foundations Community Services Initiatives (CSI) vehicle in order to build a civic duty of payment.

We have also reformed our focus from placing reliance on a traditional collection strategy, to a more robust and elaborate debtor's turnaround strategy due to the change in the environment within which we operate. In addition to the above interventions, Rand Water continues to rigorously engage with the affected municipalities, our shareholder, Cooperative Governance and Traditional Affairs (COGTA), Provincial and National Government Departments, and National Treasury on an ongoing basis. The enforcement of the credit management policy which includes water pressure reduction to affected municipalities has thus far, yielded positive outcomes, although the progress has been slow.



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## Capital Management

Supply Chain Management has demonstrated significant improvement to address the compliance requirements issued by the National Treasury Practice Notes/Circulars through the interventions implemented during the period under review which resulted in a number of significant contract awards. These awards place the organisation in a better position to achieve its CAPEX programme commitments and will ultimately push performance toward an upper trajectory.

### Looking forward into the six months to the year ending 30th June 2020

Although Rand Water is not immune to the economic conditions, the health pandemic and abnormal weather patterns affecting market confidence, the group remains resilient and unwavering in its commitment to deliver on its mandate. Rand Water Corporate Plans, operational and capital planning, aims to continue producing strong financial results in order to maintain financial sustainability and viability as a commitment to all our stakeholders. Our Domestic Medium Term Note Programme and approved borrowing limits provide significant headroom to enable Rand Water to access funding for ongoing investments. Rand Water is well positioned with a strong balance sheet boasting a healthy working capital, sufficient cash reserves and undrawn financing facilities to service operating activities, honour existing borrowings, and withstand the negative headwinds of the current health pandemic.

We remain optimistic to achieving better results in the remaining 6 months. Volumes of water sold are expected to increase, albeit marginally in comparison to budget. Energy costs are expected to be in line with budget but lower expenditure is expected on chemicals. Rand Water's ongoing negotiations for favourable pricing for its long term chemical contracts and the expectation that the current rainfall patterns will have little impact on the turbidity of the raw water, will lead to short term benefits of chemical costs to the organisation. Labour costs will increase as vacancies are filled and the organisational restructuring programme comes into effect, these will however be executed in accordance with the spending plan and to the extent that profit margins are not eroded further.

In an environment that presents major water and sanitation challenges we are committed to completing the targeted phase of the Sedibeng Regional Sewer Scheme, and other projects where Rand Water is an implementing agent on behalf of the Department.

Rand Water will continue to actively engage in the below efforts:

- Project 1600, where Rand Water has provided fair and equitable water demand targets for each of our bulk supply meters. Rand Water monitors the performance of each of our municipal customers in relation to our set target.
- Water conservation and water demand management. By monitoring these targets Rand Water is able to identify areas of concern and areas that require assistance.

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- Rand Water, COGTA, DWS and municipalities meet on a quarterly basis to discuss areas of concern highlighted, during these meetings, municipalities are required to provide corrective action. Project 1600 also involves considering best practices across areas of Rand Water's area of supply for each municipality to consider in their respective areas.
- PRV (Pressure Reducing Valves) – Using the water efficiency model developed by Rand Water combined with minimum night flow analysis where possible, areas with high leakages have been identified. Rand Water is proposing to install PRV's to reduce high water leakage during periods of low demand, in this regards, we have identified 9 municipalities with a combined reduction potential of almost 500MI per day.
- Additional measures undertaken by the organisation now includes an additional criteria of water use efficiencies in assessing new applications for water connections.

## 7. Conclusion

In conclusion, we continue to place key focus to strengthen our organisation against any possible effects stemming from the external environment both locally and internationally. Our strategy continues to aspire toward maintaining and improving our stakeholder and investor relations, continued sustainability, leadership quality and applying sound management principles to ensure agility and responsiveness to the tough economic conditions.

# Condensed Consolidated Interim Financial Statements for the six months ended 31 December 2019

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Figures in Rand thousand	Notes	30 December 2019 Reviewed	31 December 2018 Unreviewed	30 June 2019 Audited
<b>Assets</b>				
<b>Non-current assets</b>		<b>24 268 992</b>	<b>22 631 893</b>	<b>23 249 944</b>
Property, plant and equipment	5	22 686 780	21 777 889	21 886 214
Intangible assets		212 997	381 217	204 277
Investments	6	462 831	453 367	470 313
Post retirement medical benefit		29 086	18 586	2 238
Loans receivable		912	834	952
Term deposit investments	7	876 386	-	685 950
<b>Current assets</b>		<b>7 037 946</b>	<b>5 368 894</b>	<b>6 267 503</b>
Inventories		455 502	331 162	493 722
Trade and other receivables	9	2 029 758	2 411 218	2 106 878
Loans receivable		2 621	2 659	2 895
Contract assets		225 076	-	118 217
Term deposit investments	7	1 589 097	-	899 394
Cash and cash equivalents	8	2 735 891	2 623 855	2 646 397
Non-current assets held for sale		227	1 816	328 711
<b>Total assets</b>		<b>31 307 165</b>	<b>28 002 603</b>	<b>29 846 158</b>
<b>Equity and liabilities</b>				
<b>Equity</b>		<b>23 954 383</b>	<b>20 532 715</b>	<b>21 728 301</b>
Retained income		23 719 236	20 317 242	21 516 680
Reserves		235 147	215 473	211 621
<b>Non-current liabilities</b>		<b>4 582 364</b>	<b>4 872 325</b>	<b>4 580 523</b>
Interest bearing borrowings	10	4 387 365	4 391 382	4 389 390
Deferred income		111 834	404 864	112 261
Provisions		80 852	76 079	78 872
Lease liability		2 313	-	-
<b>Current liabilities</b>		<b>2 770 418</b>	<b>2 597 563</b>	<b>3 231 808</b>
Trade and other payables	11	2 684 493	2 597 563	3 170 416
Contract Liabilities		82 405	-	59 254
Deferred income		2 137	-	2 138
Lease liability		1 383	-	-
Liabilities of disposal groups		-	-	305 526
<b>Total equity and liabilities</b>		<b>31 307 165</b>	<b>28 002 603</b>	<b>29 846 158</b>

# Condensed Consolidated Interim Financial Statements for the six months ended 31 December 2019

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

Figures in Rand thousand	Notes	31 December 2019 Reviewed	31 December 2018 Unreviewed	30 June 2019 Audited
Revenue	12	8 471 202	7 920 054	15 334 385
Cost of sales		(5 466 318)	(4 954 166)	(9 795 147)
<b>Gross income</b>		<b>3 004 884</b>	<b>2 965 889</b>	<b>5 539 238</b>
Other operating (loss)/ income		(16 517)	9 925	83 263
Impairment losses		(148 434)	(328 729)	(260 710)
Other operating expenses	13	(856 361)	(762 206)	(1 877 408)
<b>Operating income</b>		<b>1 983 573</b>	<b>1 884 880</b>	<b>3 484 383</b>
Finance income		264 982	144 611	351 210
Finance costs		(45 998)	(113 116)	(209 323)
<b>Income from continuing operations</b>		<b>2 202 558</b>	<b>1 916 375</b>	<b>3 626 270</b>
<b>Discontinued operations</b>				
Losses from discontinued operations		-	-	(77 307)
<b>Net income for the period</b>		<b>2 202 558</b>	<b>1 916 375</b>	<b>3 548 963</b>

# Condensed Consolidated Interim Financial Statements for the six months ended 31 December 2019

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL COMPREHENSIVE INCOME

Figures in Rand thousand	Notes	31 December 2019 Reviewed	31 December 2018 Unreviewed	30 June 2019 Audited
<b>Net income for the period</b>		<b>2 202 558</b>	<b>1 916 375</b>	<b>3 548 963</b>
<b>Other comprehensive income/(losses):</b>				
<b>Items that will not be reclassified to net income:</b>				
Re-measurements on net defined benefit liability/asset		29 556	12 577	675
<b>Items that may be reclassified to net income:</b>				
Re-measurement of items at fair value through other comprehensive income		(6 031)	(534)	(18 238)
<b>Other comprehensive income for the period</b>		<b>23 525</b>	<b>12 043</b>	<b>(17 563)</b>
<b>Total comprehensive income</b>		<b>2 226 083</b>	<b>1 928 417</b>	<b>3 531 400</b>



# Condensed Consolidated Interim Financial Statements for the six months ended 31 December 2019

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL CHANGES IN EQUITY

Figures in Rand thousand	Fair Value through Comprehensive Income	Re-measurements on employee benefit obligation	Transfer of function	Total reserves	Accumulated reserves	Total equity
<b>Opening balance as at 1 July 2018</b>	<b>(26 345)</b>	<b>202 896</b>	<b>10 557</b>	<b>187 108</b>	<b>18 417 183</b>	<b>18 604 291</b>
Income for the year	-	-	-	-	1 916 375	1 916 375
Other comprehensive income	(534)	12 577	-	12 043	-	12 043
<b>Total other comprehensive income for the six month period</b>	<b>(534)</b>	<b>12 577</b>	<b>-</b>	<b>12 043</b>	<b>1 916 375</b>	<b>1 928 417</b>
<b>Balance as at 31 December 2018</b>	<b>(26 879)</b>	<b>215 473</b>	<b>10 557</b>	<b>199 151</b>	<b>20 333 558</b>	<b>20 532 708</b>
<b>Restated balance as at 1 July 2018</b>	<b>(19 395)</b>	<b>202 896</b>	<b>10 557</b>	<b>194 058</b>	<b>17 967 717</b>	<b>18 161 775</b>
Income for the year	-	-	-	-	3 548 963	3 548 963
Other comprehensive income	18 238	(675)	-	17 563	-	17 563
<b>Total other comprehensive income for the year</b>	<b>18 238</b>	<b>(675)</b>	<b>-</b>	<b>17 563</b>	<b>3 548 963</b>	<b>3 566 526</b>
<b>Balance as at 30 June 2019</b>	<b>(1 157)</b>	<b>202 221</b>	<b>10 557</b>	<b>211 621</b>	<b>21 516 680</b>	<b>21 728 301</b>
<b>Balance as at 1 July 2019</b>	<b>(1 157)</b>	<b>202 221</b>	<b>10 557</b>	<b>211 621</b>	<b>21 516 680</b>	<b>21 728 301</b>
Income for the year	-	-	-	-	2 202 558	2 202 558
Other comprehensive income	(6 031)	29 556	-	23 525	-	23 525
<b>Total other comprehensive income for the six month period</b>	<b>(6 031)</b>	<b>29 556</b>	<b>-</b>	<b>23 525</b>	<b>2 202 558</b>	<b>2 229 498</b>
<b>Balance at 31 December 2019</b>	<b>(7 188)</b>	<b>231 777</b>	<b>10 557</b>	<b>235 146</b>	<b>23 719 238</b>	<b>23 954 384</b>

# Condensed Consolidated Interim Financial Statements for the six months ended 31 December 2019

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Figures in Rand thousand	31 December 2019 Reviewed	31 December 2018 Unreviewed	30 June 2019 Audited
<b>Cash flows from operating activities</b>			
Cash receipts from customers	8 499 272	7 406 017	15 178 309
Cash paid to suppliers and employees	(6 795 064)	(6 145 505)	(11 494 762)
Cash generated from operations	1 704 208	1 260 512	3 683 549
Finance income	177 130	136 496	329 020
Finance costs	(217 539)	(230 373)	(455 240)
<b>Net cash from operating activities</b>	<b>1 663 799</b>	<b>1 166 635</b>	<b>3 557 329</b>
<b>Cash flows from investing activities</b>			
Acquisitions of property, plant and equipment	(732 542)	(329 119)	(1 111 257)
Proceeds from disposal of property, plant and equipment	7 609	5	5 107
Acquisitions of intangible assets	(412)	(986)	(1 597)
Increase in investments	(690 000)	-	(900 000)
Loans receivable repaid	316	588	234
<b>Net cash from investing activities</b>	<b>(1 415 029)</b>	<b>(329 512)</b>	<b>(2 007 513)</b>
<b>Cash flows from financing activities</b>			
Increase in redemption funds	(158 638)	-	(688 875)
Repayment of finance lease liability	(625)	-	-
<b>Net cash from financing activities</b>	<b>(159 263)</b>	<b>-</b>	<b>(688 875)</b>
<b>Net increase in cash and cash equivalents</b>	<b>89 507</b>	<b>837 123</b>	<b>860 941</b>
Cash and cash equivalents at the beginning of the period	2 647 673	1 786 732	1 786 732
<b>Cash and cash equivalents at the end of the period</b>	<b>2 737 180</b>	<b>2 623 855</b>	<b>2 647 673</b>

# **NOTES TO THE CONDENSED 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, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and 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), the Public Finance Management Act, No. 1 of 1999 (PFMA) and where applicable, the South African Companies Act No.71 of 2008.

The accounting policies applied in the preparation of these interim financial statements 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, with the exception of the adoption of IFRS 16 Leases effective for reporting periods beginning on or after 1 January 2019. While this report in itself is not audited, the 30 June 2019 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. That audit report does not necessarily report on all of the information contained in this report.

In order to obtain a full understanding of the nature of the auditors' engagement and, more specifically, the nature of the information that has been audited, this report should be read with the auditors' report and the accompanying 2019 audited consolidated annual financial statements, both of which are available for inspection at the company's website.

## **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 2019 comprise of Rand Water and its subsidiaries (together referred to as the "Group").

# Condensed Consolidated Interim Financial Statements for the six months ended 31 December 2019

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## 3. CHANGES IN ACCOUNTING POLICIES

The Group has adopted all the new, revised or amended accounting standards which were effective for the Group from 1 July 2019. The following new accounting standards have been applied in the 2020 financial period:

### IFRS 16 Leases

The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. IFRS 16 Leases replaces the previous leases standard, IAS 17 Leases, and related interpretations. IFRS 16 has one model for lessees, which result in the majority of leases being included on the statement of financial position as right of use assets and an accompanying lease liability. No significant changes have been introduced for lessors relative to IAS 17.

#### **Group as Lessee**

##### **Recognition:**

At initial application of the standard, the Group elected to apply the practical expedient not to reassess all leases previously identified under IAS 17 and to apply a modified retrospective approach to adjust opening balances of retained income.

The Group assessed all new and existing contracts that convey the right to control the use of an asset for a period of time in exchange for consideration. In line with the principles of IFRS 16 where the Group obtains substantially all the economic benefits from use of the asset and the right to direct the use of the asset, the Group has recognised a right of use asset.

The Group reassess whether an arrangement contains a lease, if the terms and conditions of the contract are changed. A contract containing a lease, where applicable, is separated into its lease and non-lease components.

The Group has recognised short-term leases for all leases with a lease term that ends within 12 months from date of initial application and leases with a lease term that ends within 12 months from commencement of the lease. From the effective date, the Group elects to assess low value assets according to the existing property, plant and equipment policy resulting in all assets with a value of less than R10 000 being treated as a short-term lease.

A lease agreement is derecognised when the lease term lapses or when the contract is bilaterally cancelled.

# Condensed Consolidated Interim Financial Statements for the six months ended 31 December 2019

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## **Measurement:**

The Group measures the lease liability at the present value of remaining lease payments and the right of use asset at an amount equal to the lease liability. The group discounts the lease payments at a rate equal to the market yield of Rand Water's listed debt with a similar maturity profile. Short-term leases are measured on a straight-line basis over the lease term. Lease components of a contract are measured at the stand alone selling prices of the lease components. Non-lease components are measured at the aggregate of the stand-alone selling prices of the non-lease components.

Subsequently to initial measurement, right of use assets are measured on the cost model less accumulated depreciation and accumulated impairment. Depreciation for the right of use asset is recognised on a straight-line basis over the lease term as contracted, including the renewal period, where applicable.

The lease liability is subsequently measured by adding interest costs and subtracting lease payments made on the lease liability. The Group remeasures the lease liability in the event that the lease term is revised or a change where the option to purchase the leased assets is exercised. A revised market yield is used to discount the lease payments.

## **Group as Lessor**

The treatment of leases as the lessor has remained unchanged under IFRS 16 by the Group. The Group assessed the contract to determine whether it contains a lease agreement. The Group recognises a finance lease when the contract transfers substantially all the risks and rewards incidental to ownership of the asset leased. An operating lease is recognised when the contract does not transfer substantially all the risks and rewards incidental to ownership of the leased asset.

A finance lease is initially measured at the amounts due to the Group and are presented as a receivable. The difference between gross receivable and the cost of the asset is recognised as unearned finance income. Finance income is recognised based on a pattern reflecting constant periodic rate of return on the net investment outstanding in respect of the finance lease. Subsequently, lease payments received on the finance lease are allocated to the cost of the asset and to finance income.

Operating lease payments received are recognised in profit or loss within other income on a straight-line basis over the period of the lease. The Group does not have finance leased assets.



# Condensed Consolidated Interim Financial Statements for the six months ended 31 December 2019

## Overall financial impact

Figures in Rand thousand	30 June 2019	IFRS 16 Impact	01 July 2019
<b>Impact to the statement of financial position as 01 July 2019</b>			
Property, plant and equipment	21 886 214	4 321	21 890 535
Lease liability	-	4 321	4 321
<b>Impact to the statement of financial performance as 31 December 2019</b>			
Depreciation	33 540	746	34 287
Finance costs	45 821	176	45 997
Other operating expenses	855 735	625	856 361

## 4. CAPITAL COMMITMENTS

Figures in Rand thousand	31 December 2019	31 December 2018	30 June 2019
Total capital commitments	5 052 619	1 956 998	4 417 409

The Group incurred capital expenditure to the value of R865 million (2018: R579 million) during the six months ended 31 December 2019 as part of its capital investment programme, which excludes borrowing costs of R190 million (2018: R131 million) that were capitalised during the period at an effective interest rate of 9.93%.

## 5. PROPERTY, PLANT AND EQUIPMENT

Figures in Rand thousand	31 December 2019	31 December 2018	30 June 2019
Opening balance	21 886 214	21 302 410	20 880 371
Additions	865 460	578 994	1 396 388
Transfers	(17 680)	569	(14 469)
Classified as held for sale	-	-	(140 851)
Disposal	(10)	(14)	(25 033)
Borrowing costs capitalised	189 849	131 249	273 277
Depreciation	(237 051)	(235 317)	(465 573)
Impairment loss	-	-	(17 896)
<b>Closing balance</b>	<b>22 686 782</b>	<b>21 777 890</b>	<b>21 886 214</b>

# Condensed Consolidated Interim Financial Statements for the six months ended 31 December 2019

During the six months' period property, plant and equipment increased by a net of R865 million to R 22,687 million.

During the reporting period, proceeds to the value of R7.6 million were received from Bushbuckridge Local municipality relating to the sale of movable assets due to the discontinued operation in the area. Strategic assets to the value of R133.6 million (Bushbuckridge Local Municipality) and R158.7 million (Department of Water & Sanitation) have been transferred back to the respective entities as a result of the discontinued operation arrangement. A further R24.9 million was derecognised in respect of the Water use license that is no longer allocated to Rand Water within the supply area of Bushbuckridge.

With the adoption of IFRS 16 – Leases, an amount of R4.3 million was recognised in terms of the Right of use of finance lease transactions relating to buildings and machine rental agreements.

## 6. INVESTMENTS

The fair value of the financial assets measured at fair value through other comprehensive income is based on quoted market prices on the Johannesburg Stock Exchange at the reporting date without any deduction for transaction costs.

The group recognised a fair value gain of R 4.9 million for the 6 months ending 31 December 2019 (31 December 2018: R 0.5 million fair value loss) and expected credit loss on investments of R5.2 million at 31 December 2019.

## 7. TERM DEPOSITS

Figures in Rand thousand	31 December 2019	31 December 2018	30 June 2019
Non-current	876 386	-	685 950
Current	1 589 097	-	899 394
<b>Term deposit investments</b>	<b>2 465 483</b>	<b>-</b>	<b>1 585 344</b>

Term deposit investments comprise of fixed deposits, sinking funds and Treasury bills with an original maturity of greater than 3 months. The Group classify financial assets with a maturity greater than 12 months from reporting date as non-current assets.

Figures in Rand thousand	31 December 2019	31 December 2018	30 June 2019
Amortised Cost			
Term deposit investments	2 465 483	-	1 585 344

Term deposit investments measured at amortised cost includes restricted funds set aside by the group for the redemption of RW21 that matures in April 2021. It is Rand Water's strategy to set aside funds years before the

# Condensed Consolidated Interim Financial Statements for the six months ended 31 December 2019

maturity of its bonds to avoid refinancing risk. At 31 December 2019, a total of R876 million have been set aside in sinking funds and Treasury Bills which are classified as non-current asset due to these funds being made available mainly for the redemption of RW 21. The Group is on track with its redemption strategy to set aside R1 024 million for period under review which is supported by available cash and funds set aside for redemption of RW 21 in sinking funds and Treasury bills.

## 8. CASH AND CASH EQUIVALENTS

Figures in Rand thousand	31 December 2019	31 December 2018	30 June 2019
Call and short term deposit	1 742 709	2 544 757	2 378 733
Bank and cash balances	993 182	79 098	267 664
<b>Cash and cash equivalents</b>	<b>2 735 891</b>	<b>2 623 855</b>	<b>2 646 397</b>

Cash and cash equivalent comprises of positive bank balances, cash on hand, call deposits, notice deposit and investments in money market instruments with financial institutions which is available for use by the Group.

At 31 December 2019, the group recognised ECL of R1.3 million (30 June 2019: R1.3 million) for cash and cash equivalent.

## 9. TRADE AND OTHER RECEIVABLES

Figures in Rand thousand	31 December 2019	31 December 2018	30 June 2019
Water debtors	1 699 101	1 797 038	1 799 106
Local Government/Municipalities	1 611 234	1 692 957	1 688 127
Mines	35 737	38 398	52 957
Retail	48 151	62 219	50 226
Industries	3 979	3 464	7 796
Recoverable projects debtors	158 760	329 216	189 089
Other trade receivables	4 658	4 257	3 724
<i>Trade receivables sub-total</i>	<i>1 862 519</i>	<i>2 130 512</i>	<i>1 991 919</i>
Prepayments	59 589	42 628	41 086
Other receivables	107 650	238 078	73 873
<b>Total trade and other receivables</b>	<b>2 029 758</b>	<b>2 411 218</b>	<b>2 106 878</b>

Trade and other receivables decreased by 3.8% from R2 107 million in June 2019 to R2 030 million in December 2019, primarily as a result of an increase in the impairment of receivables. Expected credit losses on trade receivables increased by 15% to R1 225 million (2019: R 1 063 million) as a result of non-payments by defaulting municipalities.

# Condensed Consolidated Interim Financial Statements for the six months ended 31 December 2019

## 10. INTEREST BEARING BORROWINGS

Figures in Rand thousand	31 December 2019	31 December 2018	30 June 2019
<b>Interest bearing borrowing maturity profile</b>			
Less than one year	-	-	-
Two to five years	2 936 198	2 938 739	2 937 537
Five years	1 451 167	1 452 643	1 451 853
<b>Total</b>	<b>4 387 365</b>	<b>4 391 382</b>	<b>4 389 390</b>

The Group has issued unsecured bonds to the amount of R4.4 billion as at 31 December 2019 under our register ZAR10 billion Domestic Medium Term programme (DMTN). These bonds are listed on the Johannesburg Stock Exchange.

Issued notes	Maturity	Nominal Interest Rate %	Type	31 December 2019	31 December 2018	30 June 2019
<b>Unsecured bonds:</b>						
RW21	21 Apr 21	9,97	Fixed rate	1 706 732	1 706 732	1 706 732
RW23	10 Dec 23	9,51	Fixed rate	1 231 000	1 231 000	1 231 000
RW28	10 Dec 28	10,25	Fixed rate	1 439 000	1 439 000	1 439 000
Amortised costs				10 633	14 650	12 658
				<b>4 387 365</b>	<b>4 391 382</b>	<b>4 389 390</b>

During the current financial year all contractual obligations were met by the group in respect of interest bearing borrowings.

## 11. TRADE AND OTHER PAYABLES

Trade and other payables have decreased by 15% from R3 170 million at 30 June 2019 to R2 684 million as at 31 December 2019. The decrease was driven mainly by the settlement of provisions raised at year end, in the new financial year. A majority of provisions raised in the 6 months under review were settled by 31 December 2019.

Other than the normal trade payables, one of the contributors to the decrease in provisions has been the incentive bonus pay out. At interim period a provision has not been raised on the incentive bonus as it is impractical to determine certain performance targets. Such performance targets can only be determined at year-end. Furthermore, the incentive bonus is at the discretion of the Rand Water Board.

# Condensed Consolidated Interim Financial Statements for the six months ended 31 December 2019

## 12. REVENUE

Figures in Rand thousand	31 December 2019	31 December 2018	30 June 2019
<b>Revenue from contracts with customers</b>			
Potable water	8 371 569	7 800 814	15 107 812
- Mines	300 442	297 386	575 551
- Municipalities	7 916 777	7 342 207	14 224 648
- Industries	19 945	20 770	42 273
- Direct consumers	134 405	140 451	265 340
Non-potable	76 790	81 677	161 353
Recoverable projects	22 843	37 563	65 220
<b>Total Revenue</b>	<b>8 471 202</b>	<b>7 920 054</b>	<b>15 334 385</b>

The tables below reflect the revenue split by type of customer:

NATIONAL GOVERNMENT DEPARTMENTS					
Figures in Rand Thousand	31 December 2019				
	Gauteng	Mpumalanga	North West	Free State	Total
Water debtors	25 546	-	-	-	25 546
Potable	25 546	-	-	-	25 546
Non-Potable	-	-	-	-	-
Construction Projects	1 326	-	-	111	1 437
Training and consulting	3 179	-	-	336	3 515
Revenue not recognised	(20)	-	-	-	(20)
<b>Total Revenue</b>	<b>30 031</b>	<b>-</b>	<b>-</b>	<b>447</b>	<b>30 478</b>
Timing of revenue recognition					
At point in time	4 505	-	-	447	4 952
Over time	25 526	-	-	-	25 526
<b>Total Revenue</b>	<b>30 031</b>	<b>-</b>	<b>-</b>	<b>447</b>	<b>30 478</b>

LOCAL GOVERNMENT/MUNICIPALITIES					
Figures in Rand Thousand	31 December 2019				
	Gauteng	Mpumalanga	North West	Free State	Total
Water debtors	7 307 766	365 492	231 565	103 008	8 007 831
Potable	7 307 766	365 492	231 565	103 008	8 007 831
Non-Potable	-	-	-	-	-
Construction Projects	4	573	-	-	577
Operating and Maintenance	5 912	880	-	-	6 792
Training and consulting	33	11 752	-	-	11 786
Revenue not recognised	(1 264)	(91 054)	-	-	(92 319)
<b>Total Revenue</b>	<b>7 312 451</b>	<b>287 643</b>	<b>231 565</b>	<b>103 008</b>	<b>7 934 667</b>
Timing of revenue recognition					
At point in time	4 685	13 205	-	-	17 890
Over time	7 307 766	274 438	231 565	103 008	7 916 777
<b>Total Revenue</b>	<b>7 312 451</b>	<b>287 643</b>	<b>231 565</b>	<b>103 008</b>	<b>7 934 667</b>



# Condensed Consolidated Interim Financial Statements for the six months ended 31 December 2019

<b>MINES</b>					
31 December 2019					
Figures in Rand Thousand	Gauteng	Mpumalanga	North West	Free State	Total
Water debtors	119 914	9 706	170 822	-	300 442
Potable	119 914	9 706	170 822	-	300 442
Non-Potable	-	-	-	-	-
Construction Projects	-	-	-	-	-
Operating and Maintenance	-	-	-	-	-
Training and consulting	-	-	-	-	-
Revenue not recognised	-	-	-	-	-
<b>Total Revenue</b>	<b>119 914</b>	<b>9 706</b>	<b>170 822</b>	<b>-</b>	<b>300 442</b>
Timing of revenue recognition					
At point in time	-	-	-	-	-
Over time	119 914	9 706	170 822	-	300 442
<b>Total Revenue</b>	<b>119 914</b>	<b>9 706</b>	<b>170 822</b>	<b>-</b>	<b>300 442</b>

<b>RETAIL</b>					
31 December 2019					
Figures in Rand Thousand	Gauteng	Mpumalanga	North West	Free State	Total
Water debtors	162 402	557	15 985	6 807	185 751
Potable	92 397	557	15 985	22	108 961
Non-Potable	70 005	-	-	6 785	76 790
Construction Projects	-	-	-	-	-
Operating and Maintenance	-	-	-	-	-
Training and consulting	-	-	-	-	-
Revenue not recognised	(81)	-	-	-	(81)
<b>Total Revenue</b>	<b>162 321</b>	<b>557</b>	<b>15 985</b>	<b>6 807</b>	<b>185 670</b>
Timing of revenue recognition					
At point in time	-	-	-	-	-
Over time	162 321	557	15 985	6 807	185 670
<b>Total Revenue</b>	<b>162 322</b>	<b>557</b>	<b>15 985</b>	<b>6 807</b>	<b>185 670</b>

<b>INDUSTRIES/RAILWAYS</b>					
31 December 2019					
Figures in Rand Thousand	Gauteng	Mpumalanga	North West	Free State	Total
Water debtors	19 945	-	-	-	19 945
Potable	19 945	-	-	-	19 945
Non-Potable	-	-	-	-	-
Construction Projects	-	-	-	-	-
Operating and Maintenance	-	-	-	-	-
Training and consulting	-	-	-	-	-
Revenue not recognised	-	-	-	-	-
<b>Total Revenue</b>	<b>19 945</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19 945</b>
Timing of revenue recognition					
At point in time	-	-	-	-	-
Over time	19 945	-	-	-	19 945
<b>Total Revenue</b>	<b>19 945</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19 945</b>

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<b>NATIONAL GOVERNMENT DEPARTMENTS</b>					
31 December 2018					
Figures in Rand Thousand	Gauteng	Mpumalanga	North West	Free State	Total
Water debtors	23 637	-	-	-	23 637
Potable	23 637	-	-	-	23 637
Non-Potable	-	-	-	-	-
Construction Projects	5 263	67	-	233	5 563
Operating and Maintenance	-	-	-	-	-
Training and consulting	8 254	-	-	4	8 258
Revenue not recognised	-	-	-	-	-
<b>Total Revenue</b>	<b>37 154</b>	<b>67</b>	<b>-</b>	<b>237</b>	<b>37 458</b>
Timing of revenue recognition					
At point in time	13 516	67	-	237	13 821
Over time	23 637	-	-	-	23 637
<b>Total Revenue</b>	<b>37 154</b>	<b>67</b>	<b>-</b>	<b>237</b>	<b>37 458</b>

<b>LOCAL GOVERNMENT/ MUNICIPALITIES</b>					
31 December 2018					
Figures in Rand Thousand	Gauteng	Mpumalanga	North West	Free State	Total
Water debtors	6 694 286	343 898	208 398	95 625	7 342 207
Potable	6 694 286	343 898	208 398	95 625	7 342 207
Non-Potable	-	-	-	-	-
Construction Projects	552	120	-	-	672
Operating and Maintenance	6 245	5 303	-	-	11 548
Training and consulting	1 539	9 983	-	-	11 522
Revenue not recognised	-	-	-	-	-
<b>Total Revenue</b>	<b>6 702 622</b>	<b>359 304</b>	<b>208 398</b>	<b>95 625</b>	<b>7 365 949</b>
Timing of revenue recognition					
At point in time	8 336	15 406	-	-	23 742
Over time	6 694 286	343 898	208 398	95 625	7 342 207
<b>Total Revenue</b>	<b>6 702 622</b>	<b>359 304</b>	<b>208 398</b>	<b>95 625</b>	<b>7 365 949</b>

<b>MINES</b>					
31 December 2018					
Figures in Rand Thousand	Gauteng	Mpumalanga	North West	Free State	Total
Water debtors	119 400	9 435	168 551	-	297 386
Potable	119 400	9 435	168 551	-	297 386
Non-Potable	-	-	-	-	-
Construction Projects	-	-	-	-	-
Operating and Maintenance	-	-	-	-	-
Training and consulting	-	-	-	-	-
Revenue not recognised	-	-	-	-	-
<b>Total Revenue</b>	<b>119 400</b>	<b>9 435</b>	<b>168 551</b>	<b>-</b>	<b>297 386</b>
Timing of revenue recognition					
At point in time	-	-	-	-	-
Over time	119 400	9 435	168 551	-	297 386
<b>Total Revenue</b>	<b>119 400</b>	<b>9 435</b>	<b>168 551</b>	<b>-</b>	<b>297 386</b>

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<b>RETAIL</b>		<b>31 December 2018</b>				
<b>Figures in Rand Thousand</b>	<b>Gauteng</b>	<b>Mpumalanga</b>	<b>North West</b>	<b>Free State</b>	<b>Total</b>	
Water debtors	174 327	377	17 243	6 544	198 491	
Potable	99 102	377	17 243	92	116 814	
Non-Potable	75 225	-	-	6 452	81 677	
Construction Projects	-	-	-	-	-	
Operating and Maintenance	-	-	-	-	-	
Training and consulting	-	-	-	-	-	
Revenue not recognised	-	-	-	-	-	
<b>Total Revenue</b>	<b>174 327</b>	<b>377</b>	<b>17 243</b>	<b>6 544</b>	<b>198 491</b>	
Timing of revenue recognition						
At point in time	-	-	-	-	-	
Over time	174 327	377	17 243	6 544	198 491	
<b>Total Revenue</b>	<b>174 327</b>	<b>377</b>	<b>17 243</b>	<b>6 544</b>	<b>198 491</b>	

<b>INDUSTRIES/RAILWAYS</b>		<b>31 December 2018</b>				
<b>Figures in Rand Thousand</b>	<b>Gauteng</b>	<b>Mpumalanga</b>	<b>North West</b>	<b>Free State</b>	<b>Total</b>	
Water debtors	20 770	-	-	-	20 770	
Potable	20 770	-	-	-	20 770	
Non-Potable	-	-	-	-	-	
Construction Projects	-	-	-	-	-	
Operating and Maintenance	-	-	-	-	-	
Training and consulting	-	-	-	-	-	
Revenue not recognised	-	-	-	-	-	
<b>Total Revenue</b>	<b>20 770</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20 770</b>	
Timing of revenue recognition						
At point in time	-	-	-	-	-	
Over time	20 770	-	-	-	20 770	
<b>Total Revenue</b>	<b>20 770</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20 770</b>	

The increase in water sales revenue was mainly driven by potable bulk water tariff increases of 7.9%, which is negotiated annually and was effective on 1 July 2019. For the aggregated revenue note for the period ended on 30 June 2019, refer to the Consolidated Annual Financial Statements for the year ended 30 June 2019 as published on the Rand Water website.

Revenue not recognised for the six months to date is R 92 million.

## 13. OTHER OPERATING EXPENSES

Other operating expenses increased slightly by 12.3% R856 million at 31 December 2019 (31 December 2018: R762 million). This was mainly driven by increases in the contract expenses.

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## 14. DISCONTINUED OPERATIONS

As reported in the Annual Financial Statements for the year ended 30 June 2019, Rand Water in complying with the provision of Section 78 of the Municipal System Act of 2000 as evoked by the Municipality and, Section 19 (1) of the Water Services Act 108 of 1997, that gives the Municipality the right to perform the functions of a water services provider itself.

Rand Water effectively discontinued providing bulk water services to the Bushbuckridge Local Municipality and accordingly handed-over the operation of the bulk infrastructure to its rightful owner, the Department of Water and Sanitation, on 1 July 2019.

Although negotiations are still underway to finalise the terms of the exit, a total of 137 workers were transferred to BLM, the right of use of the Municipality's assets and other movable assets, effective 1 July 2019. The following is the impact of the exit:

<b>Assets transferred and liabilities derecognised</b>	<b>R'000</b>
Property plant and equipment	140 851
Intangible assets	183 752
Inventories	3 602
Other liabilities derecognised	(292 973)
	35 232
Right of use asset derecognised	(24 981)
Net asset value	10 251
Proceeds agreed for the movable assets	(11 200)
<b>Profit on transfer of the Bushbuckridge bulk water services</b>	<b>949</b>

## 15. CONTINGENCIES

There were no significant changes to the Groups contingent liabilities, other than the updated status as included in the next paragraph, and the balance remained at R1 027 million as at 31 December 2019.

On 12 December 2019 a matter was heard at the High Court, in which the court dismissed Rand Water's application to set aside a contract that was awarded to a service provider. The said service provider is in terms of the contract claiming damages to the value of R667 million for loss of income, due to the cancellation of a contract which Rand Water is alleging to have been void ab initio, meaning it was invalid from the onset. Rand Water has subsequent to this judgement lodged with the Supreme Court of Appeal an application for leave to appeal, and awaits the confirmation of such application with the court.

No further material movements were noted on the contingent assets and liabilities. For the detailed disclosure on contingent assets and liabilities refer to Rand Water's consolidated annual financial statements for the year ended 30 June 2019, as published on the Rand Water website.

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## 16. FINANCIAL INSTRUMENTS

The fair value of assets and approximate carrying amounts are as follows:

Figures in Rand thousand	31 December 2019	31 December 2018	30 June 2019
<b>Fair value through other comprehensive income</b>			
Investments	462 831	453 367	470 313
<b>At amortised cost</b>			
Cash and cash equivalents	2 735 891	2 623 855	2 647 673
Loans receivable	3 573	3 494	3 847
Term deposit investments	2 465 483	-	1 585 344
Trade and other receivables	2 254 835	2 239 431	2 225 708
<b>Total</b>	<b>7 922 613</b>	<b>5 320 147</b>	<b>6 932 885</b>

The carrying amounts and fair values of liabilities are as follows:

Figures in Rand thousand	31 December 2019	31 December 2018	30 June 2019
<b>At amortised costs</b>			
Unsecured bonds	4 395 969	4 391 382	4 317 172
Trade and other payables	2 742 881	2 070 916	3 123 134
<b>Total</b>	<b>7 138 850</b>	<b>6 462 298</b>	<b>7 440 459</b>

The information below details the methods and assumptions used in estimating the fair values of financial instruments.

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.

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.



# Condensed Consolidated Interim Financial Statements for the six months ended 31 December 2019

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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.

## **Fair value other comprehensive income**

Financial assets measured at fair value through other comprehensive income are categorised as Level 1 which represents those assets which are measured using unadjusted quoted prices for identical assets based on quoted market prices on the Johannesburg Stock Exchange at the reporting date without any deduction for transaction costs.

## **Trade and other receivables**

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for expected credit losses.

## **Financial liabilities**

Financial liabilities in bonds are measured at amortised cost and are categorised as Level 1 hierarchy. The fair value is determined using quoted prices of identical assets based on quoted market prices on the Johannesburg Stock Exchange at the reporting date without any deduction for transaction costs.

## 17. GUARANTEES

At 31 December 2019, there have been no material movements in respect of guarantees given to third parties.

## 18. EVENTS AFTER THE REPORTING PERIOD

The Group partially bought back the RW21 notes to the value of R17.1 million and R51.0 million on 21 January and 31 January 2020 respectively in the secondary market.

On 14 February 2020, the high court ruled in favour of Rand Water, on a contingent liability that was reported as at 30 June 2019. A Service Provider instituted legal proceedings against Rand Water for damages amounting to R74.5 million. In this regard, Rand Water was appointed as the Implementing Agent on behalf of the Department of Water and Sanitation. The claim is founded on the loss of income alleged to have been suffered by the Service Provider due to the Force Majeure (circumstances beyond the control of any of the parties to the contract). In its judgement the court declared the order granted previously as void.

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On 31 December 2019, the World Health Organization (WHO) reported a cluster of Covid 19 cases in Wuhan City, Hubei Province of China but has since rapidly spread across the world and has been declared a pandemic. In response to the pandemic outbreak globally and the increasing number of infections confirmed by the National Institute for Communicable Diseases, the President of South Africa has declared a national state of disaster in terms of the Disaster Management Act on 15 March 2020. Subsequent thereto, the President has further announced a “lockdown” of South Africa between 26 March 2020 to 16 April 2020. The president with the relevant Ministers have highlighted the different integrated and co-ordinated disaster management mechanism that will focus on preventing and reducing the outbreak of this virus.

In addition to the serious implications for people's health and the healthcare services, COVID-19 is having a significant impact on businesses and the economy. Rand Water is assessing the full impact of the outbreak on its performance into the future. Although this has had no impact on the performance of Rand Water as reported for the period ended 31 December 2019, there is anticipated negative impact on the recoverability or performance of the trade receivables including the RSA bonds trading on the JSE, which may lead to higher expected credit losses experienced in the near future. The organisation will endeavour to protect growth and profitability through actions such as scenario planning and more frequent financial modelling exercises to improve resiliency.

The Board and management are not aware of any additional matters or circumstances that have arisen since the end of the financial period.

## 19. RELATED PARTIES

### 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:

Figures in Rand thousand	31 December 2019	31 December 2018	30 June 2019
<b>Transactions with related parties</b>			
Sales of goods and services	121 110	37 349	553 951
Purchases of goods and services	3 054 564	2 370 156	5 652 280
Contributions received	-	-	2 384
<b>Year-end balances arising from transactions</b>			
Expected credit losses	218 244	47 786	245 357
Receivables	251 841	339 552	304 347
Payables	1 033 914	1 058 000	1 223 762
Deferred income	505	1 751	504

### 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.

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The following are transactions with public entities within the same Ministerial control:

Figures in Rand thousand	31 December 2019	31 December 2018	30 June 2019
<b>Transactions with related parties</b>			
Purchases of goods and services	103 561	77 402	161 878
Statutory liabilities	-	786 177	100 235
<b>Year-end balances arising from transactions</b>			
Payables	12 968	15 570	69 618

## 20. SEGMENT REPORT

Rand Water (RW) has three reportable segments: Primary Activities, Secondary Activities, and Rand Water Mpumalanga. The segments were organised by type of services rendered. The separation of the segments was not based on the definitions in the Water Services Act i.e. Section 29 and Section 30 activities but rather based on the manner in which management reviews certain activities that it deems to be primary and secondary in nature. These segments are reviewed within the Rand Water company.

The primary activities segment (RW) consists of all bulk water supply services in Gauteng undertaken in line with the Water Services Act, these activities also include non-potable and potable water supplies to mines, industries and direct consumers. This segment is deemed to be Rand Water's primary business.

The secondary activities segment consists of all activities associated with Rand Water's recoverable projects including projects that are implemented by Rand Water on behalf of government departments, municipalities and other private companies. It further includes water demand management services, Operate and Maintain (O&M) contracts and other consulting, training and project management services. In the last two years, the business has curtailed secondary activities of this nature, which has resulted in a reduction in the revenue streams within the business activities, thus the segment does not meet the requirement in IFRS 8 Operating segment to be reported as a separate segment.

The third segment consisted of the Rand Water Mpumalanga segment and included the discontinued operation in Bushbuckridge municipal area. The segment was for the supply of bulk water services to the Bushbuckridge Local Municipality. With the effective exit of Rand Water on 01 July 2019 from the bulk water supply to the Bushbuckridge Local, this segment is not reportable for segment reporting effectively from the exit date.

Based on the secondary activities curtailment and the exit from the Bushbuckridge Local Municipality, the entity is not reporting on any segments as management doesn't consider the information significant to warrant the disaggregation into segments.