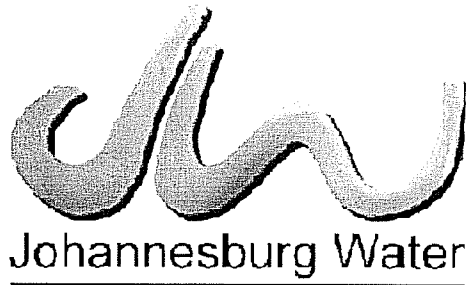


a world class African city



Johannesburg Water (Proprietary) Limited
Annual Financial Statements
for the year ended 30 June 2010

Johannesburg Water (Proprietary) Limited

(Registration number 2000/029271/07)

Annual Financial Statements for the year ended 30 June 2010

General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Supply of water services as defined in the Water Services Act (Act 108 of 1997)
Directors	M Janse Van Rensburg (Chairperson) GT Dumas (Managing Director) M Padiaychee (Financial Director) NA Macleod NB Mabuya N Govender N Skeepers T Modipane M Msezane C Tilly
Registered office	17 Harrison Street Marshalltown Johannesburg 2107
Business address	17 Harrison Street Marshalltown Johannesburg 2107
Postal address	P. O. Box 61542 Marshalltown Johannesburg 2107
Parent	City of Johannesburg Metropolitan Municipality incorporated in South Africa
Bankers	Absa Bank Limited
Auditors	The Auditor-General
Secretary	G J Luden
Company registration number	2000/029271/07

Johannesburg Water (Proprietary) Limited

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Directors' Responsibilities and Approval

The directors are required by the Companies Act of South Africa, Act 61 of 1973, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with Standards of Generally Recognised Accounting Practices (GRAP) and in accordance with directives issued by the National Treasury. The Auditor-General is engaged to express an independent opinion on the annual financial statements.

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board, the Companies Act of South Africa, Act 61 of 1973 and directives issued by the National Treasury.

The annual financial statements are based on appropriate policies consistently applied and supported by reasonable and prudent judgments and estimates. No external party, including the shareholder, has the authority to amend the annual financial statements after being issued by the company.

The project initiated by the City of Johannesburg Metropolitan Municipality during 2006 referred to as project Phakama has been rolled out during the 2010 financial year. In terms of the project, certain core functions that were managed by the company were migrated to the City of Johannesburg Metropolitan Municipality. The significant functions migrated are the customer call centre function and the management of the billing and credit control functions in respect of customers that were previously managed by the company. The information technology platform for billing was changed from Venus to SAP.

The result of project Phakama is that the company has to rely on the City of Johannesburg Metropolitan Municipality for the following functions for all its customers:

- Billing
- Cash collection
- Debtors administration

The migration of functions as it relates to project Phakama is regulated by an agency agreement between the City of Johannesburg Metropolitan Municipality and the company. The newly implemented processes and methods of operation are solely under the control and stewardship of the City of Johannesburg Metropolitan Municipality. The new arrangement will be managed in terms of a service level agreement underpinning the agency agreement.

With regard to the control environment surrounding the customer migration in terms of the Phakama project, and the subsequent post migration management, the Auditor General has concluded that "The accounting system and internal controls were not appropriately designed to facilitate the preparation of the financial statements and provide all the necessary evidence and documentation to support the revenue recognised from the City of Johannesburg's SAP ERP system". This issue has resulted in a qualification of audit opinion.

Clause 13.3 of the Agency Agreement with the City of Johannesburg Metropolitan Municipality states that "The performance of the CRC and CRM functions shall be conducted and records thereof kept by the City of Johannesburg Metropolitan Municipality in such a manner as to ensure that the audited accounts of the Company are in no way qualified as a result of any act or omission connected with the execution of the CRC and CRM functions.

The above clause has thus not been complied with.

The directors acknowledge that they are ultimately responsible, within their control, for the system of internal financial controls established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring strategic, operational and external risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

Johannesburg Water (Proprietary) Limited

(Registration number 2000/029271/07)

Annual Financial Statements for the year ended 30 June 2010

Directors' Responsibilities and Approval

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the company's cash flow forecast for the year to 30 June 2011 and, in the light of this review and the current financial position, they are satisfied that the company has or has access to adequate resources to continue in operational existence for the foreseeable future. The approved budget for the ensuing financial year assumes a positive cash flow. Cash collection will be managed by the City of Johannesburg Metropolitan Municipality.

The Auditor-General is responsible for independently reviewing and reporting on the company's annual financial statements.

The annual financial statements set out on pages 5 to 58, which have been prepared on the going concern basis, were approved by the directors on 28 June 2011 and were signed on its behalf by:

M Janse Van Rensburg (Chairperson)

M Padiaychee (Acting Managing Director)

Johannesburg Water (Proprietary) Limited

(Registration number 2000/029271/07)

Annual Financial Statements for the year ended 30 June 2010

Directors' Report

The directors submit their report for the year ended 30 June 2010.

1. INCORPORATION

The company was incorporated on 21 November 2000 and obtained its certificate to commence business on 1 January 2001.

2. REVIEW OF ACTIVITIES

Main business and operations

The company is engaged in the supply of water services as defined in the Water Services Act, Act 108 of 1997 and operates principally in South Africa.

The only significant change in the activities of the business during the 2010 financial year was the roll out of project Phakama by the City of Johannesburg Metropolitan Municipality. In terms of the project, certain core functions that were managed by the company were migrated to the City of Johannesburg Metropolitan Municipality. The significant functions migrated are the customer call centre function and the management of the billing and credit control functions in respect of customers that were managed by the company. The information technology platform for billing was changed from Venus to SAP.

The result of project Phakama is that the company has to rely on the City of Johannesburg Metropolitan Municipality for the following functions for all customers:

- Billing
- Cash collection
- Debtors administration

The implementation of project Phakama has resulted in significant challenges in all migrated functions. The board of directors have expressed their concern to the Shareholder, and have been assured that the matter is currently being addressed, and that appropriate interventions will be emplaced in the short term.

The operating results and state of affairs of the company are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net surplus of the company was R 163,992 million (2009: surplus R 138,929 million). The company is exempt from income tax with effect from the financial year ended 30 June 2007 in terms of Section 10(1)(t) of the Income Tax Act, Act 58 of 1962. There is consequently no taxation effect.

3. GOING CONCERN

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

4. SUBSEQUENT EVENTS

The significant part of project Phakama was rolled out towards the end of the 2010 financial year. The company is currently experiencing challenges as a result of the new processes and methods of operation. The City of Johannesburg Metropolitan Municipality has indicated that the issues will be resolved in the short term. It is anticipated that the newly implemented systems and processes will be functioning adequately before the end of the 2011 financial year.

5. DIRECTORS' INTEREST IN CONTRACTS

The directors of the company did not have any interest in contracts entered into by the company.

6. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

Johannesburg Water (Proprietary) Limited

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Annual Financial Statements for the year ended 30 June 2010

Directors' Report

7. CONTRIBUTION FROM SHAREHOLDER

There were no changes in the authorised or issued share capital of the company during the year.

According to the company's register at 30 June 2010, the City of Johannesburg Metropolitan Municipality held 100% of the ordinary share capital of the company.

8. BORROWING LIMITATIONS

In terms of the sale of business agreement, the company requires the approval of the shareholder in instances where the borrowing is to be secured by the hypothecation of the assets of the company.

9. NON-CURRENT ASSETS

There were no major changes in the nature of non-current assets of the company during the year.

10. DISTRIBUTIONS TO OWNER

No distributions were declared or paid to the shareholder during the year.

11. DIRECTORS

The directors of the entity during the year and to the date of this report are as follows:

Name	Nationality	Changes in appointment
M Janse Van Rensburg (Chairperson)	South African	
GT Dumas (Managing Director)	South African	
M Padiaychee (Financial Director)	South African	
NA Macleod	South African	
NB Mabuya	South African	
N Govender	South African	
P Dlamini	South African	Resigned 20 July 2009
N Skeepers	South African	
T Modipane	South African	
M Msezane	South African	
C Tilly	South African	Appointed 22 April 2010

12. SECRETARY

The secretary of the company is G J Luden of:

Business address	17 Harrison Street Marshalltown 2107
Postal address	P O Box 61542 Marshalltown 2107

Johannesburg Water (Proprietary) Limited

(Registration number 2000/029271/07)

Annual Financial Statements for the year ended 30 June 2010

Directors' Report

13. CORPORATE GOVERNANCE

13.1. General

The board of directors are committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the board supports the highest standards of corporate governance and the development of best practice.

The company confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002, and the Companies Act of South Africa, Act 61 of 1973. The board of directors discuss the responsibilities of management in this respect, at board meetings and monitors the company's compliance with the code on a quarterly basis.

The salient features of the company's adoption of the Code are outlined below:

13.2. Board of directors

The board:

- retains full control over the company, its policies, strategies and plans;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the company;
- is of a unitary structure comprising:
 - 9 non-executive directors, all of whom are independent directors as defined in the Code, and
 - 2 executive directors.

13.3. Chairperson and Managing Director

The Chairperson is a non-executive and independent director (as defined by the Code). The roles of the Chairperson and Managing Director are separate, with responsibilities divided between them, so that no individual has unfettered powers of decision.

Johannesburg Water (Proprietary) Limited

(Registration number 2000/029271/07)

Annual Financial Statements for the year ended 30 June 2010

Directors' Report

13.4. Executive meetings

The directors have met on 5 separate occasions during the financial year. The directors schedule to meet at least 4 times per annum.

Non-executive directors have access to all members of management of the company.

Name	Board Meeting	Audit committee meeting	HR sub-committee meeting	Operations and procurement committee meeting	Total meetings
Total number of meetings held	5	6	5	5	21
M Janse Van Rensburg (Chairperson)	5	1	2	1	9
GT Dumas (Managing Director)	5	4	5	5	19
M Padiaychee (Financial Director)	4	6	5	4	19
NA Macleod	3	-	3	1	7
NB Mabuya	5	-	5	4	14
N Govender	5	6	5	-	16
N Skeepers	4	1	5	5	15
T Modipane	3	6	-	4	13
M Msezane	4	-	5	5	14
C Tilly	1	-	-	-	1

13.5. Audit and risk committee

The chairperson of the audit and risk committee is Mr. N. Govender, who is a non-executive director. The committee met 6 times during the financial year to review matters necessary to fulfil its role.

In terms of Section 166 of the Local Government: Municipal Finance Management Act, Act 56 of 2003, the City of Johannesburg Metropolitan Municipality, as the shareholder, must appoint members of the audit and risk committee. Notwithstanding the fact that non-executive directors appointed by the shareholder constituted the company's audit and risk committee, National Treasury policy requires the appointment of further members to the audit and risk committee who are not directors of the company. Three independent members were appointed to the audit and risk committee in compliance with Section 166 of the Local Government: Municipal Finance Management Act, Act 56 of 2003.

The independent members of the audit and risk committee are:

J Behr	- attended 4 meetings
C Mbili	- attended 3 meetings
M Malope	- attended 6 meetings

13.6. Internal audit

The company has an internal audit unit which is operational. This is in compliance with the Local Government Municipal Finance Management Act, Act 56 of 2003.

Johannesburg Water (Proprietary) Limited

(Registration number 2000/029271/07)

Annual Financial Statements for the year ended 30 June 2010

Directors' Report

14. PARENT

The company's parent is the City of Johannesburg Metropolitan Municipality.

15. SPECIAL RESOLUTIONS

The company did not pass any special resolution during the year under review.

16. BANKERS

Amalgamated Banks of South Africa Limited served as the company's bankers throughout the financial year.

17. AUDITORS

The Auditor-General will continue in office in accordance with the Public Audit Act, Act 25 of 2004, section 92 of the Local Government: Municipal Finance Management Act, Act 56 of 2003 and section 270(2) of the Companies Act, Act 61 of 1973.

Johannesburg Water (Proprietary) Limited

(Registration number 2000/029271/07)

Annual Financial Statements for the year ended 30 June 2010

Certificate by Company Secretary for the year ended 30 June 2010

In terms of section 268 G(d) of the Companies Act of South Africa, Act 61 of 1973, as amended, I certify that the company has lodged with the Registrar all such returns as required by the Companies Act and that all such returns are true, correct and up to date.

G J Luden

Johannesburg Water (Proprietary) Limited
Company Secretary

Johannesburg
28 June 2011

Johannesburg Water (Proprietary) Limited

(Registration number 2000/029271/07)

Annual Financial Statements for the year ended 30 June 2010

Report of the Audit and Risk Committee

We are pleased to present our report for the financial year ended 30 June 2010 as recommended by the King III Report on Corporate Governance and Regulation 27 of the Treasury Regulations. The Audit and Risk Committee performs its functions in accordance with section 270A (1) of the Companies Act, 61 of 1973, and has adopted appropriate formal terms of reference in its Audit Committee Charter and has regulated its affairs in compliance with this Charter. The Audit Committee has discharged all its responsibilities as contained therein.

In the conduct of its duties, the Audit and Risk Committee has, inter alia, reviewed the following:

- the effectiveness of the internal control systems;
- the risk areas of the entity's operations covered in the scope of internal and external audits;
- the adequacy, reliability and accuracy of financial information provided by management and other users of such information;
- accounting and auditing concerns identified as a result of internal and external audits;
- the entity's compliance with legal and regulatory provisions;
- the effectiveness of the corporate audit department;
- the activities of the audit department, including its annual work programme, co-ordination with external auditors, the reports of significant investigations and the responses of management to specific recommendation;
- the independence and objectivity of the external auditors

In terms of reporting on fruitless and wasteful expenditure the Company complied by completing returns to the parent municipality on a regular basis. For the year under review there was no fruitless or wasteful expenditure.

The Financial Director acquitted himself well and has managed the Company's finances to the satisfaction of the Committee.

The Committee is of the opinion, based on the information and explanations given by management and the audit department and discussion with the independent external auditors on the results of their audits, that the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the financial statements and accountability for assets and liabilities is maintained.

Having considered the matters set out in section 270A(5) of the Companies Act as amended by the Company Law Amendment Act, the Committee is satisfied with the independence and objectivity of the external auditors.

Nothing significant, other than reported in the directors' report, has come to the attention of the Committee to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The Audit and Risk Committee is satisfied that the financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgements and estimates.

The Audit and Risk Committee has evaluated the annual report for the year ended 30 June 2010 and considers that it complies, in all material respects, with the requirements of the Companies Act, 61 of 1973, as amended, and International Financial Reporting Standards. The Committee has therefore recommended the adoption of this annual report by the Board of Directors at its meeting on 25 November 2010.

Chairperson of the Audit and Risk Committee
Johannesburg

28 June 2011

Johannesburg Water (Proprietary) Limited

(Registration number 2000/029271/07)

Annual Financial Statements for the year ended 30 June 2010

Statement of Financial Position

Figures in Rand thousand	Note(s)	2010	2009 (restated)
ASSETS			
Current Assets			
Biological assets - held for resale	6	-	3,400
Inventories	7	35,605	31,820
Trade receivables with group companies	8	164	3
Loans to shareholder	9	409,923	399,429
Other receivables	10	9,626	10,677
Consumer debtors: Exchange transactions	11	880,241	855,497
Cash and cash equivalents	13	24	27
		1,335,583	1,300,853
Non-Current Assets			
Biological assets- breeding stock	5	-	5,976
Property, plant and equipment	3	4,904,977	4,418,342
Intangible assets	4	22,606	27,649
		4,927,583	4,451,967
Total Assets		6,263,166	5,752,820
LIABILITIES			
Current Liabilities			
Trade payables with group companies	8	5,908	7,359
Short term portion of long term loans from shareholder	9	339,382	278,462
Trade and other payables from exchange transactions	17	1,104,361	861,324
		1,449,651	1,147,145
Non-Current Liabilities			
Loans from shareholder	9	2,067,228	2,014,117
Retirement benefit obligation	15	84,823	88,141
Unspent conditional grants	16	7,538	13,483
		2,159,589	2,115,741
Total Liabilities		3,609,240	3,262,886
Net Assets		2,653,926	2,489,934
NET ASSETS			
Contribution from shareholder	14	1	1
Accumulated surplus		2,653,925	2,489,933
Total Net Assets		2,653,926	2,489,934

Johannesburg Water (Proprietary) Limited

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Annual Financial Statements for the year ended 30 June 2010

Statement of Financial Performance

Figures in Rand thousand	Note(s)	2010	2009 (restated)
Revenue from exchange transactions	19	3,960,752	3,664,962
Cost of sales		(1,769,720)	(1,644,447)
Gross surplus		2,191,032	2,020,515
Other income	20	128,857	108,712
Revenue from non-exchange transactions	21	114,743	105,422
Operating expenses		(2,031,396)	(1,899,778)
Operating surplus	22	403,236	334,871
Interest revenue	27	19,804	43,671
Effective interest rate adjustment	28	8,608	13,461
Finance costs	29	(267,656)	(253,074)
Surplus for the year		163,992	138,929

Johannesburg Water (Proprietary) Limited

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Annual Financial Statements for the year ended 30 June 2010

Statement of Changes in Net Assets

Figures in Rand thousand	Note(s)	Share capital	Accumulated surplus	Total equity
Opening balance as previously reported		1	1,760,544	1,760,545
Prior year adjustments	36		590,460	590,460
Balance at 01 July 2008 - restated		1	2,351,004	2,351,005
Surplus for the year - restated	36		138,929	138,929
Surplus as previously stated			162,571	162,571
Prior year adjustment			(23,642)	(23,642)
Balance at 01 July 2009		1	2,489,933	2,489,934
Surplus for the year			163,992	163,992
Balance at 30 June 2010		1	2,653,925	2,653,926
Note(s)			14	

Johannesburg Water (Proprietary) Limited

(Registration number 2000/029271/07)

Annual Financial Statements for the year ended 30 June 2010

Cash Flow Statement

Figures in Rand thousand	Note(s)	2010	2009 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Cash receipts from customers		3,954,602	3,736,730
Interest revenue	27	19,804	43,671
		<u>3,974,406</u>	<u>3,780,401</u>
Payments			
Cash paid to suppliers and employees		(3,237,525)	(3,407,142)
Finance costs	29	(267,656)	(253,074)
		<u>(3,505,181)</u>	<u>(3,660,216)</u>
Net cash flows from operating activities	31	<u>469,225</u>	<u>120,185</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	(567,748)	(651,666)
Proceeds from disposal of property, plant and equipment	3	1,010	407
Purchase of intangible assets	4	(6,027)	(1,138)
Net cash flows from investing activities		<u>(572,765)</u>	<u>(652,397)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net movement in loans with Shareholder	9	103,537	532,213
Net cash flows from financing activities		<u>103,537</u>	<u>532,213</u>
Net increase/(decrease) in cash and cash equivalents		(3)	1
Cash and cash equivalents at the beginning of the year		27	26
Cash and cash equivalents at the end of the year	13	<u>24</u>	<u>27</u>