

JOHANNESBURG METROPOLITAN BUS SERVICES

(PROPRIETARY) LIMITED

(Registration Number: 2000/004704/07)

ANNUAL REPORT 2009/10

JOHANNESBURG METROPOLITAN BUS SERVICES (PROPRIETARY) LIMITED

COMPANY INFORMATION:

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Vision

To be a world-class African Provider of Bus Services in the Greater City of Johannesburg

Mission

Metrobus will be the provider of customer friendly public bus transport within the Greater City of Johannesburg.

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CHAPTER ONE PROFILE

1.1. Scope of the Report

This report covers the Johannesburg Metropolitan Bus Services (Pty) Ltd's ("Metrobus") activities and performance for the 2009/10 financial year. It provides an account of the Company's progress and also offers a forward-looking perspective for the organisation.

1.2. Company Profile

Metrobus was incorporated in 2000 as a private company and is a municipal entity, wholly owned by the City of Johannesburg.

The Company operates daily scheduled public transport services within the Greater Johannesburg metropolitan area, which services include:

- Daily scheduled public transport;
- Private hire transport services;
- Scheduled commercial contracts; and
- Special contracts for the Gauteng Province's Department of Transport in Eldorado Park.

As part of the company's social responsibility, the following services are offered at discounted rates:

- A dedicated service to persons with disabilities;
- Subsidised pensioner services;
- Scholar services; and
- Free transportation to the South African Police Services (SAPS), the Johannesburg Metro Police Department (JMPD) and the South African National Defence Force (SANDF) officers.

Metrobus has 915 employees and 7 non-executive directors, 498 buses, three main depots and three satellite depots.

The tables below indicate the size, capacity and age of Metrobus' current fleet:

Capacity/Model	Number of Buses
44 persons (luxury coaches)	2
65 persons	319
90 persons (double deck)	149
110 persons (double deck)	28
Total number of buses	498

Age of Fleet

Age of the fleet (in years)	Model	Capacity	Number of buses				
Years:			0 to 3	4 to 9	10 to 15	15 to 20	> 20
Volvo	B7L	90		149			
Volvo	B7R	65		50			
Volvo	B10M	65					
Mercedes Benz	LUX	44	2		93		
Mercedes Benz	S/D	65	125				
ERF	STB	65					
Mercedes Benz	DD	110			44	11	
Totals	498		127	199	137	20	15

The following table reflects the number of buses, bus operators and operational staff per depot. It also reflects the number of buses per depot. The table does not include staff at the Head Office.

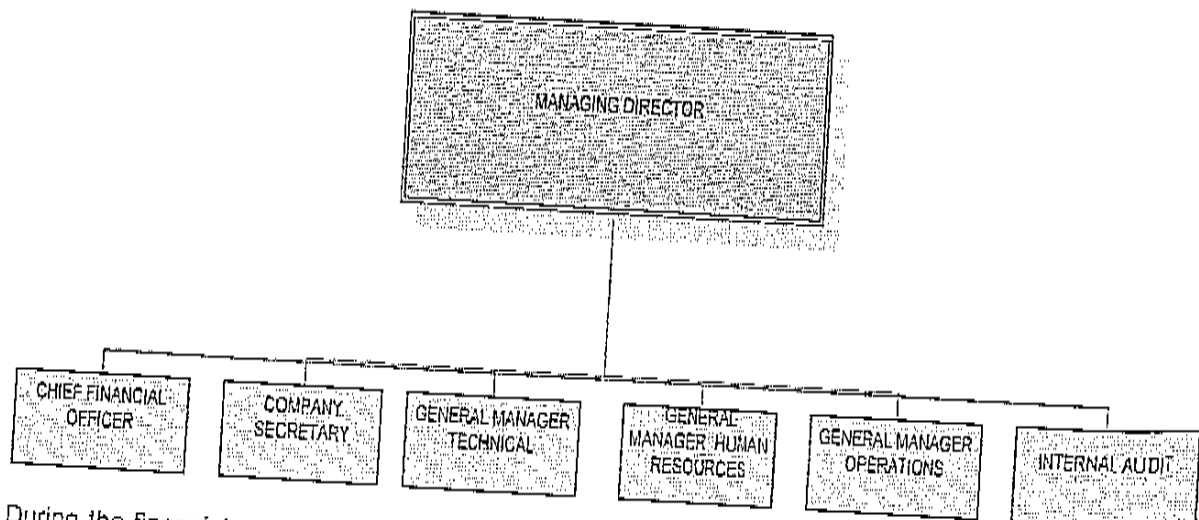
	Milpark Depot	Village Main depot	Roadport Depot
Total Number of buses	221	201	76
Number of drivers	224	217	75
Number of operational staff	22	14	8
Number of maintenance staff	95	49	20
Number of administration staff	3	2	1
Number of outsourced workshop staff	0	18	12
Number of satellite depots*	3	1	0

* A satellite depot refers to an outlying depot where buses are parked and not returned to the depot to save kilometres.

The Mayoral Member (MMC) for Transportation, Councillor R Moosajee and the Transportation Portfolio Committee of the City of Johannesburg exercise political governance and oversight over Metrobus.

1.3. Organisational Structure

The Executive level of the Company is structured as follows:



During the financial year, a review of the organisational structure revealed that middle management was inadequately staffed to effectively manage the high number of drivers e.g. eighty to a hundred drivers per superintendent. Consequently the oversight role on the performances of drivers was lacking which resulted in certain drivers abusing the system and also made the IR management in depots difficult. Hence provision has been made for the introduction of additional supervisory staff to address these shortcomings.

1.4. Vision, Mission, Values and Strategic Objectives.

Vision

To be a world-class African Provider of Bus Services in the Greater City of Johannesburg that:

- Is financially viable while recognising that, as in most cities in the developed world, public transport requires subsidisation to ensure a high level of service at an acceptable level of passenger fares.
- Meets world standards of operational efficiency, safety and sustainability.
- Competes for public transport contracts.
- Takes full advantage of other market opportunities, and meets the needs of a wide range of passengers, including new market segments.
- Enables the City of Johannesburg to meet its social passenger mobility needs.
- Is fully integrated with, and aligned to, the transport plans (including Bus Rapid Transit) of the City of Johannesburg and Gauteng Province.

Mission

Metrobus' employees are guided by the Company's mission which is to be the provider of customer friendly public bus transport within the Greater City of Johannesburg. The Company aims to achieve its mission through improvements in the following areas:

- Innovation: We will continuously seek revenue-enhancing ways to grow our business. We will continuously introduce cost reducing and efficiency enhancing methods and technologies.
- Customer focus: We will ensure that our buses are clean, comfortable and our operators are trained and rewarded for being caring to all that we serve. We will ensure that communication to the commuters and communities be adequate and of the correct frequency.
- Safety: We will ensure that our passengers are always safe in and around our services. Our bus operators will be the best trained of any bus operation in the country.
- Reliability: We will provide a reliable, punctual service in terms of scheduled timetables.
- Efficiency: We will provide a cost efficient service to ensure that the fares charged to the commuters are kept as low as economically possible.
- Sustainability: The Company is financially viable taking into account all sources of income (including subsidy and fare revenue) and through the efficient allocation of resources and management.
- Environmental consciousness: We will ensure that our business operation, especially our buses do not contribute unnecessarily to harming the environment through pollutants.
- Continuous learning: We will ensure that all our staff and their families are encouraged to learn, particularly regarding those matters that affect their health, safety and social well-being.

Values

Metrobus, as a company, and a municipal entity, is committed to incorporate and promote the City transportation family values of Respect, Honesty, Co-operation, Accountability and Ubuntu in our business environment, both internally and externally. In its commitment to the transportation values, it is important to note that Metrobus has fully wrapped five double deck buses in the specific values themes. The values are also re-emphasised on a regular basis in order to entrench these into the company's business ethos.

Metrobus' Strategic Focus

The Company adopted the City Transportation Family Values and will promote the values amongst all Metrobus employees. During the early part of 2008 the Board of Metrobus embarked on a strategy of re-focusing the strategic thrust of the company which resulted in the development of a Strategic Plan which is based on a three-phase, interlinked, continuous and overlapping action agenda that covers the period from 2008 up to 2015:

This plan makes provision for increased focus on:

- Strategic alliances, joint ventures and other alternative business models.
- Subsidised service contracts, including Rea Vaya.
- Growing participation in line with the implementation of the Bus Rapid Transit System.
- Service restructuring.
- Balancing of company efficiency with changing business structure.
- Other New Business.
- Sustainability of Business.
- Impact of the Bus Rapid Transit Project (BRT).

Impact of the Bus Rapid Transit Project (BRT)

Public Passenger Transport in South Africa entered the first phase of an exciting transformation process with the introduction of the Rea Vaya BRT project during September 2009. The Rea Vaya BRT project focused on the introduction of dedicated bus lanes which resulted in massive improvements in the *origin to destination* travelling times of Johannesburg's public transport commuters.

It was originally anticipated that Metrobus would also be entitled to actively participate in the newly formed Bus Operating Company (BOC) together with Putco and the affected Taxi operators. It, however, came to light that Metrobus cannot participate as a shareholder in the BOC as a result of the following:

- (a) Existing legislation which regulates the activities of Municipal Owned Entities (MOEs) requires that a MOE must hold the majority shares in such a venture. In reality this will not be the case as shareholding percentages are to be determined according to existing market shares where Metrobus only holds a minority share of approximately six percent.
- (b) A precondition for qualifying to become an active shareholder in the BOC was that only entities that were directly affected by the introduction of the BRT services would be entitled to take up shares in the BOC. Phase 1A of the Rea Vaya BRT was originally planned to be forty (40) kilometers long, commencing in Soweto, proceeding through Central Johannesburg to Ellis Park and another leg from Central Johannesburg to Sunninghill in the north. Revised planning resulted in Phase 1A being reduced to operate only between Soweto and Ellis Park which resulted in neither Putco nor Metrobus being required to withdraw any services. As the BRT project management had reduced the scope of the BRT services to be rendered during Phase 1A resulted in Metrobus not being required to withdraw any of its services therefore disqualifying the organisation from becoming a shareholder.

Phase 1A of the Rea Vaya BRT system will therefore be solely operated by the taxi industry but the process of formalizing the affected taxi operators into one entity running behind schedule. Consequently, Metrobus was requested to assist with the BRT start-up services by means of a Management Agreement. This agreement required Metrobus to second certain managerial staff members to the BOC, for the purpose of managing this entity and also take responsibility for the daily operations of services rendered.

Eight managerial and/or key positions were identified for secondment purposes, which had to be temporarily filled by Metrobus staff members. Metrobus and Putco had an agreement in place which

determined that if Metrobus were to participate in the BRT system it had to involve Putco as well. This agreement was made an order of court. As a result, Metrobus and Putco seconded four members each to manage the new Bus Operating Company.

The Metrobus/Putco joint management service has demonstrated that different companies can co-operate successfully in a joint venture. The Rea Vaya services also contributed to making the 2010 FIFA World Cup in Johannesburg a success. This further demonstrated the versatility of Metrobus personnel and their capabilities to successfully manage challenging projects.

QUARTERLY LEADERSHIP OVERVIEW

2. Overview

2.1. Foreword of the Member of the Mayoral Committee

Metrobus remains one of the most resilient municipally-owned entities of the City of Johannesburg. Any entity involved in the public transport industry in a vast City such as Johannesburg would need to exhibit courage and resilience. Metrobus staff and management have exhibited these character traits time and time again, especially during the two rounds of industrial action this year.

Public transport is increasingly under the spotlight and the needs of the residents of Johannesburg continue to grow. As the City of Johannesburg we are acutely aware that a lot of work still has to be done to build an integrated public transport system that is commuter focused.

Metrobus' involvement in the provision of transport for the 2010 FIFA World Cup reminded all of the importance that Metrobus plays in the City's offering of public transport. Allow me to salute the Metrobus team for the dedication and enthusiasm displayed during this important event. Years from now, we will all tell stories of how we travelled to the World Cup in Johannesburg either to the stadium or to the Fan Fests and Public Viewing Areas. Seeing the Metrobus fleet ferrying excited fans was indeed a sight to behold!

One must take this opportunity to thank the regular commuters of Metrobus, who sacrificed their usual schedules so that World Cup ticket-holders could be assisted. We recognise how difficult that may have been. Also let us thank management for appreciating the sacrifice of their regular commuters and their decision to provide a free ride to regular commuters.

The support role played by Metrobus in the management contract with Clidet in relation to Rea Vaya was also an important component of their work in the past financial year. Rea Vaya was launched on 30 August 2009 and the caretaker role played by Clidet and Metrobus until the taxi industry takeover has helped Rea Vaya grow from strength to strength.

The active role played by the Metrobus Commuters Forum to aim for continuous improvement by the Company is appreciated. Moreover, the vision of the Users Forum for an improved transport system is also encouraging.

As the year draws to a close, it is pleasing to note that the planning for the future has already begun. In this instance the beginning of the Future Options Study is an important and impressive milestone in the life of Metrobus, and one is confident that a clearer and positive direction for Metrobus will emerge out of that study.

I would like to take this opportunity to thank the Metrobus Board for their dedication, commitment and desire to improve the efficiency and effectiveness of the organisation.

Finally let me thank the management and staff of Metrobus and at the same time, I would like to encourage them to continue to use the transport values of Accountability, Co-operation, Honesty, Respect and Ubuntu as the guiding light for all they do.

Cllr Rehana Moosajee

MMC: Transportation

2.2. Chairperson's Foreword

The Board of Directors is pleased with the progress of the Company despite challenging trading conditions over the past year. We keep striving to become a world-class provider of bus transport services to the residents of our City. Serving our community with the best possible transportation service remains our priority.

We have been operating our services with a relatively ageing fleet. As a result, the cost of spares and fuel has also been high in the past year. Hence it will become imperative to replace the aged buses in the near future.

The relationship with the labour union took some strain earlier in the year and Management has worked hard to normalise relations in the workplace.

Metrobus is proud to have successfully provided world-class park and ride services during the 2010 FIFA world cup. Our drivers worked long hours but performed beyond the call of duty making these services extremely efficient.

Metrobus management and the Board have also worked tirelessly to assist with the implementation and operation of the Phase 1 A of the Bus Rapid Transit System (Rea Vaya). This is a significant achievement for the City and the residents of Johannesburg.

On behalf of the Board, I would like to thank MMC Moosajee, the staff of Metrobus, the City of Johannesburg for the contributions they have made to make Metrobus a success.

Board Chairperson
Vincent Mntambo

2.3. Managing Director's Report

This report will cover the progress to date, significant achievements, challenges and future plans for the Company.

2.3.1. Significant Achievements

The following are the highlights for the year under review:

- The successful implementation of a turn-around strategy which enabled Metrobus to operate within budget constraints.
- The introduction and management of the Rea Vaya BRT services which have earned their place in history by being the first BRT system in Southern Africa. The BRT system was also utilised in providing an efficient service during the FIFA 2010 World Cup.
- The Metrobus Park-n-Ride services rendered during the FIFA 2010 World Cup which assisted with bus transport to and from matches and therefore formed part of an efficiently City of Johannesburg managed integrated bus transport system for the City.

2.3.2. Financial Performance

The company is consistently striving to apply strict adherence to the principles of Good Governance and has achieved unqualified audit opinions for the past four (4) financial years, including the period under review.

The following were the major factors which had an influence on revenue for the period:

- Cash & non-cash fares decreased as a result of the national SAMWU strike in April 2010 and the lower than expected passenger levels transported during the FIFA Soccer World Cup. However, the lost revenue experienced due to the lower levels of passengers transported during the 2010 world cup event was recovered via the R7.5 million Park-n-Ride invoices raised.
- Efforts continued to encourage passengers to move from cash to non-cash tickets (smart card pre-paid trips) in order to prevent cash ticket irregularities. This however resulted in a loss of revenue as non-cash tickets historically carry a disproportionally large discount in comparison to cash tickets. Although the year on year average fare per trip decreased from R9.81 to R8.23 or 13% cash fare revenue increased by R1 million (or 19%) from last year.
- The loss of the Metrorail contract where the latter decided to purchase its own vehicles.
- Other revenue recorded an increase over budget of R735 000 or 23%, mainly due to the BRT management fees and other related expenses increasing in correlation with the expansion of services which exceeded budget expectations. This is mainly due to the extension of the management contract with Clidet from February 2010 to the end of September 2010.

2.3.3. Rea Vaya BRT System

Metrobus is managing the Rea Vaya BRT operations on behalf of Clidet through a management contract. The initial contract was set for a period of six (6) months from September 2009 to February 2010. The parties are currently finalising the extension of this contract to end on 30 November 2010 depending the finalization of negotiations with the taxi industry.

On 03 May 2010 Metrobus assisted Clidet in expanding the Rea Vaya services with a further eighty (80) buses. This now concludes the revised Phase 1A of the Rea Vaya BRT services. The expansions mainly took place on the complimentary routes and are operated with normal rigid vehicles. Although some resistance was experienced prior to implementation, this was successfully overcome through the actions of the security forces.

2.3.4. Engineering

A number of issues impacted on the performances of this section which will be explained under separate headings.

2.3.5. Fleet Age

Continued efforts were made in highlighting the negative impact of an ever increasing aging fleet. Notwithstanding the fact that the age of the approximate five hundred (500) bus fleet averages on 10.0 years per bus, nearly thirty-five percent (35%) or one-hundred-and-seventy-three (173) buses, averaging close to seventeen (17) years per bus. Management emphasises the fact that in terms of current legislation (the NLTA) a third of the Metrobus fleet has reached the end of their useful lives, thus preventing Metrobus from participating in any commercially tendered operations.

The operating costs in both spares and fuel consumption of these vehicles as well as the Volvo B7TL units are expensive in comparison to current technology units and this places a heavy financial burden on the company. This situation is further compounded by the fact that it is becoming extremely difficult to source the required spares for these old buses.

The discontinuation of the fleet replacement programme during 2007/8 combined with the fact that no additional funds are being made available for the refurbishment of buses leaves Metrobus no other option but to withdraw buses from services and in so doing rationalise certain services.

As at the end of June 2010 Metrobus was forced to withdraw the following number of buses from services due to a lack in capital funding to properly maintain these buses:

Dapot	No of Buses	Reasons	Cost of repairs to keep all buses on the road
Milpark Depot	21	13 buses to be parked off due to age	R2 120 500
Village Main Depot	16	8 buses to be parked off due to age	R1 017 000
Roodepoort Depot	10	1 bus to be parked off due to age	R1 059 500
Total	47	22 of the 47 buses are earmarked to be parked off permanently	R4 197 000

All bus companies normally allow for an average of 10% of fleet to be applied as spares for maintenance/accident purposes. This enables the concerned workshops to properly maintain/repair buses without impacting on the actual operations. The impact of the withdrawal of the above number of buses has resulted in the depletion of the spare fleet capacity of Metrobus. This implies that when a bus experiences a breakdown that such shift (and all its related trips) will remain open, i.e. no bus can be assigned to this shift until the concerned bus has been repaired therefore drastically impacting on the service delivery capabilities of this Company.

2.4. The Executive Management Team



Mr Herman Van Laar is the Managing Director for Metrobus. He has over 20 years experience in the public transport industry and he possesses the following qualifications:

- M.Com Transport Economics (2001).
- B Com. Hons. (1997)
- Transport Management & Economics, B. Com. (1991)



Mr Lawrence Masekoane (Chief Financial Officer)
He has the following qualifications:

- B Com. Hons.
- Post Graduate Diploma in Strategy & Corporate Governance.



Mr D Gregory (General Manager: Technical) has the following credentials:

- Final certificate of the Institute of Road Transport Engineers
- Final City and Guilds certificate of mechanical engineering
- National Executive board of business studies – diploma in supervisory
- Corporate member of the institute of Road Transport Engineers
- Registered Technician CEI
- Corporate member of the chartered institute of transport



Mr M Tema (GM: Human Resources Department) is qualified with a National Diploma in Public Administration.



Mrs P Maduka (Company Secretary)

Philipa is qualified with a Bachelor of Laws Degree (LLB) and is an admitted attorney of the High Court of South Africa.

She is currently pursuing a Masters of Laws degree in Company Law.



Mr Babs Narain is the Acting General Manager Operations. Babs has the following qualifications:

- National Diploma in Road Transport;
- Certificate in Road Transport; and
- Advanced Certificate in Road Transport.

2.5. Chief Financial Officer's Review

2.5.1. Overall Financial Performance

The company realised a surplus of R1,5m during the year under review mainly because of revenues generated from the Soccer World Cup activities, actuarial gains and cost containment measures implemented by management during the year. There is an improvement of R23,3m in results when compared to the previous financial year.

The table below compares the results of the year under review with previous years.

Results (R'000)	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenue	417,444	376,661	370,857	317,706	308,443
Expenses	(417,478)	(396,003)	(383,299)	(329,166)	(313,176)
Other	1,522	(2,504)	3,021	3,272	2,308
Surplus/(Deficit)	<u>1,488</u>	<u>(21,846)</u>	<u>(9,421)</u>	<u>(8,188)</u>	<u>(2,425)</u>

2.5.2. Revenue

The subsidy from the City of Johannesburg makes up 68% of the company's revenue, with fares and contracts making up 27%. However, there has been an increase in revenue from fares, contracts and other sources. Revenue derived directly from carrying passengers increased by 8% compared to the previous financial year.

The table below compares operating revenue for the current year with previous years.

Revenue (R'000)	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Subsidy	284,497	265,498	258,343	223,708	222,778
Fares	88,718	84,465	85,540	68,815	67,401
Contracts	24,921	21,658	15,875	11,725	12,336
Advertising	6,858	6,514	6,133	5,077	2,806
BRT management fee	3,693	0	0	0	0
Insurance	1,004	148	1,556	589	249
Tags	882	1,073	1,198	429	0
Actuarial gains (losses)	5,577	(5,952)	(477)	5,041	0
Other revenue	1,294	3,257	2,689	2,322	2,873
	<u>417,444</u>	<u>376,661</u>	<u>370,857</u>	<u>317,706</u>	<u>308,443</u>

2.5.3. Operating Expenditure

Staff costs went up mainly as a result of the collective wage agreement. Administration expenses declined because of gains on post-retirement benefits. There was a gain of R1,9m from the reversal of stock losses realised in prior years. Repairs and maintenance went up primarily because of the ageing fleet. The table below provides a comparison of expenses over a five-year period.

Expenses (R'000)	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Personnel	180,868	152,669	136,277	131,478	112,214
Depreciation and amortisation	46,182	46,071	41,455	48,631	39,831
Reversal of impairments/Impairment loss	(1,875)	2,960	(451)	682	0
Finance costs	26,730	32,406	39,051	34,379	33,417
Bad debts	747	416	133	64	338
Repairs and maintenance	58,142	55,108	52,944	41,387	53,112
General expenses	106,684	106,372	113,890	74,545	74,264
	<u>417,478</u>	<u>396,003</u>	<u>383,299</u>	<u>329,166</u>	<u>313,176</u>

2.5.4. Balance Sheet

Net assets have increased by R1, 5m as a result of the surplus realised during the year under review. Current liabilities still exceed current assets and this negatively impact on the working capital of the company. The accumulated deficit at the end of the financial year was R59,8m. The table below provides a comparison of the balance sheet over a five-year period.

Balance Sheet (R'000)	2010	2009	2008	2007	2006
Non-current assets	272,124	304,539	337,986	372,710	278,813
Current assets	45,499	62,222	54,830	79,461	42,991
Total assets	317,623	366,761	392,816	452,171	321,804
Non-current liabilities	158,535	226,650	268,453	308,545	213,948
Current liabilities	141,628	124,139	90,590	113,351	87,824
Total liabilities	300,163	350,789	359,043	421,896	301,772
Net assets	17,460	15,972	33,773	30,275	20,032

2.5.5. Cash Flow

An increase in cash flows from operating activities is as a result of cash generated from related parties. An improvement in investing activities resulted from reduction in contributions to the insurance fund which was necessitated by reduced claims. Financing activities went up because of repayment of shareholder loans.

The table below gives the trend in cash flows over a five-year period.

Cash flows (R'000)	2010	2009	2008	2007	2006
Operating activities	68,762	30,179	38,631	48,429	37,786
Investing activities	(7,636)	(15,031)	(11,955)	(132,427)	(9,364)
Financing activities	(60,844)	(12,985)	(26,571)	90,271	(36,870)
Net movement	280	2,163	105	6,273	(8,448)
Bank opening balance	127	(2,036)	(2,141)	(8,414)	34
Bank closing balance	407	127	(2,036)	(2,141)	(8,414)

2.5.6. Capital Expenditure

Project	Start Date	Expected End Date	Approved Revised Budget R'000	Actual R'000	% Complete	Explanation Notes
Buildings & facilities upgrade	Jul.08	Jun.10	240	237	99%	Completed all projects.
Software purchases	Jul.08	Sep. 10	4 168	4 167	100%	Completed milestones as per project plan.
IT equipment	Jul.07	Jun.10	190	189	100%	Completed as envisaged.
Plant, tools & equipment	Jul.08	Jun.10	6	5	85%	Only unavoidable Projects continued.
Furniture	Jul.08	Jun.10	9	8	90%	
Office equipment	Jul.08	Jun.10	150	149	99%	
Engine & gearbox overhauls / replacements	Jul.08	Jun.10	8 610	8 948	104%	Replacement put on hold until July 2010 due to overspend. Buses parked.
Total Provided by Own Cash funding			13 373	13 704	102%	
Funded by COJ			0	0	0	
All Projects			13 373	13 704	102%	

2.5.7. Capital Projects

- **Building improvements:** All building improvements were on hold with only those projects that could not be deferred any longer due to safety requirements that were addressed. Any surplus budget was re-allocated to the Engines/gearbox vote due to operational requirements.
- **Software purchases:** The major project in this Capex vote is called the Oracle Enterprise Asset Management project. The outdated FleetAnywhere fleet maintenance and inventory control system is being replaced. This project was scheduled to be finalised by December 2009 and the "go live" date was rescheduled for May 2010. Due to data cleaning challenges the project has been delayed with "go live" committed to be during September 2010.
- **Computer equipment:** Only urgent replacements were approved as required, in conjunction with the Software project.
- **Plant, tools & equipment:** All replacement projects are on hold with only those projects that could not be deferred any longer that were addressed.
- **Office equipment:** All replacement projects are on hold with only those projects that could not be deferred any longer that were addressed.
- **Engine and gearbox overhauls or replacements:** The replacement engines and gearboxes of the Volvo buses was carried out in terms of the asset management policy. Although more budget has been received during the Revised Budget process the extent of failures were underestimated with the result that buses are being parked and earmarked for auction, or otherwise awaiting new funds from July 2010. During the final reallocation of Capex budget, excess funds were transferred from the Software and other votes where there was surplus budget.

2.5.8. Supply Chain Management

In terms of Supply chain Management and Broad Based Black Economic Empowerment, the following is worth reporting:

- The current Supply Chain Policy is based on the requirements of the MFMA as well as the Regulations issued by National Treasury.
- The adjudication process is applied as per the MFMA and as per the Supply Chain Policy, as adopted by the Board of Directors in 2007.
- The BBBEE numbers in the table below are calculated and based on information received from the suppliers, and verified by certificates confirming their BBBEE status where possible.
- On companies that are lower on BEE (say 10% and lower) there are other motivating factors considered, and mostly relates to instances of sole supplier status.
- The latest Internal and External Audit Reports have identified areas for improvement which have been addressed.
- The Bid Adjudication Committee consist of the following senior managers:
 - Chief Financial Officer (Chairman)
 - General Manager: Commercial Services
 - General Manager: Human Resources
 - General Manager: Technical
 - Company Secretary
- All tenders with a value exceeding R8 million require approval by the Board of Directors.

CHAPTER THREE: PERFORMANCE REVIEW**3. Highlights and Achievements**

Only improved cost management results could be achieved during the period under review as the majority of other items were hampered by a lack of funding. Some progresses were made on the following issues:

3.1. Improved Route Scheduling

The Company has finalized the reviewing of its existing route schedules and is in the process of refining the updating thereof. Once this exercise has been completed, this will result in the next step being embarked upon which entails the commencement of a consultation process with labour. The new revised schedules will be implemented on completion of the consultation process which is envisaged to occur before the end of the year.

3.2. Fleet Management

Fleet management has two aspects to it one being the effective utilization of the fleet which is being addressed in the improved route scheduling action explained above, the other being the proper maintenance of buses. Metrobus has achieved a 100% success rate in following its preventative maintenance plan but this unfortunately came at a cost due to the increasing age of the bus fleet.

3.3. Fare Collection System

The existing fare collection system used by Metrobus has exceeded its useful life by at least five (5) years and is currently ten (10) years old. The replacement cost of this equipment by far exceeds the capital budget approved for Metrobus therefore resulting in the delaying of the replacement of such equipment. Metrobus is however investigating alternative options in this regard and have commenced discussions with the National Department of Transport on this issue.

3.4. Revenue protection Initiatives

The Unions were sensitized of the precarious financial position of the company and were advised that their members were further exacerbating the situation by their indiscriminate dishonesty in terms of pilferaging. The leadership of SAMWU addressed their members in this regard and advised them that they will dissociate themselves from any driver who engages in theft.

The performance of the route auditors was introduced and was being monitored with respect to the number of checks and reports generated resulting in sub-standard work performance being addressed.

The administration and the control of discipline was for the period under review and will continuously be directly under the focus of Executive management. Drivers and operational staff have received a clear message that management is serious about discipline.

In February 2010, the company introduced a "blitz" which involved depot staff and senior managers joining the route auditors in checking the buses during peak periods of our services. In supporting this initiative, a senior SAMWU shop steward also accompanied a manager to jointly inspect buses.

The above mentioned initiatives achieved the desired results and will be substantiated by the fact that cash fare revenue increased by more than 35% for the month of March 2010.

3.5. Permit applications for name change

Metrobus faced the challenge of obtaining "Special Operating Licences" to operate services for the World Cup events. This was due to the fact that existing permits have not yet been transferred into the name of Metrobus, a process which is still in progress.

In view of the above, Management held several meetings with the Gauteng Operating Licence Board and the following successes were achieved:

- Guidance was given to Metrobus as to the way forward in speeding up the process in obtaining the required operating licences.
- As per the advice from GOLB an application for the transfer of permits into the name of Metrobus was resubmitted. We also simultaneously submitted an application for 241 "Special Operating Licences" and despite certain challenges; GOLB approved same thus to transport fans for the World Cup events.

With regard to the application for the transfer of permits into the name of Metrobus, an urgent hearing was held by GOLB to deliberate the matter. The concerned Board requested that additional information such as the total fleet, vehicle capacity and the applicable area of operation be included in the Service Delivery Agreement (SDA) which was obtained from the City. The latter will become an addendum to the SDA once signed by the appropriate authorities. This will be submitted back to GOLB.

3.6. Acquisition of GPS

After several meetings between Metrobus and the supplier, consensus was finally reached with regard to the project plan was signed off during March 2010. According to the large number of activities that are required to be undertaken, it is expected that the project will only be finalized by December 2010.

3.7. Marketing and Business Development Department Performance Highlights

The number of passengers carried for the last quarter of the year amounted to 3,736,836 which when compared to the budget of 5,123,084 reflects a drop of 1, 386,248 or 27%. The strike in April contributed largely to budget not being met.

3.8. Marketing and Business Development Department Performance Highlights

The number of passengers carried for the last quarter of the year amounted to 3,736,836 which when compared to the budget of 5,123,084 reflects a drop of 1, 386,248 or 27%. The strike in April contributed largely to budget not being met.

3.9. Customer Satisfaction

Numerous complaints from passengers and the public relate to drivers' attitudes while they are off the premises in the operational area. The attitude displayed by many drivers result in this increase in complaints being recorded.

Further, in an effort to address the issue, the training department was requested to provide training on NQF level 3 which is directly related to customer care. To date 160 drivers have already been through the training programme.

Operations Management have analysed the top five (5) complaints set out hereunder and realised that the majority of the complaints recorded arise from driver attitudes. It is clear that these need to be managed but this can be applied through negative methods (such as discipline) or positive methods (such as an incentive scheme). The company has opted to follow the positive method route and is currently exploring possible options in this regard. The success of such a scheme is subject to it being properly controlled. This scheme is expected to be introduced in the new financial year together with the re-aligned organisational structure.

The top 5 complaints were:-

1. Non arrival
2. Driver Attitude
3. Not Stopping
4. Driving
5. Wrong Route

The customer service survey (CSI) was conducted in-house and this reflects that 70.7% customers are satisfied which is below the target of 87%. The previous years, the satisfaction index however reflected a rating of 67%.

3.10. Private Hire

Due to the 2010 Soccer World Cup, Metrobus saw an improvement of R4.4 million in its private hire revenue.

PERFORMANCE INFORMATION

3.14. Performance Scorecard

Key Operation	KPI	Agreed Benchmark	09/10 Target	Current State	Comments
Supplying mobility to the citizens of the City of Johannesburg in support of people.	Employee Satisfaction levels (Staff Satisfaction Index)	0	Sample of 300 employees. 80% SSI target.	Above 300 employees	The next survey is contemplated to be conducted in the second quarter of the new financial year
	Wellness: HIV/AIDS (Attendees at HIV training)	0	210 employees	380 employees attended	Target exceeded. Five (5) Peer Educators were also trained with a view to rolling out the Presidential Project on HCT.
	Bus operators incentive programme (Number of drivers rewarded)	0	108	114	Target exceeded.
	Staff ratio (Crew to non-crew ratios)	1.03	1.03	1.08	The number of support staff exceeds the acceptable ratio.
	Employment Equity	85% black, 54% women and 4% persons with disabilities – as per National standards of Employment Equity	85% black, 54% women and 4% persons with disabilities – as per National standards of Employment Equity	85% black, 6.6% coloured, 0.8% Indians, 7.3% white, 16.3% women and 0.2% pwd	This target was not met. Due to the operational requirements of the sector, it is not possible to attract people with disabilities. However, concerted efforts are being made to target females in the recruitment process and learnerships in order to close this gap.
	Human capital utilisation (Employees per bus)	0	Operations 1.5 Technical 0.54 Administration 0.18 <u>2.2</u>	Operations 1.29 Technical 0.45 Administration 0.15 <u>1.89</u>	This target was not achieved. Vacancies still existed in both the operations and technical departments due to the scarcity of skills in the labour market.
	Skills Development: Number of learnerships created	15	40	35	This is an accumulative target. The annual target is to create 40 learnerships. These are created subject to approval from the Transport Education and Training Authority (TETA).

Key Operation	KPI	Agreed Benchmark	09/10 Target	Current State	Comments
Supplying mobility to the citizens of the City of Johannesburg in support of the broader economic and social goals of the City and its people.	Control of ticket theft (% of trips inspected/ theft detection rate)	0	8% of all live trips operated	6.85%	Target not met.
	Adequate capital investment (Return on assets)	0	15%	21.5%	This target has been met and exceeded. It is important to note that only Bus Fares, Advertising and Contract revenue are used to calculate the return on assets. Assets exclude revaluation surpluses/deficits and intangible assets.
	Asset utilisation (Revenue km as a proportion of total vehicle km)	0	0.75%	0.75%	Target was met.
	Cost Management (Cost per vehicle revenue km)	Q1 = R34.95 Q2 = R40.70 Q3 = R35.61 Q4 = R35.38	Q1 = R34.95 Q2 = R40.70 Q3 = R35.61 Q4 = R35.38	Q1 = R40.87 Q2 = R40.01 Q3 = R39.84 Q4 = R39.96	Target was met.
	Cost Management (Cost per passenger km i.e. the cost of carrying one passenger per kilometre)	Q1 = R1.07 Q2 = R1.49 Q3 = R1.18 Q4 = R1.05	Q1 = R1.07 Q2 = R1.49 Q3 = R1.18 Q4 = R1.05 – annual R1.20	R1.35	Target exceeded.
	Revenue Management (Revenue per passenger per kilometre)	0.30	0.30	0.31	Target was met.
	% Number of passenger kilometres of travel per seat kilometre of service capacity	43.5%	43.5%	50.92%	Target was met.

Key Operation	KPI	Agreed Benchmark	09/10 Target	Current State	Comments
	Number of passengers carried	18,954,191	19,413,175	16,862,479	This target was not met due to industrial unrest which took place in the final quarter which negatively impacted on passengers conveyed during this period.
	Business Growth (Total passenger)	9,530,785	10,905,428	13,596,854	Target was met.
	Other sources of revenue (private hire and charter)	R11,726,044	R14,368,536	R22,067,924	This target was met and exceeded by R7.6 million as a result of income generated by the Soccer World Cup services rendered to the City.
	Service Reliability (km/Breakdowns per bus)	0-5 Years 40,000 Km 6-10 Years 10,000 km 11 Years + 4,000 Km	0-5 Years 30 000 Km 6-10 Years 7 000 km 11 Years ÷ 2,500 Km	0-5 Years 34,622 Km 6-10 Years 9,260 km 11 Years + 3,285 Km	Given the age of the fleet, all the units are performing within the expected parameters. Due to financial restrictions no mechanical or body refurbishment programme was put in place. This and the overloading situation affected the overall road performance of these units.
	Percentage of completed trips	98.90%	99.15%	97.58%	This target was not met due to a shortage of buses which arose as a result of a lack of capital to repair engines and gearboxes which failed.
	Customer complaints per 100 000 passengers carried	8.31	7.48	8.76	Target was not met.

Key Operation	KPI	Agreed Benchmark	09/10 Target	Current State	Comments
Supplying mobility to the citizens of the City of Johannesburg in support of the broader economic and social goals of the City and its people.	Percentage of travellers who are 'satisfied' or 'very satisfied' with the services provided	67% as per CSI conducted in 2006/2007	87%	70.7%	The customer service survey (CSI) was conducted in-house at a cost of R42 000 in comparison to R238 000 which was spent on an outside company last financial year.
	Safety (Number of accidents per 100 000 vehicle kilometres travelled)	0	20 per quarter	16 per quarter	The target was exceeded
	Number of on-board security incidents (e.g. assaults) reported to Metrobus drivers per 1000 passengers trips	0	0	0	The target has been met. No security incidents were reported during the period under review.
	Audit Report	Unqualified audit	Unqualified audit	Unqualified audit	Unqualified audit
	Broad-based Black Economic Empowerment	75% as per City of Johannesburg target	75%	81%	This target has been met. BBBEE procurement for the final quarter of the period under review which represented 85% of total procurement of R30 million which implies that R25.5 million was classified as BBBEE.
	Conversion of permits to operating licenses	0	485	0	We re-submitted our application to GOLB and our application received the required attention following the guidelines we had received from GOLB.
	Number of public transport maps and timetables booklets printed and distributed	50 997 single sheet timetable	60 000	120 759	The target has been met and exceeded for the period under review.

Key Operation	KPI	Agreed Benchmark	09/10 Target	Current State	Comments
	To ensure effective financial management % Spend against approved OPEX budget	100%	100%	104%	There was an excess over budget in all the quarters except for the final quarter of 09/10. Further cost savings strategies will be relied on in the next financial year to reduce the excess.
	% CAPEX spent against approved budget	100%	100%	102%	Metrobus received a Revised CAPEX budget of R13.4 million for the 2009/10 financial year. This budget has to be funded from own cash resources. This translates to a 102% utilisation of the entire allocated budget for the year.
	Reconciliation of Intra Company Balances with other M/E's			100%	The company continues to perform confirmations of the outstanding amounts for the first quarter with other municipal entities in the Group. All are being attended to in detail as part of the month-end audit processes with the due date for submission as set by COJ Group Finance. Some amounts (not material) are in dispute.
	Reconciliation of Inter Company Balances with the COJ	100%	100%	100%	There were no outstanding amounts in dispute. Inter Company accounts with COJ and Treasury were balanced and confirmed at the end of the current quarter

3.12. Assessment of Municipal Taxes and Service Charges owed to the Company

Period of analysis	0-30 days	31-60 days	61-90 days	91-180 days	181 days +	Total
Only one income source: Bus services						
2009/10 Financial Year:						
Q4 - Rand	10 120	276 103	12 320	874 453	140 293	11 306
- % of total	367 89%	2%	0%	8%	1%	841 100%
Bad debts provision				235 560	395 629	631 189
Q3 - Rand	3 699 473	555 149	450	235 560	124 136	4 614 768
- % of total	80%	12%	0%	5%	3%	100%
Q2 - Rand	1 664 516	247 405	262 160	38 214	482 326	2 684 591
- % of total	62%	9%	10%	1%	18%	100%
Q1 - Rand	2 116 383	246 182	143 652	235 819	253 727	2 995 763
- % of total	71%	8%	5%	8%	8%	100%
2008/09 Financial Year:						
Q4 - Rand	3 454 731	22 405	34 200	261 389	219 598	3 992 324
- % of total	86%	1%	1%	7%	5%	100%
Q3 - Rand	1 977 433	217 399	334 160	24 611	73 986	2 627 589
- % of total	75%	8%	13%	1%	3%	100%
Q2 - Rand	1 833 637	589 847	3 829	9 070	412 520	2 848 637
- % of total	64%	21%	0%	0%	14%	100%
Q1 - Rand	2 670 051	592 348	14 964	7 030	389 002	3 673 395
- % of total	73%	16%	0%	0%	11%	100%

3.13. Statement of amounts owed by Government Departments and Public Entities

Customer	Amount	Current	30	60	90	180	360	+ 360
Department of Arts and Culture	(101)	(101)	0	0	0	0	0	0
Department of Public Transport	26	0	0	0	0	0	0	26
Metrorail	571	0	0	205	0	365	0	0
Provincial government	7	0	0	0	0	0	7	0
Transnet Freight Rail	49	0	49	0	0	0	0	0
	552	(101)	49	205	0	365	7	26

Department of Arts and Culture paid an amount of R115, 000 but did not take delivery of services. The Department of Public Transport hired buses and were under the impression that service between government entities were for free of charge, discussions between Metrobus and the Department are on-going. The full amount from Metrorail has since been settled.

3.14. Assessment of Directors' and senior managers' municipal accounts

Name of Director/Senior Manager	Designation	Name of Municipality	Municipal Account Number	Account Status	Comments
V Z Mntambo	Chairman	City of Johannesburg	900072463	Current	No arrears
C Bunting	NED	City of Johannesburg	202015482	Current	No arrears
K Naidoo	NED	City of Tshwane	3329208685	Current	No arrears
J Nkeli	NED	City of Ekurhuleni	2200593499	Current	No arrears
K Setzin	NED	City of Johannesburg	202041345	Current	No arrears
D Nyalunga	NED	City of Tshwane	2010366428	Current	No arrears
M Manyama-Matome	NED	Not registered as a rate payer			
H van Laar	Executive Director	Not registered as a ratepayer in the City of Johannesburg.			
Senior Management					
LW Phasha	Internal Audit Manager	City of Johannesburg	504324584	Current	No arrears
J Wannenburg	Chief Financial Officer	City of Johannesburg	400871186	Current	No arrears
M Tema	GM: HR	City of Tshwane	3301230881	Current	No arrears
B. Narain	Acting GM: Operations	Not registered as a rate payer			
L Masekoane	Chief Financial Officer	Not registered as a rate payer			
P. Maduka	Company Secretary	Not registered as a rate payer			
Z Heldsinger	Company Secretary	City of Johannesburg	303274508	Current	No arrears
D Gregory	Senior Technical	City of Tshwane	2012328246	Current	No arrears

3.15. Recommendations and plans for the next financial year

Management commits itself fully and will continue with the following action plans to mitigate those challenges that are under its control in the coming year:

The Company's five year strategic plan reflects that various strategic actions will run simultaneously. Continued progress has been made since its inception in respect of improving passenger service delivery, internal controls, and company efficiencies. The company will therefore be focussing on the following issues:

- The filling of key positions that were vacated towards the end of the financial year under review;
- To finalise the Relationship Building activities as identified by the RBE Task Team;
- Finalization and the implementation of the rescheduled duties before the end of the year;
- To realign the lower level operations structure to improve the "span of controls" in depots;
- Review of existing cash protection system and Electronic Ticket Equipment; and
- To introduce a pilot project on the running of alternative fuels including Compressed Natural Gas (CNG).

The most important fact to note is that Metrobus continues to struggle to break-even with its budget on a monthly basis for numerous reasons. Amid these reasons is the high input costs in running the bus services such as salaries, the price of diesel and imported spares and the age of the buses. Efforts to secure the cash income generated on-route are starting to show positive results and will assist in neutralising the negative impact of the aforementioned.

Apart from maintaining the impetus of all actions supporting the "Get-fit" phase of the Metrobus strategy, it is important to focus on the future of Metrobus as a partner to the City in achieving its social and economic goals. Service delivery will remain the key focus of Metrobus in accordance with its mandate from the shareholder.

The concept of excellent service delivery in support of the general mobility of the citizens of Johannesburg, in their social and economic endeavours, will however have to keep pace with the rapidly changing public transport environment to enable Metrobus to fulfil its mandate going into the future.

2009/10 ANNUAL REPORT ON CORPORATE GOVERNANCE

4. Introduction

Metrobus is a municipal owned entity, which is wholly owned by the City of Joburg. Metrobus' Board of directors ("the Board") is committed to ensuring that the entity adheres to the highest standards of corporate governance in the conduct of its business and is committed to the principles of openness, integrity and accountability. The Board supports the principles contained in the Code of Corporate Practices and Conduct recommended by the King Report III on Corporate Governance for South Africa ("King III") and is taking steps to ensure that it will be compliant therewith.

4.1. Statement of Compliance

The directors, to the best of their knowledge and belief, are of the opinion that throughout the accounting period under review, the entity has complied with the principles set out in King III and with the specific requirements relating to corporate governance set out in the Companies' Act, the Local Government: Municipal Systems Act ("MFMA"), the Municipal Systems Act ("MSA") and the Municipal Structures Act ("MSA").

4.2. Code of Ethics

Metrobus has adopted the City of Johannesburg Ethical Standards. The Company subscribes to these standards whereby all employees and management are required to embrace these standards which form the basis of ethical behaviour especially in conduct towards the communities, colleagues and other stakeholders.

The following ethical values/standards apply to all employees of Metrobus:-

- to be accountable to the community that they serve and act on behalf of the residents of the City by focussing their efforts in discovering and meeting their customer's needs;
- to be transparent and open to scrutiny in all that they do;
- to be honest and uncompromising in producing work that meets the service delivery requirements of the City;
- to be committed to the transformation of our society and workplace and to ensure equity and anti-discrimination in all that they do;
- to show concern for people, support and respect their colleagues and encourage the growth and development of everyone they work with;
- to value and secure the fair and consistent treatment of staff and customers; and
- to support transparent participation, promoting fair, yet efficient, decision-making while encouraging individuals to accept responsibility for their work and contribution to the City.

4.3. Breach of Governance Procedures

During the 2009/10 period, there were no breaches of governance procedures noted. As such the Company Secretary in monitoring and recording such activities has reported that Metrobus has practiced good governance in accordance with the recommendations set out in the City's Governance Protocol as well as King II and III Reports on Corporate Governance.

4.4. Conflict of Interest

In order to avoid any potential conflict of interest, directors and officials of the Company sign declarations of interest forms. The Company's Executive Management Team signs these declarations on an annual basis, whereas Non-Executive Members sign the forms at every Committee or Board meeting. In this declaration they are expected to disclose any interest that they, their spouses or members of their immediate family may have in the business of the Company. Beyond this annual declaration of interest, directors and officers are also expected to declare any interest they may have in the business that is to be transacted at each meeting they are attending. This is formally recorded in the minutes of such meeting.

4.5. Governance Structures

4.5.1. Board of Directors

The Board has a Charter that governs its activities. The Charter incorporates provisions of the Corporate Governance protocol of the Shareholder. Metrobus' practices are, in all material respects, in line with the principles set out in the King II & III Reports on Corporate Governance. Ongoing steps are, however, taken to align practices with the report's recommendations. The Board continually reviews the progress made to ensure that the Company improves its corporate governance.

4.5.2. Composition of Board of Directors

As at the date of reporting, Metrobus has seven Board Members. The Board currently comprises seven Non-Executive Directors and one Executive Director, who is the Managing Director. All the Board Members were appointed in accordance with the company's Articles of Association and the Local Government: Municipal Systems Act.

The Directors are appointed by the City and bring to the Board a wide range of expertise as well as significant financial, commercial, government and legal experience.

The Board is governed by a formal Board Charter setting out composition, processes and responsibilities and includes a Delegations of Authority policy which sets out a clear balance of power and authority to ensure that no one director has unfettered powers of decision-making.

The table below reflects the composition of the Board of Directors during the period under review:

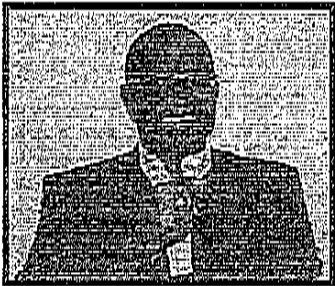
Board Member	Capacity ED/NED	Date of Appointment	Race	Sex	Qualifications
VZ Mntambo	NED & Chairman	1 January 2006 (As Chair 30 January 2007)	Black	Male	LLM (1988), LLB (1986), B. Juris (1983)
C Bunting	NED	10 August 2006	Black	Male	MBA (2004), National Diploma in Internal Auditing (1996)
K Setzin	NED	30 January 2007	Black	Male	MBA (1990), BA (Journalism and Advertising) (1988)
K Naidoo	NED	30 January 2007	Indian	Male	B. Com., NACCA Computer Auditing Certification, MBL (Incomplete)
J Nkeli	NED	1 January 2006	Black	Male	Diploma in Financial Management (Incomplete) Legal Attorneys Exam, B. Proc
*DL Roberts	NED	30 January 2007	White	Male	Retired January 2010
M Manyama-Matome	NED	23 January 2009	Black	Female	B.com (Accounting) (1997), B.Compt Honours (1999), CA(SA) (2002), B.com Hons (Tax) (2003), MBA (2007)
D Nyalunga	NED	23 January 2009	Black	Female	CA (SA) (1996)
H van Laar	ED	1 June 2008	White	Male	M.Com Transport Economics (2001) B Com. Hons. (1997) Transport Management & Economics, B. Com. (1991)



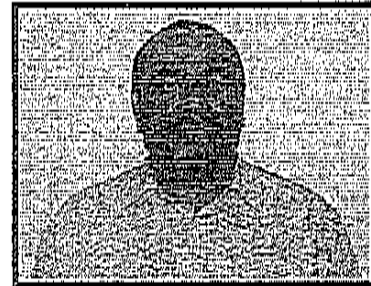
**Mr Vincent Zwelibanzi Mntambo
(Chairman)**



**Mr Herman Van Laar
(Managing Director and Board Member)**



**Mr Jeremiah Nkeli (Human Resources and
Remuneration Committee Chairman)**



**Mr Kumaran Naidoo (Audit Committee
Chairman)**



**Ms Danile Nyalunga (Board Member and BRT
Committee Member)**

**Mr Kenneth Setzin (Board Member and
BRT Committee Member)**



**Mr Comfort Bunting (Board Member and Risk
Committee Member)**

**Mrs Maureen Manyama-Matome (Board
Member and Audit Committee Member)**

4.5.3. Board Committees

The Board Committees consist of an Audit Committee, Human Resources and Remuneration Committee, Risk Committee and the Executive Committee. The Board mandated the BRT Sub Committee which dealt with issues relating to the BRT System.

The Board and sub-committees of the Board are scheduled to meet at least four times each year. Non-executive directors have access to all members of the Company's management team.

4.5.3.1. The Audit Committee

The Committee comprises of the following Members: Mr Kumaran Naidoo (Chairman of the Committee and who is a Non-Executive Director) and Ms Maureen Manyama-Matome together with Independent Audit Committee Members Ms R Kenosi, Dr DP van der Nest and Mr K. Moyo appointed by the City in compliance with the MFMA.

4.5.3.1.1. Roles and responsibilities

The role of the Audit Committee is to assist the Board by performing an objective and independent review of the functioning of the organisation's finance and accounting control mechanisms. It exercises its functions through close liaison and communication with Management and the internal and external auditors.

The Audit Committee operates in accordance with a written Charter authorised by the Board of Directors and which provides assistance in the following areas:

- Compliance with applicable legislation and the requirements of regulatory authorities;
- Matters relating to financial accounting, accounting policies, reporting and disclosures;
- Internal and external audit policy;
- Activities, scope, adequacy and effectiveness of the internal audit function and audit plans;
- Review/ approval of external audit plans, findings, problems, reports and fees;
- Monitoring of Risk issues identified by the Risk Sub-Committee; and
- Compliance with the Performance Management System.

The Audit Committee exercised its responsibilities in accordance with the terms of the MFMA and its Charter during the year.

The Audit Committee considers the annual financial statements of Metrobus to be a fair presentation of its financial position on 30 June 2010 and of the results of its operations, changes in equity and cash flow for the period ended then and presented in accordance with GRAP and the Companies Act.

The Committee met 9 times during the year under review.

4.5.3.2. Human Resources and Remuneration Committee ("REMCO")

4.5.3.2.1. Roles and responsibilities

The Committee comprises three Non-Executive Directors' namely Mr Jeremiah Nkeli who is the Chairman of the Committee, Mr Kenny Setzin and Ms Danile Nyalunga who serve as Members of the Committee.

In consultation with the full Board, the Committee determines the remuneration of the Managing Director and the Executive Officers, also in compliance with the Upper Limits determined by the City from time to time. The Committee is also responsible for evaluating and approving the human resources policies and procedures, the employment equity plan and the workplace skills plan.

The Human Resources and Remuneration Committee met on 5 occasions during the year.

4.5.3.3. Risk Management Committee

The Risk Management Committee comprises four Non-Executive Directors and the Managing Director. Ms Maureen Manyama-Matome is the Chairperson of the Committee and is a Non-Executive Director. Mr Kumaran Naidoo and Mr Comfort Bunting are Members of the Risk Management Committee. A representative from the City's Risk Department has a standing invitation to send a representative to attend meetings.

The role of the Risk Management Committee is to assist the Board by performing an objective and independent review of the functioning of the organisation's risk control mechanisms. It exercises its functions through close liaison and communication with Management, the Internal Audit Manager, the co-sourced Internal Auditors and the Audit Committee.

The Risk Management Committee operates in accordance with a written Charter authorised by the Board and the City's Risk Management Framework and policies and provides assistance to the Board with regard to the following:

- Reviews and assessments of the integrity of the risk control system and is responsible for ensuring that the risk policies and strategies are effectively managed;
- Monitoring external developments relating to the practice of corporate accountability; and
- Reporting to the Board on specifically associated risks, including emerging and prospective impact on the organisation.

4.5.3.4. BRT Committee

The BRT Committee comprises of Mr Kenny Setzin (Chairperson), Mr Kumaran Naidoo, and Ms Danile Nyalunga and was established to have oversight of BRT matters affecting the company.

4.6. Executive Committee

The Executive Management Committee ("EXCO") is chaired by the Managing Director and comprises of the following listed officials:

- Mr T Ngcobo (General Manager: Commercial Services Department)*;
- Mr J Wannenburg (Chief Financial Officer)*;
- Mr L Phasha (Internal Audit Manager)*;
- Ms Z Heldsinger (Company Secretary)*;

* These members were EXCO Members in the period under review but they resigned at the beginning of the 2010 financial year.

A representative from the City's Transportation Sector has a standing invitation to attend meetings.

EXCO meetings are held at least once every month.

Board and Committee meeting attendance

NON EXECUTIVE DIRECTORS REMUNERATION					
	Name	Designation	Meeting Fee	Retainer	Total
1	Vincent Mntambo	Board Chairperson	R 67,275.00	R 34,500.00	R 101,775.00
2	Lionel Brenner (Retired)	Audit Co Chair and NED	R 105,227.00	R 10,062.50	R 115,289.50
3	Paul Browning (Retired)	RiskCo Chair and NED	R 39,677.00	R 10,062.50	R 49,739.50
4	Comfort Bunting	NED	R 21,565.00	R 17,250.00	R 38,815.00
5	Kenny Setzin	NED	R 66,416.00	R 17,250.00	R 83,666.00
6	Lisa Seftel (Retired)	NED	R 24,152.00	R 10,062.50	R 34,214.50
7	Khulu Mbatha (Retired)	NED	R 10,350.00	Does not qualify	R 10,350.00

NON EXECUTIVE DIRECTORS REMUNERATION					
8	Kumaran Naidoo	NED	R 74,180.00	R 17,250.00	R 91,430.00
9	Jerry Nkell	Remco Chairperson and NED	R 47,440.00	R 17,250.00	R 64,690.00
10	Dave Roberts	NED	R 36,228.00	R 17,250.00	R 53,478.00
11	Maureen Manyama-Matome (New)	RiskCo Chair and NED	R 18,114.00	R 7,187.50	R 25,301.50
12	Danile Nyalunga (New)	NED	R19,839.00	R7,187.50	R27,026.50
TOTAL			R 530,463.00	R 165,312.50	R 695,775.50

Independent Audit Committee

INDEPENDENT AUDIT COMMITTEE MEMBERS REMUNERATION					
	Name	Designation	Meeting Fee R	Retainer R	Total R
1	D.P. van der Nest	Audit Steering Committee Chairperson	R 82,803.00	R 17,250.00	R 100,053.00
2	Rene Kenosi	Member	R 43,992.00	R 17,250.00	R 61,242.00
3	Rashid Wajodeen	Member	R 38,817.00	R 17,250.00	R 58,067.00
4	Kwanele Moyo	Member			
TOTAL			R 165,612.00	R 51,750.00	R 219,362.00

Directors and Senior Management Remuneration

The table below indicates salaries of senior management for the period under review:

Name	Designation	Basic Salary	Allow. Contib.	Bonus 13 th cheque	Total	Upper limits determined by the City
H van Laar	Managing Director	R 987,679	R 342,000	R 96,465	R 1,426,144	R 1,281,251
LW Phasha*	Internal Audit Manager	R 680,034	R84,246	R 50,061	R 814,341	R567 470
J Wannenburg*	Chief Financial Officer	R840,683	R163,535	R 75,416	R 1,079,634	R921 922
M Tema	GM: Human Resources	R 569,482	R 136,226	R 56,434	R 762,142	R708 557
Z Heldsinger*	Company Secretary	R 446,353	R34,830	R45,666	R 526,849	R 588 633
D Gregory	GM: Technical	R 616,994	R141,606	R 56,113	R 814,713	R 858 109
L Masekoane	CFO	R34 148.56	R4 61.51	0	R34 610.06	R 921 922
NP Maduka	Company Secretary	R30 179.92	R5 814.54	0	R35 994.46	R 588 633

*These Senior managers resigned from Metrobus at the beginning of 2010. In particular, Ms Zenobia Heldsinger resigned at the end of February, Mr Lieselane Phasha at the end of March and Mr Johannes Wannenburg at the end of April. Mr Lawrence Masekoane and Mrs Philipa Maduka joined the Company in June 2010.

Allowances

The following allowances were paid to senior management in lieu of assisting with the management of BRT activities.

-	H van Laar: Managing Director	R164, 057
-	J Wannenburg: CFO	R106, 626
-	D Gregory : GM: Technical	R 95, 430

Provision was made for these allowances in the monthly management fee levied from Clidet. Clidet also remunerated Metrobus per se for the time spent on such activities of these candidates.

Company Secretarial Function

The Company Secretary is responsible for the following areas of Metrobus' business:

- Corporate Governance
- Legislative & Statutory Compliance
- Secretarial
- Legal Advice
- Contract Management and
- Risk Management.

The Company has complied, and is in compliance, with the Companies Act and all other applicable legislation. The Company simultaneously complies with the King III Report on Corporate Governance and the Local Government: Municipal Finance Management Act (MFMA) and the Local Government: Municipal Systems Amendments Act as amended.

Critical to Corporate Governance is the induction of new Board Members and also the evaluation of the Board. Previously the Company's Board of Directors have not been inducted. However, starting with as well as the nature of the environment in which they will be operating. In addition, the Company Secretary assists with the evaluation process of the Company's Board of Directors.

STRATEGIC SUSTAINABILITY REPORT

The release of the King Report on Governance for South Africa (2009) brought with it significant opportunities for Municipal Owned Entities (MOEs) that embrace good governance and applies to all entities regardless the manner and form of incorporation or establishment. It is important that officials of an MOE consistently apply King III in conjunction with the regulatory provisions in order to achieve the overarching principles of good governance visa vie responsibility, accountability, fairness and transparency in the interest of the substance rather than the mere form of sound governance.

The operating results of Metrobus in terms of sustainability must be considered against the fact that the company is largely reliant on the City of Johannesburg to provide approximately sixty-five (65%) percent of its income in the form of a City of Johannesburg grant. Historically the company has struggled to contain its annual operating costs to remain within the approved budget mainly as a result of having to maintain an aging fleet.

This trend continued during the 2009/10 year where a shortfall in capital forced the company to withdraw certain services due to a shortage in operable buses. The company however still managed to record a small surplus of approximately R1.5 million. This year's financial statements were therefore prepared on the assumption that the City does not intend, nor see the need, to liquidate or materially scale down the operations of Metrobus.

Sustainability vision

Metrobus aims to meet the needs of its customers and the community in a sustainable manner, for the benefit of our society and without compromising the quality of life of future generations.

We seek to be among the best sustainability performers internationally, consistent with the principles of ensuring our future, working together, commercial ownership and creative customer solutions.

During the beginning of 2010 four of the seven Executive Management Members tendered their resignations. The affected positions and remedial actions taken to date are as follows:

General Manager: Commercial Services - Mr Babs Narain, the Group Operations Manager is currently acting in this position.

Chief Financial Officer – a new Chief Financial Officer, Mr Lawrence Masekoane, has been appointed and he commenced duties on 17 June 2010.

Company Secretary – a new Company Secretary, Mrs Philipa Maduka, has been appointed and she commenced duties on 07 June 2010; and

Internal Audit Manager – this function is temporarily outsourced to Gobodo Forensic Investigative and Accounting (Pty) Ltd. However, this position has been advertised and interviews will be taking place shortly.

Several initiatives were introduced as part of the Turn-Around strategy to curb on-route pilferaging by certain drivers. The following are key successes achieved to date:

- The sensitisation of the Unions on the precarious financial position of the company and the exacerbating impact on-route pilferaging has on this situation. SAMWU in response to these discussions held meetings with their members and advised them that they will dissociate themselves from anyone who is caught stealing from the company. An improvement in cash collection was immediately noted especially at Village Main depot during the festive period.
- A performance system was introduced for route auditors and is being monitored based on the quality and number of checks and reports. Discipline has been meted out to some of the route auditors whose performance was sub-standard. By focusing on the route auditors, positive results are forthcoming from this section.

- Since January 2010, the administration and control of discipline has been directly under the focus of executive management, resulting in positive progress in this regard. The impact of this initiative is highlighted as follows:
 - The Unions are realising that management are serious about undertaking discipline and improved cooperation is experienced especially when the shop stewards attend as many as three (3) discipline enquiries in one day in comparison to just one enquiry per day in the past;
 - Depot management/supervisory staff who are responsible for taking discipline are now fully sensitised to the importance of quick and decisive discipline. Poor performance by depot staff is identified and addressed; and
 - The drivers are also realising that discipline is being monitored and it is acting as a deterrent to would be offenders. In the past discipline would be delayed and that would result in the withdrawal of cases.
- During February 2010, drivers were swapped from their original shifts through a 'shift picking' exercise. This led to an increase in operational problems due to drivers adjusting to their new duties but the reverse side of this is that cash fare revenue increased for the period that drivers were getting accustomed to their new routes and passengers.
- To counteract the normalisation of the situation as experienced prior to the "shift picking" exercise management introduced "blitzes" that involved the application of depot staff and senior managers joining the route auditors in checking the buses during the peak periods. This initiative achieved the following:
 - Revenue is monitored daily and this reveals that cash has increased in average with 30% in certain cases;
 - Commuters are reacting positively to this initiative since they can now lodge complaints directly to depot management staff;
 - Depot management are now better informed of operational problems out in the field;
 - Drivers are becoming accustomed to the fact that management are visible on the bus routes;
 - Route auditors are forced to become more productive as their performances are also being monitored;
 - Fewer disciplinary hearings will result in much lesser industrial relations problems.

Sustainability Commitments

- Metrobus continues its social responsibility initiative in conjunction with the Johannesburg Zoo and provides free or discounted transport to disadvantaged groups and social organisations. Free entrance and animal demonstrations or ferry rides are provided by the Zoo.
- In the period under review, Metrobus transported disadvantaged children living in the Vrededorp area of ward 69, to the Johannesburg Zoo. They were not from a specific school but were participating in a school holiday programme.
- Metrobus also transported 2 groups of school children from Lyndhurst Primary (Grade 5 learners)) and another group from Diphlane and Phatudi Primary Schools, situated in Munsieville, Mogale City, to the Jhb Zoo.
- Metrobus also gave a considerable discount to MES (Metro Evangelical Services) for their Hillbrow Unplugged Concert on 27 May 2010. A discount was also given to Child Welfare for their road show on 20 May 2010.

Risk Management governance and processes

The Risk Committee exercised its responsibilities in accordance with the terms of its Charter during the year under review and met 4 times during the year.

Below is a brief report on the top strategic risks identified for the organisation and Management's mitigating action programmes to address these risks.

Risk Name	The risk	Mitigation
Volatility of labour relations	Volatility of labour relations Stabilisation of labour relations within the entity is critical to its continued stability and future growth prospects. Loss of Management credibility due to \ labour's political alignments and strengths	Most issues from the action programmes on the Relationship by Objective exercise have been addressed and the exercise is in the process of finalisation. Ongoing meetings are held with labour. A new mitigation plan includes the resolution of the demarcation dispute and the development of a strike management plan and labour strategy. Management will workshop with labour in an RBE (Relationship Building Exercise) including a RBE for management.
Company viability	The company is not sufficiently funded to support operational requirements. The current balance sheet cannot accommodate the huge debt burden. The method used by CoJ for subsidy allocation is not appropriate for Metrobus as it is not scientifically based. Passenger fares and manpower expenditure not market related. The Service Delivery Agreement does not address Metrobus' operating mandate and funding. The Settlement Agreement entered into with Labour regarding salary progression further aggravates the company viability.	The improvement of operating efficiencies and service delivery including service quality in terms of the company scorecard KPIs which is an ongoing achievement. Vigorous marketing to increase non-subsidised revenue contracts on business growth as per the company scorecard. Renegotiate and sign revised SDA to address operating requirements and funding. The City has appointed consultants for the SDA revision and design of operating agreement. It is anticipated that a feasibility study will be conducted as to the company viability.
Effect of BRT (Bus Rapid Transit).	Effect of the Bus Rapid Transit System (BRT) The City has taken the lead in the effort to put an efficient integrated public transport system in place in the major cities in South Africa. The mitigation of the current constraints in respect of Metrobus' ownership, the stipulations of the National Transitional Transport Act, Municipal Systems Act and the Municipal Finance Management Act will be critical to this process.	A high level interaction with the City to integrate the strategic plan with the BRT operational plan. Metrobus has signed an MOU with the City and Pucto. Metrobus continues to interact with the City on this project and developing an implementation plan as action to reduce the risk should Metrobus be requested to commence BRT services.

Risk Name	The risk	Mitigation
Loss of current and potential passengers	Loss of passengers and potential passengers due to quality of service. There is a reputational risk exposure throughout the organisation, and includes quality and perceived level of service provision. The risk has its origin in overloading and the history of the devastating strike during 2007 and another in May 2009 concerns the loss of current and potential passengers due to inadequate service quality and perceived service delivery by the diverse Metrobus stakeholder base. The loss of revenue due to pilferaging of ticket fares also negatively affects this risk	Tremendous improvements have been experienced with regard to availability of buses A Customer Satisfaction survey conducted in the first quarter and will be done annually. The results with regard to services were as follows: Improved 24.7%, Remained the same 65.8%, Declined 9.5%.The latest CSI is anticipated for the new financial year. Inspections commenced in December 2008 and will be conducted quarterly in order to monitor service quality.

Stakeholder engagements.

The Transportation Committee noted the following:

- "A concern about continued customer complaints about the same issues."

Metrobus reported that the shift picking had resulted in drivers not being accustomed to the new routes assigned therefore an increase in complaints. This situation was further aggravated by the fact that Metrobus had experienced a shortage of buses due to the shortfall in funding to repair major units such as engines, etc. Metrobus is currently focusing on additional training on this matter in order to decrease the number of complaints related to unacceptable driver habits.

- "A concern about the number of resignations of critical positions in Metrobus."

The Metrobus representative responded that the committee should take note of the fact that the working environment at Metrobus is very demanding which results in key members opting to pursue careers where a more positive environment exists when the opportunities arise. This report however explains under section 3.4 the actions taken to mitigate the impacts arising from these vacancies.

- "A concern about loss of revenue due to non-cash methods used by Metrobus."

Metrobus attempted to reduce the large gap between the cash and coupon fares by proposing the introduction of a differentiated fares increase. The proposal was based on a 4% increase on cash fares and an 8% increase on coupon fares. This was unfortunately rejected by commuters who opposed the introduction of a Transfer Fare by recommending that Metrobus implement a 9.5% across the board increase on cash and coupon fares.

The original differentiated approach will however be followed going into the future.

Metrobus Management also strengthened its relationship with its customers through the improved interaction with the Commuter Forum. Depot and senior managers attend regular meetings in order to speed up activities. Representatives of labour will also be invited to attend such meetings to enable them to hear and understand the concerns from customers.

SP Media have introduced plasma screens in buses and awarded Metrobus a fixed number of minutes airtime per day to use these for advertising and communication purposes with passengers which will assist in improving customer relations

An In-House Customer Satisfaction Survey (CSS) was conducted which showed a three percent (3%) improvement on the previous survey.

Transformation and empowering employees

Employee Wellness

During the Month of May (Care Month,) Peer educators embarked on office-to office campaign with a view to educating employees around the scourge of HIV/ AIDS. A total of employees reached were 314, and this is largely due to the unavailability of some Peer Educators for the project. The project continued as a build up to the Candle light month of June, which is dedicated to the memories of all employees who died of the pandemic.

Five Peer Educators attended a workshop on HCT (HIV Counselling and Testing). These educators will be utilised to roll-out the Presidential Project on the testing of Five Million people in Gauteng.

The section continues to counsel employees on mental and physical wellness, especially in the absence of a service provider for counselling services.

Environmental responsibility.

Metrobus is experiencing some difficulty and still has to overcome a number of hurdles to secure the required support to kick start a project that will have as focus the testing of alternative fuels for the purpose of informing any future bus replacement programs.

Metrobus management is still in the process of having exploratory talks with the following entities to secure funding for a pilot project in terms of alternative fuels:

- **Industrial Development Corporation (IDC)**

The IDC have disclosed an interest to fund an Ethanol bus pilot project involving approximately twenty (20) buses. The intention is to combine two projects, namely the growing of sugar beet project with the testing of ethanol buses project, into one project. The IDC will make use of an acknowledged bus manufacturer supported by Metrobus to conduct these trials.

- **The Dutch Embassy**

The potential exists for Metrobus to benefit from a Dutch financed development project, namely the ORIO Project, to obtain a fifty percent (50%) grant in terms of the capital purchase price of vehicles purchased should the application be successful.

ORIO contributes towards a number of key infrastructure projects, which includes transportation, in terms of development, implementation, operations and maintenance. The selection criteria include the degree to which the project contributes to economic growth, private sector development and the degree to which the poorer segments of the population profit from the social benefits that arise from the project.

It is Metrobus' intention is to source "Bio Friendly Fuel" buses through ORIO in order to link this project up with other BEE bio fuel growing initiatives, such as ethanol, to ensure that the poorer segments of the population profit from this initiative.

Employment Equity

The current demographic profile of the company is as indicated below:

Category	A M	AF	CM	CF	I M	IF	W M	WF	TOTAL
Executive Management	3	0	0	0	0	0	3	0	6
Human Resources	5	5	2	0	1	0	0	1	14
Marketing	11	9	4	4	0	0	0	2	30
Finance	27	15	1	3	1	0	2	2	51
Technical	135	17	8	1	1	0	30	0	192
Operations	465	81	43	2	4	0	22	5	622
TOTAL	655	127	60	11	7	0	58	11	915

- AM – African Males
- AF – African Females
- CM – Coloured Males
- CF – Coloured Females
- IM – Indian Males
- IF – Indian Females
- WM – White Males
- WF – White Females

Skills Development

To date, the company has claimed re-imbursements from the Transport Education and Training Authority (TETA) to the amount of R745 866.

It should also be noted that 63% of the planned training for the period March 2009 to April 2010 has been completed, hence the above re-imbursement from TETA. This implies that the company has exceeded the 50% target set by TETA.

In addition, the new Workplace Skills Plan (WSP) for the 2010-2011 has been signed off by all parties, including the unions, and has been submitted to TETA for approval. The new training activities will therefore commence once this approval has been obtained.

Employee Benefits

The table below indicates the various funds to which various employees belong:

Pension Fund	No. of staff
E ' Joburg Retirement Fund	658
Johannesburg Municipal Pension Fund	25
The Johannesburg Second Pension Fund	166
The Joint Municipality Pension Fund	0
The Municipality Gratuity Fund	20
The Soweto Pension Fund	1

CHAPTER SIX

ANNUAL FINANCIAL STATEMENTS