Johannesburg Water SOC Limited
Annual Financial Statements
for the year ended 30 June 2011

Directors' Responsibilities and Approval

The directors are required by the Companies Act of South Africa, Act 71 of 2008, 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 South African Statements of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board, the Companies Act of South Africa, Act 71 of 2008 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 was 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.

Subsequent to the implementation of the project, the company now relies on the City of Johannesburg Metropolitan Municipality for the following functions for all its customers:

- Billing
- Cash collection
- Debtors administration
- Call centre management

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 implemented processes and methods of operation are solely under the control and stewardship of the City of Johannesburg Metropolitan Municipality. This arrangement will be managed in terms of a service level agreement underpinning the agency agreement.

Clause 13.3 of the Agency Agreement with the City of Johannesburg Metropolitan Municipality states that "The performance of the Customer Revenue Collection and Customer Relations Management 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 Customer Revenue Collection and Customer Relations Management functions.

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 directors place full reliance on the internal controls as established by The City of Johannesburg Metropolitan Municipality in the execution of the Customer Revenue Collection and Customer Relations Management functions. 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.

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.

Directors' Responsibilities and Approval

The directors have reviewed the company's cash flow forecast for the year to 30 June 2012 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 51 to 103, which have been prepared on the going concern basis, were approved by the directors on 06 December 2011 and were signed on their behalf by:

M Janse Van Rensburg (Chairperson)

M Padiaychee (Acting Managing Director)

Directors' Report

The directors submit their report for the year ended 30 June 2011.

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 company continues to rely on the City of Johannesburg Metropolitan Municipality for the following functions for all customers:

- Billing
- Cash collection
- Debtors administration
- Call centre management

The implementation of project Phakama in the 2010 financial year has resulted in significant challenges in the performance of all migrated functions. The board of directors have continued to express their concern to the Shareholder, and have been assured that the challenges are being addressed, and that appropriate interventions are in the process of being implemented by the City of Johannesburg Metropolitan Municipality.

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 385,032 million (2010: R 251,454 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.

The Board have noted that there was an except for qualification for the year under review. The basis for the qualification was due to "differences identified between the billing data and the source data relating to meter readings and property catergories, without complete audit evidence to support the differences." As a result, "there were material shortcomings that were identified during the audit of the revenue billing and management system which raised uncertainities regarding the accuracy, cut-off, completeness and occurance of revenue and receivables financial data." The Board will engage the City of Johannesburg Revenue and Customer Relations Management directorate in terms of the service level agreement between the parties, with a view to resolving these matters in the new financial year.

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. DIRECTORS' INTEREST IN CONTRACTS

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

5. 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.

Directors' Report

6. 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 2011, the City of Johannesburg Metropolitan Municipality held 100% of the ordinary share capital of the company.

7. 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.

8. NON-CURRENT ASSETS

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

9. DISTRIBUTIONS TO OWNER

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

10. 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 (Acting Managing Director)	South African	*
M Padiaychee (Financial Director)	South African	
NA Macleod	South African	
NB Mabuya	South African	
N Govender	South African	
N Skeepers	South African	
T Modipane	South African	Resigned 27 June 2011
M Msezane	South African	
C Tilly	South African	

* GT Dumas has been seconded to the City of Johannesburg Metropolitan Municipality from 11 March 2011 for an indefinite period. He has not served as a director since the secondment and retired from his directorship on the 20 September 2011. He has subsequently resigned from the company effective 31 October 2011.

M Padiaychee has been acting in the capacity of Managing Director since 12 March 2011.

11. 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

12. CORPORATE GOVERNANCE

12.1. General

The board of directors are committed to business integrity, ethics, anti-corruption, 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 2009, and the Companies Act of South Africa, Act 71 of 2008. 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:

12.2. 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.

12.3. 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.

12.4. Executive meetings

The directors have met on 6 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	Human resources and remuneration committee meeting	Service delivery and oversight procurement committee meeting	Risk committee meeting	Total meetings
Total number of meetings held	6	5	4	4	3	22
M Janse Van Rensburg (Chairperson)	6	-	3	-	-	9
GT Dumas (Managing Director)	4	3	3	2	2	14
M Padiaychee (Acting Managing Director)	2	1	1	1	1	6
M Padiaychee (Financial Director)	4	4	3	2	2	15
NA Macleod	5	-	4	1	3	13
NB Mabuya	3	-	1	2	-	6
N Govender	5	5	1	-	3	14
N Skeepers	4	-	1	4	2	11
T Modipane	1	4	-	1	-	6
M Msezane	6	-	4	1	-	11
C Tilly	6	-	-	3	-	9

12.5. Audit committee

The chairperson of the audit committee is Mr. N. Govender, who is a non-executive director. The committee met 5 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 committee. Notwithstanding the fact that non-executive directors appointed by the shareholder constituted the company's audit committee, National Treasury policy requires the appointment of further members to the audit committee who are not directors of the company. Three independent members were appointed to the audit committee in compliance with Section 166 of the Local Government: Municipal Finance Management Act, Act 56 of 2003.

The independent members of the audit committee are:

J Behr	- attended 0 meetings	Resigned 18 August 2010
C Mbili	- attended 3 meetings	
M Malope	- attended 3 meetings	

12.6. 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.

Directors' Report

13. PARENT

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

14. SPECIAL RESOLUTIONS

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

15. BANKERS

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

16. 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 90 of the Companies Act of South Africa, Act 71 of 2008.

Certificate by Company Secretary for the year ended 30 June 2011

In terms of section 268G(d) of the Companies Act, Act 61 of 1973 (as amended), section 88(2)(e) of the Companies Act, Act 71 of 2008 (as amended) and the Municipal Finance Management Act, Act 56 of 2003, I certify that, to the best of my knowledge and belief, the company has lodged and/or filed, for the financial year ended 30 June 2011, all such returns and notices as required and that all such returns and notices are true, correct and up to date.

G J Luden

Johannesburg Water SOC limited
Company Secretary

Johannesburg
06 December 2011

Report of the Audit Committee

We are pleased to present our report for the financial year ended 30 June 2011 as recommended by the King III Report on Corporate Governance and Regulation 27 of the Treasury Regulations. The Audit Committee performs its functions in accordance with section 94 of the Companies Act of South Africa, Act 71 of 2008, 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 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
- the entities non-financial performance as set out in the Business Plan.

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, internal 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 94(8) of the Companies Act of South Africa, Act 71 of 2008 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 Committee is satisfied that the financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgements and estimates.

The Audit Committee has evaluated the annual financial statements for the year ended 30 June 2011 and considers that it complies, in all material respects, with the requirements of the Companies Act of South Africa, Act 71 of 2008, as amended, and Generally Recognised Accounting Practices.

N Govender

Johannesburg Water SOC limited
Chairperson of the Audit Committee

Johannesburg
06 December 2011

REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND COUNCIL OF THE CITY OF JOHANNESBURG METROPOLITAN MUNICIPALITY ON JOHANNESBURG WATER SOC LTD

Introduction

1. I have audited the accompanying financial statements of Johannesburg Water SOC Ltd, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages xx to xx.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Companies Act of South Africa, 2008 (Act No. 71 of 2008)(Companies Act) and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996, section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in Government Gazette *33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Service charges revenue

7. Included in revenue is R4 618 443 000 (2010: R4 550 229 000) relating to revenue for the supply of water. Differences were identified between the billing data and the source data relating to meter readings and property categories, without complete audit evidence to support the differences. The entity's records did not permit the application of alternative audit procedures regarding the service charges revenue. Consequently, I was unable to perform alternative audit procedures to verify the accuracy, cut-off, completeness and occurrence of the amount of R4 618 443 000 (2010: R4 550 229 000) relating to revenue for the supply of water as per note 18 to the financial statements.

Consumer debtors

8. As per paragraph 7 above, there were material shortcomings that were identified during the audit of the revenue billing and management system which raised uncertainties regarding the accuracy, cut-off, completeness and occurrence of revenue and receivables financial data. Due to the significance of the matters described in the preceding paragraph, I am unable to obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation and allocation of, and rights pertaining to debtors of R1 378 537 000 (2010: R853 413 000) as disclosed in note 9 to the financial statements.

Qualified opinion

9. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Johannesburg Water SOC Ltd as at year ended 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and the Companies Act.

Emphasis of matters

10. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

11. As disclosed in note 34 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of an error discovered during the year ended 30 June 2011.

Distribution losses

12. As disclosed in note 9 to the financial statements, material losses to the amount of R827 000 000 were incurred as a result of unaccounted for water.

Additional matter

13. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

14. The supplementary information set out on pages 54 to 55 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010,* I include below my findings on the annual performance report as set out on pages xx to xx and material non-compliance with laws and regulations applicable to the municipal entity.

Predetermined objectives

16. There were no material findings on the annual performance report.

Compliance with laws and regulations

Revenue management

17. Contrary to the requirements of the water by-laws of the municipality, water consumption was billed on estimates for more than six months.

18. Revenue billed is not reconciled to the source data relating to the meter readings on a weekly basis. In addition revenue per billing report and other adjustments are not reconciled to the municipal entity's accounting records resulting in non compliance with section 64(2)(h) of the MFMA.

19. The accounting officer did not take all reasonable steps to ensure that meter readings are reviewed for credibility, exception reports are followed up and cleared on a timeous basis and that discipline is enforced to regularly read meters. Therefore an adequate management and accounting system was not properly maintained as required by section 64(2)(e) of the MFMA.

Annual financial statements, performance and annual reports

20. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. The uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

INTERNAL CONTROL

21. In accordance with the PAA and in terms of General notice *1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for qualified opinion and the findings on compliance with laws and regulations included in this report.

Financial and performance management

22. As mentioned in paragraph 17 above, management did not ensure that revenue reconciliations between meter readings, billing reports and the municipal entity's accounting records were performed on a weekly basis.

23. As mentioned in paragraph 18 above, management did not ensure that meter readings are credible, exception reports are followed up and cleared and meters are regularly read. In addition, remedial action as provided for in service level agreement is not taken on service providers who supply incorrect meter readings.

24. Management did not ensure that adequate reasons for overriding or amending meter readings by the Billing department are received and resolved timeously.

Auditor-General

Johannesburg

30 November 2011

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Statement of Financial Position

Figures in Rand thousand	Note(s)	2011	2010
ASSETS			
Current Assets			
Inventories	5	41,969	35,605
Trade receivables with group companies	6	431	164
Loans to shareholder	7	267,521	409,923
Other receivables	8	9,719	10,501
Consumer debtors: Exchange transactions	9	1,378,537	853,413
Cash and cash equivalents	11	25	24
		1,698,202	**1,309,630**
Non-Current Assets			
Property, plant and equipment	3	5,396,338	4,904,977
Intangible assets	4	35,065	22,606
		5,431,403	**4,927,583**
Total Assets		**7,129,605**	**6,237,213**
LIABILITIES			
Current Liabilities			
Trade payables with group companies	6	6,477	5,908
Short term portion of long term loans from shareholder	7	508,994	339,382
Trade and other payables from exchange transactions	15	964,145	1,093,834
Provisions	16	12,000	11,403
		1,491,616	**1,450,527**
Non-Current Liabilities			
Loans from shareholder	7	2,545,581	2,067,228
Retirement benefit obligation	13	74,678	84,823
Unspent conditional grants	14	5,601	7,538
		2,625,860	**2,159,589**
Total Liabilities		**4,117,476**	**3,610,116**
Net Assets		**3,012,129**	**2,627,097**
NET ASSETS			
Contribution from shareholder	12	1	1
Accumulated surplus		3,012,128	2,627,096
Total Net Assets		**3,012,129**	**2,627,097**

Statement of Financial Performance

Figures in Rand thousand	Note(s)	2011	2010
Revenue from exchange transactions	18	4,618,443	4,550,229
Cost of sales		(2,115,397)	(1,769,720)
Gross surplus		**2,503,046**	**2,780,509**
Other income	19	122,371	128,857
Revenue from non-exchange transactions	20	146,407	114,743
Operating expenses		(2,127,782)	(2,533,411)
Operating surplus	21	**644,042**	**490,698**
Interest revenue	26	2,390	19,804
Effective interest rate adjustment	27	6,711	8,608
Finance costs	28	(268,111)	(267,656)
Surplus for the year		**385,032**	**251,454**

Johannesburg Water SOC Limited

(Registration number 2000/029271/07)
Annual Financial Statements for the year ended 30 June 2011

Statement of Changes in Net Assets

Figures in Rand thousand	Note(s)	Share capital	Accumulated surplus	Total net assets
Balance at 01 July 2009		1	2,375,642	2,375,643
Surplus for the year	35		251,454	251,454
Surplus as previously stated			208,644	208,644
Prior year adjustment			42,810	42,810
Balance at 01 July 2010		**1**	**2,627,096**	**2,627,097**
Surplus for the year			385,032	385,032
Balance at 30 June 2011		**1**	**3,012,128**	**3,012,129**
Note(s)		12		

Cash Flow Statement

Figures in Rand thousand	Note(s)	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Cash receipts from customers		4,060,862	3,954,602
Interest revenue	26	2,390	19,804
		4,063,252	3,974,406
Payments			
Cash paid to suppliers and employees		(4,006,799)	(3,237,525)
Finance costs	28	(268,111)	(267,656)
		(4,274,910)	(3,505,181)
Net cash flows from operating activities	30	**(211,658)**	**469,225**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	(588,405)	(567,748)
Proceeds from disposal of property, plant and equipment	3	14,093	1,010
Purchase of intangible assets	4	(4,396)	(6,027)
Net cash flows from investing activities		**(578,708)**	**(572,765)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Net movement in loans with Shareholder	7	790,367	103,537
Net cash flows from financing activities		**790,367**	**103,537**
Net increase/(decrease) in cash and cash equivalents		**1**	**(3)**
Cash and cash equivalents at the beginning of the year		24	27
Cash and cash equivalents at the end of the year	11	**25**	**24**

Summary of Accounting Policies

1. Basis of preparation

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 Local Government: Municipal Finance Management Act, Act 56 of 2003, and the Companies Act of South Africa, Act 71 of 2008.

The Annual financial statements are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates. Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework, have been developed in accordance with paragraphs 7,11 and 12 of GRAP 3 and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

The annual financial statements have been prepared on the historical cost basis, except for the measurement of certain financial instruments at fair value, and incorporate the principal accounting policies set out below.

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 liabilities and commitments will occur in the ordinary course of business.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Significant judgements and estimation uncertainty includes:

Useful lives of waste water, water networks and other non-current assets

The company's management determines the estimated useful lives and related depreciation charges for the waste water, water networks and other non-current assets. This estimate is based on an industry norm. Management will adjust the depreciation charge where the useful lives of these assets have changed from the previous estimate.

Impairment of property, plant and equipment and other non-current and intangible assets

Property, plant and equipment and other non-current, and intangible assets, are reviewed annually by management for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Post retirement benefits

The present value of the post retirement obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include a discount rate, rate of increase in employer post retirement medical contribution and expected increase in salaries. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The appropriate discount rate at the end of each financial year is determined by the actuaries. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the post retirement obligations. In determining the appropriate discount rate, the actuary considers the interest rates of government bonds, adjusted to reflect the margin on corporate bonds, that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related post retirement liability.

Other key assumptions for post retirement obligations are based on current market conditions. Additional information is disclosed in Note 13.

Effective interest rate

The company used a risk free interest rate to discount revenue and expenditure that impacts trade and other payables, trade payables with group companies, consumer debtors, other receivables, trade receivables with group companies and loans to and from shareholder.

1.1 Significant judgements and sources of estimation uncertainty (continued)

Allowance for debt impairment of consumer debtors

The allowance for impairment is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Management utilises judgement in evaluating credit risk related to customers. Judgement is based on various factors including, but not limited to, historical information available.

Valuation of water stock

The value of water held at year end is based on estimated water levels multiplied by the cost of water at that date.

1.2 Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the company, and
- the cost of the item can be measured reliably.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, or replace part of. If a replacement part is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Property, plant and equipment transferred to the company by developers at no cost to the company is recognised as an asset when the project is signed off and approved by the company. The asset is recorded at fair value to construct the asset as indicated by the developer.

Cost model

Property, plant and equipment excluding land and capital work-in-progress, which is held for use in the production or supply of goods or services or for administrative purposes are stated in the Statement of Financial Position at cost less accumulated depreciation and any accumulated impairment losses. Depreciation commences when the assets are ready for their intended use.

Capital work-in-progress is carried at cost, and depreciated from the date the assets are technically complete, i.e. ready for intended use. Capital work-in-progress is disclosed as a separate category of property, plant and equipment.

Day to day repairs and maintenance expenses are charged to the Statement of Financial Performance during the financial year in which they are incurred. The cost of major renovations are included in the carrying amount of the asset when it is probable that future economic benefits or service potential will flow to the company and the cost of the items can be measured reliably.

Land is regarded as having an indefinite useful life and is not depreciated. Depreciation is provided on all property, plant and equipment other than land and capital work-in-progress, to write down the cost, less estimated residual value, on a straight line basis over their estimated useful lives as follows:

Item	Useful life
Buildings	5 - 30 years
Communication equipment	2 - 7 years
Furniture and Fixtures	5 - 12 years
Computer equipment	5 - 15 years
Motor vehicles	5 - 12 years
Laboratory equipment	2 - 7 years
Minor plant	5 - 10 years
Office equipment	5 - 12 years
Plant and machinery	10 - 40 years

1.2 Property, plant and equipment (continued)

Waste water and water networks

• Pump stations - Civil	60 - 100 years
• Pump stations - Mechanical	5 - 15 years
• Pump stations - Electrical	7 - 16 years
• Water meters	4 - 10 years
• Pipelines and other	60 - 100 years

The residual values, depreciation methods and useful lives of the asset categories are reviewed at each financial year-end and adjusted if necessary. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.3 Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the company, and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost and comprise of computer software and servitudes. Cost includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates and the costs can be measured reliably. All other expenditure is expensed as incurred.

Cost model

Intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. For all other intangible assets amortisation is provided on a straight line basis over their useful life. The amortisation period and the amortisation method for intangible assets are reviewed each year-end and adjusted if necessary.

By their nature, servitudes confer upon the holder a right in perpetuity over the property and as these rights have an indefinite useful life, they are not amortised.

An item of intangible assets is derecognised upon disposal or when no future economic benefits or service potential are expected from its use or disposal. The surplus or deficit arising from the derecognition of an item of intangible assets is included in the surplus or deficit when the item is derecognised. The surplus or deficit arising from the derecognition of an item of intangible assets is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Amortisation is provided to write down the intangible assets, on a straight line basis as follows:

Item	**Useful life**
Computer software	3 - 6 years

Summary of Accounting Policies

1.4 Financial instruments

Initial recognition

The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are recognised initially at fair value and, in the case of instruments not at fair value through profit or loss, including directly attributable transaction costs.

Financial assets and financial liabilities are recognised on the company's Statement of Financial Position when the company becomes party to the contractual provisions of the instrument.

Fair value determination

Management establishes fair value for financial instruments by using certain valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and relying as little as possible on entity-specific inputs.

Loans and receivables

Loans and receivables comprise trade receivables with group companies, loans to shareholder, other receivables, consumer debtors and cash and cash equivalents. Loans and receivables are subsequently measured at amortised costs using the effective interest method.

Financial liabilities at amortised cost

Financial liabilities at amortised cost comprise trade payables with group companies, trade and other payables and loans from shareholder. These liabilities are subsequently measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and are subsequently measured at amortised cost.

1.4 Financial instruments (continued)

Impairment of Financial Assets

The company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments (more than 90 days overdue), the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For amounts due from loans and advances to customers carried at amortised cost, the company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the instrument's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the surplus or deficit.

Derecognition
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
  - (a) the company has transferred substantially all the risks and rewards of the asset, or
  - (b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the company's continuing involvement in the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Gains and losses for Financial Assets

Gains and losses are recognised in the statement of financial performance when the asset is derecognised or impaired as well as through the amortisation process.

1.4 Financial instruments (continued)

Gains and losses for Financial Liabilities

Gains and losses are recognised in the statement of financial performance when the liability is derecognised as well as through the amortisation process.

1.5 Income Tax

The company is an exempt entity in terms of Section 10(1)(t) of the Income Tax Act, Act 58 of 1962. As a result of the exemption no income tax has been provided for in the current financial year.

1.6 Leases

Finance leases - lessee

Finance leases are recognised as assets in the Statement of Financial Position at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases - lessor

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the Statement of Financial Performance on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the financial year in which termination takes place. Contingent rentals are expensed as incurred.

1.7 Inventories

Inventories consist of materials, components, fuel on hand and water stock.

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average cost formula.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

When inventories are utilised or consumed, the carrying amount of those inventories are recognised as an expense in the period. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. Reversals of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Summary of Accounting Policies

1.8 Impairment of non-financial assets

Property, plant and equipment and other non-current, and intangible assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Statement of Financial Performance for the amount by which the carrying amount of the asset exceeds its recoverable amount, that is, the higher of the asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

In assessing value in use, the estimated future cash flows are discounted to the present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognised in surplus or deficit in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exists or may have decreased. If such indication exists, the company estimates the asset's recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in surplus / (deficit).

1.9 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

The majority of the company's employees are members of various defined contribution plans. A defined contribution plan is a retirement plan under which the company pays fixed contributions into separate trustee administered funds.

The company’s contributions to the defined contribution plans are charged to the Statement of Financial Performance in the financial year to which they relate.

The company has no further payment obligations once the contributions have been paid.

Other post retirement obligations

The company provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees. These plans are not funded by any plan assets.

The entitlement to post-retirement health care benefits, gratuities and housing subsidies is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations using the projected unit credit method of these obligations on an annual basis. The obligation is measured at the present value of the estimated future cash flows using interest rates of government securities that have terms to maturity approximating the terms of the related liability.

Actuarial gains and losses and past service costs are charged to the Statement of Financial Performance as the costs occur.

Summary of Accounting Policies

1.10 Provisions and contingencies

Provisions are recognised when:
- the company has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Contingent assets and contingent liabilities are not recognised.

1.11 Bullk service contributions

Bulk service contributions are received by the company from developers for the potential expansion and/or augmentation of infrastructure relating to the provision of water and sanitation services to the development. When received the amounts are credited to the Statement of Financial Performance.

1.12 Government Grants

Government grants received are recognised as revenue, except to the extent that a liability is recognised with regards to conditions that give rise to a present obligation on the initial recognition of the asset. In cases that a liability is recognised, the carrying amount of the liability is reduced and the amount is recognised as revenue to the extent that the company satisfies the stipulated present obligations.

1.13 Revenue

Revenue comprises the invoiced value of sales in respect of operations in the provision of water and wastewater services and excludes investment and other income and value-added tax (VAT). Revenue from the distribution of water is recognised when consumed and the provision of sanitation services is recognised as and when the service has been provided. Average consumption is invoiced when meter readings have not been performed.

Deemed consumption areas are billed based on between 5kl and 20kl of water per stand per month, regardless of actual consumption.

Revenue is measured at the fair value of the consideration received or receivable excluding rebates and represents the amounts receivable for goods and services provided in the normal course of business.

1.14 Interest Revenue

Interest revenue is recognised on a time-proportion basis using the effective interest method.

1.15 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use are capitalised as part of the costs of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that are incurred in connection with the borrowing of funds.

1.16 Presentation currency and rounding

These Annual Financial statements are presented in South African Rand rounded to the nearest thousand.

1.17 Budget information

Until such time as the Standard of GRAP on Budget Information becomes effective, the company has adopted National Treasury's recommended template for the disclosure of budget information for the current financial year. The company's budget is prepared on an accrual basis that is comparable with the financial statements.

2. Statements and interpretations not yet effective

At the date of authorisation of these Annual Financial Statements, the following Standards and Interpretations were in issue but not yet effective:

- GRAP 18 - Segment reporting.
- GRAP 21 - Impairment of non-cash-generating assets
- GRAP 23 - Revenue from non-exchange transactions (Taxes and Transfers)
- GRAP 24 - Presentation of budget information in financial statements
- GRAP 25 - Employee benefits
- GRAP 26 - Impairment of cash-generating assets
- GRAP 103 - Heritage assets
- GRAP 104 - Financial instruments

The principles incorporated in GRAP 23 - Revenue from non-exchange transactions have already been incorporated in the accounting policy for government grants (refer accounting policy 1.12).

The other standards are similar to existing standards applied by the company and are unlikely to impact the financial position or performance of the entity, but may impact the extent of disclosures provided.

3. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	10,367	-	10,367	10,367	-	10,367
Buildings	273,026	(203,363)	69,663	267,129	(189,106)	78,023
Plant and machinery	1,368,174	(341,818)	1,026,356	1,105,903	(290,598)	815,305
Furniture and fixtures	11,394	(6,930)	4,464	10,779	(6,025)	4,754
Motor vehicles	225	(97)	128	427	(273)	154
Office equipment	13,716	(5,150)	8,566	14,750	(4,904)	9,846
Computer equipment	47,816	(23,935)	23,881	51,564	(29,085)	22,479
Capital work in progress	741,042	-	741,042	729,261	-	729,261
Communication equipment	11,958	(8,498)	3,460	17,119	(13,021)	4,098
Farming machinery	160	(160)	-	7,356	(6,286)	1,070
Laboratory equipment	25,562	(19,023)	6,539	25,005	(16,794)	8,211
Minor plant	53,279	(31,631)	21,648	58,887	(34,343)	24,544
Wastewater network	1,339,222	(110,441)	1,228,781	1,260,814	(95,749)	1,165,065
Water network	2,521,475	(270,032)	2,251,443	2,249,921	(218,121)	2,031,800
Total	**6,417,416**	**(1,021,078)**	**5,396,338**	**5,809,282**	**(904,305)**	**4,904,977**

Notes to the Annual Financial Statements

Figures in Rand thousand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Transfers	Developer funded network	Depreciation	Total
Land	10,367	-	-	-	-	-	10,367
Buildings	78,023	677	(5,129)	11,106	-	(15,014)	69,663
Plant and machinery	815,305	35,586	-	226,685	-	(51,220)	1,026,356
Furniture and fixtures	4,754	528	(5)	118	-	(931)	4,464
Motor vehicles	154	-	-	-	-	(26)	128
Office equipment	9,846	295	(754)	614	-	(1,435)	8,566
Computer equipment	22,479	3,247	(23)	3,814	-	(5,636)	23,881
Capital work in progress	729,261	488,343	-	(476,562)	-	-	741,042
Communication equipment	4,098	522	-	69	-	(1,229)	3,460
Farming machinery	1,070	-	(1,070)	-	-	-	-
Laboratory Equipment	8,211	545	-	12	-	(2,229)	6,539
Minor plant	24,544	1,460	-	33	-	(4,389)	21,648
Wastewater network	1,165,065	8,019	(813)	21,677	50,287	(15,454)	1,228,781
Water network	2,031,800	49,183	-	192,970	29,401	(51,911)	2,251,443
	4,904,977	**588,405**	**(7,794)**	**(19,464)**	**79,688**	**(149,474)**	**5,396,338**

Notes to the Annual Financial Statements

Figures in Rand thousand

3. Property, plant and equipment (continued)

Land and buildings

Land and buildings to the value of R 80,030 (2010: R 88,390) purchased from the City of Johannesburg Metropolitan Municipality in terms of the sale of business agreement, have not as yet been transferred into the name of Johannesburg Water (Proprietary) Limited. A register containing the information required in terms of paragraph 22(3) of schedule 4 of the Companies Act is available for inspection at the registered office of the company.

Capital work in progress

Capital work in progress comprises of the following significant classes:-

Plant and Machinery	-	R 336,120
Water network	-	R 321,987
Wastewater network	-	R 60,210
Other	-	R 22,725

Notes to the Annual Financial Statements

Figures in Rand thousand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Disposals	Transfers	Developer funded network	Depreciation	Total
Land	10,367	-	-	-	-	-	10,367
Buildings	90,355	1,189	-	9,178	-	(22,699)	78,023
Plant and machinery	751,926	24,963	-	84,989	-	(46,573)	815,305
Furniture and fixtures	5,615	239	(295)	248	-	(1,053)	4,754
Motor vehicles	180	-	-	-	-	(26)	154
Office equipment	6,142	4,401	(26)	313	-	(984)	9,846
Computer equipment	25,554	276	(497)	3,795	-	(6,649)	22,479
Capital work in progress	771,905	349,028	-	(391,672)	-	-	729,261
Communication equipment	4,564	769	-	415	-	(1,650)	4,098
Farming machinery	1,340	-	-	55	-	(325)	1,070
Laboratory Equipment	11,509	448	-	89	-	(3,835)	8,211
Minor plant	24,061	5,241	(10)	391	-	(5,139)	24,544
Wastewater network	1,045,505	39,596	-	55,909	38,689	(14,634)	1,165,065
Water network	1,669,319	141,598	-	234,971	34,835	(48,923)	2,031,800
	4,418,342	**567,748**	**(828)**	**(1,319)**	**73,524**	**(152,490)**	**4,904,977**

Capital work in progress

Capital work in progress comprises of the following significant classes:-

Water network	-	R 311,069
Plant and Machinery	-	R 306,297
Wastewater network	-	R 64,898
Other	-	R 46,997

Figures in Rand thousand	2011	2010

4. Intangible assets

	2011			2010		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Servitudes	1,701	-	1,701	901	-	901
Computer software	86,792	(53,428)	33,364	66,573	(44,868)	21,705
Total	**88,493**	**(53,428)**	**35,065**	**67,474**	**(44,868)**	**22,606**

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Transfers	Amortisation	Total
Servitudes	901	800	-	-	1,701
Computer software	21,705	3,596	19,464	(11,401)	33,364
	22,606	**4,396**	**19,464**	**(11,401)**	**35,065**

Reconciliation of intangible assets - 2010

	Opening balance	Additions	Transfers	Amortisation	Total
Servitudes	901	-	-	-	901
Computer software	26,748	6,027	1,319	(12,389)	21,705
	27,649	**6,027**	**1,319**	**(12,389)**	**22,606**

5. Inventories

Material, components and fuel	36,109	31,364
Water	7,697	6,562
Subtotal	43,806	37,926
Provision for impairment	(1,837)	(2,321)
	41,969	**35,605**

Inventory consists of spares and consumables which will be utilised by the company in its daily business operations, as well as stock of water. The stock of water is computed based on volumes at year end in the water network, water towers and reservoirs. Water stock expensed is included as part of cost of sales.

Figures in Rand thousand	2011	2010

6. Trade receivables and payables with group companies

Fellow subsidiaries

Johannesburg City Parks NPC	(80)	(615)
Johannesburg Development Agency SOC Ltd	(1,777)	-
Johannesburg Roads Agency SOC Ltd	(4,620)	(5,293)
Pikitup Johannesburg SOC Ltd	431	164
	(6,046)	**(5,744)**

The above loans are short term (30 - 60 days) , unsecured and interest free.

Current assets	431	164
Current liabilities	(6,477)	(5,908)
	(6,046)	**(5,744)**

Credit quality of trade receivables with group companies

The credit quality of trade receivables with group companies that are neither past due nor impaired are considered fair by the company taking into account the historical information available and due to the fact that there has been no default in the past.

Fair value of trade receivables and payables with group companies

Trade receivables and payables with group companies	(6,046)	(5,744)

The trade receivables and payables with group companies are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method.

Trade receivables with group companies past due but not impaired

There are no trade receivables with group companies which are past due.

7. Loans to/from shareholder

City of Johannesburg Metropolitan Municipality - Other loans	(139,377)	(10,886)
City of Johannesburg Metropolitan Municipality - Conduit mirror loans	(2,460,259)	(1,875,790)
City of Johannesburg Metropolitan Municipality - Other non-exchange loans	-	35,525
City of Johannesburg Metropolitan Municipality - Post retirement benefit	77,552	80,721
City of Johannesburg Metropolitan Municipality - Capex drawdown	93,471	44,834
City of Johannesburg Metropolitan Municipality - Sweeping account	96,498	248,843
City of Johannesburg Metropolitan Municipality - Shareholder loans	(454,939)	(519,934)
	(2,787,054)	**(1,996,687)**

Other loans and the Capex drawdown are short term (30 - 60 days), unsecured and interest free.

Current assets	267,521	409,923
Non-current liabilities	(2,545,581)	(2,067,228)
Current liabilities (including short term portion of long term loans)	(508,994)	(339,382)
	(2,787,054)	**(1,996,687)**

The terms of loans to shareholder have not been renegotiated in the current or prior period.

Figures in Rand thousand	2011	2010

7. Loans to/from shareholder (continued)

Fair value of loans to and from shareholder

Loans to shareholder	128,143	399,037
Loans from shareholder	(2,727,086)	(2,164,545)

Loans to shareholder past due but not impaired

Loans to shareholder which are less than 3 months past due are not considered to be impaired. At 30 June 2011, R652 (2010: R 3) were past due but not impaired.

The aging of the amounts past due but not impaired is as follows:

30 days past due	652	3

7.1. City of Johannesburg Metropolitan Municipality - Conduit mirror loans

Loans at the beginning of the year	(1,875,790)	(1,707,651)
New loans	(865,951)	(402,890)
Repayments	281,482	234,751
Balance at end of year	**(2,460,259)**	**(1,875,790)**

These unsecured loans bear interest at a nominal rate of 5,23 % to 15% (2010: 6,35% to 14,33%) compounded monthly and are repayable as follows:
Conduit loans are repayable in equal quarterly installments over a period of 10 years from loan acquisition.
FDA 1 (Caylon) is repayable in equal quarterly installments over a period of 10 years, commencing 30 September 2008.
FDA 2 (Caylon) is repayable in equal half yearly instalments over a period of 15 years, commencing 15 November 2014.

7.2. City of Johannesburg Metropolitan Municipality - Shareholder loans

Shareholder loans at beginning of the year	(519,934)	(584,928)
Repayments	64,995	64,995
Balance at the end of the year	**(454,939)**	**(519,933)**

The unsecured loans bear interest at a nominal annual rate of 14,5% to 15% (2010: 14,5% to 15%) compounded monthly and are repayable in equal quarterly installments over a period of 10 years.The quarterly capital repayments commenced in 2009.

7.3. City of Johannesburg Metropolitan Municipality - Sweeping account

Bank Sweeping Account	96,498	248,843

The bank sweeping account is an unsecured interest bearing loan to the shareholder with no fixed repayment terms. The loan earns interest at a variable rate which was 5,24% (2010: 6,28%) at the reporting date.

Figures in Rand thousand	2011	2010

8. Other receivables

Sundry debtor	12,644	13,496
Allowance for debt impairment	(2,925)	(2,995)
Total other receivables	**9,719**	**10,501**

Other receivables consists of the billing and recovery of sundry services which include laboratory fees and penalty charges to sewer effluent transgressors.

Credit quality of other receivables

Other receivables comprise of the recovery of sundry services. Management evaluates credit risk relating to these customers on an ongoing basis. The credit quality of other receivables that are neither past due nor impaired are considered fair by the company taking into account the historical information available.

Other receivables past due but not impaired

At 30 June 2011, R1,077 (2010 : R 1,313) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

30 days past due	57	-
60 days past due	110	1,313
90 days past due	682	-
120 days past due	228	-

Other receivables impaired

As of 30 June 2011, other receivables of R 12,644 (2010: R 12,621) were considered for impairment testing. The allowance for impairment losses was R2,925 as of 30 June 2011(2010: R2,995).

The classification and respective ageing categories considered by management during the testing for impairment are as follows:

Current (0 days)	8,642	8,313
31 - 60 days	57	-
61 - 90 days	110	1,313
91 - 120 days	682	-
121 - 365 days	3,153	2,995
Total other receivables	**12,644**	**12,621**

Reconciliation of allowance for debt impairment of other receivables

Opening balance	2,995	2,531
Allowance for impairment losses	(70)	464
	2,925	**2,995**

The creation and release of the allowance for debt impairment of other receivables have been included in operating expenses in the Statement of Financial Performance (note 23). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

Figures in Rand thousand	2011	2010

9. Consumer debtors: Exchange transactions

Trade receivables	5,909,776	4,611,314
Allowance for debt impairment	(4,531,239)	(3,757,901)
	1,378,537	**853,413**

A debt impairment is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. Accordingly, an impairment loss is recognised based on the ageing as well as the profile of debtors. The terms of the trade and other receivables have not been renegotiated during the current or prior period.

Extensive investigative work performed prior to 2004 in order to inform the direction of the company turnaround strategy identified that the deemed consumption areas were largely responsible not only for the high outstanding debtors, but also the higher than benchmark unaccounted for water level. Although the level of unaccounted for water for the year under review is 39.1% [R827 million], (2010: 36.6% [R 648 million]), the level in metered areas is approximately 22.0% (2010: 18.4%), which is well within accepted norms. The level for deemed consumption areas however, exceeds 83.8% (2010: 84%) The focus point of the initiative referred to as prepayment metering project is expected to address the water loss issue in deemed consumption areas.

Credit quality of consumer debtors

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis and characteristics like collection levels are considered during evaluation for impairment. The credit quality of trade receivables that are neither past due nor impaired are considered fair by the company taking into account the historical information available.

Summary of consumer debtors by classification

Domestic consumers		
Current (0 - 30 days)	465,072	271,269
31 - 60 days	105,038	111,199
61 - 90 days	104,891	129,924
91 - 120 days	99,889	117,512
121 - 365 days	583,837	507,924
> 365 days	2,146,953	1,808,719
	3,505,680	2,946,547
Less: Allowance for debt impairment	(2,830,679)	(2,434,155)
	675,001	**512,392**
Domestic consumers - Past due and impaired		
91 - 120 days	(99,889)	(117,512)
121 - 365 days	(583,837)	(507,924)
> 365 days	(2,146,953)	(1,808,719)
	(2,830,679)	**(2,434,155)**
Domestic consumers - Past due and not impaired		
Current (0 - 30 days)	465,072	271,269
31 - 60 days	105,038	111,199
61 - 90 days	104,891	129,924
	675,001	**512,392**

Figures in Rand thousand	2011	2010

9. Consumer debtors: Exchange transactions (continued)

Commercial consumers		
Current (0 - 30 days)	434,223	155,125
31 - 60 days	73,216	64,674
61 - 90 days	92,446	55,680
91 - 120 days	56,544	66,175
121 - 365 days	390,036	363,114
> 365 days	1,172,351	862,478
	2,218,816	1,567,246
Less: Allowance for debt impairment	(1,614,817)	(1,291,767)
	603,999	**275,479**
Commercial consumers - Past due and impaired		
91 - 120 days	(52,430)	(66,175)
121 - 365 days	(390,036)	(363,114)
> 365 days	(1,172,351)	(862,478)
	(1,614,817)	**(1,291,767)**
Commercial consumers - Past due and not impaired		
Current (0 - 30 days)	434,223	155,125
31 - 60 days	73,216	64,674
61 - 90 days	92,446	55,680
91 - 120 days	4,114	-
	603,999	**275,479**
National and provincial government		
Current (0 - 30 days)	71,800	61,326
31 - 60 days	9,890	1,663
61 - 90 days	17,847	2,553
91 - 120 days	8,194	2,131
121 - 365 days	34,299	8,193
> 365 days	43,250	21,655
	185,280	97,521
Less: Allowance for debt impairment	(85,743)	(31,979)
	99,537	**65,542**
National and provincial government - Past due and impaired		
91 - 120 days	(8,194)	(2,131)
121 - 365 days	(34,299)	(8,193)
> 365 days	(43,250)	(21,655)
	(85,743)	**(31,979)**
National and provincial government - Past due and not impaired		
Current (0 - 30 days)	71,800	61,326
31 - 60 days	9,890	1,663
61 - 90 days	17,847	2,553
	99,537	**65,542**

Figures in Rand thousand	2011	2010

9. Consumer debtors: Exchange transactions (continued)

Total consumer debtors		
Current (0 -30 days)	971,095	487,720
31 - 60 days	188,144	177,536
61 - 90 days	215,184	188,157
91 - 120 days	164,627	185,818
121 - 365 days	1,008,172	879,231
> 365 days	3,362,554	2,692,852
	5,909,776	4,611,314
Less: Allowance for debt impairment	(4,531,239)	(3,757,901)
	1,378,537	**853,413**
Total consumer debtors - Past due and impaired		
91 - 120 days	(160,513)	(185,818)
121 - 365 days	(1,008,172)	(879,231)
> 365 days	(3,362,554)	(2,692,852)
	(4,531,239)	**(3,757,901)**
Total consumer debtors - Past due but not impaired		
Current (0 - 30 days)	971,095	487,720
31 - 60 days	188,144	177,536
61 - 90 days	215,184	188,157
91 - 120 days	4,114	-
	1,378,537	**853,413**
Reconciliation of allowance for debt impairment		
Balance at beginning of the year	(3,757,901)	(2,777,729)
Contributions to allowance	(775,807)	(1,240,723)
Debt impairment written off against allowance	2,469	260,551
	(4,531,239)	**(3,757,901)**

Figures in Rand thousand	2011	2010

10. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2011

	Loans and receivables	Non-financial assets	Total
Loans to shareholder	267,521	-	267,521
Consumer debtors: Exchange transactions	1,380,088	(1,551)	1,378,537
Other receivables	5,438	4,281	9,719
Cash and cash equivalents	25	-	25
Trade receivables with group companies	431	-	431
	1,653,503	**2,730**	**1,656,233**

2010

	Loans and receivables	Non-financial assets	Total
Loans to shareholder	409,923	-	409,923
Consumer debtors: Exchange transactions	855,136	(1,723)	853,413
Other receivables	6,977	3,524	10,501
Cash and cash equivalents	24	-	24
Trade receivables with group companies	164	-	164
	1,272,224	**1,801**	**1,274,025**

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	25	24

The company has a sweeping arrangement with the City of Johannesburg Metropolitan Municipality whereby all cash is swept on a daily basis to the City of Johannesburg Metropolitan Municipality's bank account. Petty cash is reflected as being on hand. The cash owed to the company by the City of Johannesburg Metropolitan Municipality is reflected as an amount due from the shareholder. The amount due at 30 June 2011 is R96,498 million (2010: R248 million).

Bank account information

Absa bank: Expenditure account	Account no: 4054394786	-	-
Absa bank: Revenue account	Account no: 4054394809	-	-
Absa bank: Salaries account	Account no: 4054394817	-	-
		-	**-**

12. Contribution from shareholder

Authorised		
1000 Ordinary shares of R1 each	1	1
Issued		
200 Ordinary shares of R1 each	1	1

Figures in Rand thousand		2011	2010

13. Retirement benefit obligation

The actuarial valuations were performed by Independent Actuarial Consultants, who are independent post retirement plan administrators. It was concluded that the plan was in a sound financial position, taking into account the loan receivable (note 7) from the City of Johannesburg Metropolitan Municipality, to cover the liability.

Post-retirement liability			
Provision:Post-Retirement Medical Obligation	13.1	34,589	37,076
Provision:Post-Retirement Housing Subsidy obligation	13.2	136	48
Provision:Post-Retirement Gratuity Obligation	13.3	39,953	47,699
Balance at end of year		**74,678**	**84,823**

13.1 Post retirement medical aid plan

The company has made provision for post retirement medical benefits covering 37 employees (2010: 46 employees), and 29 continuation members (2010: 29 continuation members). There are 2 medical schemes. Actuarial valuations are independently prepared annually using the projected unit funding method and a set of actuarial assumptions.

Reconciliation of post retirement medical aid plan

Opening balance	37,076	39,975
Benefits paid	(944)	(706)
Current service costs	323	798
Interest costs	3,352	3,357
Actuarial gain	(5,218)	(6,348)
Balance at end of year	**34,589**	**37,076**

Key assumptions used

Assumptions used on last valuation on 30 June 2011.

Discount rates used	8.60 %	9.00 %
Expected increase in salaries	5.60 %	5.90 %

13. Retirement benefit obligation (continued)

In determining the appropriate discount rate, the actuary considers the interest rates of government bonds, adjusted to reflect the margin on corporate bonds, that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related post retirement medical aid plan liability.

A sensitivity analysis with respect to a 1% change in the discount rate will have the following impact:

Change in assumptions

	1%	**0%**	**-1%**
Liability	R32,677	R34,589	R36,889
Percentage change	-5.5%	0%	6.70%
Service Costs	R 296	R 316	R 340
Percentage Change	-6.40%	0%	7.70%

Post Retirement Mortality

	Liability	**Percentage Change**	**Service Costs**	**Percentage Change**
2 years younger	R35,568	2.80%	R325	R2.70%

Other assumptions:

Age of Spouse	-	husbands five years older than wives
Mortality of in-service members	-	In accordance with the SA 85-90 (light) ultimate table
Mortality of pensioners	-	In accordance with the PA(90) ultimate male and female tables.

13.2 Post retirement housing subsidy plan

The company has made provision for post retirement housing subsidies covering 15 employees (2010: 3 employees). Actuarial valuations are independently prepared annually using the projected unit funding method and a set of actuarial assumptions.

Reconciliation of post retirement housing subsidy plan

Opening balance	48	63
Current service costs	2	2
Interest costs	4	5
Benefits Paid	(2)	-
Actuarial gain	84	(22)
Balance at end of year	**136**	**48**

Key assumptions used

Assumptions used on last valuation on 30 June 2011.

Discount rates used	8.60 %	9.00 %
Expected increase in salaries	5.60 %	5.90 %

Figures in Rand thousand	2011	2010

13. Retirement benefit obligation (continued)

In determining the appropriate discount rate, the actuary considers the interest rates of government bonds, adjusted to reflect the margin on corporate bonds, that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related post retirement housing subsidy plan liability.

Change in assumptions

	1%	**0%**	**-1%**
Liability	R132,62	R135,70	R141,16
Percentage change	-3.7%	0%	4.0%
Service Costs	R4,48	R4,66	R 4,85
Percentage Change	-3,7%	0%	4.0%

13.3 Post retirement gratuity plan

The company has made provision for post retirement gratuity benefits covering 338 employees (2010: 380 employees). Actuarial valuations are independently prepared annually using the projected unit funding method and a set of actuarial assumptions.

Reconciliation of post retirement gratuity plan

Opening balance	47,699	48,103
Benefits paid	(7,594)	(5,928)
Interest Cost	4,312	4,041
Actuarial loss / (gain)	(4,464)	1,483
Balance at end of year	**39,953**	**47,699**

Key assumptions used

Assumptions used on last valuation on 30 June 2011.

Discount rates used	8.60 %	9.00 %
Expected increase in salaries	5.60 %	5.90 %

In determining the appropriate discount rate, the actuary considers the interest rates of government bonds, adjusted to reflect the margin on corporate bonds, that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related post retirement gratuity plan liability.

Change in assumptions

	1%	**0%**	**-1%**
Liability	R37,966	R39,953	R42,167
Percentage change	-5%	0%	5.5%

Figures in Rand thousand	2011	2010

13. Retirement benefit obligation (continued)

13.4 Net expense recognised in the statement of financial performance

Post retirement medical aid plan	2,487	2,899
Post retirement housing subsidy plan	(88)	15
Post retirement gratuity plan	7,746	404
Total included in employee related costs	**10,145**	**3,318**

13.5 Defined contribution plan

The company's liability is limited to its contributions to the plan.

The total company contribution to such schemes	43,183	43,714

14. Unspent conditional grants

Unspent conditional grants comprise:

Unspent conditional grants and receipts		
Government grants	5,601	7,538

Government grants movement during the year

Balance at the beginning of the year	7,538	13,483
Received in current year	144,470	108,798
Utilised during the year	(146,407)	(114,743)
Balance at the end of the year	**5,601**	**7,538**

The unspent conditional grants have been contracted for. The projects were classified as work in progress at the reporting date resulting in partial fulfillment of the conditions attached to the funding.

15. Trade and other payables from exchange transactions

Trade payables	571,230	651,478
Payments received in advance	192,564	236,965
Accrued leave pay	32,780	30,081
Accrued bonus	16,401	17,588
Operating lease payables	13,777	8,666
Sundry Creditors	6,190	5,496
VAT	84,494	107,492
Consumer deposits	46,709	36,068
	964,145	**1,093,834**

The above are short term, unsecured and interest free.

15.1 Trade payables

Gross trade payables	572,031	652,443
Effective interest rate adjustment	(801)	(965)
	571,230	**651,478**

Figures in Rand thousand	2011	2010

16. Provisions

Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for bonuses	11,403	12,000	(10,737)	(666)	12,000

Reconciliation of provisions - 2010

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for bonuses	10,217	11,403	(9,238)	(979)	11,403

17. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2011

	Financial liabilities	Non-financial liabilities	Total
Trade payables with group companies	6,477	-	6,477
Loans from shareholder	3,054,575	-	3,054,575
Trade and other payables from exchange transactions	680,585	283,559	964,144
Provisions	12,000	-	12,000
	3,753,637	**283,559**	**4,037,196**

2010

	Financial liabilities	Non-financial liabilities	Total
Trade payables with group companies	5,908	-	5,908
Loans from shareholder	2,406,610	-	2,406,610
Trade and other payables from exchange transactions	742,571	351,262	1,093,833
Provisions	11,403	-	11,403
	3,166,492	**351,262**	**3,517,754**

18. Revenue from exchange transactions

Sale of water	2,738,400	2,913,556
Rendering of sanitation services	1,880,043	1,636,673
	4,618,443	**4,550,229**

19. Other income

Other income	8,922	21,940
Laboratory income	1,517	1,394
Developer funded asset income	79,688	73,525
Profit /(loss) on disposal of property, plant and equipment	(6,301)	184
Bulk service contributions released	38,545	31,814
	122,371	**128,857**

Figures in Rand thousand		2011	2010
20. Revenue from non-exchange transactions			
Government grants released		146,407	114,743
21. Expenses by nature			
Operating surplus for the year is stated after accounting for the following:			
Operating lease charges - Contractual amounts			
Premises		24,968	17,208
Motor vehicles		70,276	68,933
Equipment		1,298	2,123
		96,542	**88,264**
Operating expenses			
Depreciation, amortisation and impairments		160,873	164,880
Employee costs	25	574,102	596,356
Allowance for debt impairment	23	591,491	1,122,317
Bulk purchases	24	142,552	124,133
Consumables		73,744	73,812
Insurance		3,792	9,530
Legal expenses		2,000	5,114
Repairs and maintenance		8,085	9,126
Security		20,900	18,984
Billing and meter reading charges		160,450	62,179
22. Auditors remuneration			
Fees		3,241	4,105
23. Allowance for debt impairment (Bad debts)			
Allowance for debt impairment		655,481	1,187,225
Interest on impaired accounts		(63,990)	(64,908)
		591,491	**1,122,317**
24. Bulk purchases			
Electricity		120,447	92,564
Chemicals		22,105	31,569
		142,552	**124,133**

Figures in Rand thousand		2011	2010
25. Employee costs			
Basic		419,209	435,193
Other allowances		60,617	60,271
Pension costs	13	50,801	51,032
Medical aid - company contributions	13	32,949	32,777
Leave pay		9,762	10,054
Post retirement benefit plan cost (Defined contribution plan)	13	(1,605)	3,317
Housing benefits and allowances		2,369	3,712
		574,102	**596,356**
Average number of employees employed during the year			
- Permanent		2,409	2,520
26. Interest revenue			
Interest earned - sweeping accounts		2,390	19,804
27. Effective interest rate adjustment			
Effective interest rate adjustment - revenue		20,105	22,383
Effective interest rate adjustment - expenditure		(13,394)	(13,775)
		6,711	**8,608**

The above represents the discounting of debtors and creditors.

28. Finance costs			
Interest paid - Shareholder loans		268,111	267,656

29. Taxation

As the company is a water service provider it has been exempt from normal company taxation in terms of Section 10(1)(t) of the Income Tax Act, Act 58 of 1962, published in the Government Gazette.

Figures in Rand thousand		2011	2010
30. Cash generated from operations			
(Deficit) / Surplus before taxation		385,032	251,454
Adjustments for:			
Depreciation and amortisation	3&4	160,873	164,880
Effective interest rate adjustment	27	(6,711)	(8,608)
Allowance for debt impairment	23	591,491	1,122,317
Movements in retirement benefit assets and liabilities	13	(10,145)	(3,318)
Movements in provisions		597	1,186
Other non-cash items		6,711	4,311
Profit on disposal of property, plant and equipment	19	(6,301)	(184)
Developer funded asset income	3	(79,688)	(73,524)
Changes in working capital:			
Inventories	5	(6,364)	(3,785)
Other receivables	8	782	338
Consumer debtors	9	(1,116,615)	(1,234,522)
Proceeds from biological assets		-	13,671
Trade and other payables from exchange transactions	15	(129,685)	242,566
Unspent conditional grants	14	(1,937)	(5,945)
Net movement in balances with group companies	6	302	(1,612)
		(211,658)	**469,225**

31. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
Property, plant and equipment	686,105	331,432

This capital expenditure is to be financed from internally generated funds and from shareholder loans and grants as follows:

This expenditure will be financed from:		
Shareholder loans	439,410	257,032
Grant funding	236,695	64,400
Internal cash	10,000	10,000
	686,105	**331,432**

Operating leases - as lessee

Minimum lease payments due

• within one year	23,925	47,855
• in second to fifth year inclusive	109,475	57,382
• later than five years	63,379	17,947
	196,779	**123,184**

Operating lease payments represent rentals payable by the company for certain of its office properties and fleet. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable. Lease agreements over office properties and fleet are subject to escalation clauses.

Figures in Rand thousand	2011	2010

32. Related parties

Relationships	
Parent	City of Johannesburg Metropolitan Municipality
Other members of the group	City of Johannesburg Property Company SOC Ltd City Power Johannesburg SOC Ltd Johannesburg City Parks NPC Johannesburg Development Agency SOC Ltd Johannesburg Metropolitan Bus Services SOC Ltd Johannesburg Roads Agency SOC Ltd Johannesburg Social Housing Company SOC Ltd Metropolitan Trading Company SOC Ltd Pikitup Johannesburg SOC Ltd The Johannesburg Civic Theatre SOC Ltd The Johannesburg Fresh Produce Market SOC Ltd The Johannesburg Zoo NPC
Members of key management	Directors' emoluments and other Key Management Personnel Remuneration - Note 33
Other related parties	There were no related party declarations made during the year by any supplier, tenderer or employee in terms of Supply Chain Management Regulation 45.

Related party balances		
Loan accounts - Owing by related parties		
City of Johannesburg Metropolitan Municipality	128,144	399,037
Loan accounts - owing to related parties		
City of Johannesburg Metropolitan Municipality	2,545,582	2,067,227
Short term portion of long term loans	369,617	328,496
	2,915,199	**2,395,723**
Related party balances		
Amounts owing by related parties		
City of Johannesburg Metropolitan Municipality - General	243,445	470,620
Pikitup Johannesburg SOC Ltd - General	431	164
Johannesburg Roads Agency SOC Ltd - General	19	4
	243,895	**470,788**
Amounts owing to related parties (excluding long term liabilities)		
City of Johannesburg Metropolitan Municipality	484,918	400,079
Johannesburg City Parks NPC	80	615
Johannesburg Roads Agency SOC Ltd	4,639	5,296
	489,637	**405,990**

Figures in Rand thousand	2011	2010

32. Related parties (continued)

Related party transactions

Sales to related parties		
City of Johannesburg Metropolitan Municipality	1,812	12,960
Pikitup Johannesburg SOC Ltd	378	587
City Power Johannesburg SOC Ltd	-	1,470
The Johannesburg Zoo NPC	-	2,224
Metropolitan Trading Company SOC Ltd	-	1,143
Johannesburg Civic Theatre SOC Ltd	-	210
Johannesburg City Parks NPC	-	1,930
Johannesburg Development Agency SOC Ltd	-	(2,195)
Johannesburg Roads Agency SOC Ltd	26	25
The Johannesburg Fresh Produce Market SOC Ltd	-	5,315
	2,216	**23,669**
Purchases from related parties		
City of Johannesburg Metropolitan Municipality	246,099	77,904
Johannesburg Social Housing Company SOC Ltd	1,442	1,507
Pikitup Johannesburg SOC Ltd	-	2,543
City Power Johannesburg SOC Ltd	-	56,672
Johannesburg Roads Agency SOC Ltd	8,169	6,211
	255,710	**144,837**

All transactions with group companies are conducted at arms length.

Figures in Rand thousand	2011	2010

33. Directors' emoluments and other Key Management Personnel Remuneration

The emoluments paid to the directors, senior management and members of the audit and risk committee is reflected hereunder.

Executive directors

2011	Basic salary	Bonuses and performance related payments	Travel allowances	Contributions to pension funds and medical aid	Total
GT Dumas - Managing director	1,030	254	232	136	1,652
M Padiaychee - Acting Managing Director	394	-	-	51	445
M. Padiaychee - Financial Director	848	176	24	120	1,168
	2,272	**430**	**256**	**307**	**3,265**

2010	Basic salary	Bonuses and performance related payments	Travel allowances	Contributions to pension funds and medical aid	Total
GT Dumas - Managing director	1,307	139	330	177	1,953
M Padiaychee - Financial director	941	96	144	152	1,333
	2,248	**235**	**474**	**329**	**3,286**

Non executive directors

Services rendered as director of company		
Ms M van Rensburg	148	143
Mr N Macleod	134	39
Dr N Mabuya	65	123
Mr N Govender	151	166
Ms N C Skeepers	103	131
Mr T C Modipane (resigned 27/06/2011)	38	105
Ms N Msezane	93	109
Mr C Tilly	82	13
	814	**829**
Services rendered as member of committee		
C Mbili	46	18
Mr J Behr (resigned 18/08/2010)	-	51
Ms M Malope	53	64
	99	**133**

Figures in Rand thousand	2011	2010

33. Directors' emoluments and other Key Management Personnel Remuneration (continued)

Senior Management

2011	Basic salary	Bonuses and performance related payments	Travel allowances	Contributions to pension funds and medical aid	Total
B Q Zimu	905	150	121	152	1,328
L Jiya (resigned 19/11/2010)	290	140	78	-	508
	1,195	**290**	**199**	**152**	**1,836**

2010	Basic salary	Bonuses and performance related payments	Travel allowances	Contributions to pension funds and medical aid	Total
B Q Zimu	758	82	182	136	1,158
L Jiya	711	86	200	-	997
C O R Montoeli	111	123	25	17	276
	1,580	**291**	**407**	**153**	**2,431**

34. Comparatives restated

The comparative figures have been restated as a result of prior year adjustments as per note 35.

Figures in Rand thousand	2011	2010

35. Prior year adjustments

35.1 Revenue from exchange transactions

Due to the challenges encountered in the roll out of project Phakama, revenue for the 2010 financial year was understated, resulting in the company processing an accrual entry amounting to R 88 million in the 2010 financial year as provided by the City of Johannesburg Metropolitan Municipality . The City of Johannesburg Metropolitan Municipality has subsequently recalculated the accrual value in relation to the 2010 financial year and this amounts to R 519 million. The differential of R431 million has been accounted for as a prior period adjustment accordingly.

	2010	2009
Impact on Statement of Financial Position		
Increase in Consumer debtors: Exchange transactions	430,680	-
Impact on Statement of Financial Performance		
Increase in revenue from exchange transactions	430,680	-
Impact on Statement of Changes in Net Assets		
Increase in net surplus for the year	430,680	-

35.2 Allowance for debt impairment

Due to the adjustment listed in note 35.1 above as relates to the revenue accrual, an allowance for debt impairment is neccessitated in the corresponding period. The differential of R 502 million has been adjusted in the prior period.

	2010	2009
Impact on Statement of Financial Position		
Decrease in Consumer debtors: Exchange transactions	502,016	-
Impact on Statement of Financial Performance		
Increase in operating expenses	502,016	-
Impact on Statement of Changes in Net Assets		
Decrease in net surplus for the year	(502,016)	-

35.3 Revenue journal adjustments

During the current financial year revenue adjustments amounting to 2010: R 114,146 (2009: (-R 114,290) were performed. The adjustments relate primarily to reversals of water and sewer charges charged during the previous financial years. These adjustments have now been reflected as a prior year adjustment resulting in the comparatives being restated.

	2010	2009
Impact on Statement of Financial Position		
Increase/(decrease) in Consumer debtors: Exchange transactions	114,146	(114,290)
Impact on Statement of Financial Performance		
Increase/(decrease) in revenue from exchange transactions	114,146	(114,290)
Impact on Statement of Changes in Net Assets		
Increase/(decrease) in net surplus for the year	114,146	(114,290)

35.4 Cumulative Impact on Statement of Changes in Net Assets

The cumulative impact of the Statement of Changes in Net Assets as a result of the prior year adjustments listed above is as follows:

	2010	2009
Impact on Statement of Changes in Net Assets		
	42,810	(114,290)

Figures in Rand thousand	2011	2010

36. Risk management

Financial risk management

The company's overall risk management program, in conjunction with the shareholder, focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance. Risk management is carried out by a central treasury department at the shareholder under policies approved by the mayoral committee. The board of directors sanction a risk management policy which considers financial risk management within the organisation. The company has no exposure to foreign exchange risk.

Liquidity risk

The company's risk to liquidity is a result of the funds necessary to cover future commitments. The company manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 30 June 2011	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Loans from shareholder	669,571	611,097	1,541,573	1,461,464
Trade payables with group companies	6,046	-	-	-
Trade and other payables from exchange transactions	680,591	-	-	-

At 30 June 2010	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Loans from shareholder	588,961	563,885	1,360,501	950,998
Trade payables with group companies	5,744	-	-	-
Trade and other payables from exchange transactions	742,571	-	-	-

Interest rate risk

As the company has no significant interest-bearing assets or liabilities subject to interest rate fluctuations, the company's income and operating cash flows are substantially independent of changes in market interest rates.

The company's only interest-bearing assets or liabilities subject to interest rate fluctuations is a portion of the shareholder's loan linked to the Jibar interest rate and the bank sweeping account with the shareholder. Other than these items, the company's income and operating cash flows are substantially independent of changes in market interest rates. The table below illustrates the likely cash flow risk to the company in the event the interest rate fluctuates. An increase / (decrease) in the interest rate at the reporting date would have increased / (decreased) the surplus by the amounts shown below.

Sensitivity analysis for interest rate risk

Financial instrument	Current interest rate		
Bank sweeping (+1%)	-%	965	2,488
Bank sweeping (-1%)		(965)	(2,488)
Shareholder loan (Jibar linked) (+1%)	-%	(3,334)	(2,540)
Shareholder loan (Jibar linked) (- 1%)		3,334	2,540

Figures in Rand thousand	2011	2010

36. Risk management (continued)

Credit risk

Credit risk arise mainly from trade receivables with group companies, loans to shareholder, trade and other receivables and cash and cash equivalents. The company's cash resources are swept on a daily basis to the shareholder who manages the cash resources in a central treasury department.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The maximum exposure to credit risk is limited to the values disclosed in note 10.

37. Unauthorised, fruitless and wasteful expenditure

There was no unauthorised, fruitless and wasteful expenditure during the current and comparative years.

38. Irregular expenditure

Reconciliation of irregular expenditure		
Opening balance	-	-
Irregular expenditure current year	168	-
	168	**-**

During an audit of the company's vendor database, the company's declarations of interests' forms which are required to be completed and submitted by prospective service providers, had a discrepancy in the wording when compared to the requirements of the MFMA Regulation 44 (b).

Accordingly, this resulted in irregular expenditure of R168,043.80 being awards via the quotations process to persons of which one of the shareholders is in the service of the state. The MFMA regulation 44 (b) prohibits awards to non natural persons of which any director, manager, principal shareholder or stakeholder is a person in the service of the state. The MFMA regulation 13 (c) (i) however does not necessarily prohibit such persons to submit an offer provided they declare that they are in the service of the state or has been in the service for the previous twelve months. It is further noted that the service provider involved in this instance is not connected with or related to any one employed by the company.

39. Actual operating expenditure versus budgeted operating expenditure

Refer to Annexure A for the comparison of actual operating expenditure versus budgeted expenditure.

40. Actual capital expenditure versus budgeted capital expenditure

Refer to Annexure B for the comparison of actual capital expenditure versus budgeted expenditure per source of funding.

Capital budget for the the year	621,928	577,357
Actual spend for the year	(614,498)	(571,433)
	7,430	**5,924**
Actual spend as a percentage of budget	98.8 %	99.0 %

Figures in Rand thousand	2011	2010

41. Actual surplus versus budgeted surplus

Refer to Annexure A for a detailed comparison of actual results versus budgeted results.

Actual surplus/ (deficit) for the year	385,032	251,454
Budget surplus for the year	(149,999)	(156,307)
Variance	**235,033**	**95,147**

42. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Opening balance	7	526
Current year fee	3,254	4,127
Amount paid - current year	(2,857)	(4,120)
Amount paid - previous years	(7)	(526)
	397	**7**

PAYE and UIF

Opening balance	6,811	5,845
Current year contributions	88,705	88,020
Amount paid - current year	(81,955)	(81,209)
Amount paid - previous years	(6,811)	(5,845)
	6,750	**6,811**

Pension and Medical Aid Contributions

Current year contributions	122,798	126,624
Amount paid - current year	(122,798)	(126,624)
	-	**-**

Figures in Rand thousand | 2011 | 2010

Annexure A - Operating expenditure - Actual vs Budget

Figures in Rand thousand

	Original Budget	Budget Adjustments	Final Budget	Actual	Variance	Variance %	Comment
Revenue	4,676,840	(0)	4,676,840	4,638,367	(38,473)	(0.82%)	
Service charges	4,676,840	(0)	4,676,840	4,638,367	(38,473)	(0.82%)	
Cost of sales	(2,084,842)	(50,000)	(2,134,842)	(2,125,270)	9,572	0.45%	
Bulk Purchases - Water	(2,084,842)	(50,000)	(2,134,842)	(2,125,270)	9,572	0.45%	
Gross margin	2,591,998	(50,000)	2,541,998	2,513,097	(28,901)	(1.14%)	
Gross margin %	55.4%		54.4%	54.2%			
Other income	82,742	95,002	177,744	268,787	91,043	51.22%	
Other revenue	82,742	95,002	177,744	268,787	91,043	51.22%	The favorable variance is mainly attributable to the release of developer funded assets not budgeted for.
Expenditure	(2,145,872)	(151,392)	(2,297,264)	(2,131,138)	166,126	7.23%	
Employee related costs	(617,865)	15,000	(602,865)	(574,103)	28,762	4.77%	
Contracted services	(414,486)	(48,500)	(462,986)	(432,941)	30,045	6.49%	
Consultants fees	(11,682)	-	(11,682)	(5,288)	6,393	54.73%	Control measures have been introduced in an attempt to curtail expenditure by reducing inter alia the appointment of consultants.
General expenses - Other	(408,874)	2,000	(406,874)	(358,317)	48,557	11.93%	The favorable variance is due to savings on electricty and chemical charges. The saving on chemicals is due to the optimal use of chemicals at the Treatment works and the favorable Dollar/Rand exchange rate
Repairs and maintenance	(9,262)	1,500	(7,762)	(8,123)	(361)	(4.65%)	
Depreciation	(201,168)	4,999	(196,169)	(160,873)	35,296	17.99%	Depreciation is below budget as a result of assets being commissioned at a slower rate than originally anticipated
Provision for bad debts	(482,535)	(126,391)	(608,926)	(591,492)	17,434	2.86%	The bad debt provision is reflective of the 2010/11 payment levels. The actual payment level for the Company was 78.6% versus a budgeted payment level of 89.7%.
Surplus before interest	528,868	(106,390)	422,478	650,745	228,268	54.03%	
Net interest & other	(272,479)	-	(272,479)	(265,721)	6,758	2.48%	
Interest income	-	-	-	2,390	2,390		
Interest expense	(272,479)	-	(272,479)	(268,111)	4,368	1.60%	
Surplus for the year before effective interest rate adjustments	256,389	(106,390)	149,999	385,025	235,026	156.68%	
Net effective interest rate adjustment		-		8	8		
Surplus/(Loss) for the year	256,389	(106,390)	149,999	385,032	235,033	156.69%	

Annexure B - Capital expenditure - Actual vs Budget

Figures in Rand thousand

	Original Budget	Budget Adjustments	Final Budget	Actual	Variance	Variance %
Loans	450,900	-	450,900	450,125	(775)	(0.17%)
Own Funding	20,000	-	20,000	17,966	(2,034)	(10.17%)
Grants and subsidies	129,113	21,915	151,028	146,407	(4,621)	(3.06%)
Bulk service contributions	-	-	-	-	-	
Total for the year	**600,013**	**21,915**	**621,928**	**614,498**	**(7,430)**	**(1.19%)**

Detailed Income statement

Figures in Rand thousand	Note(s)	2011	2009 (restated)
Revenue	18	**4,618,443**	**4,550,229**
Cost of sales		**(2,115,397)**	**(1,769,720)**
Gross surplus		**2,503,046**	**2,780,509**
Other income	19	122,371	128,857
Revenue from non-exchange transactions	20	146,407	114,743
Expenses (Refer to page 105)		**(2,127,782)**	**(2,533,411)**
Operating surplus		**644,042**	**490,698**
Interest revenue	26	2,390	19,804
Effective interest rate adjustment	27	6,711	8,608
Finance costs	28	(268,111)	(267,656)
Surplus for the year		**385,032**	**251,454**

The supplementary information presented does not form part of the annual financial statements and is unaudited

Detailed Income statement

Figures in Rand thousand	Note(s)	2011	2010
Operating expenses			
Administration and management fees		(319)	-
Allowance for debt impairment	23	(591,491)	(1,122,317)
Auditors remuneration	22	(3,241)	(4,105)
Bank charges		(170)	(334)
Billing and meter reading charges		(160,450)	(62,179)
Bulk purchases	24	(142,552)	(124,133)
Commission paid		(284)	(5,646)
Computer expenses		(8,491)	(9,274)
Consumables		(73,744)	(73,812)
Contracted services		(202,746)	(180,117)
Depreciation, amortisation and impairments		(160,873)	(164,880)
Employee costs	25	(574,102)	(596,356)
Entertainment		(885)	(952)
General operating expenses		(21,539)	(20,040)
IT expenses		(3,049)	(1,315)
Insurance		(3,792)	(9,530)
Lease rentals on operating lease		(96,542)	(88,264)
Legal expenses		(2,000)	(5,114)
Marketing and promotions		(30,559)	(10,217)
Motor vehicle expenses		(2,614)	(3,102)
Printing and stationery		(2,771)	(4,280)
Repairs and maintenance		(8,085)	(9,126)
Security		(20,900)	(18,984)
Subscriptions		(473)	(505)
Telephone and fax		(14,592)	(17,226)
Travel - local and overseas		(1,518)	(1,603)
		(2,127,782)	**(2,533,411)**

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