

a world class African city

JOHANNESBURG WATER (SOC) LIMITED
Registration No: 2000/029271/07



ANNUAL REPORT 2012/13

(In terms of Section 121 of the
Municipal Finance Management Act, 2003 and Section 46 of the Municipal Systems Act, 2000)

Approved by the Board on 27 November 2013

JOHANNESBURG WATER SOC LIMITED

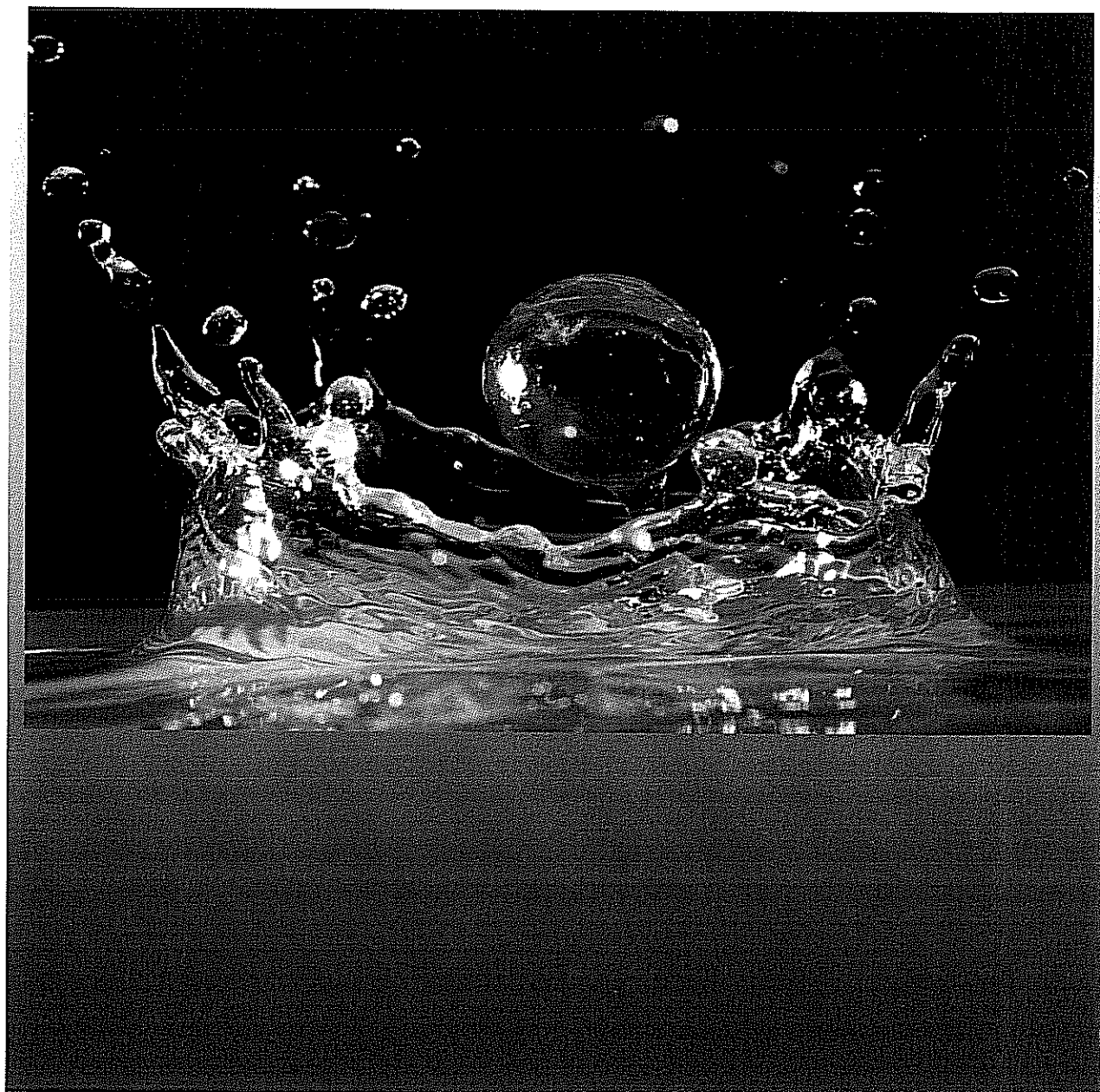
COMPANY INFORMATION AS AT DATE OF SIGNATURE OF THIS REPORT

Country of incorporation and domicile	South Africa
Nature of business and principle activities	Supply of water services as defined in the Water Services Act, 1997
	Directors G Mloi (Chairperson) L Dhlamini (Managing Director) N Govender N Skeepers M Msezane C Tilly J Mateya C Motau C Mbili
Registered office	17 Harrison Street Marshalltown Johannesburg 2107
Business address	17 Harrison Street Marshalltown Johannesburg 2107
Postal address	P O Box 61542 Marshalltown Johannesburg 2107
Holding company	The City of Johannesburg Metropolitan Municipality
Bankers	Standard Bank
Auditors	The Auditor-General of South Africa
Company Secretary	G J Luden
Company registration number	2000/029271/07
Attorneys	Moodie & Robertson

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CHAPTER ONE
LEADERSHIP & CORPORATE PROFILE



SECTION ONE

INTRODUCTION AND CORPORATE PROFILE

Corporate Profile and Overview of the Entity

Johannesburg Water SOC Ltd (JW) was incorporated on 21 November 2000 and commenced business on 1 January 2001.

JW is a municipal entity wholly owned by the City of Johannesburg and is mandated to provide water and sanitation services to the residents of Johannesburg.

The entity supplies water and sanitation services to an area stretching from Orange Farm in the south to Midrand in the north, Roodepoort in the west and Alexandra in the east. It operates in six regions with ten network depots and six wastewater treatment plants. The map overleaf depicts the operational area of JW.

The entity supplies some 750 000 domestic, commercial and industrial customers and serves an estimated consumer base of about 4,4 million people.

The entity employs approximately 2 500 people and through a water network of about 11 000 km of distribution pipes and over 100 reservoirs and water towers, reticulates water to consumers. JW also collects wastewater through an 11 000 km wastewater network.

Water purchases amount to 1 525 Ml/day from Rand Water and 980 Ml/day of sewage is treated.

Vision

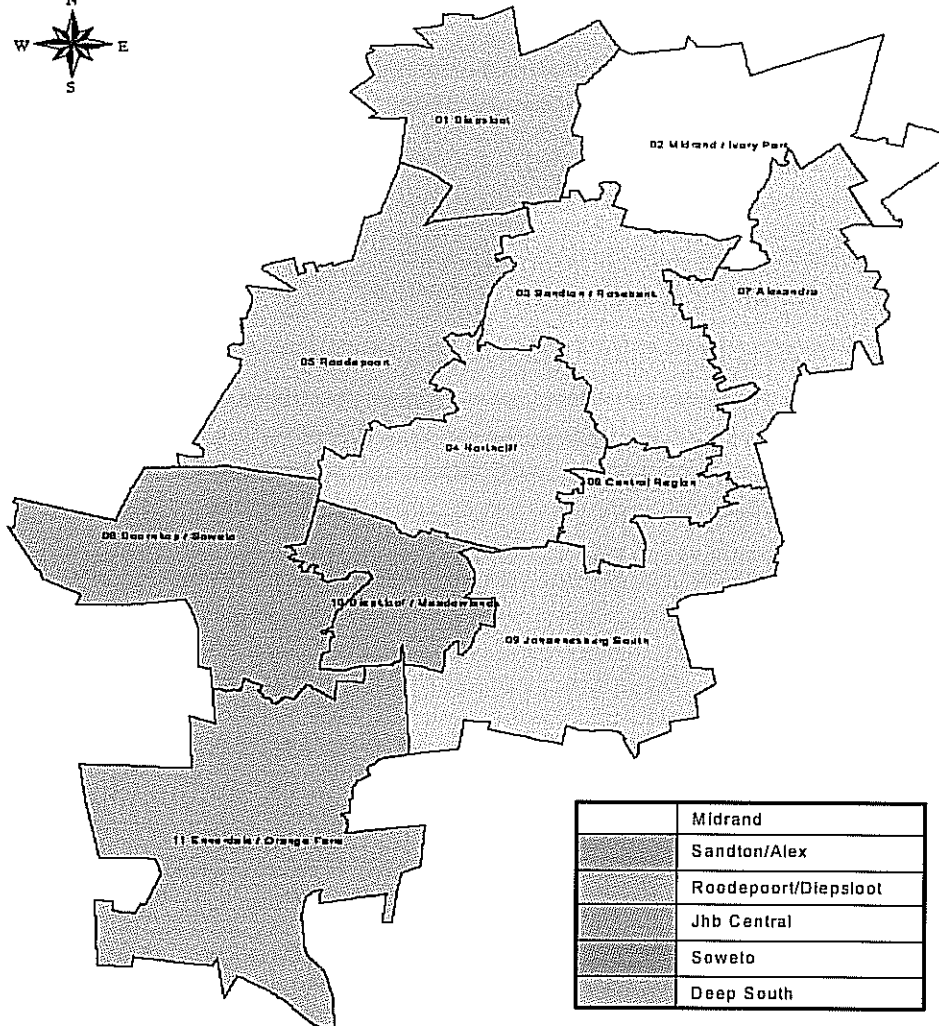
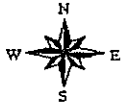
Johannesburg Water's vision is to be a world class African water and sanitation utility.

Mission

To provide all residents of Johannesburg with access to quality water and sanitation services, Johannesburg Water will:

- Deliver a sustainable, affordable and cost effective service
- Upgrade services in low income areas
- Create a customer focused culture
- Build capacity through the development of our employees
- Safeguard the health and safety of Johannesburg Water employees, contractors and the general public
- Improve the protection of the environment

Johannesburg Water Regions



SECTION TWO

STRATEGIC OBJECTIVES

Johannesburg Water 2012/13 strategies took into cognisance of the Growth and Development Strategy (GDS 2040) outcomes in particular outcome 2 which aims to achieve "A resilient, liveable, sustainable urban environment - underpinned by infrastructure supportive of a low carbon economy"

Johannesburg Water plans were based on the City's long-term planning framework the *GDS 2040* that address amongst other forecasts of future: water supplies, water demands, customer needs, basic services and operating constrains. Assumptions about water supply serve to bound supply possibilities for the planning period. The following are the long-term key drivers impacting provision of water and sanitation services to achieve growth and developmental needs of the city towards the year 2040:

- Resource Sustainability
- Water Infrastructure
- Coverage of water and sanitation
- Strategic Partnerships
- Climate change
- Protection of the environment

The figure below depicts Johannesburg Water key implemented programmes and projects, in line with the Mayoral Priorities and GDS 2040

STRATEGIC ALIGNMENT WITH MAYORAL PRIORITIES

OUTCOME 2: A resilient, liveable, sustainable urban environment - underpinned by infrastructure supportive of a low carbon economy		
Output 1: Sustainable and integrated delivery of water, sanitation, energy and waste	Output 3: Sustainable human settlements	Output 4: Climate change resilience and environmental protection
Sub -Programme <u>Urban Water Management</u> <ul style="list-style-type: none"> • Provision of new and renewal of existing infrastructure • Water demand and water supply management • Water quality management 	Sub -Programme <u>From Informal Settlements To Interim Sustainable Settlements (ISS)</u> <ul style="list-style-type: none"> • Access to basic services 	Sub -Programme <u>Resilience for Climate change</u> <ul style="list-style-type: none"> • Enhance infrastructure resilience and readiness re: extreme events • Vulnerability and risk assessment • Community awareness, activism and partnership
2012/16 IDP Sub- programme	Intervention	2012/13 Performance Target

OUTCOME 2: A resilient, liveable, sustainable urban environment - underpinned by infrastructure supportive of a low carbon economy		
Quality of Services	Response times of water bursts	91% of water bursts restored within 48 hours
	Response times of sewer blockage	95% sewer blockages cleared within 24 hours
	Drinking water Quality monitoring programme	99 % compliance with water quality standard
Asset Management	Asset Management Plan	Phase 4a: AM system Roll-out and deployment of integrated system & support to Head Office
Demand Side Management	Water Conservation/Water Demand Management Plan	20 000 Ml of water supply reduction

SECTION THREE

SALIENT FEATURES

- **Financial:**

The company had an increase in revenue of 9.5% to R5.87 billion (2012: 5.36 billion) while the operating profit has improved by 39% to R812 million (2012: R585 million).

During the year under review R741 million or 97% of the revised capital budget was spent.

The cash balance swept to the City of Johannesburg at 30 June 2013 in terms of the treasury management arrangement, was a positive R73 million (2012 R19 million).

The company's debt to equity ratio of 39:61 (2012: 42:58) continues to show its sustainability without requiring subsidies from its shareholder.

The company awarded 92.5% of the procurement through the bid committees. The total procurement awarded amounted to R1.39 billion (2012: R740 million) of which 99% (2012: 91%) was aligned with BBBEE Code of Good Conduct and the BBBEE Act.

During the 2013 financial year, the company received an unqualified audit opinion (2012: qualified).

- **Non-Financial:**

The reported sewer blockages cleared with 24 hours of notification was 96.06% against a target of 95%.

The numbers of water pipe burst experienced per 100 km of water networks were 299 against a target of 324.

The company commissioned its first plant of Biogas to Energy at Northern Wastewater Treatment Works. The electrical consumption at Wastewater Treatment Works was 341.93 kWh/MI of treated sewerage against a target of 363 kWh/MI.

Progress has been made with regards to access to basic services in that 2,879 households were provided with access to sanitation and 3,827 households were provided with access to water.

Compliance with water quality standard (SANS 241) was 99.9% against a target of 99%.

Final effluent compliance was 95.2% against a target of 97%. The major contributor for not achieving the target was the capacity constraints during the installation of new belt presses in Northern Wastewater Treatment Works.

The company has managed to build up its engineering capacity to 17 professionally registered engineers and technologists.

SECTION FOUR

MEMBER OF THE MAYORAL COMMITTEE



The Infrastructure and Services Portfolio was overseen by me during the year under review. My leadership was focused on three of the main service delivery areas in the City, namely: solid waste, electricity and lastly, and most importantly, water and sanitation.

I can report that Johannesburg Water has delivered on its business imperatives. The Company attained an overall performance score of 92.91% which lower than last year's performance of 102.69%. The centrepiece of the business plan was the balanced scorecard (BSC) that is aligned the business imperatives of the Company, the City's ruling party election manifesto, the City's Growth and Development Strategy, the City's Integrated Development Plan (IDP) and lastly the Infrastructure and Services Department's Sector Plan.

The Company's performance is lower than the previous year's and is attributable to targets not being met in the areas of reliable services, protection of the environment and resource management. It is pointed out however the because of the weight given to these areas, which is stretched, any under-performance appears worse than it is. Reference is made to the Company's scorecard found elsewhere in this report. On the poor reduction (Resource Management) in water demand it must said that the reduction target was premised on old urban growth numbers, hence the target not being met. The target will be adjusted to reflect true urban growth based on results of the last national census (2011) of about 4%.

On the positive said it is comforting to report that the Company's revenue increased, the debt equity ratio improved and that 92.5% of procurement went through the Bid Committees. The Company also showed a profit.

I have endeavoured to build a strong working relationship within my department, the Section 79 Committee and Johannesburg Water in forging more outcomes based service deliverables. Emphasis is placed on water and sanitation backlog reductions in the poorer areas of the City. Here I believe Johannesburg Water has done well as can be seen by the out performance of the increase in basic services.

Towards the end of the reporting year I saw the finalisation of the Service Delivery Budget Implementation Plan which would inform the business planning processes for 2014/15.

I look forward to again leading the Infrastructure and Services Department and working with Johannesburg Water in serving the community.

Councillor Matshidiso Mfikoe MMC

Matshidiso Mfikoe

SECTION FIVE

CHAIRMAN'S FOREWARD



The strategic focus of the Company is directed towards service delivery to increase customer satisfaction.

The company has delivered on its mandate to deliver water and sanitation services focusing on the strategic priorities which are aligned to the GDS, IDP and sector plans. These strategic priorities take a balanced approach in order to manage key areas of the business.

The critical issues that had a major impact on the course and direction of the Company are shown below:

IDP Programme	Key programme output in relation to IDP interventions
Financial Sustainability	Billing and payment levels have to be well managed.
Access to Basic Services	Roll-out water standpipes and VIP toilets through basic services programme.
Quality of Services	Response times of water bursts and sewer blockages as well as drinking water quality monitoring programme.
Asset Management	Asset Management Plan
Demand Side Management	Water Conservation/Water Demand Management Plan

Further reporting is included in sections three (Performance) and five (Integrated sustainability report) of this Annual Report.

In managing the business the Managing Director reported to the Board on a quarterly basis as required. I can attest that in each of the quarters the mandatory report for eventual consideration by the Mayoral Committee and Section 79 Committee covered the Company's financial position, performance results, risks, stakeholder relations and procurement oversight and were found to be satisfactory.

Johannesburg Water has received an unqualified audit opinion which has highlighted a concerted effort to remedy previous years' revenue discrepancies identified by the Auditor-General.

Once again it is pointed out that management and control of revenue, billing and collection functions, transferred to the City of Johannesburg in January 2010 as part of the customer and revenue migration project, have remained problematic. It is understood that through the City's revenue step change project the situation should have improved. However representations have been made to the Shareholder to consider operational interventions around top customer credit management and

aspects of meter device management which could enhance the City's revenue and at the same time allow the Board to exercise leadership in a crucial area of the business.

As a Board, my fellow Directors and I are committed to the highest standards of corporate governance. This is done as part of our ongoing decision-making process. By embedding strong governance into our routine processes, we are doing our utmost to secure the future wellbeing of the Company. The Corporate Governance practices of the entity are reviewed and improvements effected periodically, where deemed necessary.

A special word of appreciation goes to the Company's Managing Director, Lungile Dhlamini who only took up the reigns of the Company on 1 October 2012 and had to oversee the Company's performance from the second quarter.

It was with regret that the Board accepted Mr Manu Padiaychee's resignation with effect from 1 July 2013. Mr Padiaychee served the Company for 10 years of which he was Financial Director for eight. A special farewell dinner was arranged where the Board and Company's appreciation was expressed for the service he had rendered and role he played in the Company's turn-around strategy. He is wished all the best for his future endeavours.

The Company's Nominations Committee has managed the recruitment of a new Financial Director. I am pleased to report that in terms of the City Guidelines on the recruitment of executive directors the Nominations Committee has made a recommendation to the Shareholder on its preferred candidate. The finalisation of the appointment by the Mayoral Committee is imminent.

Lastly I take this opportunity to express my gratitude to the Shareholder, Councillor Mfikoe MMC, and the Board for the leadership provided and the support from all the staff at Johannesburg Water for the good results accomplished. I also wish to thank the Executive Management for their commitment and efficient management in endeavouring to deliver a quality service to the residents of Johannesburg.

Gugu Moloi
Chairman of the Board

Board

NAME OF BOARD MEMBER	QUALIFICATIONS	OTHER DIRETORSHIPS	SKILLS AND EXPERTISE
Gugu Moloi (Chairman)	BA (Law), MA (Town and Regional Planning), Diploma (General Management).	None	Expertise in the fields of municipal infrastructure, local government and water delivery
Lungile Dhlamini (Managing Director)	BSc in Civil Engineering	Engineering Council of South Africa (ECSA) Board Councillor and Chairperson of the Finance and Staff Committee (ECSA).	Administration and Financial Management of Water and Sanitation Companies; Infrastructure Asset Management Planning and Project Management.
Nandha Govender	B.Sc in Mechanical Engineering	None	Executive management in the water sector inclusive of strategy and operations in environment, finance and commercial management
Natalie Skeepers	Masters Degree (SHE), Mphil, Post Graduate Diploma in HIV/Aids management, National Diploma in Health, B Tech (Environmental Health)	Film and Publication Board: Deputy Chair.	Risk Management, Safety, Environmental, Management HIV/Aids Management, Human Resources, Corporate Social Responsibility
Nompumelelo Msezane	MSc (Environmental Management), MDP, BSc (Hons), BSc (Ed), Certificate in Water Resource Management in Developing Countries	None	Environmental management, Water resource management, Water Quality Management, General management Non Executive Director : Johannesburg Roads Agency
Cassim Tilly	B.Compt. Hons/CTA, PG Dip Auditing, M.Com(SA Domestic & International Tax) Chartered accountant (SA)	None	Experience in Accounting, Auditing and Taxation
Cynthia Mbili	M COM CA (SA)	IRBA	Expert in auditing, risk, financial management and IFRS
J Mateya	B. Com MBA Higher Diploma in Company Law LLB Snr Executive Program – SEP	None	Law, industrial relations, risk and human resource management

NAME OF BOARD MEMBER	QUALIFICATIONS	OTHER DIRETORSHIPS	SKILLS AND EXPERTISE
C Motau	B. Comm Higher Diploma in Computer Auditing MBL MIT Certificate in Managing ICT Projects	None	ICT Governance ICT Leadership and Management

SECTION 6

MANAGING DIRECTOR'S REPORT



Sector and Business Review

Ongoing local economic volatility continues unabated, which manifests itself in poor revenue collection levels largely due to the relentless levels of unemployment and poverty.

The recent 2013 report by the South African Cities Networks on the State of City Finances indicates that in addition to the high physical and commercial unaccounted for water losses, which for the company were 13.7% and 15.19% respectively for the year resulting in a higher debt provision of R909.8 million and a poor revenue collection ratio of 78.7%, such that the favourable performance for the year of a net profit of R812 million against the budgeted surplus of R777 million, mainly attributable to well managed operating expenditure.

The two most striking features of the company's finances are the escalating bulk services costs over which it has very limited control over bulk tariff charges, which are anticipated to be in the order of 7.1% (2013/14) compared to 9.82% in the year under review. The company continues to engage with Rand Water on the impact that bulk tariffs have on both the cost and resultant affordability to our customers.

Rapid urbanisation is placing increasing demands on the company's existing socio-economic infrastructure asset base of which the capital expenditure performance was 97% of the budgeted R762 million. The programmes to reduce unaccounted for water started in earnest in the period under review, with 419 pressure reducing valves being refurbished which culminated in the Department of Water Affairs recognition with the company being awarded second place for the 2012/13 Water Conservation and Water Demand Management Sector Awards in the country.

Another highlight for the company was being recognised as the top performing company and best performing company in the sector from a list of 3700 private and public sector companies; as well as being the one of the best companies to work for in 2012/13.

Hence, the company's strategic business plan objectives are targeted at improved water networks efficiency in reducing unaccounted for water losses, in terms of pipelines renewal and increasing the coverage and penetration of smart metering including prepayment. The company will also be implementing the findings and recommendations of the productivity study concluded last year for increased efficiencies from the networks teams.

The company remains in a strong solvency position with assets exceeding liabilities by 179% at June 2013. Another significant highlight was in dealing with metering errors, reduction of meter estimations and in improving the meter reading ratio where out of a total 34,886 meters which have technical faults, 10,390 were repaired and or replaced.

The 2012/13 strategic business plan sets the performance baseline for the next three financial years with a 3-year multi-year capital expenditure programme to address and mitigate water and sanitation growth in demand as well as addressing issues and challenges facing the company including financial and water resource sustainability as well as alleviating the socio-economic challenges of poverty, unemployment and spatial inequality in the course of delivering on the programme.

2012/13 was a tough year for the company, however, we managed to bring to the attention of the Shareholder various issues affecting the liquidity and cash position and resolved the cash allocation discrepancies. We will continue to pursue these issues and others especially the revenue management values chain in 2013.

I thank the Johannesburg Water Board for giving me all the support, encouragement, guidance and space to manage the company. I am also greatly indebted to the Johannesburg Water staff who cooperated with me and supported the direction the company is taking.

Lungile Dhlamini
Managing Director

Executive Management

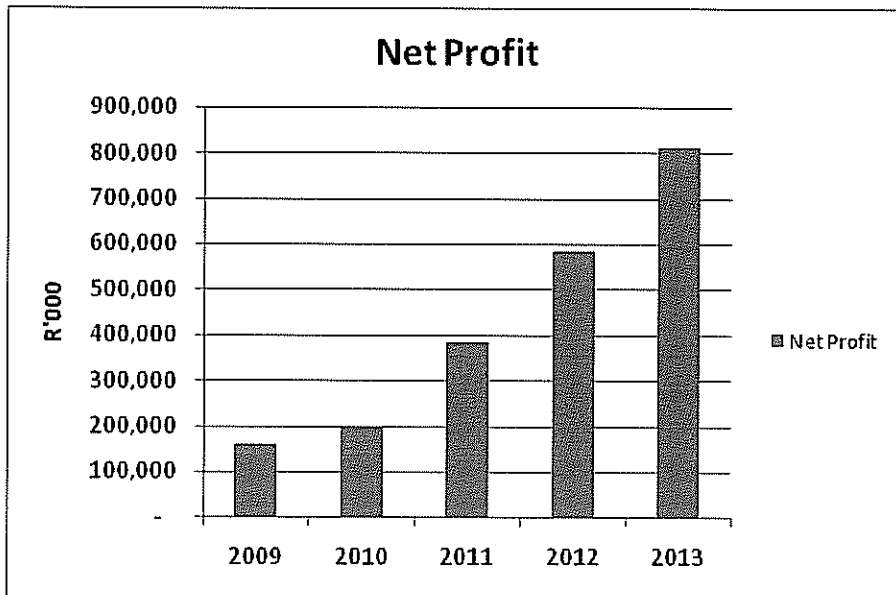
NAME	POSITION	QUALIFICATIONS	SKILLS AND EXPERTISE
Qondile Zimu	Executive Manager: Corporate Services and Human Resources	BA Social Work – Honours, Masters in Management - Public and Development Management	Human Resources Management and Corporate Services
Jerry Methula	Executive Manager: Marketing and Communications	B. Comm, Masters Diploma: HR Management, Certificate: Management & Administration of Non-Profit & Community Based Organisations, Certificate: Programme for Managing Public-Private Partnership (PPP), Certificate: Governance for Directors (Public Sector)	Corporate communication and stakeholder management in organs of State
Ntshavheni Mukwevho	Chief Operations Officer	B-Tech: Eng (Civil) Masters of Business Leadership (MBL) Pr Tech Eng	Engineering and Operation management Construction management Project management Strategic management Water purification and distribution system Sewage collection systems
Johan Koekemoer	Acting Chief Financial Officer	B Com Hons (RAU) CA (SA)	Financial Management
Dudu Tshabalala	Chief Internal Auditor	B. Comm (Business Management and Economics) MSc audit management & consulting Certification in Quality Assurance Reviews Certificate in Fraud Examination	Managing the Internal Audit Department in the performance of risk based audits, forensic investigations and IT audits.
Edward Chikonyora	Senior Manager: Risk and Compliance	BTA (Hons) - UZ Dip. Banking - IOBZ	Financial, Strategic and Operational Risk Management, Financial and Management Accounting, Auditing and Asset management.
Graham Luden	Company Secretary	BA (Hons) PG Dip in Bus. Man	Local government and business management

SECTION SEVEN

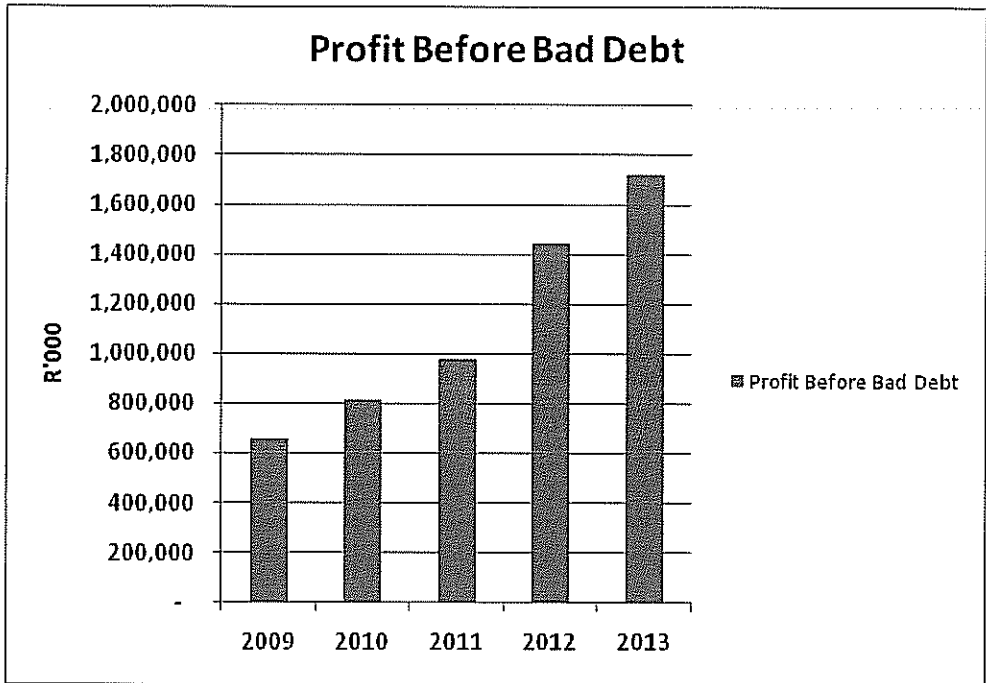
CHIEF FINANCIAL OFFICER'S REPORT



The net profit for the company for the year improved by 39% to R812 million (2012: R585million) as a result of higher sales revenue as a result of higher sales volume.

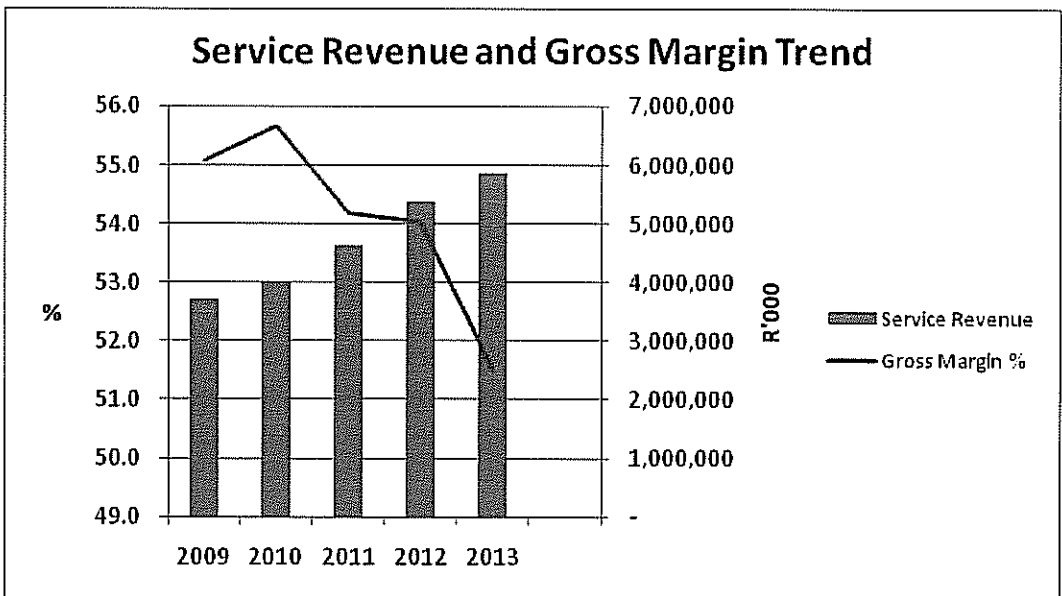


The profit before bad debt has increased by 19.5% to R1 722 million (2012: R1 441 million).



The company has been exempted from the payment of normal company tax in terms of sec 10 (1) (t) of the income tax act since July 2007 and has consequently not been providing for tax since this date. The revenue function, which includes the customer call centre, invoicing of customers and collection of monies from customers is outsourced to the City of Johannesburg's Revenue and Customer Relations Management department.

Revenue increased by 9.5% to R5.87 billion (2012: 5.36 billion). An average tariff increase of 14.5% (2012: 14.0%) was charged to our customers who range from domestic customer to industrial customers.



Bulk purchases consist of the purchase of potable water from Rand Water. The price is determined by a combination of a government pricing strategy which is linked to producer inflation for the raw water as well as the costs incurred by Rand Water for the treatment of the water.

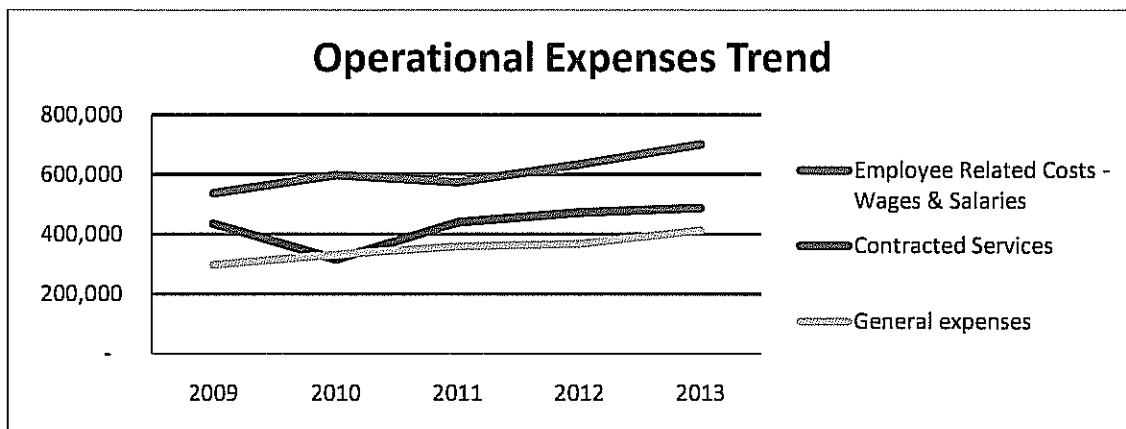
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Control over operating costs

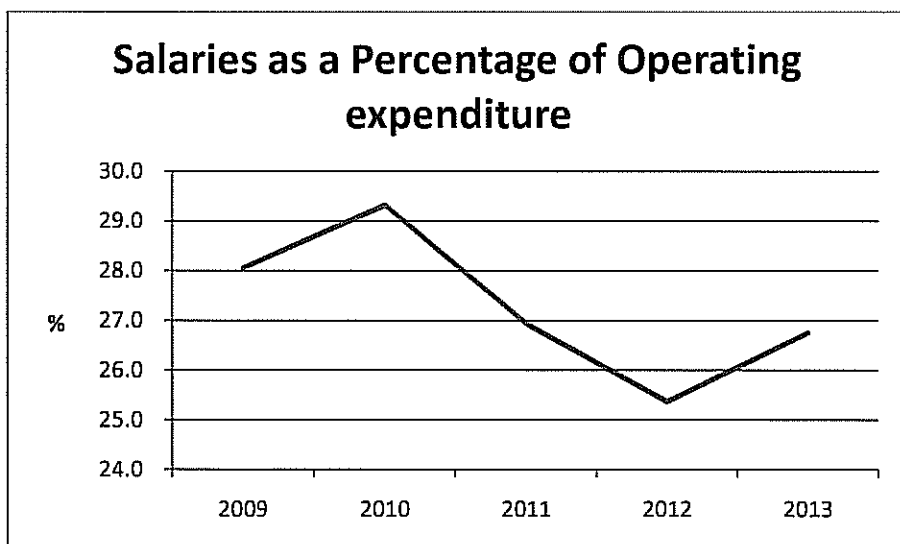
Staff costs increased by 10.7% to R701 million due to a general salary increase of 6.7% and the average number of permanent employees increased by 0.6% to 2 436 (2012: 2 420).

Contracted services increased by 3.24% to R487 million. Two of the meter reading contractors' services were terminated during the year due to non-performance and the service was replaced by building an in-house capability. This resulted in a saving on contracted services and an increase in the staff cost.

General expenses increased to R412 million which is an increase of 12.6% due to increased maintenance on water and sanitation infrastructure.

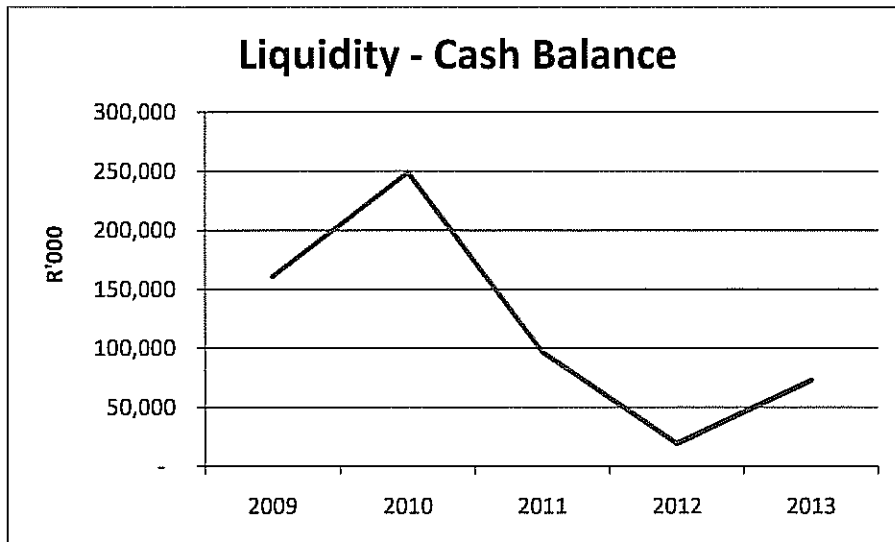


The total employee cost as a percentage of total operating costs remained well below the 30% benchmark of the City of Johannesburg. The company ended the year on 26.8% salaries to operating expenses.

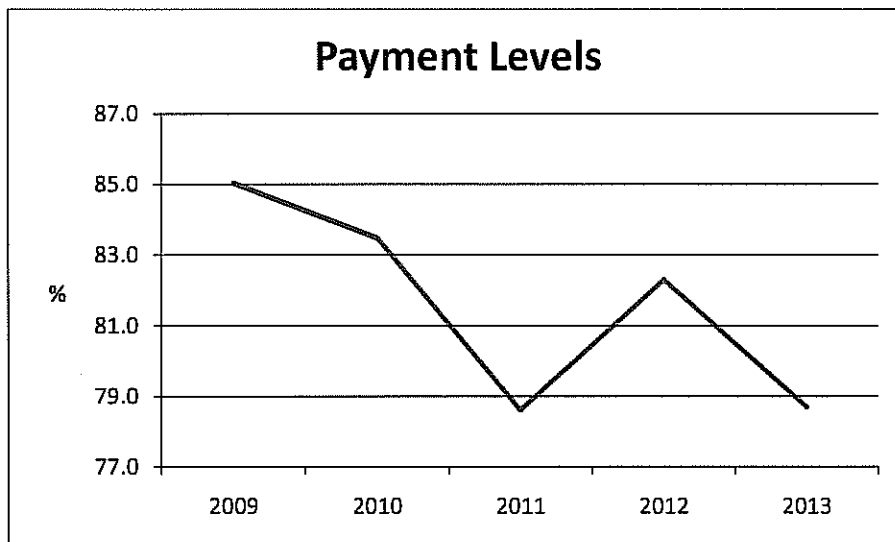


Cash generated from operations

The cash balance is swept to the City of Johannesburg in terms of the treasury management arrangement. At year end, Johannesburg Water had cash reserves of R73 million (2012: R19 million). The reduction in cash resources can be attributed to the migration of the billing and collection to the centralized SAP system at the beginning of 2010.



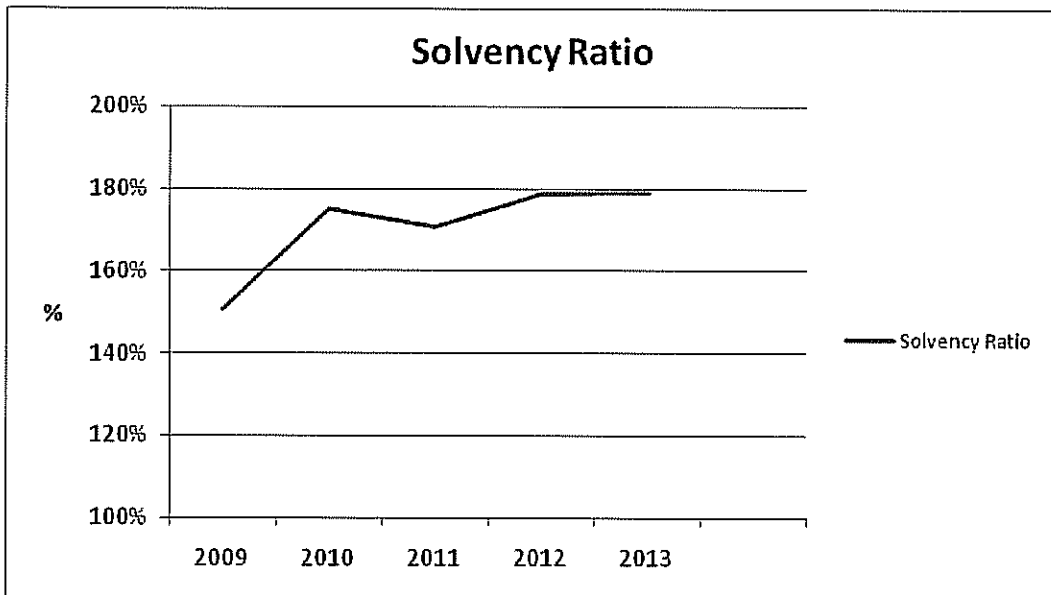
The payment level of customers has decreased to 78.7% (2012: 82.3%) which not only has a negative effect on the cash balance, but also on the amount for the impairment of customer debt.



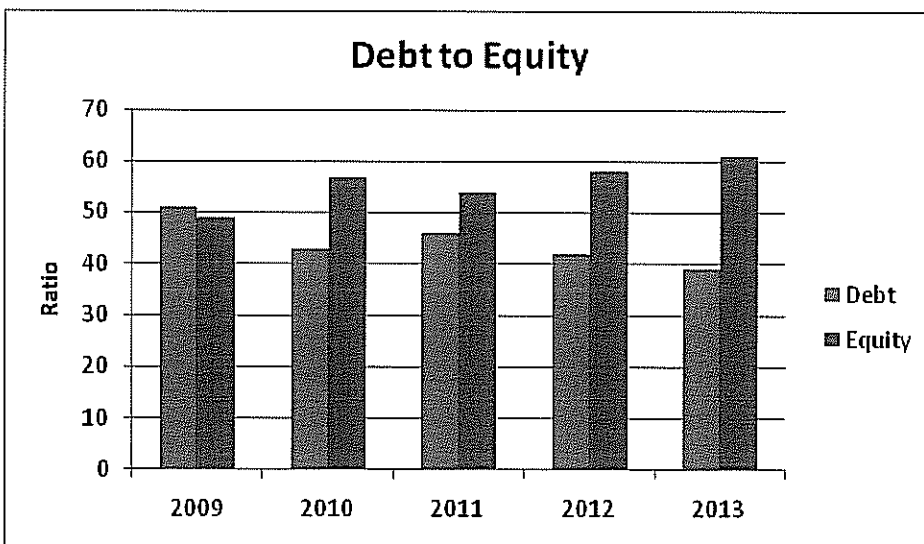
The Revenue and Customer Relation Management department at the City of Johannesburg are continuously improving their systems and processes, including the credit control measures to remedy the situation.

Solvency

The assets exceed the liabilities by 179% and Johannesburg Water is therefore in a strong solvency position.



The debt to equity ratio of Johannesburg Water is 39:61.



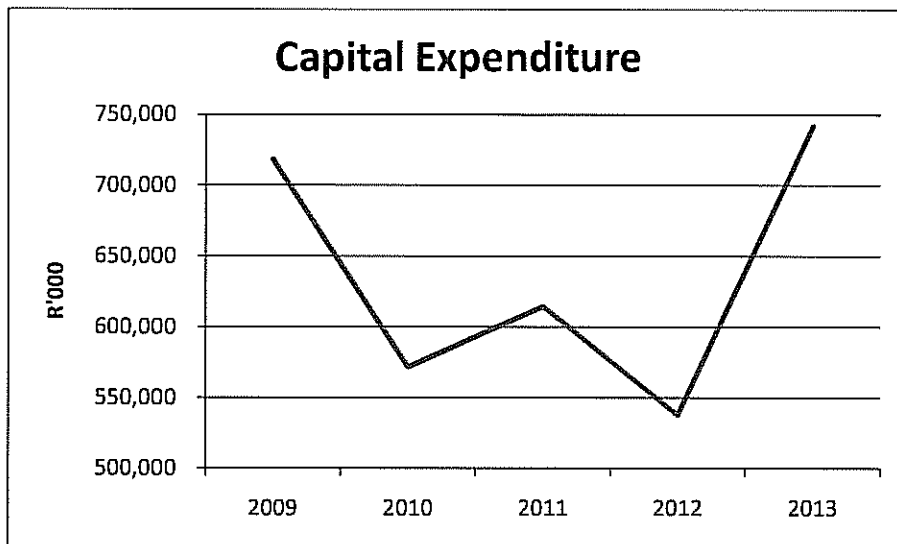
Capital expenditure programme

During the year under review R741 million or 97% of the revised capital budget was spent. The expenditure on the MIG portion of the budget was R376 million, which was 100% of the allocated MIG budget.

Notable water projects completed included replacement of Buccleuch water mains and Soweto Infrastructure Upgrade. The sewer projects included the Bruma Sewer Upgrade, Braamfisher Sewer Upgrade and Installation of VIP Toilets. The sewer upgrades in Streford 9A1 was also completed.

On the WWTW the belt presses at Northern Works was completed and continuation of other projects in Olifantsvlei, Driefontein and Bushkoppies WWTW are in progress.

The city of Johannesburg in February 2013 approved a three year capital budget in order for the rollout of larger capital projects in line with the National Treasury Medium Term Expenditure (MTEF) Johannesburg Water in the next three years has been allocated a total budget of R3.5 billion for the capital programme



In 2012/13 financial year JW has managed to complete a total of 13 projects. Table below provides detailed projects completed during the year under review.

Project Name	Region	Date Started	Date Completed	Total Project Costs (R'000)
Bushkoppies WWTW: Installation of 6 filter belt presses	D	June 2010	March 2013	R 57 502
Northern WWTW: Replacement of 4 Belt Presses	A	April 2011	January 2013	R 36 134
UR 908/JW 10043 Orlando East Sewer Upgrade	D	Oct-2011	October 2012	R 3 152
TN1000 access to basic sanitation (VIPs)	A,C D	Jul-2012	June 2013	R 26 487
JW9057 Soweto infrastructure Upgrade & renewal in SB2&8	D	October 2010	July 2012	R 57 500
JW9058 Soweto infrastructure Upgrade & renewal in SB3&4	D	Sept 2010	August 2012	R44 228
JW10037/UR900 Meadowlands Sewer Upgrade	D	June-2012	August 2012	R 3 060

Project Name	Region	Date Started	Date Completed	Total Project Costs (R 000)
JW9067/A UR903 Buccleuch Water Main Replacements A	E	Feb-2011	December 2012	R 20 664
JW10014 UR1003 Vandia Grove & Weltevreden Park Pipe Replacement	B & C	April-2012	November 2012	R 1 293
JW10040/UR900 Bruma Sewer Upgrade	F	Feb-2011	October 2012	R 7 141
JW11002/S801 Stretford EXT 9A1 Sewer Upgrade	G	Feb-2012	October 2012	R 8 120
S 801 Orange Farm Hot Spot Sewer Upgrade	G	April-2013	April 2013	R 3 020
JW10021/OM 917 Refurbishment of Cydna Lab Phase 2	E	June-2011	November 2012	R 6 310

Looking forward

During the 2013/14 financial year Johannesburg Water expects to start with various capital projects to ensure that we continuously meet the expectation from the citizens of the City. We shall stay focused on reaping more efficiencies in the way we do business, and containing costs so as to ease the cost burden to the end consumers.

Johan Koekemoer
Acting Chief Financial Officer

SECTION EIGHT

STATEMENT OF RESPONSIBILITY

The directors are responsible for the preparation, integrity and fair presentation of the financial statement of the Entity. The financial statement presented in Annexure 1 has been prepared in accordance with Generally Recognised Accounting Practice (GRAP) and include amounts based on judgement and estimates made by the management.

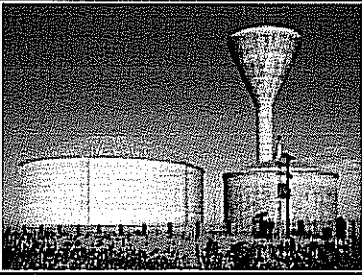
The directors are responsible for the preparation of the other information in the annual report and are responsible for both its accuracy and its consistency with the financial statements. The going concern basis has been adopted in preparing the financial statements. The directors have no reason to believe that the entity will not be going concerns in the foreseeable future based on the forecast and available cash resources. Refer to the Directors report in Annexure 1 with regard to the appropriateness of the going concern assumption for the preparation of the financial statements.

The Auditor-General, who was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the Board of Directors and committees of the Board, has audited the financial statement. The directors believe that all representations made to the Auditor-General during their audit are valid and appropriate. The Auditor-General's report is presented in Annexure 1. The financial statements were approved by the Board of Directors on 27 November 2013.

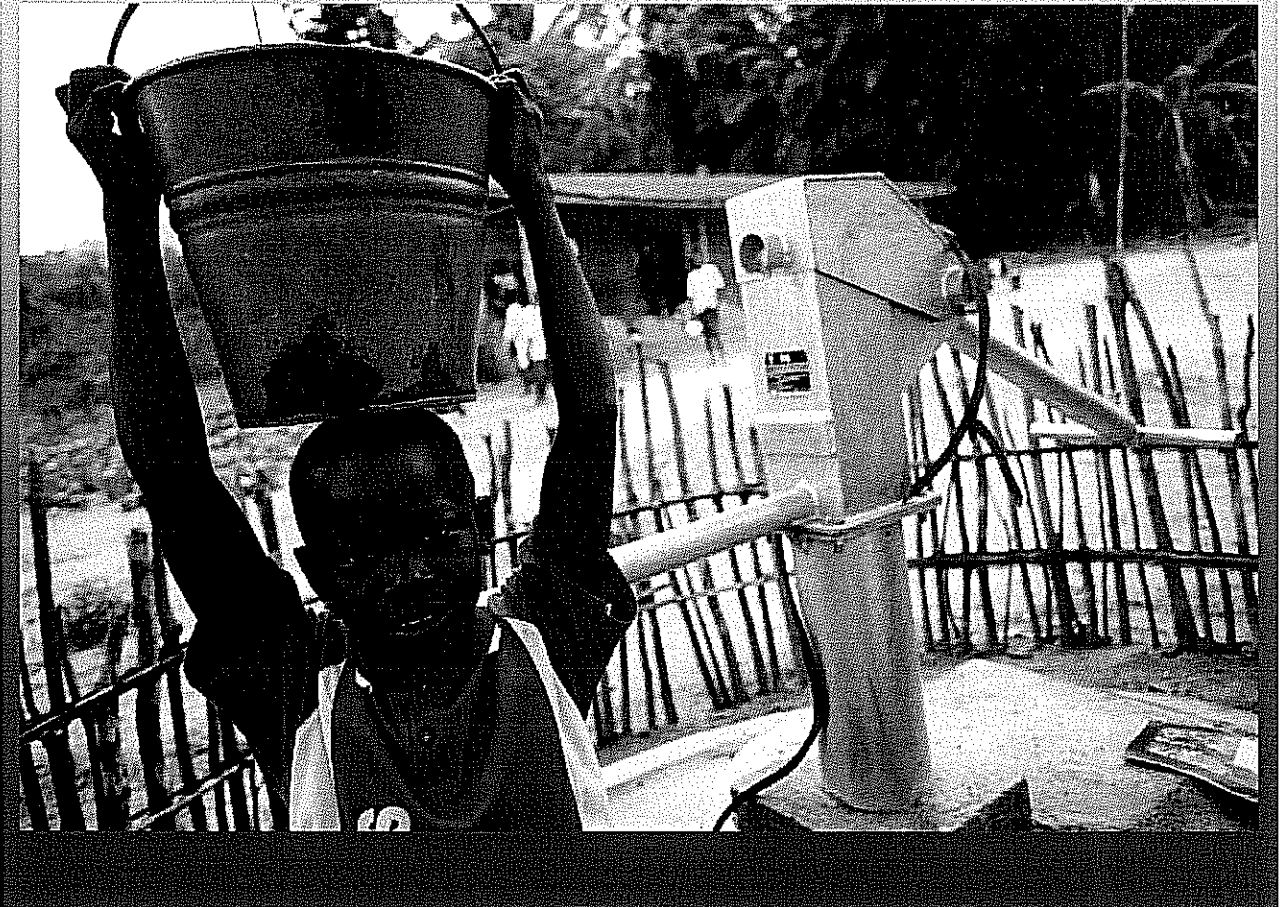
Gugu Moloi
CHAIRMAN OF THE BOARD

CHAPTER TWO

GOVERNANCE



Providing Water. Providing Life



SECTION ONE

CORPORATE GOVERNANCE STATEMENT

Introduction

Johannesburg Water has a unitary Board, which consists of executives and non-executive directors. The Board is chaired by a non-executive director, Ms Gugu Moloi. The Board meets regularly (at least quarterly) and retains full control over the Company. The Board remains accountable to City of Johannesburg Metropolitan Municipality, the sole shareholder, and to its stakeholders, the citizens of Johannesburg.

Statement of compliance

The Board provides quarterly and annual reports on its performance and service delivery to the parent municipality as prescribed in the SDA, the MFMA and the MSA. A Service Delivery Agreement (SDA) concluded in accordance with the provisions of the Municipal Systems Act (MSA) governs the entity's relationship with the City of Johannesburg

Non-executive directors contribute an independent view to matters under consideration and add to the depth of experience of the Board. The roles of chairman and managing director are separate, with responsibilities divided between them. The Chairman has no executive functions. Directors have unlimited access to the Company Secretary, who acts as an advisor to the Board and its committees on matters relating to, *inter alia*, compliance with company rules and procedures, statutory regulations and best corporate practices.

The Board and senior management ensure that there is full material compliance with all relevant legislation. The Company Secretary has certified in terms of Section 88 (2) (e) of the Companies Act that all statutory returns have been submitted to the Registrar of Companies

The Board or any of its members may, in appropriate circumstances and at the expense of the company, obtain the advice of independent professionals

SECTION TWO

BOARD OF DIRECTORS

In terms of the Company's Articles of Association there may not be more than eleven directors on the Board of which two shall be executive directors. Currently the Board has eight non executive directors and one executive director making a total compliment of nine. The Financial Director, Mr Padiaychee resigned on 30 June 2013.

SECTION THREE

BOARD COMMITTEE COMPOSITION

The Board has six standing committees, each of which is chaired by a non-executive director:

- Audit Committee
- Risk Committee
- Human Resources and Remuneration Committee

- Service Delivery and Procurement Oversight Committee
- Social and Ethics Committee
- Nominations Committee

Audit Committee

The Committee consists of the following non-executive directors:

- Cynthia Mbili (*Chairman*)
- Nandha Govender
- V Mokoena (*Independent member in terms of National Treasury directive*)
- K Mdutshane (*Independent member in terms of National Treasury directive*)
- R Buys (*Independent member in terms of National Treasury directive*)

The Audit Committee charter is in accordance with Section 166 of the Municipal Finance Management Act. The constitution of the committee was also aligned to this section of the MFMA and a directive from National Treasury.

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

The Audit Committee operates in accordance with a written charter authorised by the Board and provides assistance to the Board with regard to:

- Ensuring compliance with applicable legislation and the requirements of regulatory authorities;
- Matters relating to financial accounting, accounting policies, reporting and disclosures;
- Internal and external audit policy;
- Activities, scope, adequacy and effectiveness of the internal audit function and audit plans;
- Review / approval of external audit plans, findings, problems, reports and fees;
- Compliance with the Code of Corporate Practices and Conduct;
- Compliance with Code of Ethics;
- Overall performance of the company.

During the year under review, the Audit Committee addressed its responsibilities properly in terms of the charter. No changes to the charter were adopted during the year under review. Management has reviewed the financial statements with the Audit Committee. The quality of the accounting policies was discussed with the external auditors.

The Audit Committee considers the Annual Financial Statements of Johannesburg Water to be a fair presentation of its financial position as at 30 June 2012 and of the results of its operations, changes in equity and cash flow for the period then ended in accordance with GAAP, GRAP and the Companies Act.

Risk Committee

The committee consists of the following directors:

- Nandha Govender (Chairman)
- Lungile Dhlamini (Managing Director)
- Financial Director (Currently vacant)
- Cynthia Mbili
- Natalie Skeepers
- John Mateya

The Risk Committee has the task of overseeing the quality, integrity and reliability of the company's risk management function. In terms of its mandate, it reviews and assesses the integrity and the quality of risk and ensures that risk policies and strategies are effectively managed.

Human Resources and Remuneration Committee

The committee consists of the following directors:

- John Mateya (Chairman)
- Lungile Dhlamini (Managing Director)
- Financial Director (Currently vacant)
- Cassim Tilly
- Mpumi Msezane

The Human Resources and Remuneration Committee advises the Board on remuneration policies, remuneration packages and other terms of employment for all executive directors and senior executives. Its specific terms of reference also include recommendations to the Board on matters relating, *inter alia*, to policy, remuneration, bonuses and employment contracts. Independent professional advisors advise the committee.

Service Delivery and Procurement Oversight Committee

The committee consists of the following directors:

- Natalie Skeepers (Chairman)
- Lungile Dhlamini (Managing Director)
- Financial Director (Currently vacant)
- Gugu Molo
- Charles Motau

The objective of the committee is to ensure service delivery and that the adopted Supply Chain Management Policy (the Procurement Policy) of the company is correctly and strictly applied as well as guide the Board and Executive Management on the overall operational direction of the Company.

Social and Ethics Committee

The Committee only meets on a bi annual basis (as it is required to meet not less than once a year) and that the convention of the meetings be held between quarterly cycles.

The Committee monitors the Company's activities, having regard to any relevant legislation, other legal requirements or prevailing codes of best practice, with regard to matters relating to social and economical development, corporate citizenship, environmental and labour matters.

The Committee comprises the following directors:

- Mpumi Msezane (Chairman)
- Lungile Dhlamini (Managing Director)
- Financial Director (Currently vacant)
- Cassim Tilly
- Natalie Skeepers

Nominations Committee

The terms of reference of the Committee are consistent with Section 8 of the Group Policy on the Shareholder Governance of Boards of Directors of Municipal Entities.

Policy in essence sets out the recruitment procedure and gives the Committee authority to recommend the appointments of the Chief Executive Officer/Managing Director and the Chief Financial Officer/Financial Director to the Mayoral Committee. After the Mayoral Committee approval the appointments are formally approved by the Board as determined by the Companies Act.

The composition of the Committee is determined on an as and when basis as the need arises to appoint the Chief Executive Officer/Managing Director and the Chief Financial Officer/Financial Director.

The Committee was convened to manage the process of finding and interviewing a financial director. A formal recommendation was made to the City's Selection Panel in July 2013. A decision on the appointment is imminent.

Board induction and information

New directorship appointments to the Board are inducted through a communications pack compiled by the Company secretary and an operations explanation and tour arranged through the Managing Director's Office.

All Company information is captured in a document management system under the control of the Company Secretary. Any access to information such as record of decision, policies, quarterly reports, annual reports, business plans etc are available and open for scrutiny.

Board evaluation

Board evaluations are conducted by the Shareholder Unit. Evaluations were completed for the year under review.

SECTION FOUR

Director's Remuneration

Board

Description (All amounts are before Tax)	Non- Executive Director: Gugu Moloji	Non- Executive Director: Natalie Skeepers	Non- Executive Director: Nandha Govender	Non-Executive Director: Nompumelelo Msezane	Non- Executive Director: Cassim Tilly	Non- Executive Director: Cynthia Mbili	Non- Executive Director: John Mateya	Non- Executive Director: Charles Motau	Managing Director: Lungile Dhlamini (appointed 1 October 2012)	Total
Salaries & Wages R '000									939	939
Normal Overtime										
Contributions R'000									136	136
Pensions Medical Aid Other										
Allowances R'000									269	269
Travel and motor car Accommodation Subsistence										
Other Benefits R'000 (Specify Bonus)										
Meeting fees paid to non executive directors R'000	91	121	98	94	149	135	231	56		975
Retainer paid to non -executive directors R'000	53	26	26	26	26	26	26	26		235
TOTAL	144	147	124	120	175	161	257	82	1 344	2 554

Note:
Lungile Dhlamini was appointed on 1 October 2012.



Resigned directors

Description (All amounts are before Tax)	Financial Director (executive director) Manu Padiaychee (resigned on 30 June 2013)	Total
Salaries & Wages R '000 Normal Overtime	1 376	1 376
Contributions R'000 Pensions Medical Aid Other	198	198
Allowances R'000 Travel and motor car Accommodation Subsistence		
Housing Benefits & Allowances R'000		
Loans and advances R'000		
Other Benefits R'000 (Specify) <u>Bonus</u>	209	209
Arrears owed to the City or the Entity		
Meeting fees paid to non executive directors R'000		
Retainer paid to non – executive directors R'000		
TOTAL	1 783	1 783

Independent Audit Committee Members

Description (All amounts are before Tax)	Independent Member Joseph Mokwena	Independent Member Khanyisa Mdutshane	Independent Member Rudolf Buys	Total
Salaries & Wages R '000 Normal Overtime				
Contributions R'000 Pensions Medical Aid Other				
Allowances R'000 Travel and motor car Accommodation Subsistence				
Housing Benefits & Allowances R'000				
Loans and advances R'000				
Other Benefits R'000 (Specify) <u>Bonus</u>				
Arrears owed to the City or the Entity				
Meeting fees paid R'000	52	52	45	149
Retainer paid to non – executive directors R'000	26	26	26	78
TOTAL	78	78	71	227

Schedule of attendance of meetings

Part of the remuneration of non-executive directors is a retainer determined by policy imposed by the Shareholder which provides for fee rates, retainers and furthermore provides for a threshold of at least a 60% attendance of all meetings.

Attendance of meetings, in terms of a ratio of attendance per meeting convened, held during the year was as follows:

Director and independent members	Board				Audit				Human Resources and Remuneration				Service Delivery and Procurement Oversight				Risk				Nominations				Social and Ethics				Total	Percentage attendance	Period out of 12 months	Retainer:				
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4					1	2	3	4
G Moloi	✓	✓	✓	✓					1	2	3	4	1	2	3	4	na	x	✓	✓	1	2	3	4	na	na	na	na	1	2	3	4	7/11	64%	12	R 52,900
N Govender	✓	✓	✓	✓	✓	✓	✓	✓					na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	14/17	82%	12	R 26,450				
N Skeepers	✓	✓	✓	✓									✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	na	na	na	na	na	15/18	83%	12	R 26,450				
C Motau	✓	✓	✓	✓									✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	na	na	na	na	na	8/9	89%	12	R 26,450				
J Mateya	✓	✓	✓	✓					✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	na	na	na	na	na	23/23	100%	12	R 26,450				
M Msezane	✓	✓	✓	✓					✓	✓	✓	✓	✓	✓	✓	✓	na	na	na	na	na	na	na	na	na	na	na	na	14/16	88%	12	R 26,450				
C Mbili	x	✓	✓	✓	✓	✓	✓	✓					✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	na	na	na	na	na	12/16	75%	12	R 26,450				
C Tilly	✓	✓	✓	✓					xx	✓	✓	✓					na	na	na	na	na	na	na	na	na	na	na	na	19/20	95%	12	R 26,450				
I Jacobs Retired on 11 March 2013	x	x																											Nil	Nil	9	Nil				
V Mkwena					✓	✓	✓	✓					✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	na	na	na	na	na	6/7	86%	12	R 26,450				
K Mdulshane					✓	✓	✓	✓					✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	na	na	na	na	na	7/7	100%	12	R 26,450				
R Buys					✓	✓	✓	✓					✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	na	na	na	na	na	6/7	86%	12	R 26,450				



SECTION FIVE

COMPANY SECRETARIAL FUNCTION

The primary function of the Company Secretary is to act as the link between the Board and management and to facilitate good relationships with the shareholder. The Company Secretary is responsible for general administration: more specifically with ensuring compliance with good corporate governance practices and with providing guidance to the directors on corporate governance principles and applicable legislation.

Johannesburg Water has centralised its records and has a file plan approved by the Department of National Archives.

All reports are captured electronically in terms of the file plan. This would include policies, terms of reference of the standing committees, procurement reports, quarterly reports, business plans and annual financial reports, to mention a few.

An integral part of the company's record keeping is a library which has, *inter alia*, a full set of bound minute books of the Board, its standing committees and Executive Committee as well as bound books of all business plans, quarterly reports and major agreements.

SECTION SIX

RISK MANAGEMENT AND INTERNAL CONTROL

Risk management is at the core of the operating and management structures of the company as we seek to limit adverse variations in service delivery and income and cost structures by monitoring productivity and performance within agreed targets. Managing and controlling risks, and limiting potential losses from stress events, are essential elements of the company's risk management and control framework which ultimately leads to the protection of the company's ability to do business and its reputation. The company's risk profile forms the basis for the entire decision making value chain, including but not limited to resource allocation and deployment, audit planning and business planning.

The company's risk management processes have continued to prove effective over the years, despite a tough socio-political and economic environment, which includes but not limited to increasing in unemployment, strikes, weakening currency, political uncertainty ahead of the elections and service delivery protests. Executive management has remained closely involved in important risk management initiatives aimed at minimizing the impact of these on the business, by focusing particularly on preserving appropriate levels of liquidity, quality and quantity of water and adequate and reliable capital infrastructure and constantly engaging our various stakeholders.

Responsibility and accountability for risk management resides at all levels within the company, from the board down through the organisation to each manager. Top on the agenda and informed by events and outcomes of the last few years the company strategic and operational vulnerabilities are in the following areas;

- Business and Financial Management
- Water Resource and Demand Management
- Reputational and Stakeholder management
- Compliance and Regulatory management
- Business Continuity Management
- Human Capital and Knowledge Management
- Occupational Health and Safety
- Capital Investment and Infrastructure Development

This comes out of the Company's unique position of being a business on one hand, while on the other hand having to deliver a service that is protected by the constitution of the Republic and the bill of rights. That economic and constitutional balance is not always an easy one to find and the management of these challenges and/or other emerging areas of risk are linked to the way the company is structured.

SECTION SEVEN

INTERNAL AUDIT FUNCTION

The Internal Audit Department is a governance structure, structured as follows: Internal, IT and Forensic Audit. These subdivisions are headed by managers who reports to the Chief Internal Auditor (CIA). The Department reports administratively to the Managing Director, functionally to the Audit Committee and has a staff complement of twelve (12) officials including the CIA.

The Internal Audit Department (IAD) has a specific mandate from the audit committee and independently appraises the adequacy and effectiveness of risk management, internal controls and governance within the Company. The audit coverage plan is based on the risk profile of the company. Risk based audits are therefore executed and internal audit reports with findings and recommendations towards improvement are distributed to management, Audit Committee and the Auditor General of South Africa. The Chairman of the board has access to the executive summary of internal audit reports.

STATEMENT ON INTERNAL CONTROLS (SIC) TO THE BOARD OF DIRECTORS OF JOHANNESBURG WATER (SOC) LTD FOR THE YEAR ENDED 30 JUNE 2013

Introduction

The above-mentioned statement is an expression of an opinion on the adequacy and effectiveness of the internal control system of Johannesburg Water by the Internal Audit Department (IAD) after it has evaluated such. Both the King Code on Corporate Governance and the Standards of Professional Practice of Internal Audit (SPPIA) requires the Chief Audit Executive to provide a written assessment of the adequacy and effectiveness of internal controls and issue a report reflecting also on any deficiencies which have been or /will be repaired/mitigated against by management.

The responsibility of the management

Management is responsible for establishing and maintaining an appropriate system of internal controls for the prevention and detection of irregularities and fraud. The objectives of internal controls are to ensure:

- i. Reliability and accuracy of data: Data is accurate, timely, useful, reliable and relevant.
- ii. Effectiveness and efficiency: Operations are effective, efficient and add value to accomplishment and monitoring of goals.
- iii. Authorization: Proper review and approval.
- iv. Safeguarding Assets: Assets are protected from theft, misuse, and/or destruction
- v. Compliance: With policies, rules regulations, and laws.

The Internal Audit Department's responsibility

The IAD should evaluate the adequacy and effectiveness of the Internal Control System. In assessing the adequacy, efficiency and effectiveness of controls, consideration of the above stated internal control objectives/ Management's assertions and audit evidence obtained during the execution of audits should be used as basis for the opinion. Note that only completed assurance engagements/projects will be considered.

The table below indicate audited areas, findings and resolutions of audit projects undertaken during the 2012/13 Financial Year.

NO	Audit	Number of Findings		Resolved		In Progress		Unresolved		Future Date	
		NO	%	NO	%	NO	%	NO	%	NO	%
1.	Activities Alignment Audit & follow-up X2	11	100	5	33	0		2	40	4	27
2.	AG Follow Up Audit(2010/11)	4	100	1	25	3	75	0	0	0	0
3.	Revenue and Customer Relations Management Follow up audit (Unresolved Findings 2011/2012)	5	100	1	20	3	60	1	20	0	0
4.	Olifantsvlei Waste Water Treatment Works follow-up Audit (Unresolved findings (2011/2012)	3	100	1	33	1	33	1	33	0	0
5.	Capital Investment and Infrastructure Audit	10	100	10	100	0	0	0	0	0	0
6.	Asset Management Audit	8	100	8	100	0	0	0	0	0	0
7.	Drinking Water Follow Up Audit	16	100	8	50	6	37.5	0	0	2	12.5
8.	Risk and Compliance Management Follow Up	18	100	9	50	5	27.77	3	16.67	1	5.55
TOTAL		75	100	43	57.33	18	24	7	9.33	7	9.33

Analysis

75 (100%) control deficiencies were picked up of which 43 (57.33%) were resolved. 32 (42.67%) of queries raised were either not resolved, in progress or will be resolved in a future date.

Effectiveness

Of the 42.67% outstanding issues, only 9.33% is unresolved, 24% is in a process of being resolved while 9.33% is referred to be resolved at a future date.

Impact

6.25% are housekeeping matters. The housekeeping findings are not included in the report and Management is addressing them. 18.672% are significant findings and only 14.67% are critical.

Opinion

In our opinion, controls are adequate and moderate effective to accomplish the organisational goals and objectives in that 32 (42.67% of control weaknesses have not been resolved, are in the process of being resolved, referred to a future date and that only 18.672% have significant and 14.67% have critical impact on the accomplish the organisational goals and objectives.

SECTION EIGHT

CORPORATE ETHICS AND ORGANISATIONAL INTEGRITY

The Board of Directors has adopted the Board Charter, which encapsulates the City of Johannesburg Governance Protocol and includes matters of ethics, procedure and the conduct of committee members.

The Company has developed a Code of Conduct ("the Code") that has been fully endorsed by the Board and applies to all directors and employees. The Code is regularly reviewed and updated as necessary to ensure that it reflects the highest standards of behaviour and professionalism.

In summary, the Code requires that at all times, all company personnel act with utmost integrity and objectivity and in compliance with the letter and spirit of both the law and company policies. Failure

by employees to act in terms of the Code results in disciplinary action. The Code is discussed with each new employee as part of his or her induction training and all employees are asked to sign an annual declaration confirming their compliance with the Code. A copy of the Code is available to interested parties upon request. A toll-free anonymous telephone facility exists for reporting of non-adherence to the Code or to ethics related matters. Furthermore, any breach of the Code is considered a serious offence and is dealt with accordingly; as a result, the Code acts as a deterrent. The directors believe that ethical standards are being met and are fully supported by the ethics programme.

Breach of governance procedures

During the year under review there were no breaches of governance procedures.

Policies

The Company is managed through powers delegated to the Managing Director, resolutions of the Board and policies. All policy approval is reserved to the Board. A number of policies were reviewed and amended during the year under review.

Conflict of interest

Registers on the disclosure and declaration of interests of directors and senior management are kept and updated.

SECTION NINE

SUSTAINABILITY REPORT

Johannesburg Water has endeavoured to address crucial sustainability matters that impact both on the Company and the community at large. In this respect it has focused on financial and service delivery sustainability, risk and internal controls, human development and transformation, corporate social responsibility and the environment.

Sustainability vision

To be honest in contributing to the future sustainability of the Company by ensuring efficient management strategies while not compromising its stakeholders and the environment

Sustainability policies and strategies

Johannesburg Water in developing its business imperatives for a particular year as well as three business planning cycles does so in tandem with the Shareholder's political and service delivery prescripts contained in its growth and development strategy as well as its integrated development plan. The Company's business plan and balanced scorecard addresses issues related to the integrated sustainability by addressing financial, human capital, health and safety, customer and environmentally focussed objectives.

SECTION TEN

CORPORATE SOCIAL RESPONSIBILITY REPORT

According to the World Business Council for Sustainability Development, Corporate Social Responsibility (CSR) is defined as *"the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large."*

In terms of the Companies Act of the Republic of South Africa, Act 71 of 2008, organizations/companies are not compelled to engage in CSR activities or projects. However, Johannesburg Water, through the Social and Ethics Committee of the Board, has recently developed the CSR policy which is aimed at addressing some of the following key areas on the CSR:

- That there is an expectation from our internal and external stakeholders that there should be continued commitment by the organization to behave ethically;
- That the organization needs to improve the quality of life of the work force and their families;
- That the organization needs to take active part in the improvement of the quality of life of the local society (City of Johannesburg);
- That the organization needs to contribute to local economic development through its projects.

In addition to the legislative framework, King III also addresses the need and relevance of organizations to acknowledge all stakeholders and to adopt the *"triple-bottom line"* approach which focuses on *Social, Environmental and Economic* concerns of the organization.

JW has realized the fact that education and training as well as social development are the main areas in which a CSR-policy takes place. This engagement is in line with the output of the efforts which shall be good for the business. At first there is an increase of motivation and productivity of the workers which results in a better working environment and higher quality. Because of the shortage of skilled workers there is a great interest in training future employees. This has a direct impact on the productivity of the organization and helps the JW to stay economical.

JW has already started to forge partnership with other locally based sector partners in implementing its CSR initiative. This partnership is going to take into consideration the fact that there are so many things that can be done to drive and sustain its CSR initiatives which may not be monetary based by its nature.

The following enterprise development initiatives were carried out during the period under review, with the main objective of developing and sustaining emerging suppliers' financial and operational independence:

- In support of the empowerment of black women (i.e. equity ownership of at least 30% black women) and black youth (i.e. equity ownership of more than 50% black youth), the entity made 20 awards to black women and 10 to black youth owned enterprises with procurement amounting to R168million and R70million respectively.
- In line with the entity's enterprise development program initiatives, the entity's canteen and catering service was awarded to and operated by an emerging service provider and no rental, electricity, water and rates are being charged to this service provider which conducts its business on the entity's premises. The contract is in excess of R1.5million and runs over a period of two years.
- The entity's contractor development program continued to provide non-monetary support to emerging contractors to improve their construction industry development board (CIDB) grading level. A total of 46 emerging contractors are on the entity's contractor

development program and 23 of these contractors have improved their CIDB grading levels upward.

- A total of 13 supplier sessions were conducted, which comprised 7 debriefing sessions on tender advice and procurement opportunities and 6 business training sessions in the following areas: value added tax, small business tax, income tax and pay as you earn, MFMA and recently gazetted PPPFA regulations on local content procurement. Over 151 emerging contractors benefitted from these training sessions.

28 computers were donated to the Ahanang Primary School in Poortjie which falls under Ward 5 in the Deep South (Region G) within the City of Johannesburg. The school has grade R to 7 with a total of 667 learners and it feeds the local High School.

It is almost that time again where we get to celebrate our ABET (Adult Basic Education and Training) Learners in Johannesburg Water. To date there are 95 ABET Learners registered throughout the various depots in Johannesburg Water studying towards ABET Communication and Numeracy (levels 1 to 4). The following were the achievements of this initiative:

- 43 Learners have completed Communication Level 4 (NQF1) and
- 07 Learners have completed Numeracy Level 4 (NQF1).
- 50 Learners are expected to graduate and some will be recognized and awarded certificates for completion of some of the various ABET levels.

ABET is seen as an integral part of JW's vision in encouraging its employees to equip themselves by means of education to broaden their horizons in the future. As such, we encourage many of our Adult Learners to use this opportunity to further their education and broaden their career prospects. As the saying goes "*Thuto ha e kgoelwe*" i.e. "one is never too old to learn". Moreover we want to encourage our younger staff today to draw inspiration from our ABET Learners.

SECTION ELEVEN

ANTI-CORRUPTION AND FRAUD

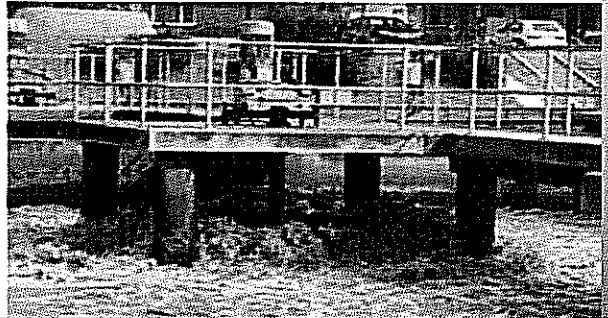
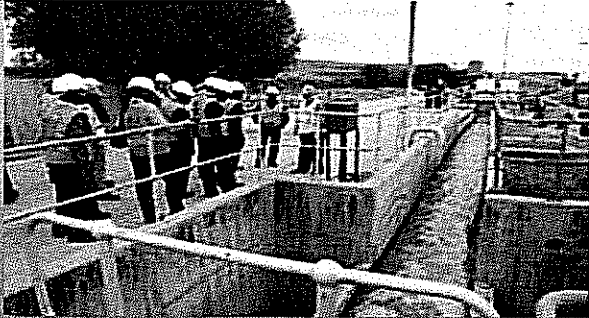
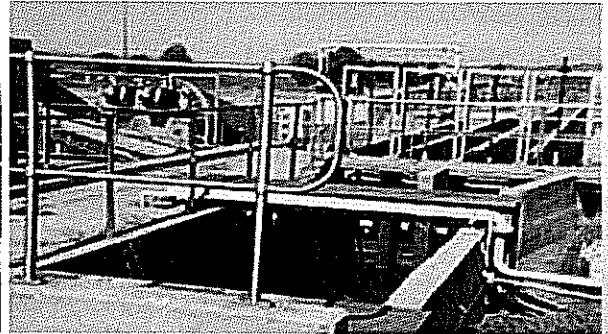
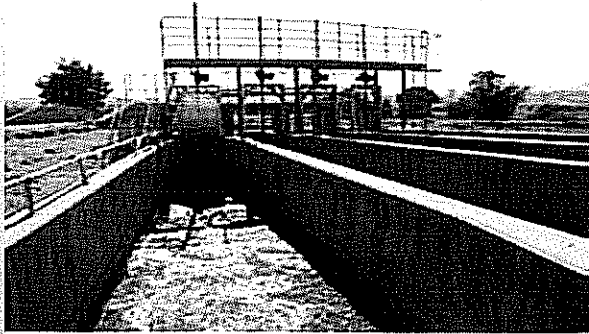
Johannesburg Water (JW) has prioritised fraud risk management as per the MFMA. Fraud prevention and response plans are in place. Fraud awareness campaigns are rolled out yearly to sensitise and educate employees on promotion of ethical behaviour within the organisation. The hotline through which service delivery complaints are received and whistle blowers anonymous are reporting is centralized at the CoJ. To instil confidence in the anonymous reporting of incidents of fraud and corrupt activities, the hotline is outsourced to a private company and managed independently. JW has sound internal controls in place to work as a deterrent and to also prevent occurrence of fraud. All reported cases are registered, monitored and investigated. Executive summary of investigation reports are distributed to the executive management, the risk and audit committees and the board

Internal audit, risk management, internal controls and tip-offs assist to detect fraudulent and corrupt activities.

Fourteen (14)/ 100% cases were reported during the year under review. Seven (7) / 50% thereof are fraud and corruption cases and are mainly concentrated within the Supply Chain Management (29%), Revenue (43%) and Operations (43%). This demonstrates that fraud and corruption is still a challenge and to overcome this challenge, the forensic investigation division has been capacitated with a manager: forensic audit and a forensic auditor.

CHAPTER THREE

SERVICE DELIVERY PERFORMANCE



SECTION ONE

HIGHLIGHTS AND ACHIEVEMENTS

Financial Sustainability

During the year under review the company achieved a profit before bad debt provision and revenue service fee of R1.884 billion against a target of R1.602 billion, which was 17% above the target.

Capital Investment

The capital expenditure for the year was R741 million, which represents 97% of the capital budget of R762 million.

3107 new job opportunities were created in terms of the EPWP against a target of 2350. The reason for exceeding the target is attributed to emergency projects (hotspots) implemented on as and when basis. The projects include Braamfischerville, Diepsloot and Orange Farm hotspots.

Customer Responsiveness

The response time to water bursts restored within 48 hours of notification were 88.62% against a target of 95%, and for sewer blockages cleared within 24 hours of notification 96.06% against a target of also 95% during the financial year under review. The same failure rate of water infrastructure as the previous years due to age and slow renewal rate impacted on the target of water bursts restoration not being met. This will improve in the coming years due to the increased capital investment especially in renewal of aged water infrastructure

Revenue

With the implementation of Program Phakama all accounts are now managed by the CoJ. 100% meter reading and billing data for these customers are managed by JW.

JW is directly responsible for management of the contractors reading the water meters.

Soweto Infrastructure Upgrade and Rehabilitation Programme (SIURP)

The implementation of the revisiting had a slow progress with 11,779 properties metered and R158 m spent in this financial year. The total number of properties metered since resumption is 81,928. The delays relating to procurement of new service providers affected the implementation programme. JMPD Water by-law enforcement unit continued to support the project and lack of access remained at a manageable level. The total scope of 183,595 stands and about 100 km of secondary mains is scheduled to be completed by December 2014.

Basic Services

Notable progress has been made with regards to access to basic services in that 2,879 households have been provided with access to basic sanitation increasing the coverage to 91.48% and 3,827 households provided access to basic water thereby increasing the coverage to 98.10%. The provision of access to basic services resulted in R7.5 m and R26.4 m expenditure for basic water and sanitation respectively.

Operations

The number of bursts experienced per 100km was 298.72 against a target of 324 while sewer blockages experienced per 100km was 418.6 against a target of 370. The increase in the number of sewer blockages per 100km relates directly to the incorrect use of the sewer infrastructure in hotspot areas like Ivory Park, Alexandra, Diepsloot and Orange Farm which cause reoccurring blockages. This however will be mitigated through a social education programme being launched which will run for a period of 12 months in these affected areas.

During the 12/13 financial year percentage compliance with the water quality standard (SANS 241) was 99.9% against a target of 99%. This positive achievement will enable the City of Johannesburg to again achieve Blue Drop Status which will be assessed in the coming year.

Although the Green Drop assessment were carried out during the year the results was not announced pending an internal review that is still underway by the Department of Water affairs. Final effluent compliance measured against targets set by the Department of Water Affairs was 95.2% against a target of 97%. The major contributor to this target not being met was capacity constraints during the first half of the year while new belt presses were installed at Northern Waste Water Treatment Works.

During the year under review the reduction of operational costs at the Waste Water Treatment Works in electrical consumption was 341.92 kWh/MI of treated sewerage against a target of 363 kWh/MI.

Human Resources

Johannesburg Water has now managed to build up its engineering capacity to 17 professionally registered engineers with the Engineering Council of South Africa. This has been achieved partially by the Company's ability to attract and recruit registered professionals but also by specific programmes that have been put in place such as the Engineering Capacitation Programme and the Specialist Career Grade. Of the 17 professionals, 5 are registered as Professional Engineers and 12 are registered as Professional Engineering Technologists.

As far as the provision of technical training is concerned the Company successfully embarked upon an intervention that provides training in the areas of Pressure Management including the maintenance of PRV's and design of water reticulation systems. In total 149 employees were trained. This intervention qualified for the 2013 Water Conservation and Water Demand Management Sector Awards where Johannesburg Water was awarded second place in the category for Local Government: Metropolitan Municipalities

SECTION TWO

FINANCIAL PERFORMANCE

The International Monetary Fund (IMF) expects world economic growth to increase marginally during the 2013/14 financial year.

Many advanced economies contracted during the fourth quarter of 2012. The growth in GDP in the first quarter of 2013 was an annualised rate of 0.9%. It accelerated to 3% in the second quarter of 2013.

South Africa's third quarter was heavily impacted by industrial action that took place across sectors. The current strikes in the car manufacturing, textile, construction, electricity, and mining sectors are threatening any further recovery to the South African economy.

Another worrying development is the global financial market reaction to increasing signs that the US central bank are slowing down the rate of unconventional monetary stimulus. Emerging markets with large current account deficits, such as South Africa, are particularly vulnerable to this development since foreign investors are reassessing their exposure to Emerging Market assets.

Financial market volatility has declined but remains a concern, and recovery is uneven. Targeted monetary policy measures in advanced economies continue to ease financial conditions, boosting liquidity and asset prices. Emerging markets – particularly China and India – continue to lead global growth.

In the third quarter of 2013, South African jobless rate decreased to 24.7 percent, the lowest value in almost two years. The number of people without work went down to 4.66 million, down from 4.72 million compared to the previous three months.

Employers and employees are however at an impasse. Employers are unable to give the double digit increases due to constrained economic conditions and lack of growth while employees are unable to keep up with rising inflation, effectively suffering a wage cut and a drop in their standard of living.

Over the last few years, strikes in South Africa have increased in size and in duration with no clear indication of abating. This prolonged industrial action will continue to constrain productivity and ultimately economic growth, while we suffer great reputational damage both locally and abroad.

2.1.1 Revenue

The company posted revenue of R5.87 billion for the year, an increase of 9.5% over the previous year (2012:R5.36 billion). Service charges stem from both the sale of water and sanitation charges.

2.1.2 Results of Operations

Operational costs increased on average by 8.5% to R1.77 billion (2012: R1.63 billion). The general expenses increased by 12.6% due to increased maintenance on water and sanitation infrastructure. The provision for bad debts increased by 26% to R909 million (2012: R722 million) due to poor collections at the Revenue and Customer Relations Management department at the City of Johannesburg.

2.1.3 Cash Flow

Service charges are generated from sale of water and sanitation services. In addition the company receives grant funding from MIG and USDG to assist with the funding of capital projects. Other income comprises of developer funded assets.

The following is a brief history of the cash balances swept at the end of each financial year to the City of Johannesburg:

June 2008	R515 million
June 2009	R160 million
June 2010	R249 million
June 2011	R96 million
June 2012	R19 million
June 2013	R73 million
Budgeted 2014	R691 million

2.1.4 Statement of Financial Position

Fixed assets increased by R775 million to R6 757 million at carrying value. This increase was due to the replacement of aging and obsolete equipment.

The continued positive financial health of Johannesburg Water, and its potential sustainability into the future without requiring shareholder subsidies, is evident from the significant strengthening of the Company's debt to equity ratio as follows:

June 2008	57:43
June 2009	51:49
June 2010	43:57
June 2011	46:54
June 2012	42:58
June 2013	39:61
Budgeted 2014	30:70

It is the strategic intention of the Company to allocate approximately R11.8 billion to capital expenditure for the period from 2008 to 2018, largely to upgrade and enhance its water distribution network and treatment plant infrastructure. The expenditure will compliment water conservation and water demand management imperatives. The company has demonstrated its commitment and contribution to this achievement to date, and believes that it is financially well placed going forward to achieve this objective in terms of funding the required capital expenditure while maintaining tariff increases at reasonable levels. Capital expenditure for 2013 was R742 million, which was 97% of the allocated amount. The Company has invested R4 billion since the 2008 financial year on capital projects.

SECTION THREE

CAPITAL PROJECTS

During the year under review the company was able to deliver a number of capital projects to the value of R741 million against a total budget of R762 million. This translates to an achievement of 97.1% against the target of 95%. The expenditure break down per capital budget category is reflected on the table below.

Expenditure for the year as at end June 2013

Category	2012/13 Budget	Expenditure at end June 2013	% Expenditure
Corporate Requirements	7 500 000	6 751	90
Customer Services	-	-	-
Unaccounted for Water	169 812	158 832	94
Operate and Maintain	38 500	37 028	96
Upgrading and Renewal	73 012	70 896	97
New Infrastructure	32 582	32 162	99
Planning and Engineering Studies	18 000	15 886	88
Information Technology	7 000	5 068	72
Special Projects	59 332	59 559	100
Bulk Wastewater	356 491	355 764	100
Total	762 232	741 946	97

Projects Completed

In 2012/13 financial year JW has managed to complete a total of 13 projects. Table below provides detailed projects completed during the year under review.

Project Name	Region	Date Started	Date Completed	Total Project Costs (R 000)
BushkoppiesVWW TW :Installation of 6 filter belt presses	D	June 2010	March 2013	R 57 502
Northern WWTW: Replacement of 4 Belt Presses	A	April 2011	January 2013	R 36 134
UR 908/JW 10043 Orlando East Sewer Upgrade	D	Oct-2011	October 2012	R 3 152
TN1000 access to basic sanitation (VIPs)	A,C D	Jul-2012	June 2013	R 26 487
JW9057 Soweto infrastructure Upgrade & renewal in SB2&8	D	October 2010	July 2012	R 57 500
JW9058 Soweto infrastructure Upgrade & renewal in SB3&4	D	Sept 2010	August 2012	R44 228
JW10037/UR900	D	June-2012	August 2012	R 3 060

Meadowlands Sewer Upgrade				
JW9067/A UR903 Buccleugh Water Main Replacements A	E	Feb-2011	December 2012	R 20 664
JW10014 UR1003 Vandia Grove & Weltevreden Park Pipe Replacement	B & C	April-2012	November 2012	R 1 293
JW10040/UR900 Bruma Sewer Upgrade	F	Feb-2011	October 2012	R 7 141
JW11002/S801 Stretford EXT 9A1 Sewer Upgrade	G	Feb-2012	October 2012	R 8 120
S 801 Orange Farm Hot Spot Sewer Upgrade	G	April-2013	April 2013	R 3 020
JW10021/OM 917 Refurbishment of Cydna Lab Phase 2	E	June-2011	November 2012	R 6 310

Major Capital Projects

Table below provides some of major capital projects that JW implemented in 2012/13 financial year and their progress status. It should be noted that most capital projects are multi-year as a results most of them will be completed in the coming financial year (2013/14).

DESCRIPTION	OBJECTIVE	Construction start	Construction completion	Project Value (R 000)	Total expenditure to date (R 000)	Project Phase
BK: Replacement of aeration system	Replace the aeration system at Bushkoppies Waste Water Treatment	Mar-13	Oct-14	75 815	21 868	Construction
BK: Installation of 6 filter belt presses	To install sludge dewatering capacity in order to reduce the risk of pollution of the Harrington Spruit and Klip River due to sludge spills at Bushkoppie and Goudkoppies WWTTWs.	Jun-10	Mar-13	69 005	57 502	Project Completed
BK: Digesters	To provide sludge treatment capacity at Bushkoppie WWTTW.	May-11	May-14	255 420	203 511	Construction
DF: Extension Driefontein	The project objective is to provide additional 25Ml/day treatment capacity at the Driefontein WWTTW.	Jun-10	Jun-14	408 192	257 479	Construction
NW: Replace 4 Belt Presses	Replace four redundant presses and refurbish belt press building. The objective of the project is to ensure that the sludge produced at Northern WWTTW can be dewatered before treatment.	Apr-11	Jan-13	36 134	35 005	Project Completed

DESCRIPTION	OBJECTIVE	Construction start	Construction completion	Project Value (R 000)	Total expenditure to date (R 000)	Project Phase
NW: De-sludge Dam 01	To de-sludge Dam 01 at Northern WWTW and to reduce the rate of future sludge ingress	Mar-14	Jun-16	9 591	3 816	Design stage
OV: Construction of Module 3 Unit 3	Expansion of Olifantsvlei WwTW. Construction of Module 3, Unit 3 at Olifantsvlei WWTW. 50 Ml/day capacity increase. Involves civil works, mechanical works, electrical works and control and instrumentation.	Oct-10	Sep-13	166 796	149 814	Construction
OV: Digester heating and mixing	To ensure a sustained and improved sludge treatment capacity at the Olifantsvlei wastewater treatment works.	Mar-14	Nov-15	3 354	1 587	Design stage
Biogas to electrical energy at WwTW's	Biogas to electrical energy installation at Northern and Driefontein WwTW's to improve operation and save on operating cost.	Oct-11	Jun-14	99 892	68 862	Construction
Replacement of ferric chloride dosing system at Goudkoppies #6, Northern #4, Olifantsvlei #2 and Bushkoppie #2	To ensure that Ferric Chloride is stored safely and that the dosing systems are accurate and reliable.	May-11	Nov-13	46 513	37 877	Construction
Scada and PLC Replacements	Redundant PLC replacement at various WWTW	Dec-08	Oct-14	60 078	46 717	Construction

DESCRIPTION	OBJECTIVE	Construction start	Construction completion	Project Value (R 000)	Total expenditure to date (R 000)	Project Phase
Soweto infrastructure upgrade and Renewal	Upgrade and renewal of water secondary mains and installation of meters	Sep-10	Dec-14	800 000	434 000	Construction
Access to basic water	Provision of basic water to informal settlement	Feb-13	June-13	10 000	7 000	Construction
Lanseria Reservoir	Construction of 25 Ml Reservoir and 1.2 Ml Tower	Aug-12	April-14	46 934	23 774	Construction
Orange Farm Water Upgrade Phase 3	Construction of 2500m of 600mm diameter steel water main	Mar-13	Feb-14	20 452	8 000	Construction
Glenadriene, Hurlingham Water Pipe Replacement	Water mains replacement of various pipe diameters from 110mm up to 250mm in diameter	April-13	Nov-13	9 608	3 879	Construction

Water Reservoirs

JW has embarked on the construction of a new 20 MI reservoir and 1.2 MI water tower at Lanseria. Construction work commenced in June 2012 and is currently just over 45% complete with expected completion in January 2014.

Relining and repair work is being carried out on Parktown reservoir in order to eliminate leaks. This project is to be completed in November 2013.

The new Diepsloot reservoir was conditionally awarded at the end of December 2012. However, construction will only commence once the land acquisition has been finalised. The expected commencement date is March 2014.

Asset Management Program

Phase 4 Asset Management Plan implementation started in 2012/13 for a period of three years which will be completed in 2014/15 financial year. By the end of 2012/13 the plan was to achieve the "Deployment of integrated system" and this target was not achieved as at 30 June 2013. Delays in completing detailed designs of the integrated systems were experienced during Q3 and Q4. The delays were as a result of non-availability of the concept designs carried out in the previous phase as well as the appointment of a nominated SAP consultant. These designs are now scheduled for completion in September 2013. Other activities were successfully completed namely:

- Asset Management Plan update - 100% complete
- Risk Management framework review – 100% complete
- Organizational Change plan draft – 100% complete
- Technical support in alignment of technical and financial asset data – 100% completed
- Verification of water network system extent - 100% complete

Technical work on the actual designs of the integrated systems interfaces is still in progress with progress being as follows:

- SAP –IMQS interface designs – 65% Complete
- IMQS-SAP interface designs – 90% complete
- System User Access Testing and QA – in progress as interfaces designs are completed
- Systems deployment – to follow post September 2013 when rigorous system tests and QA have been successfully completed.

Soweto Infrastructure Upgrade and Renewal

The implementation of the revisiting had a low progress with 11,779 properties metered and R158 million spent in 2012/13 financial year. The total number of properties metered since resumption is 81,928. The delays relating to procurement of new service providers affected the implementation programme. JMPD Water-by-law enforcement unit continued to support the project and lack of access remained at a manageable level. The total scope of 183,595 stands and about 100 km of secondary mains is scheduled to be completed by December 2014.

SECTION FOUR

PERFORMANCE AGAINST IDP AND CITY SCORECARD

BSC Perspective	Objective	KPI	2012/13 Target	2012/13 Actual Achievement	2011/12 Actual Achievement	
Financial Perspective	Financial viability	Profit before tax, before bad debt provision and COJ service fee	R1,602b	R1.884b	R1.591b	
	Procurement Spent	Total BBEE procurement recognition spent from Qualifying Small Enterprises Exempted Micro Enterprises	60%	114.00%	Not on score card	
		Total BBEE procurement recognition spent from all suppliers	75%	93.00%	Not on score card	
Customer	Product quality	Compliance with drinking water quality standards	99%	99.90%	97.70%	
	Reliable services	Water burst Restored within 48 hours as a ratio of jobs completed	91%	88.67%	88.79%	
		Sewer blockages cleared within 24 hours as a ratio of jobs completed	95%	96.39%	94.11%	
		water bursts per 100km of network length	324	298.72	301.42	
	Protection of the environment	Effluent Quality	97%	95.%	96.95%	
		Waste water effluent spills	300	614	446	
		Sewer blockages per 100km of network length	370	418.60	384.30	
	Access to Basic services	Informal Household with access to water -LOS1	98.05%	98.10%	91.23%	
		Informal Household with access to sanitation-LOS1	91.40%	91.48%	91.23%	

BSC Perspective	Objective	KPI	2012/13 Target	2012/13 Actual Achievement	2011/12 Actual Achievement
	Resource Management	Volume of bulk water supply reduced from previous year's annual water demand	20 000	-12583	Not on score card
Internal Processes	Operational optimisation	Electricity costs at WWTW	363	341.88	346
		Unaccounted for water (UFW)	30%	28,9%	30.3%
		UFW in Metered Areas	27%	28,5%	27.56%
		UFW in Un-metered Areas	37%	29,9%	37.96%
		Number of functioning meters installed in Soweto (Cumulative)	104 842.00	81 923	62.
	Asset Management	Expenditure on capital budget	95.00%	97.34%	99.60%
		Completion of phase 4 of the asset management plan	Phase 4a: Deployment of integrated system	93.50%	Target Achieved
	Operational Resilience	Disabling Injury Incidence Rate (DIIR)	1.2	1.45	0.94%
External Audit	Resolved matters raised by the Auditor General on audit of previous year	100%	82.00%	Not on score card	
Learning and Growth	Develop Human Capital	Employee retention within the organisation	97%	98.73%	98.14%
		Total training expenditure as ratio of total payroll	1.37%	1.43%	1.27%

SECTION FIVE

ASSESSMENT OF ARREARS ON MUNICIPAL TAXES AND SERVICE CHARGES

5.1 Assessment of Municipal Taxes and Service Charges owed to the entity

Detail	0-30 days	31-60 days	61-90 days	91-120 days	120& over	Total
Debtor's Age Analysis by income source	R1,034m	R339m	R241m	R249m	R5,171m	R7,034m

The total debtor's amount of R7,034 million of which 100% relate to the debtors managed by the City. The accumulated provision for bad debts amounts to R5 323 million or 76% of the accumulated debtors.

5.2 Amounts owed by entity for service charges

Name of Entity	Amount Owed	Status	Comments
Johannesburg Water	R60 233 353,61	Amount provided for in the entity's books	Confirmed inter company with shareholder and will pay in 2013/2014.

5.3. Assessment of Directors' and senior managers' municipal accounts*

Name of Director/Senior Managers	Designation	Name of Municipality	Municipal Account Name/ Number	Comments
RW Buys	Independent member of Audit Committee	City of Johannesburg	202467101	Property sold 28 February 2011. Account yet to be transferred to new owner
V Mokwena	Independent member of Audit Committee	City of Johannesburg	504973087	Debt acknowledgement and entered in payment plan
J Mateya	Non executive director	City of Johannesburg	505455514	Account in dispute
E Chikonyora	Senior Manager	City of Johannesburg	404252437	Account in dispute. Debt acknowledgement and entered in payment plan

SECTION SIX

STATEMENT ON AMOUNTS OWED BY GOVERNEMENT DEPARTMENTS AND PUBLIC ENTITIES

Name of Department	Amounts owed	Account Status	Comments
DWAF	R 2000.00	Overdue	Account in dispute
Transnet	R 349.00	Current	Current
Gauteng Education Department	R21 000 000,00	More than 120 days overdue	Department not responding to reminders

SECTION SEVEN

RECOMMENDATIONS AND PLANS FOR THE NEXT FINANCIAL YEAR

JW FUTURE CAPITAL BUDGET (2014-2016)

CoJ Mayoral Committee Lekgotla of February 2013 has resolved to adopt a three year budgeting process which is in line with National Treasury Medium Term Expenditure Framework (MTEF). JW in the coming three years has been allocated a total of R 3,5 billion for capital program starting with R 1,0 billion in 2013/14 financial year. JW main capital expenditure programs will focus on Waste Water Treatment Works, Pipe Replacement and Upgrades and construction of reservoirs. Table below shows JW MTEF capital budget in detail for the coming three years.

JW Capital Budget R'000

Financial Year	2013/14	2014/15	2015/16
Budget	1 020 283	1 091 585	1 538 761

Johannesburg Water co-production strategy has identified 7 programmes that are aimed at creating decent jobs within the City of Johannesburg. Table below shows the detailed programmes, targets and time line with regard to decent jobs that will be created. Co-production initiative has two focus areas being creation of decent and sustainable jobs and SMME's development.

JW Co-production Program

NAME OF THE PROJECT	PROGRAM TARGETS	TIME FRAME
SMME's Development (Pipe Replacement Program)	50 SMME's to be appointed (10 SMME's to be accredited 4 CE by end of programme)	June 2016
SMME's Development (Water	17 SMME's to be appointed	12 SMME's to be

NAME OF THE PROJECT	PROGRAM TARGETS	TIME FRAME
and Sewer Maintenance)		appointed by the beginning of 2014
SMME's Development (Retrofitting and Leaks Repairs)	142 SMME's to be CIDB accredited	December 2014
Re-Blocking	Re-blocking Master Plan	June 2014
Creation of Permanent Jobs (Metering, T-Code and Construction Team	A total of 103 permanent jobs to be created	June 2014
Supply of Composting to NGO's	Distribution of Compost to Registered Agricultural NGO's	June 2014
Rain Harvesting Master Plan	Urban Rain Water Harvesting Master Plan	2016

CORRIDOR OF FREEDOM

CoJ has prioritised three corridors of freedom (Empire-Perth, Louis Botha and Turffontein) as a development focus areas. The intention of this program is to address the imbalances of the past where labour force resides far away from the work place and to ensure a sustainable human settlement is achieved with all required amenities for the resident. Through Corridor of Freedom development program, various programs will be co-ordinated whereby public transport will be key in transporting people to work and various destinations of their choices.

In support of Corridor of Freedom development, JW has planned capital infrastructure project to a total value of R1,048 billion in the coming three years which consist of water and sewer infrastructure. Table below detail budget allocation per corridor.

CORRIDOR NAMES	WATER (R 000)	SEWER (R 000)	TOTAL (R 000)
Empire- Perth	227 000	150 000	377 000
Louis Botha	147 000	23 000	170 000
Turffontein	324 000	177 000	501 000
Total	698 000	350 000	1 048 000

CHAPTER FOUR
HUMAN RESOURCES & ORGANISATIONAL
MANAGEMENT



SECTION ONE

HUMAN RESOURCE MANAGEMENT

Overview

During the 2012/2013 financial year the Company consolidated the implementation of a number of human resources policies. The productivity management system was bedded down in the Networks Division and progress was made with the identification of effectiveness improvement opportunities and the bedding down of the initiatives. The system of providing for salary progression subject to performance is still in place and is a stabilising factor in so far as industrial relations as well as retention of scarce skills are concerned. Similarly the Specialist Career Grade which provides for the progression by certain professional groups of staff within the grade subject to the achievement of certain targets related to their professional development is gaining momentum. The Engineering Capacitation Program also contributed to the professional registration of engineers with the Engineering Council of South Africa (ECSA).

The Company granted general salary increases for the 2012/2013 financial year in line with those negotiated at the South African Local Government Bargaining Council. This provided for an increase of 6.5% across the board with effect from 1 July 2012 and a further 0,5% with effect from 1 January 2013. This is part of a three year wage increase agreement that provides some assurance of stability in the industrial relations environment.

The past year also focused on the entrenchment of core leadership practices and skills: the alignment of training to deliver the training of the technical staff. Reviewing of certain policies and practices to entrench employee value proposition and expanding the pool of females in the business thereby ensuring gender diversity; strengthening the employee wellness programme; the rolling out of internships, bursaries, subsidised education programmes and other skills development initiatives and refining the recruitment and selection processes.

Challenges experienced were a shortage of technical skills in the market with the associated risk that economic activity recovery will make the Company a target for recruitment agencies raiding its scarce skill pool that is being created via the various training and retention strategies. This fear proved unfounded and the actual attrition at all levels was below the target of less than three percent.

Analysis of Statistics and Employee Benefits

Staff Complement

As at **30 June 2013** the Company employed **2469** staff members in the operational areas listed below.

Table 1

Number of Employees per Operational Area

Personnel Area	Total Positions filled	Vacancies
Managing Director's Office	3	0
Capital Projects & Infrastructure	90	49
Operations	19	8
Operations Networks	1630	118
Operations Bulk Wastewater	263	37
Operations Support	128	25
Operations Monitoring & Evaluation Unit	8	2
Communication and Stakeholder Relations	20	3
Company Secretariat	13	5
Human Resources (inclusive of Bursars & Learners)	81	13
Contracts and Fleet	17	0
Corporate Services	12	1
Finance	26	7
Information Technology	20	5
Supply Chain Management	17	2
Meter Reading	109	36
Internal Audit	11	2
Risk and Compliance	2	1
Grand Total	2469	314

It must be mentioned that of the total of 314 vacancies at least 90 are newly created positions in the areas of meter management and pipe-laying. This type of work was previously allocated to contractors or not given direct priority and will henceforth be handles with own resources.

Age Distribution

The age distribution of Johannesburg Water (JW) employees is as per Table 2 below. The relatively high number of employees above the age of 50 presents a challenge for effective succession planning, specifically in the technical skills area where a high percentage of employees are above the age of 50. Research indicates that this is indicative of the labour market and not unique to JW. The Company is addressing this to an extent with a bursary scheme as well as the roll out of a specialist grade for engineers and scientists to enable progression as specialists. It was also possible to in fact lower the average age fractionally by the employment of younger staff. The situation is not regarded as critical.

Table 2

Age Distribution

Age Group	Total
0 - 20 years	6
21 – 30 years	324
31 – 40 years	811
41 – 50 years	652
51 – 60 years	560
61 – 70 years	115
70 and older	1
Grand Total	2469

Medical Fund Membership

The Company embarked on an exercise to have all employees join one of the 5 accredited medical aid funds. The exercise involved subsidising employees without medical fund membership. This exercise paid dividends with the number of uninsured non members reducing to only 166 as at 30 June 2013. Out of the 166 employees who are non-members, 86 have medical aid with their spouses and 80 are contractors who are not compelled to join a medical fund.

Table 3
Membership per Fund

Medical Aid	Total
Bonitas Medical Fund	958
Hosmed	569
Key Health	171
LA Health	279
Samwu Med	326
Non-Members	166
Grand Total	2469
Of the 166 Non-members 86 of them are privately covered and the other 80 are contractors	

Retirement Funds

The Company participated in seven retirement funds. In terms of the policy only short term contract employees may be excluded from membership. A project in conjunction with the City of Johannesburg consolidated the majority of retirement funding arrangements into a defined contribution dispensation where there are no contingent liabilities for the employer. The fund established for the purpose of accommodating all employees in the future, the E-Joburg Retirement Fund, is a defined contribution fund. It will be noted that the majority of employees belong to this fund. The next largest in terms of membership by Johannesburg Water employees is the City of Johannesburg Pension Fund (CJPF) which is also a defined contribution fund with no liabilities to the

employer save for the monthly contributions in respect of the Employer Contribution to the fund. Actuarially there are no liabilities to these funds over and above the monthly contribution.

Table 4

Retirement Fund Membership

Pension Fund	Total
City of Johannesburg Pension Fund	475
e-Joburg Retirement Fund	1713
Joint Municipal Pension Fund	15
Municipal EE Gratuity	136
Municipal Employee Pension Fund	51
National Fund For Municipal Workers	1
Non-Members (short term contract employees)	78
Grand Total	2469

Table 5

Trends on Total Personnel Expenditure

Year	Total Payroll Expenditure 000	Total Operating Expenditure 000	Percentage compared to Operating expenditure	T&D spent as % of Total payroll cost
2012/13	699 073	2 699 468	25.9%	1.43%
2011/12	632 565	2 489 521	25.4%	1.52%
2010/11	574 102	2 127 785	26.9%	1.74%
2009/10	595 169	2 033 410	29.3%	
2008/09	537 303	1 915 966	28.0%	

Arrear Moneys owed to the Entity by staff and Non Executive Directors

As far as money owed to the entity by its staff is concerned, the entity does not allow loans to employees. However instances do occur where employees may be overpaid and such overpayment is then recovered over a period of time in terms of sound labour practice. The subsidised education scheme, which provides for bursaries to employees, results in default by recipients who do not complete their studies and who have to repay study fees and study leave taken, in instalments. Finally a few instances where employees change their medical fund category and plan and have to pay arrears contributions occur.

The total outstanding amount in respect of the above is R137 208.07 as at 30 June 2013.

SECTION TWO

EMPLOYMENT EQUITY

The Company continues to advocate a barrier free environment for all its employees with more emphasis on designated group such as females. This is evident in the policies and process that have been implemented in the financial year. Guidelines to accommodate pregnant women were approved. The guidelines supplement the work that had already been done to accommodate female employees by building and enhancing ablution facilities

A disability audit was undertaken in 2012 and currently the Company is addressing the needs of employees with disabilities to ensure that they are not discriminated in performing their work.

The Company has not restricted itself to only achieve the Employment Equity (EE) target; the objective is to entrench a culture of diversity in all our programmes, projects and policies. The diversity programme is currently being rolled out to capacitate all employees on diversity awareness, understanding and valuing diversity. Further to that Managers will be trained on how to manage diversity in their teams. This will have an impact not only in organisational transformation but team productivity as well.

It should be noted that there are processes in place to ensure that designated groups increase in those positions that were formerly dominated by non-designated groups. The introduction of special grades for critical positions as well as educational support for all employees to capacitate themselves are some of the mechanisms that the Company has implemented to ensure that designated groups are developed

The distribution as at 30 June 2013 was:

Table 6 Demographic Staff Distribution

Category	Percentage Male	Percentage Female	Total
African	68.81	19.75	88.55
Coloured	2.81	0.94	3.75
Asians	0.45	0.98	1.43
Whites	5.29	0.98	6.27
Total	77.36	22.65	100

Although the Company has done well in improving the recruitment of females and people with disabilities challenges are still experienced in employing more female staff and people with disabilities at decision making levels.

As at 30 June 2013 female representation was at 22.65%, this number has increased from the previous years. There is also an increase in employing people with disabilities, 93 employees with disabilities were employed as of 30 June 2013, against a target of 43.

All policies of the Company are compliant with EE principles and the Recruitment Policy and Procedures specifically provide for recognition of the ability to obtain skills and provides for the assessment of candidates on the basis of a combination of skills, qualifications, experience and the ability to learn.

SECTION THREE

SKILLS DEVELOPMENT AND TRAINING

As part of its development of engineers, the Company is managing a programme aimed at fast tracking professional registration for all its engineers with the Engineering Council of South Africa. Sixty employees are currently registered as candidates and the intention is to provide them with sufficient practical experience to enable them to register as professionals. One retired engineer is in place to provide mentorship and skills transfer. A total of three engineers obtained professional registration during the year bringing the total number of registered engineers in the company to seventeen.

In order to supplement the skills pipeline and enhance service delivery and as part of a social responsibility initiative, the Company has an on-going bursary and internship scheme. There are currently ten bursars in the civil engineering field and two bursars in other disciplines. Four civil engineering graduates were appointed from 01 January 2013 as trainee Technicians while one graduate was appointed as a trainee Engineer. In addition, one-year internships have been provided to twelve graduates in various disciplines as part of the Company's social responsibility initiative.

The Leadership and Coaching Programme for senior and executive management was rolled out to a second group of participants starting in January 2013. This group will complete the programme in May 2014.

The total number of staff trained for the 2012/2013 financial year was 941. These interventions included compliance, work specialization and transversal skills training. With regard to Subsidized Education; 18 new applications were approved for 2012/2013. The fields of study included Engineering, Human Resources and Commerce.

The Work Place Skills Plan 2012/2013 has been successfully implemented and the relevant report submitted to the ESETA. The skills priorities for Johannesburg Water are varied but mention must be made of the technical training solution that provided for the training of 149 employees in the areas of servicing of Pressure Release Valves, Pressure management and Basic design of water reticulation systems. These interventions were recognized in that the Company was awarded second place in the 2013 Water Conservation and Water Demand Management Sector Awards in the category of Local Government: Metropolitan Municipalities.

SECTION FOUR

SUCCESSION PLANNING AND RETENTION

Succession Planning

Towards the end of 2007, the Board approved the adoption of a succession planning policy in line with the Company's talent management strategy. The overall objective of the talent management and succession planning process is to facilitate a structured identification and growth of employees as well as aid the retention of talent and in the process create and strengthen the talent pool of the Company.

In Johannesburg Water succession planning is carried out by four functional talent forums as well as the MD's talent forum. In the past year, 21 talent forum meetings took place. The talent forums identify key or critical positions at all levels for which succession planning is considered important. Succession plans which identify individuals as well as their competency gaps are drawn up and the identified individuals sign a succession planning agreement whereby they acknowledge being part of the succession planning process. Succession planning in Johannesburg Water is not specifically

linked to EE targets as it is the view that all employees should be given the opportunity to be developed. However, succession planning does not guarantee automatic selection and promotion and the normal recruitment process, which is linked to EE targets, is adhered to.

Employee Retention Scheme

Employee retention is measured in terms of one Balanced Scorecard target, namely 97% retention of all staff. The year to date total as at 30 June 2013 for all staff is 98.73 (a positive variance of 1.73%). Retention is also measured for scarce skills, i.e. engineers and artisans and for the year the retention was at 98.29%.

There are a number of projects and interventions aimed at supporting the retention of skills. There are currently 60 engineers on the Engineering Capacitation Programme where the intention is to provide these candidates with the necessary experience and support to enable them to register as professional engineers, technologists and technicians with the Engineering Council of South Africa. Linked to this in part, is the Specialist Career Grade which was launched in January 2009 as a pilot. This project is aimed specifically at engineering and scientific staff and provides the opportunity for these employees to advance up the grading hierarchy and remain in their traditional fields without having to apply for managerial positions. Professional registration is one of the criteria for movement.

Exit interviews provide a mechanism for the diagnosis of underlying causes of problems, e.g. high turnover. In Johannesburg Water exit interviews are conducted with all employees who voluntarily leave the Company and the reasons for these resignations are reported. Where specific problems are identified these are addressed through tailored interventions. In addition, entrance interviews are conducted with all new employees as part of the on boarding process to enable them to provide feedback on company processes (e.g. recruitment, induction) and to identify and resolve problems that could lead to the employee exiting the Company prematurely.

In terms of the Companies' remuneration practices there is provision for salary progression through the salary band based on a combination of time in the Company and performance where performance is the gate keeper. The Company tracks the 50th percentile of the market as its midpoint and whilst it is accepted that it cannot compete on salary with the top end of the market there is provision for counter offers for employees that resign and who are deemed critical to service delivery.

Finally through the regular tracking of employee satisfaction levels by way of surveys the Company is able to assess if there are problem areas that will affect satisfaction levels and possibly lead to resignations. The latest satisfaction survey was conducted as part of the City of Johannesburg and the Municipal Entities and the satisfaction levels were satisfactory and above the norm when compared to peers.

SECTION FIVE

HIV/AIDS IN THE WORKPLACE

JW has determined that Human Immuno Virus (HIV) and Acquired Immune Deficiency Syndrome (AIDS) have an impact on the following areas: operations, supplier risk, legal risk and health risk. JW has adopted the following core principles as a basis for its HIV and AIDS policy:

- Continuously assess the risks posed by HIV and AIDS on the business;
- Limit the number of new infections among employees;
- Ensure employees living with HIV and AIDS are aware of their rights and that their rights are respected and protected;

- Provide care and support to employees living with HIV and AIDS.

HIV and AIDS Structures

JW has established an Employee Wellness Unit, which is, *inter alia*, crafting strategies and programmes designed to address HIV and AIDS challenges. To this end the Company buys into the strategies adopted by the City of Johannesburg and participates in the interventions at that level as well as developing its own supplementary programmes. The Company has 65 peer educators, who are full-time employees and who have shown passion and a willingness to assist their HIV positive colleagues to ensure that HIV positive employees receive care and support in the work environment.

Prevalence rate and Knowledge, Attitude and Practice (KAP) Surveys

The Company has on a yearly basis commissioned HIV Counselling and Testing (HCT) campaigns for its employees through external services providers.

The HCT Campaign seeks to achieve the following:

- To mobilise employees to know their status.
- Serves as a gateway for both HIV prevention and for early access to treatment care and support.
- Reduce the risk of HIV transmission to future children and partners by increasing the incidence of health seeking behaviour.

The HCT services were conducted at the 22 company work sites during the year. Out of 2400 employees 716(29.8%) participated in the HCT campaign during November 2012. HIV prevalence within the 716 participants who were tested was 4.5% (32 out of 716).

Six hundred and forty eight (648) employees participated in HCT In May 2013. HIV prevalence within 648 participants who were tested was 1.8% (12 out of 648).

Awareness of the Disease

Education

An on-going education programme has been initiated to build on the awareness programme. The programme set out in the first place to train peer educators, who then began providing HIV and AIDS education to all staff on an on-going basis. Peer educators received training on lay counselling, grief management, company benefits, first aid and treatment of workplace injuries. The programme is judged to be successful. The interventions that included formal sessions, peer educator workplace sessions and door to door campaigns where each individual was visited ensured that on average each employee had access to five sessions during the year. The peer educators received training on monthly basis in order to be kept abreast about the current trends and developments of HCT. The peer educators are also responsible to stock and display free condoms in all the male and female toilets on regular basis.

World Aids day interventions on a centralised level concentrated on education and knowing ones status and at least 1500 employees attended the session on 1 December.

The Company does not provide medication (ARV) but instead provide subsidised access to medical funds to all employees thus ensuring that all have access to managed care if required. HIV is categorized as Prescribed Minimum Benefit (PMB) condition by the Council for Medical Schemes.

This is beneficial to the employees because once they have registered as chronic patients they will not run out of medication funds.

Apart from the above interventions that are aimed at the HIV and Aids risk the Company also offered an Employee Assistance Programme service to employees and their spouses. This provides counselling for any issue that could impact on the employee psychologically. Furthermore the Company offered the usual wellness services where annual screening was offered in conjunction with the medical funds to identify illnesses and risk related to weight, hypertension and diabetes to name the most prevalent areas assessed. The uptake of the gymnasium membership has remained steady but can improve. This is an integral part of the wellness solution.

SECTION SIX

EMPLOYEE BENEFITS

The company is a participating employer in a number of retirement benefit schemes through which the City of Johannesburg Metropolitan Municipality (CJMM) and its associated Municipal Owned Entities provide post-employment benefits to all their permanent employees through four defined contribution funds and seven defined benefit funds. The following funds provide pension benefits for the Companies' employees:

Defined Contribution Funds:

- E-Joburg Retirement Fund
- Municipal Employees' Gratuity Fund
- Municipal Gratuity Fund
- National Fund for Municipal Workers
- City of Johannesburg Pension Fund

Defined Benefit Funds:

- Joint Municipal Pension Fund
- South African Local Authorities Pension Funds (*the Company withdrew from this fund and this is subject to a legal process. It involves only a minimal number of employees.*)

In the case of these funds, the contributions paid have been expensed as required in terms of the Pensions Fund Act, Section 13A

Generally speaking the funds are all in a healthy state of funding.

Performance Management

As indicated in the policy, the performance indicators are linked to the Company's strategic objectives and mayoral thrusts. The BSC approach is the method used for target setting and measurement.

All employees were reviewed after the financial year end as provided for in the policy and it is the view that this process was better than last year in so far as the quality of the reviews are concerned.

The outcomes of the performance management system is identification of needs for future training, the payment of small percentage bonuses and salary progression increases based on performance. These payments are provided for both as a budgeted item as part of payroll expenditure

SECTION SEVEN

SUPPLY CHAIN MANAGEMENT AND BROAD BASED BLACK ECONOMIC EMPOWERMENT

Johannesburg Water's supply chain management policy continued to be implemented as required by the relevant legislation and the entity's policy prescripts. To ensure compliance with the policy objectives outlined by National Treasury, the entity's supply chain activities were implemented in alignment with the Municipal Finance Management Act (MFMA), the Preferential Procurement Policy Framework Act (PPPFA), Broad-based Black Economic Empowerment (BBBEE), Construction Industry Development Board (CIDB) and their accompanying regulations. Accordingly the following processes and systems in the supply chain management unit are in place:

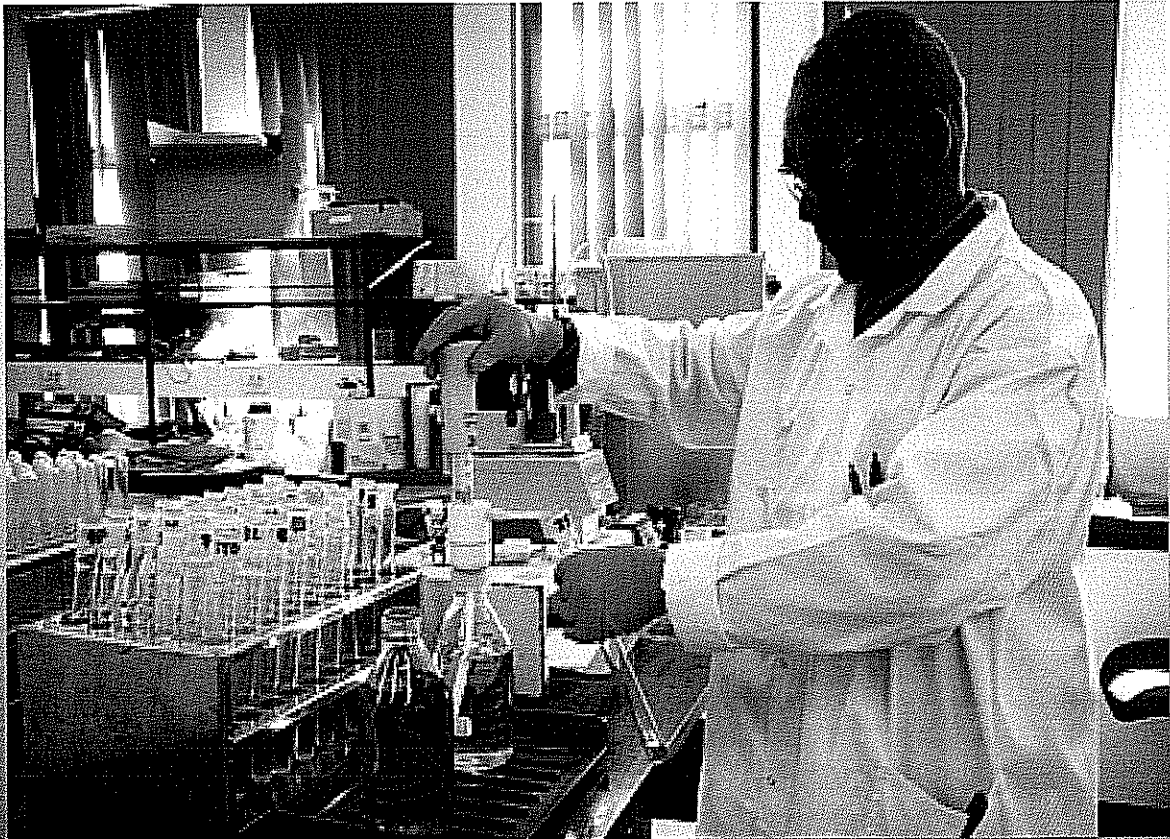
- A vendor database consisting of accredited service providers to request quotations for purchases below the R200 000 threshold, which continues to improve purchasing throughput
- A three stage bidding system which comprises of a bid specifications, bid evaluation and bid adjudication committees to ensure all tenders and contracts above the threshold of R200 000 are processed in a competitive, transparent and fair manner.
- A contract management system to manage and administer framework contract terms and conditions, including cost overruns.
- Contractor performance processes to manage contractors who perform poorly. Accordingly, no significant contractor performance matters are outstanding, while poor contractor issues identified have been resolved with no impact on service delivery
- Procurement mechanisms to identify and prevent any possible conflict of interest including awards to persons in the service of the state

During the year under review, the following performance achievements in the supply chain management and empowerment processes were realised:

- Overall total procurement commitments (i.e. awards) were R1.390billion with a BBBEE achievement of R1.376billion, which equates to 99% against a target of 90%. From the total awards made, the entity has proportionally awarded 93% of its procurement above the value of R200 000 via the bid committee system and only 7% was committed via the request for quotation process for purchases below the R200 000 threshold.
- The entity experienced no legal challenges from the public in respect of any of the tenders and contracts awarded during the year.
- Total overall actual procurement spend based on paid invoices was R313million of which R289million or 92% against a target of 75% was with service providers who were BBBEE compliant. DTI's national compliance target is 70%.
- Total actual procurement spend based on paid invoices with small medium and micro enterprises (SMMEs) was R151million which equates to 48% of the total spend. The DTI Codes of Good Practice classifies SMMEs as exempt micro enterprises with a turnover of less than R5m and qualifying small enterprises with a turnover of between R5m – R35m.
- The entity achieved a percentage recognition spend with small medium and micro enterprises of 115% against a target of 60%. DTI's national compliance target is 20%.

- In support of the empowerment of black women and black youth, the entity made 20 awards to black women and 10 to black youth owned enterprises with procurement amounting to R168million and R70million respectively.
- The entity's contractor development program continued to provide non-monetary support to emerging contractors to improve their construction industry development board grading levels, provision of procurement opportunities and business skills in areas such as value added tax, small business tax, income tax and pay as you earn, SCM policy prescripts including the recently gazetted PPPFA regulations on local content procurement.
- In accordance with the DTI Codes of Good Practice on BBBEE and based on an independent opinion by an accredited verification agency, the entity maintained its BBBEE contribution level 5 status

CHAPTER FIVE
FINANCIAL PERFORMANCE



**SEE ANNEXURE 1
FINANCIAL STATEMENTS**

CHAPTER SIX
AUDITOR-GENERAL AUDIT FINDINGS



SECTION ONE

AUDITOR-GENERAL'S REPORT FOR THE CURRENT YEAR

The Constitution S188 (1) (b) states that the functions of the Auditor-General includes the auditing and reporting on the accounts, financial statements and financial management of all municipalities. MSA section 45 states that the results of performance measurement... must be audited annually by the Auditor-General.

Refer to the Annual Financial Statements set out in Chapter 5 for the year that ended 30 June 2013 and the audit of performance and the production of reports on these matters by the Auditor General as set out in this Chapter.

In 2012 the audit qualification read as follows: "*Differences were identified between the billing data and the source data relating to meter readings without complete audit evidence to support the differences. The municipal entity could not provide sufficient appropriate audit evidence to confirm the bases to disregard actual meter readings and use estimates*".

Procedures were implemented between the entity and the revenue and billing department at the City of Johannesburg to resolve these differences.

The current year under review resulted in an unqualified audit opinion

	2009/10	2010/11	2011/12	2012/13
Audit Opinion	Qualified	Qualified	Qualified	Unqualified

SECTION TWO

HISTORICAL AUDIT FINDINGS AND REMEDIAL ACTIONS

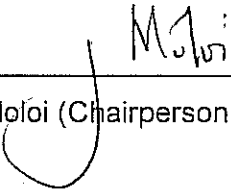
ANALYSIS OF 2012/13 AUDIT FINDINGS

	Raised in 2012/13
Matters affecting Audit opinion	1
Important Matters	26
Administrative Matters	4

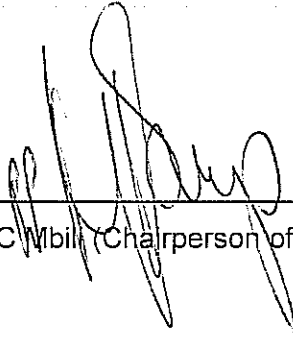
SECTION THREE

COMMITMENT BY BOARD OF DIRECTORS

The board of directors has satisfied itself that the remedial actions taken or to be taken on matters raised by the Auditor-General are adequate.



G Moloi (Chairperson of the Board)



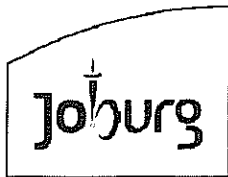
C Mbil (Chairperson of the Audit Committee)

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ANNEXURE 1

ANNUAL FINANCIAL STATEMENTS





a world class African city



Johannesburg Water SOC Limited
Audited Annual Financial Statements
for the year ended 30 June 2013

The preparation of these annual financial statements were supervised by:
J Koekemoer (Acting Chief Financial Officer)

Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Supply of water services as defined in the Water Services Act (Act 108 of 1997)
Directors	G Mloi (Chairperson) L Dhlamini (Managing Director) N Govender J Mateya C Mbilli C Motau M Msezane N Skeepers C Tilly
Registered office	17 Harrison Street Marshalltown Johannesburg 2107
Business address	17 Harrison Street Marshalltown Johannesburg 2107
Postal address	P. O. Box 61542 Marshalltown Johannesburg 2107
Controlling entity	City of Johannesburg Metropolitan Municipality
Bankers	Standard Bank of South Africa Limited
Auditors	The Auditor-General South Africa
Secretary	G J Luden
Company registration number	2000/029271/07
Attorneys	Moodie and Robertson

Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

Index

The reports and statements set out below comprise the audited annual financial statements presented to the Shareholder:

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Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

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 audited financial statements and related financial information included in this report. It is their responsibility to ensure that the audited 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 audited financial statements have been prepared in accordance with 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.

In terms of the project initiated by the City of Johannesburg Metropolitan Municipality during 2006, certain core functions that were previously managed by the company were migrated to the City of Johannesburg Metropolitan Municipality. The significant functions migrated were 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 this project 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 is 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 Billing and 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.

Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

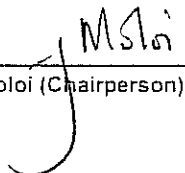
Audited Annual Financial Statements for the year ended 30 June 2013

Directors' Responsibilities and Approval

The directors have reviewed the company's cash flow forecast for the year to 30 June 2014 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 providing assurance and reporting on the company's annual financial statements.

The audited financial statements set out on pages 5 to 59, which have been prepared on the going concern basis, were approved by the directors on 27 November 2013 and were signed on their behalf by:



G Moloi (Chairperson)



L Dhlamini (Managing Director)

Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

Directors' Report

The directors submit their report for the year ended 30 June 2013.

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 as well as the treatment of wastewater 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 the project to centralise the customer call centre, billing and credit control functions 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 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 812,0 million (2012: R 364,5 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 as amended. There is consequently no taxation effect.

3. GOING CONCERN

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

4. 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.

Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

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 2013, 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 SHAREHOLDER

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
G Moloi (Chairperson)	South African	
L Dhlamini (Managing Director)	South African	Appointed 1 October 2012
M Padiaychee (Financial Director)	South African	Retired 30 June 2013
N Govender	South African	
J Mateya	South African	
C Mbili	South African	
C Motau	South African	
M Msezane	South African	
N Skeepers	South African	
C Tilly	South African	
I Jacobs	South African	Retired 23 March 2013

11. SECRETARY

The secretary of the company is G J Luden.

Johannesburg Water SOC Limited

(Registration number 2000/029271/07)
Audited Annual Financial Statements for the year ended 30 June 2013

Directors' Report

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.

Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

Directors' Report

12.4. Executive meetings

The directors have met on 5 separate occasions during the financial year. The directors schedule to meet at least 4 times per annum. In addition, 3 meetings were scheduled in relation to the nomination of a new financial director.

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

Name	Board Meetings	Audit committee meeting	Human resources and remuneration committee meeting	Service delivery and oversight procurement committee meeting	Risk committee meeting	Nomination committee	Social and ethics committee	Total meetings
Total number of meetings held	5	7	10	4	4	3	2	35
G Molo (Chairperson)	4	-	-	1	-	2	-	7
L Dhlamini (Managing Director)	4	4	7	3	3	3	2	26
M Padiaychee (Financial Director)	5	6	10	4	3	3	1	32
N Govender	5	5	-	-	2	2	-	14
J Mateya	5	1	10	-	4	3	-	23
C Mbili	3	7	-	-	3	-	-	13
C Motau	4	-	-	4	-	-	-	8
M Msezane	3	-	9	-	-	-	2	14
N Skeepers	5	-	-	3	3	2	2	15
C Tilly	5	1	8	-	-	3	2	19

12.5. Audit committee

C Mbili serves as chairperson of the audit committee. The committee met 7 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:

K Mdutshane	- attended 7 meetings
R Buys	- attended 6 meetings
V Mokwena	- attended 6 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.

Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

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 (ABSA) served as the company's bankers until October 2012 and was replaced by The Standard Bank of South Africa limited.

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.

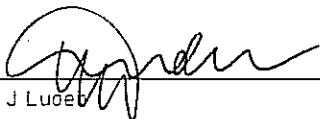
Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

Certificate by Company Secretary for the year ended 30 June 2013

In terms of section 58(2)(e) of the Companies Act 71 of 2008 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 year ended 30 June 2013, all such returns and notices as required and that all such returns and notices are true, correct and up to date.



G J Luceb

Johannesburg Water SOC Limited
Company Secretary

Johannesburg
27 November 2013

Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

Report of the Audit Committee

We are pleased to present our report for the financial year ended 30 June 2013 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 internal 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 recommendations;
- the independence and objectivity of the external auditors;
- the entity's 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 and wasteful expenditure.

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

The position of the Chief Internal Auditor was vacant for the first nine months of the year. The position was filled in an acting capacity during the year which was considered appropriate. The company has appointed a permanent Chief Internal Auditor, Ms D.M. Shabalala with effect from 8 April 2013.

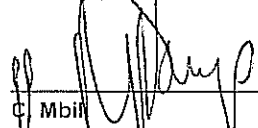
The Committee is of the opinion, based on the information and explanations given by management, internal audit department and discussion with the independent external auditors on the results of their audits, that the internal accounting controls are adequate to ensure that the financial records may be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

Having considered the matters set out in section 94(B) 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 director's 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 judgments and estimates.

The Audit Committee has reviewed the annual financial statements for the year ended 30 June 2013 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 the Standards of Generally Recognised Accounting Practices.



Johannesburg Water SOC Limited
Chairperson of the Audit Committee

Johannesburg
27 November 2013

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

Introduction

1. I have audited the financial statements of the Johannesburg Water Soc Ltd set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, the cash flow statement, the statement of comparison of budget and actual amounts for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

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 Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and for such internal control as the accounting officer determines is 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. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. 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.
4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my unqualified audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Johannesburg Water SOC Ltd as at 30 June 2013, and its financial performance and cash flows for the year then ended in accordance with South African standards of GRAP and the requirements of the MFMA.

Report of the Auditor General

Emphasis of matters

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

Restatement of corresponding figures

8. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during the year ended 30 June 2013 in the financial statements of Johannesburg Water SOC LTD at, and for the year ended 30 June 2012.

Material losses

9. As disclosed in note 23 to the financial statements, material losses amounting to R820 600 000 (2012: R769 300 000) were incurred as a result of water distribution losses, which represent 28,9% (2012: 31,2%) of total water available for sale.
10. The total level of physical losses of water amounted to R389 004 152, (2012: R374 806 920). The total level of commercial losses amounted to R431 595 847 (2012: R511 100 346) and are due to non-metering of water and unauthorised consumption.

Material impairment

11. As disclosed in note 11 to the financial statements, material impairments to the amount of R5 322 618 000 (2012: R5 360 647 000) representing 76% (2012: 79%) of consumer debtors were incurred as the recoverability of these amounts are doubtful.

Additional Matters

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

Unaudited supplementary schedules

13. The supplementary information set out on pages ... to ... 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.

Other reports required by the Companies Act

14. As part of our audit of the financial statements for the year ended 30 June 2013, I have read the directors' report, the audit committee's report and the company secretary's certificate for the purpose of determining whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports I have not identified material inconsistencies between the reports and the audited financial statements. I have not audited the reports and accordingly do not express an opinion on them.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
17. The reported performance against predetermined objectives was evaluated against the

Report of the Auditor General

overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury *Framework for managing programme performance information*.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

18. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Additional matter

19. I draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above:

Achievement of planned targets

20. Of the total number of 24 targets planned for the year, nine were not achieved during the year under the review. This represents 37% of total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.

Compliance with laws and regulations

21. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements

22. 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. Material misstatements in respect of revenue, receivables, interest on overdue accounts and capital commitments were identified by the auditors in the submitted financial statements and were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Revenue management

23. An adequate management, accounting and information system was not in place which recognised revenue when it was earned, as required by section 64(2) (e) of the MFMA.
24. Revenue received was not always reconciled on a weekly basis, as required by section 64(2) of the MFMA.

Internal control

25. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Report of the Auditor General

Financial and performance management

26. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
27. Non-compliance with laws and regulations could have been prevented had compliance with laws and regulations been properly reviewed, monitored and addressed in a timely manner.

Auditor-General
Johannesburg

30 November 2013



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Johannesburg Water SOC Limited

(Registration number 2000/029271/07)
Audited Annual Financial Statements for the year ended 30 June 2013

Statement of Financial Position as at 30 June 2013

Figures in Rand thousand

	Note(s)	2013	2012 Restated
ASSETS			
Current Assets			
Inventories	5	47 556	44 223
Trade receivables with group companies	6	-	143
Loans to shareholder	7	277 661	145 127
Other receivables	10	12 437	8 447
Consumer debtors: Exchange transactions	11	1 712 300	1 420 699
Cash and cash equivalents	13	26	26
		2 049 980	1 618 665
Non-Current Assets			
Property, plant and equipment	3	6 757 279	5 981 879
Intangible assets	4	29 845	36 557
		6 787 124	6 018 436
Total Assets		8 837 104	7 637 101
LIABILITIES			
Current Liabilities			
Trade payables with group companies	6	11 559	5 254
Loans from shareholder	7	713 560	436 525
Finance lease obligation: Shareholder	8	1 783	1 286
Finance lease obligation: Other	9	1 641	712
Trade and other payables from exchange transactions	17	1 627 857	1 451 941
Provisions	18	15 080	13 800
		2 371 480	1 909 518
Non-Current Liabilities			
Loans from shareholders	7	2 460 548	2 540 772
Finance lease obligation: Shareholder	8	5 262	5 613
Finance lease obligation: Other	9	1 783	1 337
Retirement benefit obligation	15	94 340	87 200
Unspent conditional grants	16	499	1 481
		2 562 432	2 636 403
Total Liabilities		4 933 912	4 545 921
Net Assets		3 903 192	3 091 180
NET ASSETS			
Contribution from shareholder	14	1	1
Accumulated surplus		3 903 191	3 091 179
Total Net Assets		3 903 192	3 091 180

Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

Statement of Financial Performance

Figures in Rand thousand	Note(s)	2013	2012 Restated
Revenue from exchange transactions	20	5 871 969	5 146 507
Cost of sales		(2 839 333)	(2 465 733)
Gross surplus		3 032 636	2 680 774
Other income	21	325 192	262 195
Revenue from non-exchange transactions	22	379 565	219 563
Operating expenses		(2 699 468)	(2 548 846)
Operating surplus	24	1 037 925	613 686
Interest revenue	29	69 174	57 545
Finance costs	30	(295 087)	(306 726)
Surplus for the year		812 012	364 505

Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

Statement of Changes in Net Assets

Figures in Rand thousand	Note(s)	Share capital	Accumulated surplus	Total net assets
Balance at 01 July 2011 previously reported		1	3 000 490	3 000 491
Restatement	37		(273 816)	(273 816)
Balance at 01 July 2011 - restated		1	2 726 674	2 726 675
Surplus for the year - as restated			364 505	364 505
Balance at 01 July 2012 restated		1	3 091 179	3 091 180
Surplus for the year			812 012	812 012
Balance at 30 June 2013		1	3 903 191	3 903 192
Note(s)			14	

Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

Cash Flow Statement

Figures in Rand thousand

	Note(s)	2013	2012 Restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Cash receipts from customers		5 611 383	4 917 219
Interest revenue	29	69 174	57 545
		<u>5 680 557</u>	<u>4 974 764</u>
Payments			
Cash paid to suppliers and employees		(4 704 540)	(4 171 764)
Finance costs	30	(295 087)	(306 726)
		<u>(4 999 627)</u>	<u>(4 478 490)</u>
Net cash flows from operating activities	32	<u>680 930</u>	<u>496 274</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	(742 276)	(543 450)
Proceeds from disposal of property, plant and equipment and intangible assets	3&4&21	211	1 868
Purchase of intangible assets	4	(4 663)	(8 755)
Net cash flows from investing activities		<u>(746 728)</u>	<u>(550 337)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net movement in loans with shareholder	7	64 277	45 116
Net movement in Finance lease obligation: shareholder		146	6 899
Net movement in Finance lease obligation: other		1 375	2 049
Net cash flows from financing activities		<u>65 798</u>	<u>54 064</u>
Net increase/(decrease) in cash and cash equivalents		-	1
Cash and cash equivalents at the beginning of the year		26	25
Cash and cash equivalents at the end of the year	13	<u>26</u>	<u>26</u>

Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

Statement of Comparison of Budget and Actual Amounts

Statement of Financial Position

Figures in Rand thousand

	Approved Budget	Approved Budget Adjustments	Approved Adjusted Budget	Actual	Variance	Variance %	Comment
ASSETS							
Non-Current Assets	6 243 004	395 270	6 638 254	5 787 124	148 770	2%	The actual PPE exceeded budget mainly due to an increased value of intercompany limited
Property, plant and equipment	6 243 004	395 270	6 638 254	6 707 124	148 770	2%	figures being capitalised.
Current Assets	1 910 074	467 872	2 377 946	1 876 664	-502 282	-21%	
Inventories	46 712	-57	46 655	41 566	5 089	11%	
Trade receivables with group companies	491	-336	155	4	-151	-97%	
Trade receivables with group companies							The actual amount is less than budget partly due to the cash balance being R171 million below the forecasted amount. The balance was reduced by inter-company cash owed to CoJ not budgeted for.
Loans to shareholder	490 820	-70 500	420 320	103 331	-324 009	-78%	
Other receivables	13 181	-597	12 014	12 437	-177	-1%	
Consumer debtors: Exchange transactions	1 350 845	539 422	1 890 267	1 712 300	-177 967	-9%	The net decrease in debtors balance is partly due to lower than budgeted revenue and a reduction in payment levels.
Cash and cash equivalents	26	-	26	25	-	0%	
TOTAL ASSETS	8 153 150	883 142	9 016 301	8 662 778	-353 522	-4%	
EQUITY AND LIABILITIES							
EQUITY	3 978 220	379 026	4 357 245	3 905 192	-454 012	-10%	
Contribution from shareholder	1	-	1	1	-	100%	
Accumulated surplus	3 978 220	379 026	4 357 245	3 903 191	-454 003	-10%	The accumulated surplus is mainly below budget due to the reduction in revenue and increased bad debt provisions.
LIABILITIES	2 820 330	-51 459	2 568 870	2 592 433	6 438	0%	
Non-Current Liabilities	1 884 878	-40 018	1 836 861	1 818 165	-18 728	-1%	
Loans from shareholder							
Finance lease obligation: Shareholder				5 203	5 203	100%	
Finance lease obligation: Other				1 783	1 783	100%	
External loans	642 357	-	642 357	642 354	6	0%	
Retirement benefit obligation	87 392	679	88 071	94 340	6 269	7%	
Unsettled conditional grants	5 601	-4 120	1 481	409	-1 072	-69%	
Current Liabilities	1 654 599	525 576	2 090 175	2 187 153	108 977	6%	
Trade payables with group companies	7 093	-1 597	5 496	11 562	6 065	110%	
Short term portion of shareholder Loans	490 303	-31 069	459 234	539 220	79 946	17%	The actual amounts in above budget due to increased amounts owed to the CoJ
Finance lease obligation: Shareholder				1 783	1 783	100%	
Finance lease obligation: Other				1 841	1 841	100%	
Trade and other payables from exchange transactions	983 470	652 244	1 565 714	1 589 795	14 081	1%	
Provisions	4 03 653	8 028	4 09 681	73 142	-3 481	-5%	
TOTAL LIABILITIES	4 474 822	464 117	4 938 939	4 769 586	-169 353	-3%	
TOTAL EQUITY AND LIABILITIES	8 153 150	883 142	9 016 301	8 662 778	-353 522	-4%	

Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

Statement of Comparison of Budget and Actual Amounts

Statement of Financial Performance

Figures in Rand thousand

	Approved Budget	Approved Budget Adjustments	Approved Adjusted Budget	Actual	Variance f(u)	Variance %	Comment
Revenue	6 079 541	-	6 079 541	5 871 869	(207 572)	(3.41%)	
Service charges	6 079 541	-	6 079 541	5 871 869	(207 572)	(3.41%)	Revenue is low due to large credits that were passed during the financial year.
Cost of sales	(2 768 425)	-	(2 768 425)	(2 839 333)	(70 908)	(2.56%)	
Bulk Purchases - Water	(2 768 425)	-	(2 768 425)	(2 839 333)	(70 908)	(2.56%)	Water purchases exceeded budget due to higher demand from customers and development/organic growth in the Johannesburg area. Volumes increased by 14% in comparison to the previous financial year. There was also a large increase in commercial water losses.
Gross margin	3 311 116	-	3 311 116	3 032 636	(278 480)	(8.41%)	
Gross margin %	54.5%	-	54.5%	51.0%			
Other income	340 632	139 205	479 837	704 757	224 840	46.85%	Developer funded assets actually capitalised exceeded the revised budget by R115m. Prescribed credit balances of R72 m on customer accounts were written back to the Income Statement. Bulk services contributions (grant funding) also recognised as other revenue exceeded the budget by R20m
Other revenue	340 632	139 205	479 837	704 757	224 840	46.85%	
Expenditure	(2 811 545)	36 327	(2 775 218)	(2 689 469)	75 749	2.73%	
Employee related costs	(878 085)	(19 000)	(895 085)	(700 510)	(5 425)	(0.76%)	
Contracted services	(603 439)	116 327	(487 112)	(476 042)	11 061	2.27%	
Consultants fees	(11 810)	-	(11 810)	(10 560)	850	7.20%	
General expenses - Other	(499 593)	-	(499 593)	(427 420)	72 103	14.44%	General expenses is below budget mainly due to savings on electricity and chemicals due to efficiencies in the processes of the wastewater treatment plants.
Repairs and maintenance	(12 719)	-	(12 719)	(8 244)	4 474	35.18%	The requirement for maintenance to minor assets such as buildings and electrical installation were less than originally anticipated. Expenditure is incurred only on an as and when required basis.
Depreciation	(215 524)	-	(215 524)	(166 413)	49 111	22.79%	Depreciation is below budget due to the slow rate of capitalisation of assets. Assets are only capitalised and depreciated once commissioned for use.
Provision for bad debts	(702 304)	(51 000)	(653 304)	(609 879)	(58 405)	(8.92%)	Debt impairment exceeded budget as a result of low payment levels throughout the financial year. The average payment level for the company is 78.7% against an adjusted budgeted payment level of 87.1%.
Surplus before interest	840 203	175 612	1 015 815	1 037 924	22 108	2.18%	
Net interest & other	(239 038)	-	(239 038)	(225 913)	13 125	5.49%	
Interest income	70 000	-	70 000	60 174	(9 826)		
Interest expense	(309 038)	-	(309 038)	(285 987)	13 951	4.51%	
Surplus/(Loss) for the year	601 165	175 612	776 777	812 012	35 234	4.54%	

Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

Statement of Comparison of Budget and Actual Amounts

Cash Flow Statement

Figures in Rand thousand

	Approved Budget	Approved Budget Adjustments	Approved Adjusted Budget	Actual	Variance	Variance %	Comment
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts							
Cash receipts from customers	9 117 140	-71 630	6 045 516	5 611 383	434 133	7%	Actual receipts are below budget due to the reduction in service revenue billed and reduction in payment levels
Interest revenue	-	-	-	69 174	-69 174	0%	
Payments	6 117 146	-71 630	6 045 516	5 680 557	364 959	6%	Increase in trade creditors at year end as well as inter-company amounts due to the CoJ
Cash paid to suppliers and employees	-5 185 759	-4 128	-5 189 887	-4 704 540	-405 347	10%	
Finance costs	-309 038	-	-309 038	-289 017	-13 951	5%	
	-5 604 797	-4 128	-5 599 925	-4 969 027	-509 200	9%	
Net cash flows from operating activities	612 349	-75 758	536 591	600 910	-144 319	-27%	
CASH FLOWS FROM INVESTING ACTIVITIES							
Purchase of plant and equipment	-767 164	60 844	-706 340	-742 276	15 936	-2%	
Proceeds from disposal of plant and equipment	-	-	-	211	-211	0%	
Purchase of intangible assets	-	-	-	-4 693	4 693	0%	
Net cash flows from investing activities	-767 164	60 844	-706 340	-746 728	20 388	-3%	
CASH FLOWS FROM FINANCING ACTIVITIES							
Net movement in loans from shareholder	174 034	14 814	188 748	64 277	125 471	65%	The actual net movement is below budget due to the cash balance being below the forecasted cash position of R243m
Net movement in finance lease obligations: Shareholder	-	-	-	146	-146	0%	
Net movement in finance lease obligations: Other	-	-	-	1 373	-1 373	0%	
Net cash flows from financing activities	174 034	14 814	189 748	65 796	123 950	65%	
Net increase/(decrease) in cash and cash equivalents	-0	-	-0	0	-1	100%	
Cash and cash equivalents at the beginning of the year	27	0	27	29	1	3%	
Cash and cash equivalents at the end of the year	25	0	27	29	-0	0%	

1 1

The approved adjusted budget 2012/2013, as approved by council, is available for inspection at the registered office of the City of Johannesburg Metropolitan Municipality, Metropolitan Centre, 23 Loveday Street, Braamfontein, 2001.

Although the Annual Financial Statements and the Budget are both prepared on the same basis, the presentation of the two reports differ. The overall financial impact of the different methods of presentation when comparing the two reports is nil.

Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

Summary of Accounting Policies

1. Basis of preparation

The audited financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (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. The 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 industry norms. Management will adjust the depreciation charge where the useful lives of these assets have changed from previous estimates. Due to the nature of assets acquired from the City of Johannesburg Metropolitan Municipality in terms of the sale of business agreement, the cost of re-assessing the useful lives of these assets will outweigh the benefits. Furthermore, the impact on the financial statements will be insignificant and therefore management have not re-assessed the useful lives of these assets.

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 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 15.

Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

Summary of Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

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.

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 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 such assets. 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 costs, 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	4 - 15 years

Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

Summary of Accounting Policies

1.2 Property, plant and equipment (continued)

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
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 the 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 or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost and comprise of computer software and servitudes. Costs 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 asset 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 or intangible asset 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.

Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

Summary of Accounting Policies

1.3 Intangible Assets (continued)

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

Item	Useful life
Computer software	3 - 6 years

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.

Payables from exchange transactions

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.

Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

Summary of Accounting Policies

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.

Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

Summary of Accounting Policies

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

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

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.

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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 amounts 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.

Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

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 cost 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 the 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 an indication that previously recognised impairment losses may no longer exist or may be decreased. If such indication exists, the company estimates the assets 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. This obligation is not funded by any underpinned 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.

Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

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 Bulk 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

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

1.17 Budget information

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. The budget is prepared for the period July 2012 to June 2013 which is in alignment to the presentation of the financial statements reporting period.

Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

Notes to the Audited Financial Statements

Figures in Rand thousand

2013

2012

Restated

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 20 - Related Party Disclosure
- GRAP 32 - Service Concession Arrangements: Grantor
- GRAP 105 - Transfer of functions between entities under common control
- GRAP 106 - Transfer of functions between entities not under common control
- GRAP 107 - Mergers
- GRAP 108 - Statutory Receivables

The above 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

	2013			2012		
	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	313 840	(215 607)	98 233	276 698	(208 436)	68 262
Plant and machinery	1 473 410	(437 530)	1 035 880	1 372 080	(391 683)	980 397
Furniture and fixtures	15 511	(9 161)	6 350	13 439	(7 984)	5 455
Motor vehicles	9 015	(2 238)	6 777	7 549	(652)	6 897
Office equipment	20 028	(9 026)	11 002	16 655	(6 083)	10 572
Computer equipment	55 363	(35 193)	20 170	50 305	(27 762)	22 543
Capital work in progress	1 299 498	-	1 299 498	821 622	-	821 622
Communication equipment	13 637	(10 633)	3 004	13 070	(9 683)	3 387
Laboratory equipment	34 838	(17 921)	16 917	23 337	(15 963)	7 374
Minor plant	58 245	(41 848)	16 397	55 141	(37 418)	17 723
Wastewater network	1 659 946	(148 052)	1 511 894	1 492 242	(127 213)	1 365 029
Water network	3 078 663	(357 873)	2 720 790	2 987 276	(325 025)	2 662 251
Total	8 042 361	(1 285 082)	6 757 279	7 139 781	(1 157 902)	5 981 879

Johannesburg Water SOC Limited

(Registration number 2000/029271/07)

Audited Annual Financial Statements for the year ended 30 June 2013

Notes to the Audited Financial Statements

Figures in Rand thousand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Transfers	Developer funded network	Depreciation	Impairment loss	Total
Land	10 367	-	-	-	-	-	-	10 367
Buildings	68 262	13 006	-	24 136	-	(7 171)	-	98 233
Plant and machinery	980 397	8 856	-	92 474	-	(45 847)	-	1 035 880
Furniture and fixtures	5 455	2 103	-	2	-	(1 210)	-	6 350
Motor vehicles	6 897	1 466	-	-	-	(1 586)	-	6 777
Office equipment	10 572	3 404	(11)	-	-	(2 963)	-	11 002
Computer equipment	22 543	3 528	(155)	2 479	-	(8 225)	-	20 170
Capital work in progress	821 622	635 251	-	(157 375)	-	-	-	1 299 498
Communication equipment	3 387	567	-	-	-	(950)	-	3 004
Laboratory Equipment	7 374	6 192	-	6 178	-	(2 827)	-	16 917
Minor plant	17 723	3 132	(2)	249	-	(4 705)	-	16 397
Wastewater network	1 365 029	10 806	(213)	15 998	141 740	(17 634)	(3 832)	1 511 894
Water network	2 662 251	53 965	(14 686)	18 272	61 488	(56 827)	(3 673)	2 720 790
	5 981 879	742 276	(15 067)	2 413	203 228	(149 945)	(7 505)	6 757 279

Johannesburg Water SOC Limited

(Registration number 2000/02927/107)

Audited Annual Financial Statements for the year ended 30 June 2013

Notes to the Audited Financial Statements

Figures in Rand thousand

3. Property, plant and equipment (continued)

Land and buildings

Land and buildings to the value of R 108,600 (2012: R 78,629) 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 SOC Limited. A register containing the information required as contained in the Sale of Business Agreement, Annexure G, 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	782,226
Water network	R	432,185
Wastewater network	R	49,713
Other	R	35,374

Fully depreciated assets held at R1 (not in rand thousand)

Included in PPE are assets which currently have a book value of R1 (one rand) and less. These assets were acquired from the City of Johannesburg as part of the sale of the business agreement. The above mentioned assets are correctly valued and accounted for in the annual financial statements in accordance with GRAP 17.

Johannesburg Water SOC Limited

(Registration number 2000/029271/07)
Audited Annual Financial Statements for the year ended 30 June 2013

Notes to the Audited Financial Statements

Figures in Rand thousand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Transfers	Developer funded network	Depreciation	Total
Land	10 367	-	-	-	-	-	10 367
Buildings	69 663	3 361	(100)	457	-	(5 119)	68 262
Plant and machinery	1 026 356	1 298	-	2 608	-	(49 865)	980 397
Furniture and fixtures	4 464	1 298	(2)	778	-	(1 083)	5 455
Motor vehicles	128	7 300	-	-	-	(531)	6 897
Office equipment	8 566	2 706	(6)	1 127	-	(1 821)	10 572
Computer equipment	23 881	5 705	(164)	513	-	(7 392)	22 543
Assets under construction	741 042	306 061	-	(225 481)	-	-	821 622
Communication equipment	3 460	708	-	377	-	(1 158)	3 387
Laboratory Equipment	6 539	2 925	-	40	-	(2 130)	7 374
Minor plant	21 548	1 118	(61)	882	-	(5 864)	17 723
Wastewater network	1 228 781	18 657	-	27 935	106 428	(16 772)	1 365 029
Water network	2 251 443	192 313	-	187 645	85 844	(54 994)	2 662 251
	5 396 338	543 450	(333)	(3 119)	192 272	(146 729)	5 981 879

Notes to the Audited Financial Statements

Figures in Rand thousand

3. Property, plant and equipment (continued)

Capital work in progress

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

Water network	R 580,788
Plant and Machinery	R 195,338
Other	R 29,247
Wastewater network	R 16,249

Fully depreciated assets held at R1 (not in rand thousand)

Included in PPE are assets which currently have a book value of R1 (one rand) and less. These assets were acquired from the City of Johannesburg as part of the sale of the business agreement. The above mentioned assets are correctly valued and accounted for in the annual financial statements in accordance with GRAP 17.

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3. Property, plant and equipment (continued)

The following leased assets are included in Property, plant and equipment listed above.

	2013			2012		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Office equipment	4 932	(1 625)	3 307	2 261	(235)	2 026
Motor vehicles	8 766	(2 065)	6 701	7 300	(505)	6 795
Total	13 698	(3 690)	10 008	9 561	(740)	8 821

4. Intangible assets

	2013			2012		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Servitudes	1 727	-	1 727	1 727	-	1 727
Computer software	59 781	(31 663)	28 118	59 885	(25 055)	34 830
Total	61 508	(31 663)	29 845	61 612	(25 055)	36 557

Reconciliation of intangible assets - 2013

	Opening balance	Additions	Transfers	Amortisation	Total
Servitudes	1 727	-	-	-	1 727
Computer software	34 830	4 663	(2 413)	(8 962)	28 118
	36 557	4 663	(2 413)	(8 962)	29 845

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Disposals	Transfers	Amortisation	Total
Servitudes	1 701	-	-	26	-	1 727
Computer software	33 364	8 755	(738)	3 093	(9 644)	34 830
	35 065	8 755	(738)	3 119	(9 644)	36 557

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5. Inventories

	2013	2012
Material, components and fuel	39 304	37 232
Water	9 803	8 492
Subtotal	49 107	45 724
Provision for inventory write downs	(1 551)	(1 501)
	47 556	44 223

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.

6. Trade receivables and (payables) with group companies

Fellow subsidiaries

Johannesburg City Parks NPC	(482)	(158)
Johannesburg Development Agency SOC Ltd	-	(434)
Johannesburg Roads Agency SOC Ltd	(11 077)	(4 662)
Pikitup Johannesburg SOC Ltd	-	143
	(11 559)	(5 111)

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

Current assets	-	143
Current liabilities	(11 559)	(5 254)
	(11 559)	(5 111)

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.

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. The carrying value of trade receivables and payables with group companies approximates fair value.

Trade receivables with group companies past due but not impaired

There are trade receivables with group companies which are past due and not impaired.

30 days past due	-	145
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7. Loans to/(from) shareholder

City of Johannesburg Metropolitan Municipality - Other loans	(306 434)	(66 296)
City of Johannesburg Metropolitan Municipality - Conduit mirror loans	(2 542 724)	(2 521 056)
City of Johannesburg Metropolitan Municipality - Other non-exchange loans	29 872	49 129
City of Johannesburg Metropolitan Municipality - Post retirement benefit	75 216	75 762
City of Johannesburg Metropolitan Municipality - Capex drawdown	99 844	1 019
City of Johannesburg Metropolitan Municipality - Sweeping account	72 729	19 217
City of Johannesburg Metropolitan Municipality - Shareholder loans	(324 950)	(389 945)
	(2 896 447)	(2 832 170)

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

Current assets	277 661	145 127
Non-current liabilities	(2 460 548)	(2 540 772)
Current liabilities (including short term portion of long term loans)	(713 560)	(436 525)
	(2 896 447)	(2 832 170)

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

The loans to/(from) shareholder are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. The carrying value of loans to/(from) shareholder approximates fair value.

Loans to shareholder past due but not impaired

At 30 June 2013, R3,723 (2012: R 107) were past due but not impaired.

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

30 days past due	318	-
60 days past due	1 296	-
120 days past due	1 954	-
180 days past due	155	107

7.1. City of Johannesburg Metropolitan Municipality - Conduit mirror loans

Loans at the beginning of the year	(2 521 056)	(2 460 259)
New loans	(342 238)	(383 885)
Repayments	320 570	323 088
Balance at end of year	(2 542 724)	(2 521 056)

Conduit loans are repayable in equal quarterly installments over a period of 10 years from loan acquisition. These unsecured loans bear interest at a fixed rate of 9,31% to 10,9% (2012: 10,2% to 12,42%).

FDA 1 (Caylon) is repayable in equal quarterly installments over a period of 10 years, commencing 30 September 2008. These unsecured loans bear interest at a variable rate linked to Jibar less 35 basis points resulting in a rate of 4,78% for the current financial year (2012: 5,25%)

FDA 2 is repayable in equal half yearly instalments over a period of 12 years, commencing 15 November 2014. These unsecured loans bear interest at a variable rate linked to Jibar plus 70 basis points resulting in a rate of 7,40 and 7,47% for the current financial year (2012: 7,47%)

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7. Loans to/(from) shareholder (continued)

7.2. City of Johannesburg Metropolitan Municipality - Shareholder loans

Shareholder loans at beginning of the year	(389 945)	(454 939)
Repayments	64 995	64 994
Balance at the end of the year	(324 950)	(389 945)

The unsecured loans bear interest at a nominal annual rate of 14,5% to 15% (2012: 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	72 729	19 217
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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 7,17% (2012: 5,59%) at the reporting date.

8. Finance lease obligation: Shareholder

Minimum lease payments due		
- within one year	2 511	1 918
- in second to fifth year	6 045	6 163
- later than five years	176	673
	8 732	8 754
less: Future finance charges	(1 687)	(1 855)
Present value of minimum lease payments	7 045	6 899

Interest on finance leases are calculated at 10% per annum, and repayments on the lease arrangements are made monthly. The lease terms range from three years to ten years. The carrying value of the finance leased assets are included in Property, plant and equipment, under motor vehicles. Refer note 3 for further information.

9. Finance lease obligation: Other

Minimum lease payments due		
- within one year	1 858	856
- in second to fifth year	1 879	1 445
- later than five years	-	-
	3 737	2 301
less: Future finance charges	(313)	(252)
Present value of minimum lease payments	3 424	2 049

Interest on finance leases are calculated at variable rates of interest, ranging between 7.41% and 8.5% per annum, and repayments on the lease arrangements are made quarterly. The lease terms are over a period of three years. The carrying value of the finance leased assets are included in Property, plant and equipment, under Office equipment. Refer note 3 for further information.

10. Other receivables

Sundry Debtor	15 595	12 340
Allowance for impairment	(3 158)	(3 893)
Total other receivables	12 437	8 447

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10. Other receivables (continued)

Other receivables consists predominantly of the billing and recovery of sundry services which include laboratory fees and prepaid expenditure.

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 2013 R 0 (2012: R 5) was past due but not impaired.

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

30 days past due	-	5
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Other receivables impaired

As of 30 June 2013, other receivables of R 15,595 (2012: R 12,340) were considered for impairment testing. The allowance for impairment losses was R3,158 as of 30 June 2013 (2012: R3,893).

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

Current	12 522	8 572
1 - 30 days	-	67
31 - 60 days	81	130
61 - 90 days	-	182
91 - 120 days	57	57
121 - 365 days	-	196
> 365 days	2 935	3 136
Total other receivables	15 595	12 340

Reconciliation of allowance for impairment of other receivables

Opening balance	3 893	2 925
Allowance for impairment losses	536	968
Reversed during the year	(1 271)	-
	3 158	3 893

The creation and release of the allowance for impairment of other receivables have been included in operating expenses in the Statement of Financial Performance (note 26). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

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	2013	2012 Restated
11. Consumer debtors: Exchange transactions		
Trade receivables	7 034 918	6 781 346
Allowance for impairment	(5 322 618)	(5 360 647)
	1 712 300	1 420 699

An 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. The level of unaccounted for water for the year under review is 28.9% (2012: 31.2%). The metered areas are considered to be within accepted norms, whilst the problem area has been identified as being the deemed consumption environment.

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	257 206	151 418
1 - 30 days	198 309	189 627
31 - 60 days	210 550	182 618
61 - 90 days	140 121	113 929
91 - 120 days	162 564	141 732
121 - 365 days	766 549	709 699
> 365 days	2 654 966	2 700 648
	4 390 265	4 189 671
Less: Allowance for impairment	(3 584 079)	(3 552 079)
	806 186	637 592

Domestic consumers - Past due and impaired

91 - 120 days	(162 564)	(141 732)
121 - 365 days	(766 549)	(709 699)
> 365 days	(2 654 966)	(2 700 648)
	(3 584 079)	(3 552 079)

Domestic consumers - Current, past due and not impaired

Current	257 206	151 418
1 - 30 days	198 309	189 627
31 - 60 days	210 550	182 618
61 - 90 days	140 121	113 929
	806 186	637 592

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11. Consumer debtors: Exchange transactions (continued)		
Commercial consumers		
Current		
1 - 30 days	401 129	417 575
31 - 60 days	119 131	124 401
61 - 90 days	109 622	94 315
91 - 120 days	86 688	58 730
121 - 365 days	79 848	89 963
> 365 days	337 944	356 977
	<u>1 279 829</u>	<u>1 214 620</u>
Less: Allowance for impairment	2 414 191	2 356 581
	<u>(1 564 454)</u>	<u>(1 661 560)</u>
	849 737	695 021
Commercial consumers - Past due and impaired		
91 - 120 days	(54 397)	(89 963)
121 - 365 days	(230 228)	(356 977)
> 365 days	(1 279 829)	(1 214 620)
	<u>(1 564 454)</u>	<u>(1 661 560)</u>
Commercial consumers - Current, past due and not impaired		
Current		
1 - 30 days	401 129	417 575
31 - 60 days	119 131	124 401
61 - 90 days	109 622	94 315
91 - 120 days	86 688	58 730
	25 451	-
	<u>107 716</u>	<u>-</u>
	849 737	695 021
National and provincial government		
Current		
1 - 30 days	19 272	46 170
31 - 60 days	15 657	16 947
61 - 90 days	12 731	14 038
91 - 120 days	8 717	10 931
121 - 365 days	12 526	10 113
> 365 days	47 774	36 225
	<u>113 785</u>	<u>100 670</u>
Less: Allowance for impairment	230 462	235 094
	<u>(174 085)</u>	<u>(147 008)</u>
	56 377	88 086
National and provincial government - Past due and impaired		
91 - 120 days	(12 526)	(10 113)
121 - 365 days	(47 774)	(36 225)
> 365 days	(113 785)	(100 670)
	<u>(174 085)</u>	<u>(147 008)</u>

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	2013	2012 Restated
11. Consumer debtors: Exchange transactions (continued)		
National and provincial government - Current, past due and not impaired		
Current	19 272	46 170
1 - 30 days	15 657	16 947
31 - 60 days	12 731	14 038
61 - 90 days	8 717	10 931
	56 377	88 086
Total consumer debtors		
Current	677 607	615 163
1 - 30 days	333 097	330 975
31 - 60 days	332 903	290 971
61 - 90 days	235 526	183 590
91 - 120 days	254 938	241 808
121 - 365 days	1 152 267	1 102 901
> 365 days	4 048 580	4 015 938
	7 034 918	6 781 346
Less: Allowance for impairment	(5 322 618)	(5 360 647)
	1 712 300	1 420 699
Total consumer debtors - Past due and impaired		
91 - 120 days	(229 487)	(241 808)
121 - 365 days	(1 044 551)	(1 102 901)
> 365 days	(4 048 580)	(4 015 938)
	(5 322 618)	(5 360 647)
Total consumer debtors - Current, past due but not impaired		
Current	677 607	615 163
1 - 30 days	333 097	330 975
31 - 60 days	332 903	290 971
61 - 90 days	235 526	183 590
91 - 120 days	25 451	-
121 - 365 days	107 716	-
	1 712 300	1 420 699
Reconciliation of allowance for impairment		
Balance at beginning of the year	(5 360 647)	(4 531 239)
Increase in allowance	(946 153)	(1 012 207)
Impairment written off against allowance	984 182	182 799
	(5 322 618)	(5 360 647)

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12. Financial assets by category

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

2013

	Loans and receivable	Other	Total
Consumer debtors	1 712 300	-	1 712 300
Other receivables	2 899	-	2 899
Prepayments	-	9 538	9 538
Total Other Receivables	2 899	9 538	12 437
Loans to shareholder	277 661	-	277 661
Cash	26	-	26
	1 992 886	9 538	2 002 424

2012

	Loans and receivable	Other	Total
Consumer debtors	1 420 699	-	1 420 699
Other receivables	2 922	-	2 922
Prepayments	-	5 525	5 525
	2 922	5 525	8 447
Loans to shareholder	145 127	-	145 127
Cash	26	-	26
Trade Receivables	143	-	143
	1 568 917	5 525	1 574 442

13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	26	26
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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 as at 30 June 2013 is R72,729 million (2012: R19,217 million).

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			2013	2012 Restated
13. Cash and cash equivalents (continued)				
Bank	Account Type	Account number		
Absa	Expenditure	4054394786	-	-
Absa	Revenue	4054394809	-	-
Absa	Salaries	4054394817	-	-
Standard bank	Expenditure	000196789	-	-
Standard bank	Revenue	000196819	-	-
Standard bank	Salaries	000196843	-	-
Standard bank	Bank charges	000196398	-	-
			<hr/>	<hr/>
			-	-
			<hr/>	<hr/>
14. Contribution from shareholder				
Authorised				
1000 Ordinary shares of R1 each			1	1
			<hr/>	<hr/>
Issued				
200 Ordinary shares of R1 each			1	1
			<hr/>	<hr/>

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15. Retirement benefit obligations

The actuarial valuations were performed by ZAQ Consultants and Actuaries, 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	15.1	32 673	33 491
Provision:Post-Retirement Housing Subsidy obligation	15.2	54	113
Provision:Post-Retirement Gratuity Obligation	15.3	61 613	53 596
Balance at end of year		94 340	87 200

15.1 Post retirement medical aid plan

The company has made provision for post retirement medical benefits covering 27 employees (2012: 34 employees), and 40 continuation members (2012: 37 continuation members). There are 2 medical schemes. Actuarial valuations are independently prepared annually using the projected unit credit method and a set of actuarial assumptions.

Reconciliation of post retirement medical aid plan

Opening balance		33 491	34 589
Benefits paid		(1 445)	(1 123)
Current service costs		192	316
Interest costs		2 864	2 971
Actuarial gain		(2 429)	(3 262)
Balance at end of year		32 673	33 491

Key assumptions used

Assumptions used on last valuation on 30 June 2013.

Discount rates used	7.89 %	8.60 %
Expected increase in salaries	6.67 %	6.70 %

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.

Change in assumptions

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

	-1%	0%	1%
Liability	31,011	32,673	33,915
Percentage change	-5.1%	0%	3.8%

Post Retirement Mortality

	-20%	0%	20%
20% adjustment to mortality rate	35,029	32,673	30,738
Percentage change	-7.2%	0%	5.9%

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15. Retirement benefit obligations (continued)

Other assumptions:

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

15.2 Post retirement housing subsidy plan

The company has made provision for post retirement housing subsidies covering 6 employees (2012: 12 employees). Actuarial valuations are independently prepared annually using the projected unit credit method and a set of actuarial assumptions.

Reconciliation of post retirement housing subsidy plan

Opening balance	113	136
Current service costs	4	5
Interest costs	10	12
Actuarial gain	(73)	(40)
Balance at end of year	54	113

Key assumptions used

Assumptions used on last valuation on 30 June 2013.

Discount rates used	7.89 %	8.60 %
Expected increase in salaries	6.67 %	6.70 %

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

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

	-1%	0%	1%
Liability	51	54	58
Percentage change	-5.6%	0%	7.4%

Post Retirement Mortality

	-20%	0%	20%
20% adjustment to mortality rate	55	54	53
Percentage change	1.9%	0%	-1.9%

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15. Retirement benefit obligations (continued)

15.3 Post retirement gratuity plan

The company has made provision for post retirement gratuity benefits covering 378 employees (2012: 410 employees). Actuarial valuations are independently prepared annually using the projected unit credit method and a set of actuarial assumptions.

Reconciliation of post retirement gratuity plan

Opening balance	53 596	50 501
Benefits paid	(4 402)	(5 784)
Interest Cost	4 586	3 432
Actuarial loss / (gain)	7 833	5 447
Balance at end of year	61 613	53 596

Key assumptions used

Assumptions used on last valuation on 30 June 2013.

Discount rates used	7.89 %	8.60 %
Expected increase in salaries	6.67 %	6.70 %

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

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

Liability	-1%	0%	-1%
Percentage change	57,626	61,613	65,987
	-6.5%	0%	7.1%

Post Retirement Mortality

20% adjustment to mortality rate	-20%	0%	20%
Percentage change	61,551	61,613	61,674
	-0.1%	0%	0.1%

15.4 Net expense recognised in the statement of financial performance

Post retirement medical aid plan	818	1 098
Post retirement housing subsidy plan	59	23
Post retirement gratuity plan	(8 017)	(3 095)
Total included in employee related costs	(7 140)	(1 974)

15.5 Defined contribution plan

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

The total company contribution to such schemes	51 982	47 453
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16. Unspent conditional grants		
Unspent conditional grants comprise:		
Unspent conditional grants and receipts		
Government grants	499	1 481
Government grants movement during the year		
Balance at the beginning of the year	1 481	5 601
Received in current year	378 583	215 443
Utilised during the year	(379 565)	(219 563)
Balance at the end of the year	499	1 481

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.

17. Trade and other payables from exchange transactions

Trade payables	723 846	475 262
Payments received in advanced	362 935	502 090
Accrued leave pay	39 385	37 112
Accrued bonus	18 677	17 403
Operating lease payables	19 047	17 339
Sundry payables	19 164	5 342
VAT	227 202	235 261
Consumer deposits	217 601	162 132
	1 627 857	1 451 941

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

18. Provisions

Reconciliation of provisions - 2013

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for bonuses	13 800	15 080	(13 607)	(193)	15 080

Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for bonuses	12 000	13 800	(12 000)	-	13 800

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19. Financial liabilities by category

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

2013

	Financial liabilities	Other	Total
Trade and other payables from exchange transactions	1 028 054	-	1 028 054
South African Revenue Services	-	235 501	235 501
Customer Prepayments	-	364 302	364 302
Trade and other payables from exchange transactions	1 028 054	599 803	1 627 857
Trade payables with group companies	11 559	-	11 559
Loans from Shareholder	3 174 108	-	3 174 108
Finance lease obligation: Shareholder	7 045	-	7 045
Finance lease obligation: Other	3 424	-	3 424
Provisions	-	15 080	15 080
	4 224 190	614 883	4 839 073

2012

	Financial liabilities	Other	Total
Trade and other payables from exchange transactions	707 489	-	707 489
South African Revenue Services	-	242 207	242 207
Customer Prepayments	-	502 245	502 245
Trade and other payables from exchange transactions	707 489	744 452	1 451 941
Trade payables with group companies	5 254	-	5 254
Loans from Shareholder	2 977 297	-	2 977 297
Finance lease obligation: Shareholder	6 899	-	6 899
Finance lease obligation: Other	2 049	-	2 049
Provisions	-	13 800	13 800
	3 698 988	758 252	4 457 240

20. Revenue from exchange transactions

Sale of water	3 973 745	3 137 231
Rendering of sanitation services	1 898 224	2 009 276
	5 871 969	5 146 507

21. Other income

Other income	79 280	33 219
Laboratory income	1 235	1 442
Developer funded asset income	203 228	192 272
Profit on disposal of property, plant and equipment	-	797
Bulk service contributions released	41 449	34 465
	325 192	262 195

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	2013	2012 Restated
22. Revenue from non-exchange transactions		
Government grants released	379 565	219 563
23. Water Losses: Physical and Commercial		
<p>Water losses are included in Cost of sales. The level of physical and commercial losses for the year under review is 28.9% [R820,6 million], (2012: 31.2% [R769,3 million]). The level of physical losses for the year under review is 13.7% [R389,0 million], (2012: 13.2% [R325,5 million]). The level of commercial losses for the year under review is 15.2% [R431,6 million], (2012: 18% [R443,8 million]).</p> <p>The industry norm for water losses is 18%. Taking consideration hereof would result in a reduction of the level of water losses for the year under review to 10.9% [R309,5 million], (2012: 13.2% [R325,5 million]).</p> <p>Please refer to note 11 for additional information.</p>		
24. Expenses by nature		
<p>Operating surplus for the year is stated after accounting for the following:</p>		
Operating lease charges - Contractual amounts		
Premises	27 940	27 592
Motor vehicles	81 131	77 542
Equipment	1 662	1 034
	110 733	106 168
Operating expenses		
Allowance for debt impairment	26 909 879	914 537
Employee costs	28 699 073	632 565
Electricity and chemicals	27 185 219	158 298
Billing and meter reading charges	174 625	171 410
Depreciation, amortisation and impairments	166 413	156 373
Consumables	89 964	77 580
Security	24 448	22 723
Loss on disposal of property, plant and equipment	14 856	-
Insurance	10 063	7 752
Repairs and maintenance	8 244	7 966
Legal expenses	1 425	1 387
25. Auditors remuneration		
Fees	3 755	3 413
26. Allowance for impairment (Bad debts)		
Allowance for impairment	909 879	914 537
27. Electricity and Chemicals		
Electricity	159 243	137 641
Chemicals	25 976	20 657
	185 219	158 298

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28. Employee costs		
Basic	481 996	445 764
Other allowances	81 088	71 198
Pension costs	69 706	55 049
Medical aid - company contributions	40 844	37 295
Leave pay	10 104	11 862
Post retirement benefit plan cost (Defined contribution plan)	12 987	8 881
Housing benefits and allowances	2 348	2 516
	699 073	632 565
Average number of employees employed during the year		
- Permanent	2 436	2 420
29. Interest revenue		
Interest earned - sweeping account	2 899	1 775
Interest on impaired accounts	66 275	55 770
	69 174	57 545
30. Finance costs		
Interest paid - Shareholder loans and Finance leases	295 087	306 726
31. 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.		
32. Cash generated from operations		
Surplus before taxation	812 012	364 505
Adjustments for:		
Depreciation, amortisation and impairments	3&4 166 413	156 373
Allowance for impairment	26 909 879	914 537
Movements in retirement benefit assets and liabilities	15 7 140	1 974
Movements in provisions	18 1 280	1 800
Other non-cash items	29 714	(3 901)
(Loss)/Profit on disposal of property, plant and equipment	21 (14 856)	797
Developer funded asset income	3 (203 228)	(192 272)
Changes in working capital:		
Inventories	5 (3 333)	(2 254)
Other receivables	10 (3 990)	1 272
Consumer debtors	11&26 (1 201 480)	(1 228 104)
Trade and other payables from exchange transactions	17 175 913	486 602
Unspent conditional grants	16 (982)	(4 120)
Net movement in balances with group companies	6 6 448	(935)
	680 930	496 274

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33. Commitments

Authorised capital expenditure

Already contracted for but not provided for

Property, plant and equipment	1 150 214	720 204
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The commitments disclosed above relate only to construction contracts with suppliers. Other procurement contracts with suppliers are subject to the demand or requirements of Johannesburg Water and as such, there is no fixed future obligation or commitment in respect of these contracts.

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	800 080	291 210
Grant funding	341 737	426 240
Internal cash	8 397	2 754
	1 150 214	720 204

Operating leases - as lessee

Minimum lease payments due

• within one year	26 349	25 781
• in second to fifth year inclusive	87 297	113 647
• later than five years	33 426	33 426
	147 072	172 854

Operating lease payments represent rentals payable by the company for certain of its office properties. 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 are subject to escalation clauses

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	2013	2012 Restated
34. 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 35
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 amounts owing by related parties		
City of Johannesburg Metropolitan Municipality - Net current assets	-	78 832
Loan amounts owing to related parties		
City of Johannesburg Metropolitan Municipality - Net current liabilities	28 773	-
City of Johannesburg Metropolitan Municipality - long term loans	2 460 548	2 540 772
Finance lease obligation: shareholder	7 045	6 899
Short term portion of long term loans	407 126	370 228
	2 903 492	2 917 899
Related party balances		
Amounts owing by related parties		
City of Johannesburg Metropolitan Municipality - General	103 331	130 930
Pikitup Johannesburg SOC Ltd - General	-	143
Johannesburg Roads Agency SOC Ltd - General	4	5
	103 335	131 078
Amounts owing to related parties (excluding long term liabilities)		
City of Johannesburg Metropolitan Municipality	539 229	422 326
Johannesburg City Parks NPC	482	404
Johannesburg Roads Agency SOC Ltd	11 081	6 787
Johannesburg Development Agency SOC Ltd	-	434
	550 792	429 951

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	2013	2012 Restated
34. Related parties (continued)		
Related party transactions		
Sales to related parties		
City of Johannesburg Metropolitan Municipality	1 168	1 949
Pikitup Johannesburg SOC Ltd	384	373
Johannesburg Roads Agency SOC Ltd	19	25
	1 571	2 347
Purchases from related parties		
City of Johannesburg Metropolitan Municipality	(286 026)	(287 894)
Johannesburg Social Housing Company SOC Ltd	(2 105)	(1 406)
Johannesburg City Parks NPC	(856)	(1 135)
Johannesburg Development Agency SOC Ltd	-	(381)
Johannesburg Roads Agency SOC Ltd	(20 233)	(17 177)
	(309 220)	(307 993)
Interest on shareholder loans and sweeping account		
Interest earned on sweeping account	2 899	1 775
Interest paid on shareholder loans	(294 811)	(306 671)
	(291 912)	(304 896)

All transactions with group companies are conducted at arms length.

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35. Directors' emoluments and other Key Management Personnel Remuneration

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

Executive directors

2013	Basic salary	Bonuses and performance related payments	Travel allowances	Contributions to pension funds and medical aid	Total
L Dhlamini - Managing Director	939	-	269	136	1 344
M. Padiaychee - Financial Director	1 376	209	-	198	1 783
	2 315	209	269	334	3 127

2012	Basic salary	Bonuses and performance related payments	Travel allowances	Contributions to pension funds and medical aid	Total
GT Dumas - Managing director	-	196	-	-	196
M Padiaychee - Acting Managing Director	826	-	-	92	918
M. Padiaychee - Financial Director	573	193	-	94	860
	1 399	389	-	186	1 974

Non executive directors

Services rendered as director of company	2013	2012
Ms M van Rensburg Retired 24/04/2012	-	160
Mr N Macleod Retired 24/04/2012	-	150
Dr N Mabuya Retired 24/04/2012	-	95
Mr N Govender	124	157
Ms N C Skeepers	147	147
Ms N Msezane	120	112
Mr C Tilly	175	145
Ms G Moloji	144	42
Mr J Mateya	257	24
Mr C Motau	82	24
Ms C Mbili	161	18
I Jacobs Retired 23/03/2013	-	-
	1 210	1 074

Services rendered as independent members of audit committee

Ms C Mbili Retired 24/04/2012	-	42
Ms M Malope Retired 6/10/2011	-	20
Mr V Mokwena	78	7
Ms K Mdutshane	78	18
Mr R Buys	71	11
	227	98

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

Senior Management

2013	Basic salary	Bonuses and performance related payments	Travel allowances	Contributions to pension funds and medical aid	Total
B Q Zimu	1 185	177	-	154	1 516
J M Methula	623	62	162	71	918
N J Mukwevho	1 216	104	176	171	1 667
D Shabalala	147	-	31	23	201
G J Luden (3 months)	246	-	-	50	296
	3 417	343	369	469	4 598
2012	Basic salary	Bonuses and performance related payments	Travel allowances	Contributions to pension funds and medical aid	Total
B Q Zimu	1 137	171	-	150	1 458
J M Methula	322	-	90	39	451
N J Mukwevho	571	-	88	81	740
J Mnisi	881	31	96	148	1 156
G Luden	911	32	-	180	1 123
	3 822	234	274	598	4 928

J Mnisi acted in the capacity of Managing Director for the period, 1 January 2012 to 29 February 2012.

B Q Zimu acted in the capacity of Managing Director for the period, 1 March 2012 to 13 May 2012.

G J Luden acted in the capacity of Managing Director for the period 14 May 2012 to 30 September 2012.

36. Comparatives restated

The comparative figures have been restated as a result of prior year adjustments as per note 37.

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37. Prior year adjustments (errors)

37.1 Revenue from exchange transactions

The City of Johannesburg Metropolitan Municipality has subsequently recalculated the accrual value in relation to the 2011 and 2012 financial years and this amounts to a reduction in revenue for the 2011 and 2012 financial years as disclosed below. This has been accounted for as a prior period adjustment accordingly.

	2012	2011 Cumulative
Impact on Statement of Financial Position		
Decrease in Consumer debtors: Exchange transactions	(217 682)	(274 566)
Impact on Statement of Financial Performance		
Decrease in Revenue from exchange transactions	(217 682)	(274 566)
Impact on Statement of Changes in Net Assets		
Decrease in net surplus for the year	(217 682)	(274 566)

37.2 Reversal of discounting

The effect of the time value of money (discounting) should only be taken into account where extended payment terms are granted. Based on circular 09/2006, it follows that extended payment terms are those credit terms outside of normal credit terms. It has been determined that the company has historically been discounting trade receivables and trade payables on normal credit terms (i.e. 30 days) since inception of the accounting standard. This was inconsistent with the accounting framework (GRAP), Circular 09/2006 and common business practice. It has now been corrected.

	2012	2011 Cumulative
Impact on Statement of Financial Position		
Increase in Consumer debtors: Exchange transactions	2 698	1 551
Increase in trade and other payables from exchange transactions	(393)	(801)
Impact on Statement of Financial Performance		
Increase in Revenue from exchange transactions	23 039	20 682
Increase in Cost of sales	(10 950)	(9 874)
Increase in Other income	148	8
Increase in Operating expenditure	(3 689)	(3 356)
Decrease in Effective interest rate adjustment	(6 243)	(6 710)
Impact on Statement of Changes in Net Assets		
Increase in net surplus for the year	2 305	750

37.3 Reclassification of interest on impaired accounts

Interest on impaired accounts was previously disclosed under Operating expenses on the Statement of Financial Position. More specifically it was accounted for as a set off against the allowance for impairment (bad debt). This practice is not permitted in term of GRAP 1. The effect of the incorrect treatment was that the allowance for impairment (bad debt) and the interest on overdue accounts were not accurately disclosed in the current and prior year's financial statements to reflect the substance of the transaction. This has now been corrected by accounting for the interest in impaired accounts under Interest Revenue on the Statement of Financial Position. The correction for prior periods is set out below.

	2012	2011 Cumulative
Impact on Statement of Financial Performance		
Increase in Interest revenue	55 770	63 990
Increase in Operating expenditure	(55 770)	(63 990)
Impact on Statement of Changes in Net Assets		
Increase/(decrease) in net surplus for the year	-	-

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37.4 Fleet finance lease recognition

The lease classification for specialised vehicles as adopted in the prior year was deemed to be incorrect by the City of Johannesburg Metropolitan Municipality. The subsequent correction in accounting treatment from operating to finance lease has resulted in a prior period error requiring correction as set out below:

	2012	2011 Cumulative
Impact on Statement of Financial Position		
Increase in Property, plant and equipment	6 795	-
Increase in Finance lease obligation: Shareholder	(6 898)	-
Increase in Finance lease obligation: Other	(2 050)	-
Decrease in Trade and other payables from exchange transactions	2 050	-
Impact on Statement of Financial Performance		
Increase in Finance costs	238	-
Decrease in operating expenditure	134	-
Impact on Statement of Changes in Net Assets		
Decrease in net surplus for the year	(104)	-

37.5 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:

	2012	2011 Cumulative
Impact on Statement of Changes in Net Assets		
Increase in net surplus for the year	(215 481)	(273 816)

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38. 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 2013	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Loans from shareholder	815 431	653 382	1 640 941	1 026 956
Finance lease obligation: Shareholder	1 782	1 644	3 447	172
Finance lease obligation: Other	1 641	1 504	279	-
Trade payables with group companies	11 559	-	-	-
Trade and other payables from exchange transactions	1 028 057	-	-	-
At 30 June 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Loans from shareholder	671 799	655 603	1 753 293	1 722 452
Finance lease obligation: Shareholder	1 287	1 421	3 564	627
Finance lease obligation: Other	712	771	566	-
Trade payables with group companies	5 111	-	-	-
Trade and other payables from exchange transactions	707 491	-	-	-

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%)	5.06%	727	192
Bank sweeping (-1%)		(727)	(192)
Shareholder loan (Jibar linked) (+1%)	7.47%	7 528	7 331
Shareholder loan (Jibar linked) (- 1%)		(7 528)	(7 331)

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38. Risk management (continued)

Credit risk

Credit risks 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 evaluates 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 12.

39. Unauthorised, fruitless and wasteful expenditure

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

40. Deviations from formal procurement processes

Product Category

	Via Negotiations at Bid Committee	Via Price Quotations	Total Deviations
Emergencies	9 676	10 478	20 154
Sole Suppliers	28 057	11 204	39 261
Impracticality	161 563	15 804	177 367
	199 296	37 486	236 782

The table above indicates instances where it was impractical to invite competitive bids for specific requirements. The company's supply chain management policy and the Local Government Municipal Finance Management Act, 2003, as per Regulation 36(1) allows the Accounting Officer to dispense with the official procurement processes established, to procure any required goods or services through any convenient process which may include direct negotiations or price quotations in the following instances:

- Emergencies – where immediate action is necessary to avoid a dangerous or risky situation or misery or disaster
- Sole suppliers – where such goods or services are produced or available from a single provider only
- Any other exceptional cases where it is impractical or impossible to follow the official procurement processes

It is further noted that the deviations referred to above have been ratified by the Accounting Officer on a monthly basis and the appropriate reasons recorded, where officials or bid committees acted in terms of delegated powers which are purely of a technical nature. All these deviations have also in terms of the regulations been reported to the board of directors as required.

41. Irregular expenditure

Reconciliation of irregular expenditure

Opening balance	-	168
Condoned	-	(168)
	-	-

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41. Irregular expenditure (continued)

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 being awarded 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 have 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.

The board has subsequently condoned this expenditure in 2012.

42. Actual capital expenditure versus budgeted capital expenditure

Refer below for the comparison of actual capital expenditure versus budgeted capital expenditure per source of funding.

Capital budget for the the year	762 232	539 632
Actual spend for the year	(741 950)	(537 631)
	20 282	2 001
Actual spend as a percentage of budget	97.3 %	99.6 %

Capital expenditure - Actual vs Budget

Sources of funds	Original Budget	Budget Adjustment	Final Budget	Actual	Variance f/(u)
Loans	387 600	(25 285)	362 315	342 222	(20 093)
Own Funding	20 000	2 000	22 000	22 659	659
Grants and subsidies	320 632	57 285	377 917	377 069	(848)
	728 232	34 000	762 232	741 950	(20 282)

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43. Additional disclosure in terms of Municipal Finance Management Act		
Audit fees		
Opening balance	-	397
Current year fee	3 755	3 413
Amount paid - current year	(3 626)	(3 413)
Amount paid - previous years	-	(397)
	129	-
PAYE and UIF		
Opening balance	6 946	6 750
Current year contributions	102 501	93 937
Amount paid - current year	(101 148)	(86 991)
Amount paid - previous years	-	(6 750)
	8 299	6 946
Pension and Medical Aid Contributions		
Current year contributions	149 203	136 494
Amount paid - current year	(149 203)	(136 494)
	-	-

44. Subsequent Events

There are no material events that require comment.

ANNEXURE 2
BALANCE SCORECARD

ANNUAL CORPORATE PERFORMANCE

BALANCED SCORECARD

FOR

2012/13

(Approved by board on 27 November 2013)

BSC Perspective	Objective	KPI	Unit	Weight	2012/13 Target	2012/13 Actual Achievement	Performance Status	KPI Ref
Financial Perspective Weight: 20	Financial viability Weight: 80	Profit before tax, before bad debt provision and COJ service fee	Nil	100	R1,602m	R 1,869	<input type="checkbox"/>	1
	Procurement Spent Weight: 20	Total BBBEE procurement recognition spent from Qualifying Small Enterprises Exempted Micro Enterprises Total BBBEE procurement recognition spent from all	%	30	60%	115.00%	<input type="checkbox"/>	2
			%	70	75%	92.00%	<input type="checkbox"/>	3

BSC Perspective	Objective	KPI	Unit	Weight	2012/13 Target	2012/13 Actual Achievement	Performance Status	KPI Ref
Customer Weight: 50	Product quality Weight: 10	suppliers						
		Compliance with drinking water quality standards	%	100	99%	99.90%	<input type="checkbox"/>	4
	Reliable services Weight: 30	Water burst Restored within 48 hours as a ratio of jobs completed	%	35	91%	88.67%	<input type="checkbox"/>	5
		Sewer blockages cleared within 24 as a ratio of jobs completed	%	35	95%	96.39%	<input type="checkbox"/>	6
		water bursts per 100km of network length	No	30	324	298.22	<input type="checkbox"/>	7
		Effluent Quality	%	33	97%	95.00%	<input type="checkbox"/>	8
	Protection of the environment Weight: 20	Waste water effluent spills	No	34	300	614	<input type="checkbox"/>	9
		Sewer blockages per 100km of network length	No	33	370	418.60	<input type="checkbox"/>	11
		Informal Household with access to water -LOS1	%	50	98.05%	98.10%	<input type="checkbox"/>	12
	Access to Basic services Weight: 30	Informal Household with access to sanitation- LOS1	%	50	91.40%	91.48%	<input type="checkbox"/>	13
Volume of bulk water supply reduced from previous year's annual water demand (Cumulative)		MI	100	4%(20 000MI)	0%	<input type="checkbox"/>	14	
Resource Management Weight: 10	Electricity costs at WWTW	KWH/MI	20	363	341.92%	<input type="checkbox"/>	15	
	Unaccounted for water (UFW)	%	40	30%	28.90%	<input type="checkbox"/>	16	
	UFW in Metered Areas	%	10	27%	23.90%	<input type="checkbox"/>	16a	
Internal Processes Weight: 20								

BSC Perspective	Objective	KPI	Unit	Weight	2012/13 Target	2012/13 Actual Achievement	Performance Status	KPI Ref
		UFW in Un-metered Areas	%	10	37%	41.20%	□	16b
		Number of functioning meters installed in Soweto (Cumulative)	No	20	104842	84 648	□□	17
		Expenditure on capital budget	%	60	95.00%	97.34%	□	18
	Asset Management Weight: 30	Completion of phase 4 of the asset management plan	N/A	40	Phase 4a: Deployment of integrated system	93.50%	□□□	19
	Operational Resilience Weight: 10	Disabling Injury Incidence Rate (DIIR)	Ratio	100	1.2	1.45	□	20
	External Audit Weight: 15	Resolved matters raised by the Auditor General on audit of previous year	%	100	100%	82.00%	□	21
	Stakeholder Management Weight: 0	Stakeholder satisfaction level on water & sanitation services.	%	0	0	0	N/A	22
Learning and Growth Weight: 10	Develop Human Capital Weight: 100	Employee retention within the organisation	%	50	97%	98.73%	□	23
		Total training expenditure as ratio of total payroll	%	50	1.37%	1.43%	□	24
% Annual Company Performance 2012/13								92.91 %