

CHAPTER 2 : PERFORMANCE HIGHLIGHTS

Introduction

The year 2004/2005 was characterized by unprecedented progress in the achievement of the Company's strategic priorities of:

- Financial sustainability
- Service delivery
- Human capital development and transformation
- Governance

Financial Sustainability

Revenue increased by R311 million to R2.7 billion compared to the previous year. This translates to an increase of 13%.

The revenue growth can be ascribed to tariff increases, the migration of core functions and part of the customer data base to the Company. The migration of core functions took place in October 2004 and 43 000 accounts from Sandton were migrated in February 2005. It was agreed that a further 77 000 consumers accounts from the West and 57 000 consumer accounts from the East will be migrated in August and October 2005 respectively. This intervention has however been suspended by the City and discussions are presently being held to determine the way forward.

As a result of the migration of the meter reading function, prompt billing and improved arrears collections, payment levels reached 113% for customers managed by Johannesburg Water. Payment levels for customers managed by the City were approximately 76%.

Cost of sales for the year was R1.3 billion and amounts to a marginal increase of R72 million over the previous year, particularly considering the significant improvement in revenue. This can be ascribed primarily to the reduction in bulk purchases from Rand Water as a result of the implementation of Operation Gcin'amanzi.

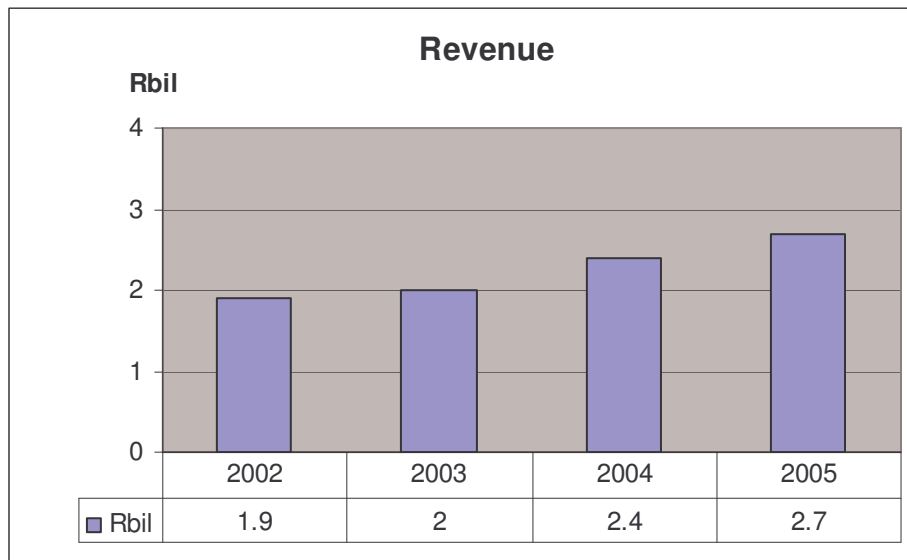
With the implementation of Operation Gcin'amanzi in Soweto approximately 20 000 prepayment meters were installed in Phiri and Superblocks 1 to 3. The implementation has led to a reduction in water purchases of 4 016 221 kl. This amounts to a saving of R10.6 million. The above interventions have led to a significant improvement in the gross profit. The gross profit increased by R239 million compared to the previous year. The operating profit increased by R260 million compared to the previous year.

Profit before tax for the year ended June 2005 was R156 million compared to a loss of R118 million for the previous year. The figure includes an interest grant by the City of Johannesburg of R240 million.

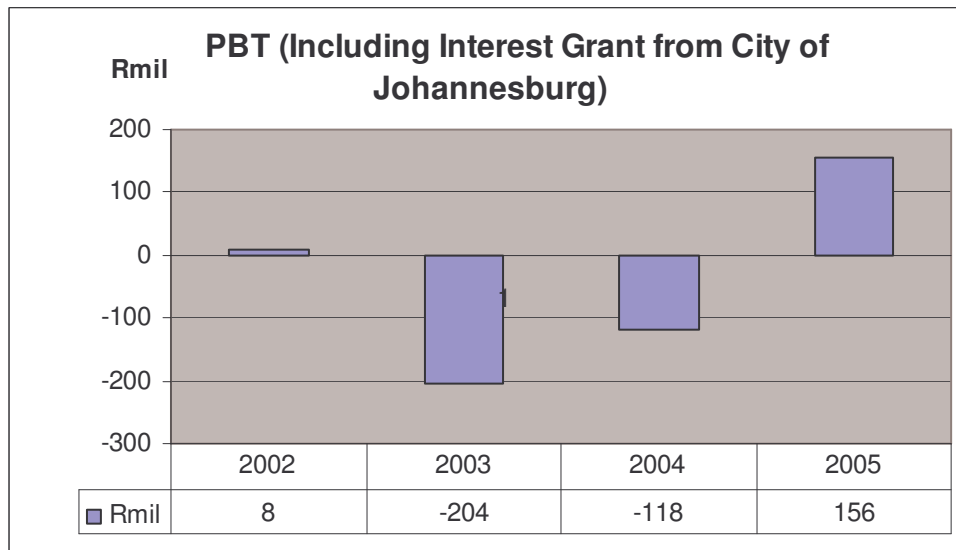
The grant was designed to compensate for interest charges on the acquisition of non-productive assets in deemed consumption areas and is part of the City's commitment to the turnaround strategy.

The following graphs illustrate financial highlights:

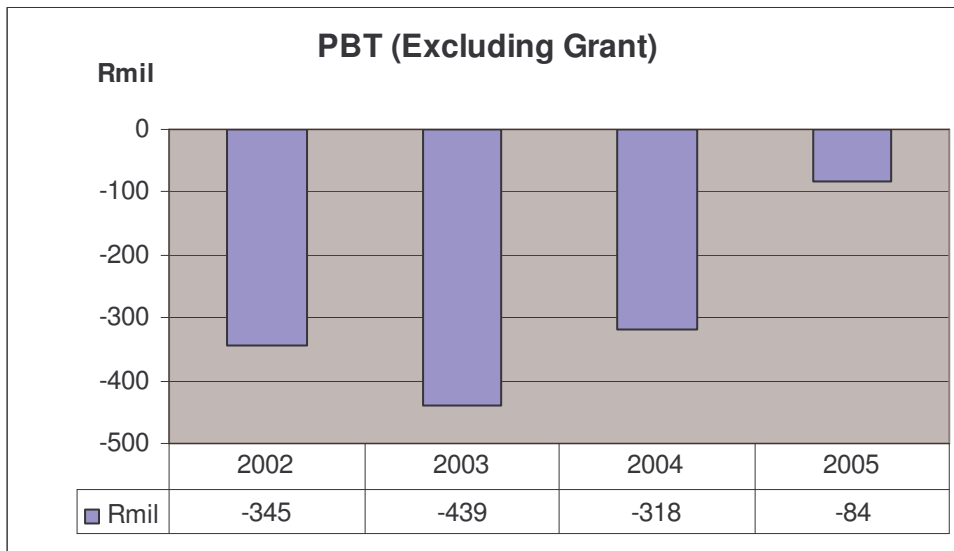
Financial Highlights



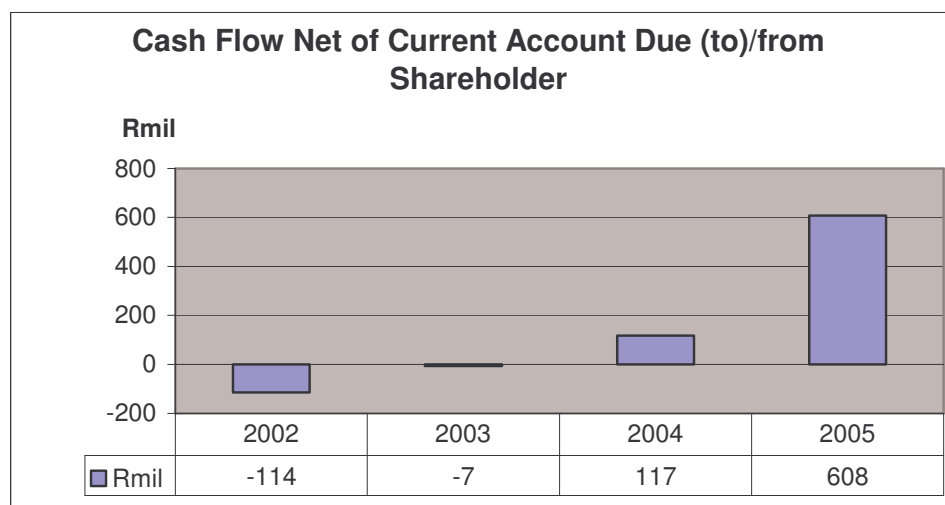
A steady improvement has been recorded each year in water and sanitation revenue, since June 2002. There was an improvement in revenue management for the year under review, resulting from the migration of customers and core operating functions. This is in addition to the annual tariff increase of 9%.



The profit before tax including the grant from the City improved by R274 million compared to the previous year. The improvement in the previous year was R86 million. The grant is to compensate for interest charged on the shareholder loan account, relating to unproductive assets acquired in deemed consumption areas.



In the absence of a grant of R240 million (2004 : R200 million) from the City, the Company would have posted a loss of R84 million (2004 : R318 million). This is an improvement in the operating results of the Company of R234 million compared to the previous year. The current year positive achievement is the result of increased revenue, leading to better gross and operating margins.



The cash position comprises the daily cash sweeping of the bank account to the shareholder and includes current amounts due to and from the shareholder (refer Note 4). The positive cash flow position is due to good collections from customers, particularly post migration of core functions to Johannesburg Water.

Financial Performance

A record performance was achieved for the year under review. The Johannesburg Water business turnaround strategy approved by the Shareholder in April 2004, had as its major thrusts the addressing of under billing and poor payment levels in respect of customers managed by the City of Johannesburg, and focus on the high level of unaccounted for water resulting from physical losses in the Soweto area. The impact of the interventions such as Operation Gcin'amanzi resulting from the strategy was significant, and exceeded expectations on financial performance.

The migration of core functions from the City of Johannesburg to the Company in October 2004 provided the opportunity to focus on revenue management, including credibility of data, under-billing and poor payment levels. The result has been a growth in revenue generated of R311 million or 13% on the previous year. The average payment level achieved for the total business was 87.2%, with collection rates for customers managed by Johannesburg Water at 113%. The comparable performance in the previous year is 82.2% and 107.9% respectively.

The payment level for customers managed by the City improved to 75.7%, from 72.2% in the previous year. Focus on the elements of meter reading validation, data quality control and backlog query resolution by Johannesburg Water after the migration of accounts, contributed to the improved collection rate of customers managed by the City.

The elements of the core functions and the status of the migration are set out as follows:

| | CITY OF JOHANNESBURG | JOHANNESBURG WATER |
|------------------------------------|-----------------------------|---------------------------|
| Billing and credit control | | |
| - To January 2005 | 70% | 30% |
| - From February 2005 | 60% | 40% |
| Core functions | | |
| - Meter reading from May 2004 | - | 100% |
| - Customer Query Resolution | | |
| To September 2004 | 70% | 30% |
| From October 2004 | - | 100% |
| - Data Quality Control | | |
| To September 2004 | 70% | 30% |
| From October 2004 | - | 100% |
| - New Connections | | |
| To September 2004 | 70% | 30% |
| From October 2004 | - | 100% |

| | CITY OF JOHANNESBURG | JOHANNESBURG WATER |
|--|-----------------------------|---------------------------|
| - Account Finalisation and Clearance Certificate Issues | | |
| To September 2004 | 70% | 30% |
| From October 2004 | - | 100% |

The focus on water management and reducing the high level of physical water losses in the Soweto area gave rise to the intervention referred to as Project Operation Gcin'amanzi. The project is in its infancy, with infrastructural upgrades completed for 20 000 stands. The expected average saving of 32kl of water per stand, each month, is currently being exceeded. The impact is a direct reduction on water purchases, with an improvement in margins. Progress on the project is elaborated on elsewhere in the report.

The significant interventions during the year under review, complemented by controlled operating expenditure resulted in exceptional growth in the Profit before Tax compared to the previous year. Actual capital expenditure for the financial year was 98% of funds budgeted for from the City of Johannesburg. There was strong cash generation during the year, with a positive R261 million on hand at year end.

Major challenges for the next year with a direct impact on financial performance include early resolution of issues, relating to the migration to Johannesburg Water of customers in the East and West of Johannesburg, currently managed by the City of Johannesburg. In addition a further 64 000 stands are planned for retro-fittings and upgrading, including the installation of prepayment meters, with a resultant positive impact on margins and payment rates.

Service Delivery

The technical and service call centres achieved a service level of 95% and 86% respectively. This resulted in improved customer responsiveness.

Capital expenditure of 98% against external funding from the City of Johannesburg was achieved compared to 95% in the previous year.

Environmental compliance was 98.4% compared to 96% in the previous year.

Water quality compliance was 99.6% compared to 99.7% in the previous year. Considering that the Department of Water and Forestry requires water quality to be at least 95% compliant the Company's water quality is considered excellent.

Disposal of sludge from the Wastewater Treatment Works complied with DWAF standards and the number of waste water plant spills was reduced from 143 in the previous year to 84 for the year under review.

Response times on the restoration of mainline bursts and identifying of sewer blockages showed a slight decline.

Compared to the previous year, access to at least a minimum level of water showed an improvement from 92.8% to 98.4%. Improvement in access to at least a minimum level of sanitation increased from 92.8% to 93.8%.

During the financial year, water services coverage was increased to households in informal settlements in Regions 1, 5, 6 and 11. An additional 3350 households previously below the minimum level of water service, were provided with access to water. An additional 9680 households previously below the minimum level of sanitation service were provided with access to sanitation.

The provision of basic sanitation services through the VIP programme gained some momentum. The installation of 5 000 ventilated improved pit latrines was set as the target for the year 2004/2005. The VIP Programme is a two-pronged project funded by the Municipal Infrastructure Grant (MIG) for the construction of 6 000 toilets as well the Department of Provincial and Local Government (DPLG) for a total of 7 000 units. To date 4 008 units have been installed.

A total budget amount of R26,3 million, has been approved for the provision of basic water services. A contractor has already been approved and construction of communal standpipes is expected to be completed in November 2005.

The following contracts exceeding R4 million in value were initiated.

| PROJECT DESCRIPTION | NET CONTRACT VALUE | % COMPLETE |
|---|---------------------------|-------------------|
| Head Office refurbishments | 4,545,021 | 90% |
| Operation Gcin'amanzi (Superblock 1 Phase 2) | 38,963,781 | 50% |
| Operation Gcin'amanzi (Superblock 2 Phase 2) | 30,961,619 | 50% |
| Operation Gcin'amanzi (Superblock 3 Phase 2) | 9,777,786 | 95% |
| Pre-Paid meters (Phase 2) | 17,257,807 | 70% |
| Pre-Paid meters (Phase 2) | 18,449,141 | 60% |
| VIP Programme (MIG) | 18,117,180 | 40% |
| Complete upgrading of Alexandra network | 4,009,365 | 99% |
| Bruma outfall sewer: Complete augmentation by LEROS | 51,515,941 | 100% |
| Leratong: Housing project (Roll over) | 5,345,745 | 35% |
| Replace vWyk's rising main | 5,138,165 | 100% |
| Construct sludge digesters | 13,529,824 | 50% |
| Sludge Storage NWWTW (Roll over) | 7,606,856 | 100% |
| Digester Mixers GWWTW (Roll over) | 3,948,834 | 100% |
| TOTAL | 229,167,065 | |

Capital Investment Delivery resulted in the creation of 3 858 jobs compared to 3 211 the previous year.

The percentage value of total procurement spent allocated to Black Economic Empowerment procurement decreased from 52% to 43.9% as a result of verification of suppliers that led to disallowance of Black Economic Empowerment points.

Human Capital Development and Transformation

Skills development targets as per approved plan were achieved. The previous year's baseline was higher as a result of training for the Watersolve project. Watersolve is a project that integrates all the application software programmes.

Ninety percent of training budget was spent on the implementation of the Workplace Skills Plan.

Employment equity targets for the top three levels of management reached a percentage level of 70% compared to 57% for the previous year.

A performance management system was introduced and evaluation for the 2004/2005 financial year has taken place.

A reduction of 11% in overtime costs compared to 2% the previous year was realized.

The occupational health and safety statistics decreased from 1.82 in the previous year to 1.76 in the year under review. The occupational health and safety statistics were measured against the Disabling Injury Incidence Rate (DIIR).

Awareness of HIV/AIDS interventions was measured at direct contact and coverage measured in the number of events attended by employees.

The year under review saw the Company's focus on risk management materialise in the finalisation of a risk policy and strategy approved by the Board, which now guides the Company in its enterprise wide risk management, controlled through the Executive Committee.

Governance

Governance has been dealt with under Chapter 3: Human Resource and Corporate Governance.

DISCUSSION IN RESPECT OF PERFORMANCE SCORECARD

CONTRIBUTION TO THE IDP

| IDP KEY PERFORMANCE INDICATOR | JOHANNESBURG WATER CONTRIBUTION |
|---|---|
| ○ 34% unaccounted for water | ○ Entity achieved 32.8% unaccounted for water. |
| ○ Revenue collected R2.0 billion. | ○ R2,8 billion revenue collected. |
| ○ % of City's capital budget spent [95%] | ○ 98% of CAPEX achieved |
| ○ % Affirmative procurement of total procurement value [50%]. | ○ 43.9% as a percentage of total procurement. |
| ○ Achievement of Employment Equity requirement as per plan. | ○ 70% achievement against target of 75%. |
| ○ % Department budget spent on skills development as a percentage of the wage bill. [1%]. | ○ Entity's expenditure on training was 1% of wage bill. |

CONTRIBUTION TO THE MAYORS STRATEGIC AGENDA

| MAYORAL STRATEGIC THRUST | JOHANNESBURG WATER CONTRIBUTION |
|--|--|
| <ul style="list-style-type: none"> ○ Ensure financial sustainability. | <ul style="list-style-type: none"> ○ Successful implementation of the turnaround strategy through: <ul style="list-style-type: none"> - Operation Gcin'amanzi. - Cost Management. - Billing and effective credit management. - Optimal capital expenditure. |
| <ul style="list-style-type: none"> ○ Create Sustainable human settlements and advance sustainable development agenda. | <ul style="list-style-type: none"> ○ Liaising with City Housing ensuring integration between JW plan and Housing Master Plan. ○ Provision of water and sanitation infrastructure and capital investment framework. ○ Successful infrastructure upgrade through Operation Gcin'amanzi in Soweto. ○ Successful implementation of preventative maintenance on sewer networks. ○ Complied with quality and environmental standards. |
| <ul style="list-style-type: none"> ○ Batho Pele and Customer Care. | <ul style="list-style-type: none"> ○ The attainment of service level targets led to improved customer responsiveness and customer service. ○ Watersolve system successfully implemented. |
| <ul style="list-style-type: none"> ○ Ensure basic service delivery. | <ul style="list-style-type: none"> ○ Effective implementation of preventative maintenance programmes. ○ Successful implementation of the FBW policy and provision of WS infrastructure in new housing developments. ○ |
| <ul style="list-style-type: none"> ○ Improve public safety. | <ul style="list-style-type: none"> ○ Safety protocol endorsed and promoted. ○ DMP finalised and approved. |
| <ul style="list-style-type: none"> ○ Deepen democracy and promote good governance. | <ul style="list-style-type: none"> ○ Successful and interactive communication through forums with CMU, SHU, Portfolio Committee and MMC. ○ Continuous monitoring and implementation of corporate governance model. |

| MAYORAL STRATEGIC THRUST | JOHANNESBURG WATER CONTRIBUTION |
|--|--|
| | <ul style="list-style-type: none"> ○ JW hosted international delegates. [India, China, Ghana, Zimbabwe, Kenya]. ○ Entity represented at Mayoral Road Shows. |
| <ul style="list-style-type: none"> ○ Promote strategic planning and management, and develop and implement strategic projects. | <ul style="list-style-type: none"> ○ JW has developed and approved a supply chain management policy in compliance with MFMA. ○ JW has implemented an outcome-based performance management system. ○ All strategic projects are closely managed, e.g. Operation Gcin'amanzi and Turnaround Strategy. |
| <ul style="list-style-type: none"> ○ Address job creation and accelerate economic development as well as target priority and advance human development. | <ul style="list-style-type: none"> ○ Labour intensive project resulted in the creation of 3858 jobs. ○ Local subcontractors [SME and BEE] now encouraged to play a role in mainstream economy through JVs. ○ Infrastructure now in place to provide FBW. |
| <ul style="list-style-type: none"> ○ Consolidate Inner City regeneration. | <ul style="list-style-type: none"> ○ Task team set up and focuses on infrastructure rehabilitation and maintenance. Manholes, valves, hydrants and any water related infrastructure. |
| <ul style="list-style-type: none"> ○ Consolidate HIV/Aids initiatives. | <ul style="list-style-type: none"> ○ HIV/AIDS policy approved and awareness programme implemented. |
| <ul style="list-style-type: none"> ○ Prepare for 2010 Soccer World Cup. | <ul style="list-style-type: none"> ○ JW Task Team has been identified. ○ JW project identified and approved. |

KEY ACHIEVEMENTS

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|---|
| <ul style="list-style-type: none"> ○ Revenue increased by R311 million to R2.7 billion. An increase of 13%. ○ An achievement of 113% in payment levels. ○ A 4 016 221 kl reduction in water purchases as a result of Operation Gcin'amanzi. This amounts to a saving of R10.6 million. ○ Profit before tax of R156 million compared to a loss of R118 million the previous year. ○ Attainment of a service level of 95% and 86% for the technical and service call centres respectively. ○ Reduction in percentage of unaccounted for water to 32.8%. |
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KEY CHALLENGES

- | |
|--|
| <ul style="list-style-type: none">○ The roll out of Operation Gcin'amanzi.○ Communication and integration between Johannesburg Water and Housing.○ Transformation.○ Access to water and sanitation services.○ Infrastructure rehabilitation.○ Migration of the customer base from the City of Johannesburg in terms of the turnaround strategy○ Continued discussions with the City in respect of compliance with approved agreements○ Development of a post 'turnaround strategy' strategy.○ Growth of the City and Capex limitations for future years. |
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RECOMMENDATIONS FOR CONSIDERATION IN 2005/2006

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|---|
| <ul style="list-style-type: none">○ Develop and implement strategies that will ensure the successful attainment of Key performance Indicators for 2005/2006.○ Strategic focus should be on transformation and cost management.○ Review capital expenditure and align to City's growth.○ Communicate with other stakeholders and ensure collective effort in addressing the infrastructure backlog with regards to access to water and basic sanitation services. |
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CONCLUSION

For the year 2005/2006 management strategies will be developed to meet the following challenges:

- **Roll out of Operation Gcin'amanzi**

The focus will be on contractor performance, contractor management, skills training, skills retention and relationship building with councillors.

- **Transformation**

Policy review will be carried out on procurement and supply chain management. A supplier data base will be developed.

Long term planning on attrition, succession planning and targeted human resources development will be in place to address Employment Equity.

- **Access to Water and sanitation service**

There will be confirmation on sanitation backlogs, costs, funding mechanisms and time lines.

- **Infrastructure Rehabilitation**

There is a need to discuss infrastructure rehabilitation and cost implications.

- **Development of a post "turnaround strategy" strategy**

Review of scenarios based on tariffs, cost of sales and operational expenditure will be studied with the primary aim of looking at efficiencies as a means of enhancing financial performance.

- **Post Jowam Strategy**

Strategies have been developed and will be discussed with the Shareholder.

- **Risk Management**

The Company is managed through an approved risk policy and strategy approved by the Board.

- **Appreciation**

Management expresses its gratitude and appreciation for the support and strategic guidance of the Chairman and the Board.

GERALD THEMBA DUMAS
MANAGING DIRECTOR

ADDITIONAL REQUIREMENTS IN TERMS OF THE MUNICIPAL FINANCE MANAGEMENT ACT : COMPANY'S BALANCED SCORECARD

In the production of the Balanced Scorecard consideration was given to the Mission and Vision of the Company as well as the Mayor's priorities, as it affects Johannesburg Water, namely, economic development and job creation, public safety, service delivery excellence and customer care, good governance, inner city regeneration and HIV/AIDS.

The Shareholder's integrated development plan and related targets have also been taken into account when determining the Company's key performance areas, key performance indicators and targets.

The Balanced scorecard has provided a framework to translate a strategy into operational terms.

The Board approved the Balanced Scorecard with actual results for the year is as follows:

| Strategic Priority | Key Performance Area | Key Performance Index | Target | Actual Result |
|---------------------------------------|-----------------------------------|--|--------------------|----------------------------------|
| Financial sustainability [40%] | Financial performance (R million) | Billed Revenue | R2 561 | R2 725 |
| | | Cost of Sales | R1 265 | R1 262 |
| | | Gross profit | R1 296 | R1 463 |
| | | Gross margin | 51% | 53,7% |
| | | Expenditure | R1 425 | R1 343 |
| | | Interest | R277 | R250 |
| | | Interest grant from COJ | R240 | R240 |
| | | Loss/(Profit) before tax | (R128) | R156 |
| | Meter reading | Percentage of meters read – top customers | 95% | 97.3% |
| | | Percentage of meters read – additional customers to be migrated | 85% | 82.9% ⁽¹⁾ |
| | Reduction in UFW losses | Overall UFW* | 34% | 32.8% |
| | | Phiri prototype <ul style="list-style-type: none"> • Prepayment meter installation • UFW reduction | 100% 35kl/stand | 83% ⁽²⁾ 43kl/stand |

* KPI for Water Services Authorities

¹ All City of Johannesburg customer meters including migration meters

² 339 properties excluded from meter installation due to unresolved City of Johannesburg Housing relocation issues

| Strategic Priority | Key Performance Area | Key Performance Index | Target | Actual Result |
|-------------------------------|--------------------------|---|--------------------|------------------------------------|
| | | Superblock 1 <ul style="list-style-type: none"> Prepayment meter installation UFW reduction | 85% 35kl/stand | 44.7% ⁽³⁾ 45kl/stand |
| | | Superblock 2 <ul style="list-style-type: none"> Prepayment meter installation UFW reduction | 70% 35kl/stand | 39% ⁽⁴⁾ 45kl/stand |
| | | Superblock 3 <ul style="list-style-type: none"> Prepayment meter installation UFW reduction | 100% 35kl/stand | 94.9% ⁽⁵⁾ 45kl/stand |
| Service delivery [30%] | Customer responsiveness | Calls answered within 30 seconds | 90% | 91% |
| | | Customer billing queries resolved at first contact | 80% | 84.8% |
| | | Customer queries resolved as proportion of calls received | 97% | 91.5% |
| | | Written customer queries resolved within 72 working hours | 75% | 77.5% |
| | Investment delivery | Capex spent against external financial fund | 98% | 98% |
| | | Capex spent in targeted areas against total budget | 5% increase | 129% increase |
| | Environmental compliance | Compliance with wastewater effluent quality permit* | 94% | 98.4% |
| | | Compliance with wastewater plant sludge disposal – DWAF standard | 100% | 100% |
| | | Wastewater plant spills per annum | 143 | 84 |
| | Water quality | Drinking water – E.coli/10ml (95% compliance to SABS 241)* | 99% | 99.6% |
| | Response times | Restoration of mainline bursts within 48 hours of reporting of burst | 80% | 68% ⁽⁶⁾ |
| | | Clearing of sewer blockages within 24 hours of reporting of blockage | 80% | 68% ⁽⁶⁾ |
| | | Attendance to customer calls of missing sewer manhole covers within 24 hours | 90% | 67% ⁽⁶⁾ |

*KPI for Water Services Authorities

³ Scope of work increase led to contract period extension plus numerous delays in start up and meter related problems

⁴ Numerous delays in start up and meter related problems

⁵ Complete except for those refusals to accept LOS2 or 3

⁶ Results affected by implementation of Watersolve. Last 5 months have shown significant improvements with averages greater than 75%.

⁷ Delays due to numerous revisions of the benefit settlements

| Strategic Priority | Key Performance Area | Key Performance Index | Target | Actual Result | |
|---|--|---|--|----------------------|-----|
| | Coverage | Households with access to basic water* | 97.5% | 98.4% | |
| | | Households with access to basic sanitation* | 91.5% | 93.8% | |
| | | VIPs installed | 5 000 units | 4008 ⁽⁷⁾ | |
| | Free basic services provided | Households with access to free basic water and required to pay for usage above free basic allocation* | 0% | 0% | |
| | | Households with access to basic sanitation and required to pay for usage above free basic allocation* | 0% | 0% | |
| | Affordability | Reduction of debtor days (top customers)* | 143 days | 122 days | |
| | Continuity of water supply | Households which experience inadequate continuity of water supply** | 0,5% | 0.32% | |
| Human capital development and transformation [20%] | Economic development | Number of jobs created through investment delivery BEE procurement | 10% increase | 20.2% increase | |
| | | | 60% | 43.9% ⁽⁸⁾ | |
| | HR capacitation | Training and mentoring | 3 000 events | 10 584 events | |
| | | | Budget spent on implementation | 92.5% | 90% |
| | | | EE targets for top three levels of management. | 75% | 70% |
| | | | Assessment of the quality of major training interventions for Grade 23 and above in terms of management feedback and assessment of objectives met. | 100% | 90% |
| HIV/Aids | Awareness | 90% | 130.2% | | |
| | Access to food supplements (programme introduced in the 2004/05 year) | 50% | 0% ⁽⁹⁾ | | |
| Performance management | Introduction of new system for Grade 23 and above | 100% | 100% | | |
| Occupational health & safety | Disabling injuries incidence rate (DIIR) Interim target to be fixed at 1.7 provided that final target is to work towards 0. | 1.7 – 1.8 | 1.97 | | |

** isolated interruptions of less than 48 hours and cumulative interruption time during the financial year of less than 15 days

⁸ Verification of suppliers resolved in disallowance of Black Economic Empowerment points in more cases than anticipated

⁹ Subsequent to evaluation of food supplement Johannesburg Water Board resolved to discontinue and investigate use of mobile clinics

| Strategic Priority | Key Performance Area | Key Performance Index | Target | Actual Result |
|---------------------------|-----------------------------|---|---------------|--|
| Governance [10%] | Information system | Successful implementation of Watersolve IT project | 2 August 2004 | Rolled out on 2/8/2004 |
| | Risk management | Adoption of Enterprise Risk Management (ERM) plan | 100% | Approved by Board on 3 May 2005 (Item 6) |
| | Fraud prevention | Implement fraud prevention plan | 30% coverage | 90% coverage |
| | Legal compliance | Compliance with relevant legislation | 100% | 100% |
| | | Submit returns to Registrar of Companies in terms of Companies Act | 100% | 100% |
| | | Hold all Board meetings in accordance with company policy and Companies Act | 100% | 100% |