



RAND WATER

ANNUAL REPORT 2006

GOING BEYOND **GOLD**



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“Going beyond Gold”

Izandla ziyagezana
“In partnership lies our success”



Going beyond Gold

The Witwatersrand of long ago was a wild land of scattered communities and a handful of hardy subsistence farmers. Water was essential to life and from the earliest days, the people of the land attempted to take ownership of this precious resource, building settlements in the valleys near streams, rivulets and natural springs. They planted crops and grazed their cattle. There were wet years, when the rains came with heaven-sent abundance. But there were also terrible droughts, predictable and sure, which caused the crops to wither and turned fat cattle to skeletons on the parched dry earth.

Explorers, adventurers, prostitutes and hunters from distant lands were drawn to the interior in the 1830s and, before long, a new breed of person arrived on the Witwatersrand – the prospector. The discovery of the main Reef on the farm Langlaagte in 1886 led to a flood of people determined to stake a claim in a golden future.

By 1884 the white population of Johannesburg exceeded 42 000. The gold rush was essentially a time of greed and opportunism. It started with the granting of 1 207 prospectors licences in 1886 and a small huddle of desperate diggers pegging their tents at Ferreira's camp on the farm Turffontein, and led to the establishment of the mining village, Johannesburg. The number of Africans employed on the diggings increased from 14 000 in 1890 to 70 000 in 1897.

The streams of Johannesburg were soon choking with pollution. There was a

permanent smell of sewage in the air and dust storms obliterated the Johannesburg skyline. The privileged sank their own wells but even these were soon contaminated or ran dry. Outbreaks of typhoid and other water-borne diseases were common in the golden land of opportunity.

Although the precious gold was slowly being coaxed from the earth, the urgent need for a reliable and sustainable source of clean water was essential to the healthy survival of both the gold mines and the growing population.

In 1886, stamp batteries, used in the ore milling process, were sited at any available water source. As mining companies grew, gold ore was transported to stamps set up at far-away strong flowing streams. But, despite the best efforts, the regular periods of drought rendered the stamps mockingly silent.

Apart from gold mining, the growing service industries now depended on a regular water source. Among such industry was brick building and, perhaps the most important of all, the Castle Brewery, established in 1895 producing 50 000 barrels a year by 1897.

In the climate of profits and prospects at the turn of the century, it's not surprising that enterprising businessmen recognised the value of water as a scarce and profitable commodity, almost as good as gold. Unlike other major cities in the world, Johannesburg was situated on a crest of a ridge and far from any meaningful reservoir

of water. Pumping water to its residents was no mean feat. Men who staked their very lives on a dream, moving across the world in search of gold and fortune, are not put off by such trifles as distance or gravity.

James Sivewright was the first to obtain a concession from his friend President Kruger. He established the Johannesburg Waterworks and Exploration Company. And so the first reservoir was built in 1888. The most expensive water in the world turned a handsome profit for its early investors – selling for 90 pence per 1 000 gallons compared to eight pence per 1 000 gallons in London!

Concessions, rivalry, intrigue, bribery and Volksraad commissions followed, with Barney Barnato instrumental in gaining the upper hand for the Johannesburg Waterworks company.

Kruger's concession politics was a major reason for the outbreak of the second Anglo/Boer War in 1899. South Africa's gold and water was firmly in the hands of the victors by May 1900 when the Royal Engineers and British town planners marched into Johannesburg, bringing their expertise as well as true colonialism to the mine fields.

The Rand Water Board was established in 1903, when Boksburg had no water and Germiston had very little. Setting a gold standard for delivery from the outset, the new leaders wasted no time in borrowing money to buy out the concession holders and extend operations to the entire Reef.

At last, the purveyors of water would be operating as a non-profit company, with service delivery at affordable rates as its aim. Prices dropped from 26 pence a kilolitre in 1903 to 13 pence in 1905 and to eight pence in 1907. By 1910 Rand Water Board was charging two pence for fixed rate mass consumers and four pence for other consumers.

It was full steam ahead for the Rand Water Board as the Zwartkopjes pumping station in the Klip River Valley was commissioned in 1907. The Vaal River was identified as the best source for a water scheme in 1902 but Board approval was only given in 1913. The outbreak of war in 1914 was to affect the building of the Vaal barrage as much needed funding and manpower was diverted to the British war machine, but it was finally completed in 1923. It spanned 400 metres.

Cities grew with the expanding service and Rand Water Board incorporated Pretoria and Vereeniging. With rapid industrialisation, the early twenties marked the rise of labour unrest. Set against a colonial backdrop, the workforce was divided into two distinctive camps of white and brown, with skilled and semi-skilled jobs reserved for whites and unskilled labour dispersed out to blacks. The “hidden gold” of Rand Water Board was the workers, but it would be a long time before this was recognised.

Black and white were equally unhappy. While ANC leaders talked of white oppression and exploitation, white workers

were inflamed about wage reductions and the intention to replace white semi-skilled labourers with lower paid black workers. Fortunately, with the growing unrest in the mining sector, Rand Water Board employees were relatively calm, making up for poor wages by planting crops on company land.

Despite the threat of strikes, the Rand Water Board had to proceed with urgent plans to expand on the Vaal River scheme to meet the water needs of the future. Expansions of the Vaal water schemes started in 1925. By 1933 water provided by the Vaal River grew to 87 million litres per day. In 1937 the new Vaal Dam began to fill up, providing clean water to hundreds of thousands of people through a new system of sedimentation tanks, filters and coagulants.

But millions of people still lived without piped water and this was to become the Rand Water Board’s biggest challenge in the distant future. In 1941, water was piped to Alexandra, the first black community to be given this basic and essential service. Natalspruit, Nancefield and Kliptown townships followed soon after.

The year 1948 brought to power a new Nationalist Government. The Water Act of 1956 determined government policy regarding water. The Rand Water Board had operated under the Boers, the Brits and Jan Smuts. The next 30 years would be a time of expansion, service and quality excellence countered by the national violation of human rights and growing labour unrest, accompanied by an increase in trade union power.

This was the golden age of Afrikanerdom as poor white members of the volk were given protective employment and national projects were tackled with pride.

Meanwhile, the Rand Water Board commissioned the Zuikerbosch pumping station in 1954. It was one of the largest in the southern hemisphere. A booster pumping station was built at Palmiet in 1964, Rustenburg, the platinum mining areas of the Northwest province, joined the list of customers in 1967.

By 1980 forward thinking industry leaders were talking about change management.

In 1994 a new golden age dawned in South Africa but 12 million South Africans had no access to clean drinking water and 21 million were without sanitation. Rand Water was already transforming into a representative company with a social conscience. Priorities were set for a decade of transformation.

South Africa, its gold, its people and its water is intertwined in the annals of history. This rainbow tapestry emerged finally, in all its richness, when true transformation was achieved at Rand Water, not only in the true representation within the workforce and the board, but in the affirmation of public ownership of water.



Defining Rand Water

WHO WE ARE

Established in 1903 as a humble water utility servicing the gold rush in Johannesburg, Rand Water has grown to become Africa's leading water utility. Today, Rand Water is the largest bulk water utility in Africa and of the largest in the world, providing bulk potable water to more than 11 million people in Gauteng, parts of Mpumalanga, Free State and North West – an area that stretches over 18 000 km². On average 3,5 billion litres of quality water are pumped to customers every day, an equivalent of 60 000 medium sized swimming pools. Rand Water's ability to continuously provide quality, reliable and efficient bulk water services to an area not located on any major waterway, through 3 000 kilometres of pipeline infrastructure and state-of-the-art purification technology, is a unique feat in the global water services sector.

Rand Water is a bulk potable water services utility, offering a comprehensive range of water solutions and services that permeates various dimensions of the water industry. Its clients include metropolitan cities, local municipalities, mines and industries. As a public utility run on ethical business principles, Rand Water concentrates on understanding the needs of its customers and adhering to international standards.

Rand Water's quality reputation is globally affirmed by Standard & Poor's rating of its long-term local currency, corporate credit rating to 'A+' from 'A' and the 'BBB+' long-term foreign currency, corporate credit rating. Aimed at leveraging distinctive competencies and skills into new markets, Rand Water is the industry leader and preferred partner in sustainable water services to both the developed and the developing world.

Vision

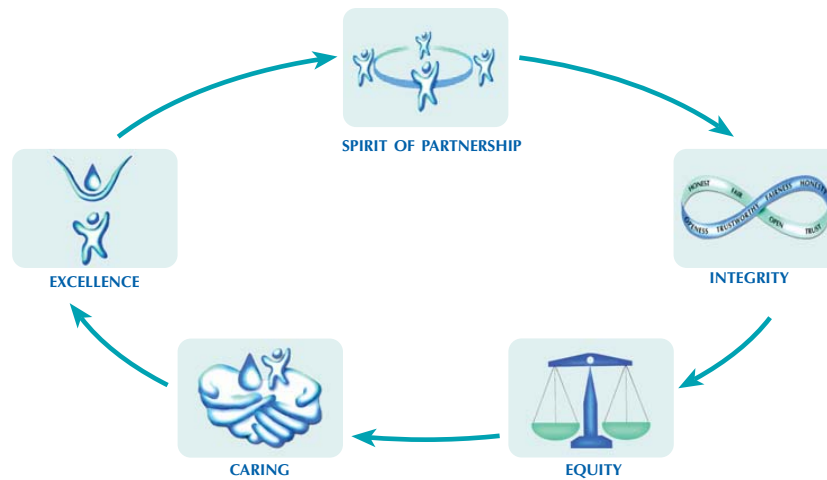
Rand Water is an industry leader and partner of choice in sustainable bulk water services.

Mission

The mission of Rand Water is to meet the expectations of our customers and stakeholders by:

- providing a sustainable, affordable, safe and reliable full water supply
- provide prompt and efficient customer services
- developing and incentivising our employees
- being the preferred equal opportunity employer
- undertaking our business in an environmentally acceptable manner

Values

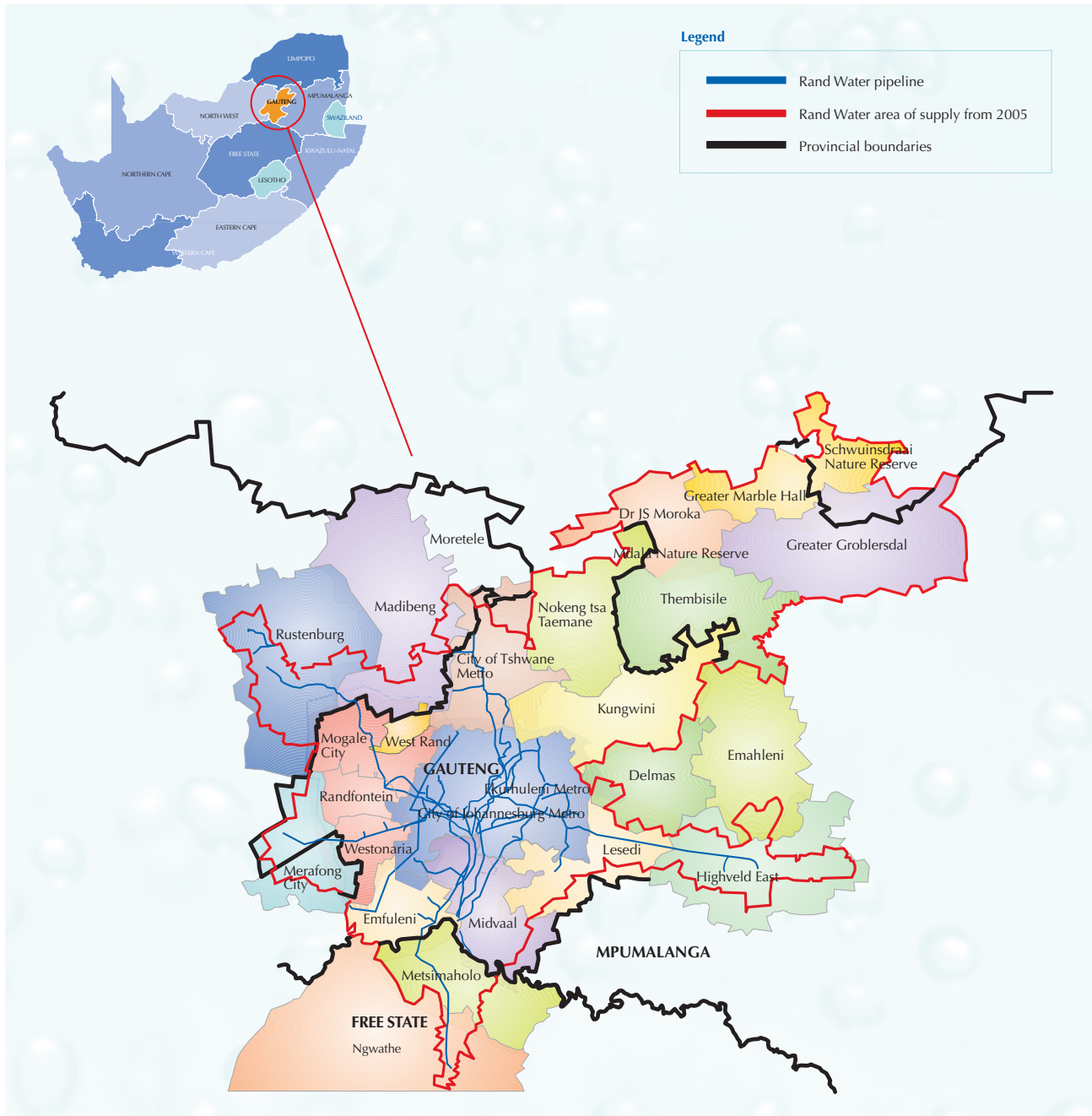


Strategic objectives

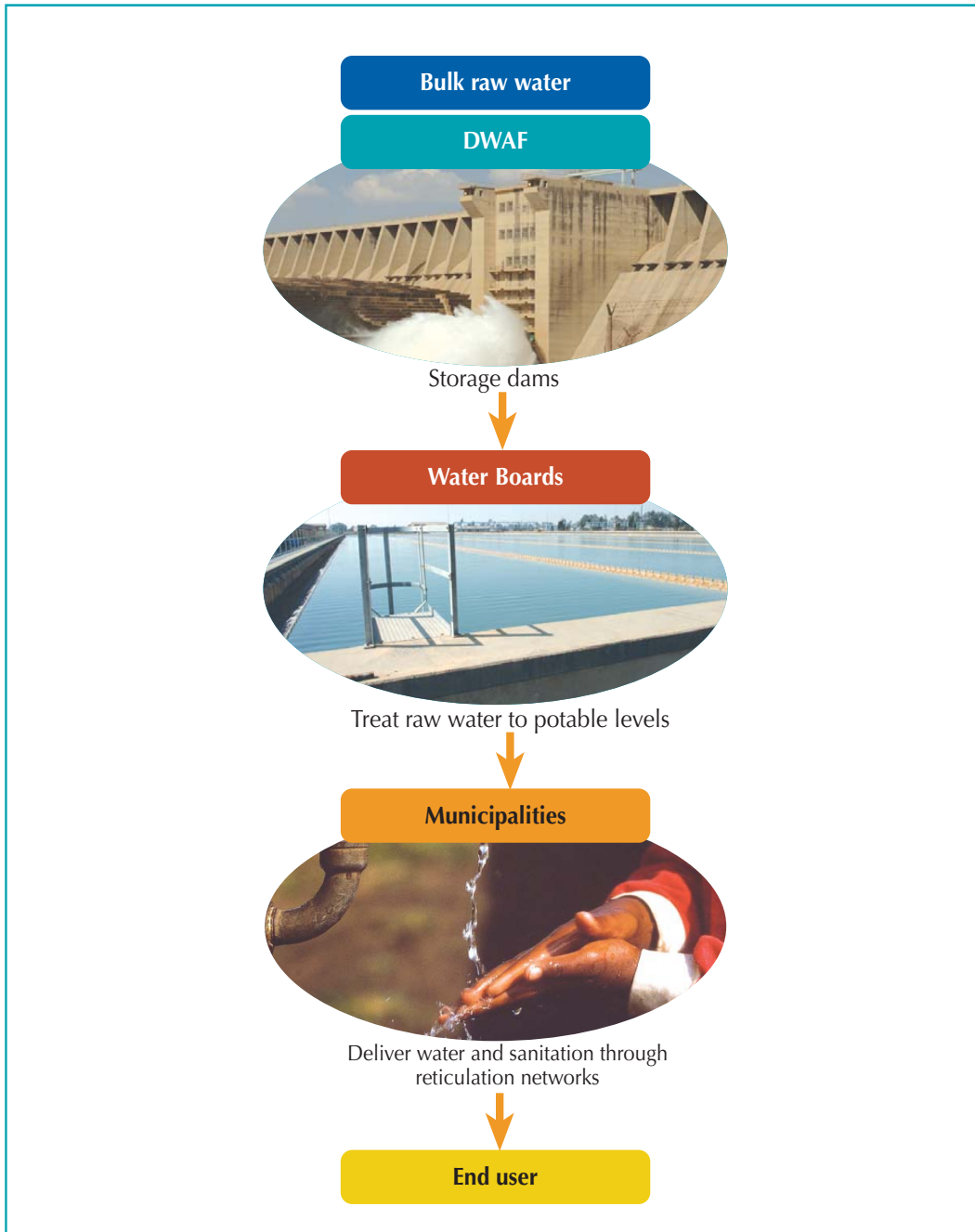
- Ensure that Rand Water continues to be a viable and sustainable full water services provider
- Position Rand Water as the partner of choice in water services
- Satisfy all customers
- Improve business efficiencies and quality
- Achieve transformation
- Create a dynamic learning organisation

Footprint in South Africa

Area of service

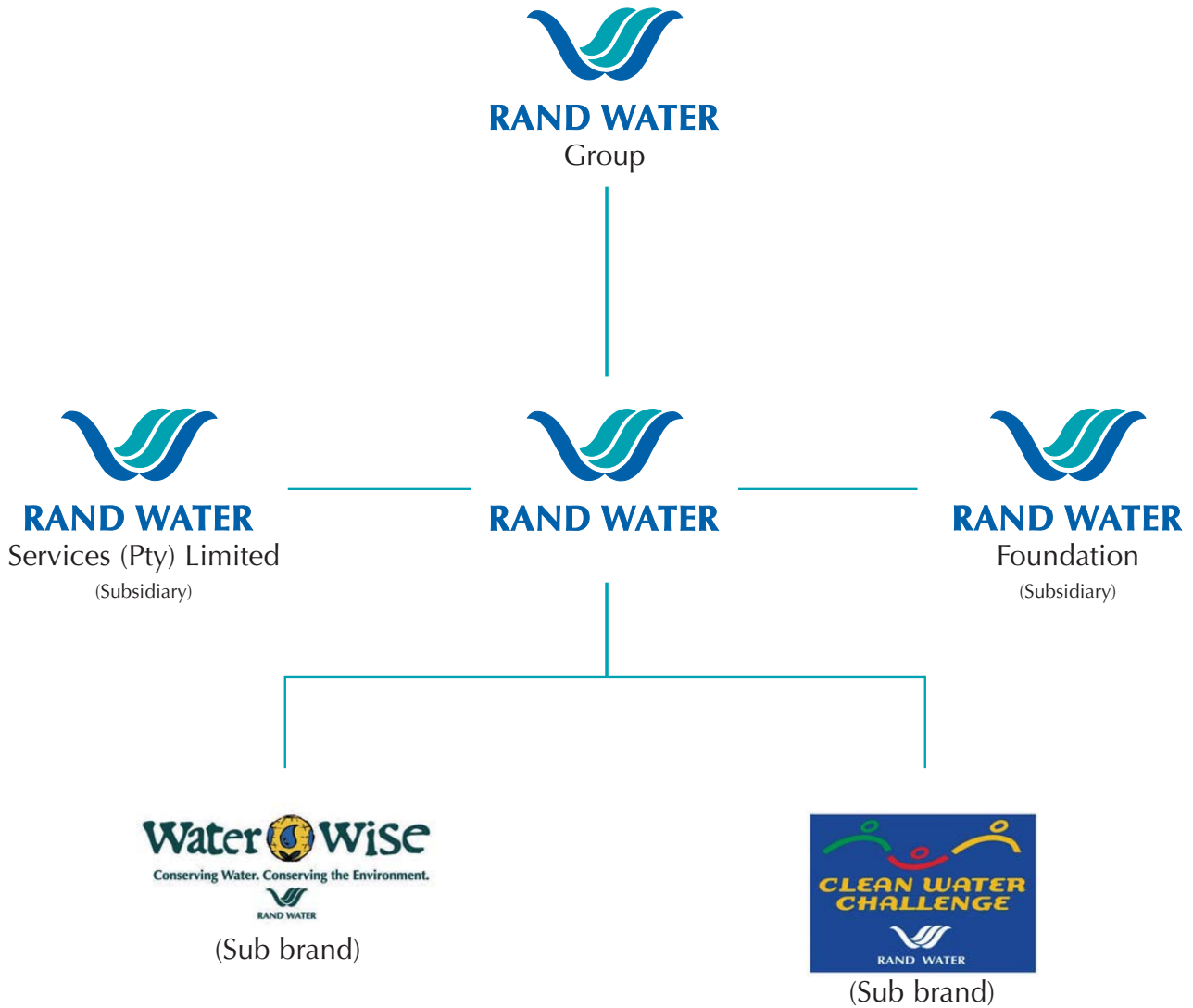


Water sector value chain





Rand Water Group



Corporate information

Rand Water is a schedule 3B public entity, as defined by the Public Finance Management Act.

A schedule 3B public entity is defined as a national government business enterprise which:

- a) is a juristic person under the ownership control of the national executive
- b) has been assigned financial and operational authority to carry on a business activity
- c) provides as its principal business goods or services in accordance with ordinary business principles
- d) is financed fully or substantially from sources other than
 - i) the national revenue fund or
 - ii) by way of tax, levy or other statutory money

Rand Water is an organ of the state in terms of section 239 of the Constitution.

Rand Water is also established and governed in terms of the Water Services Act No 108 of 1997.

Contact details

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Fax number: +27 11 682 0444/0555
Call centre: 0860 10 10 60
Email: customerservice@randwater.co.za

Marketing and communications

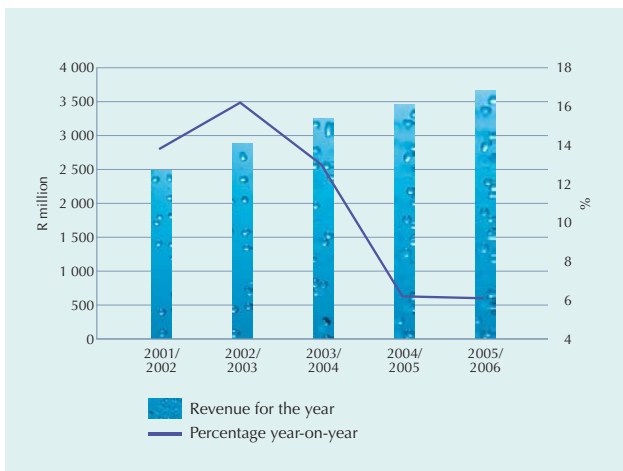
Telephone number: +27 11 682 0980
Fax number: +27 11 432 4943
Email address: corpcomm@randwater.co.za



Executive summary

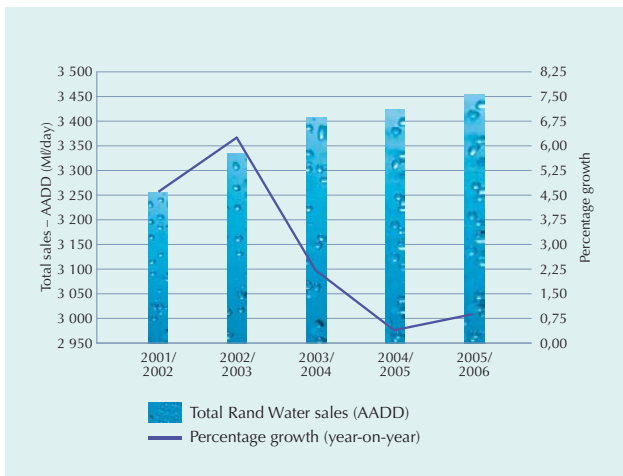
“It’s all in the numbers”

Revenue




6,1%

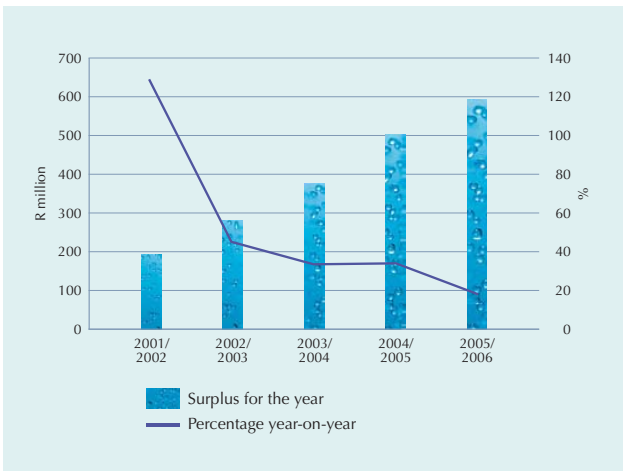
Sales volumes – 5-year growth




0,9%

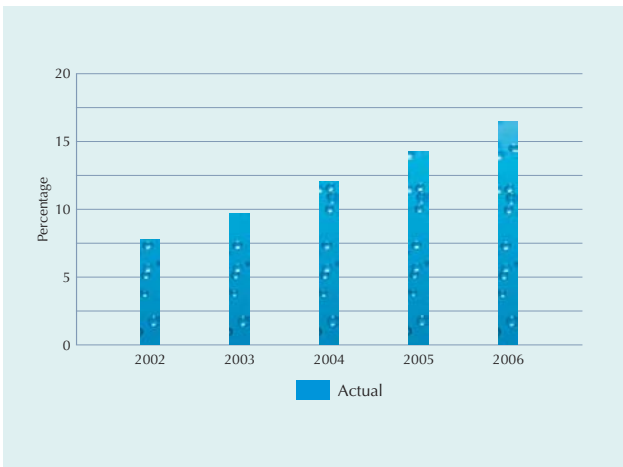


Net income




18,0%

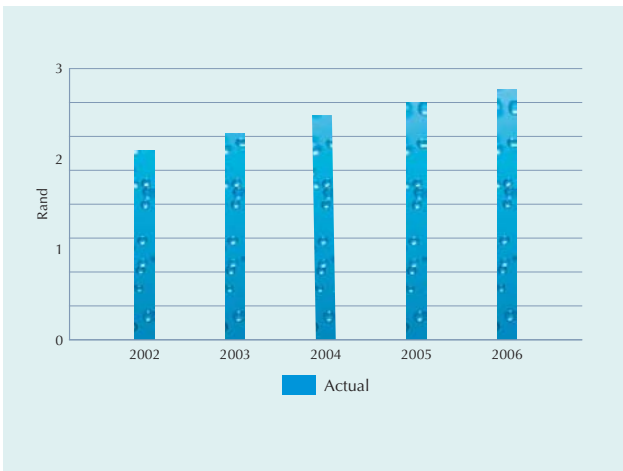
Profit margin




13,1%

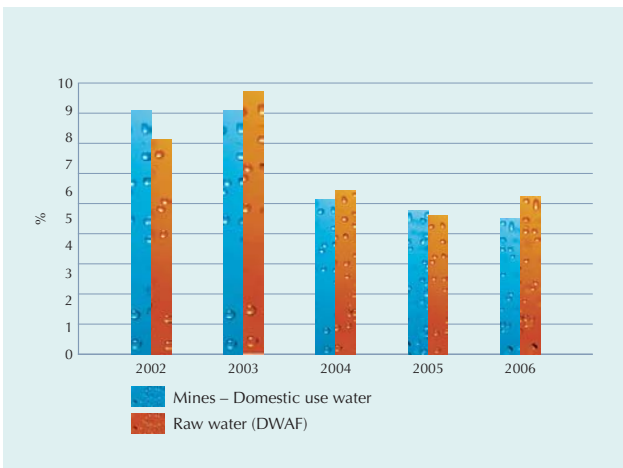


Raw bulk tariff




5,84%

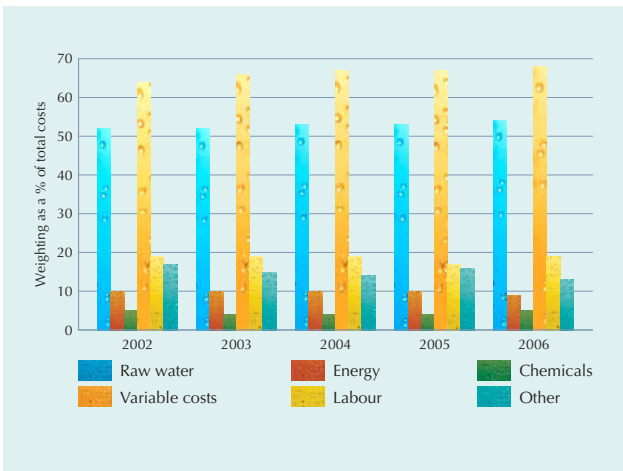
Potable bulk tariff




5,0%

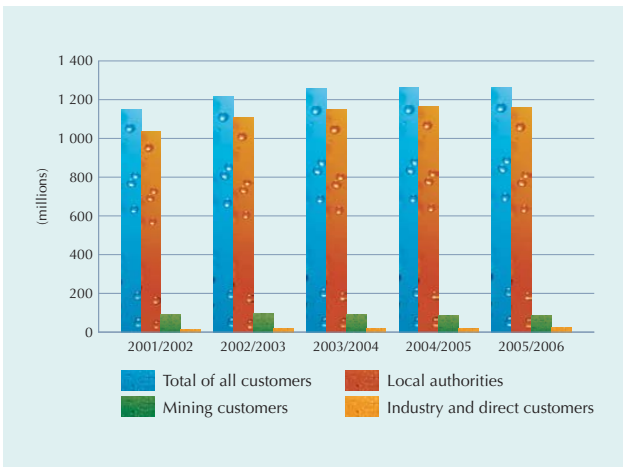


Budget key drivers for water pricing




5,0%

Water sales comparison 2001 to 2006 (AADD)

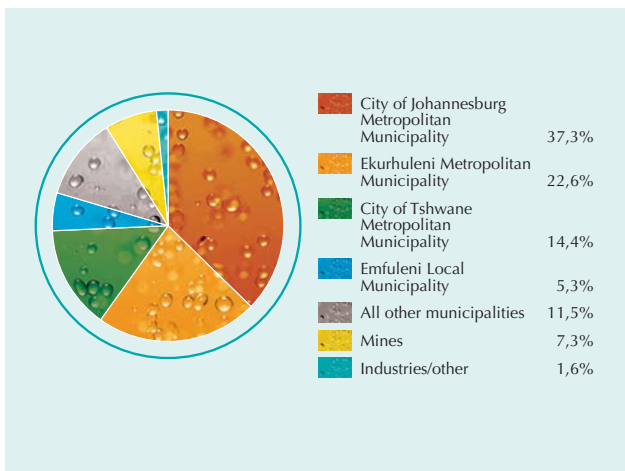



0,9%

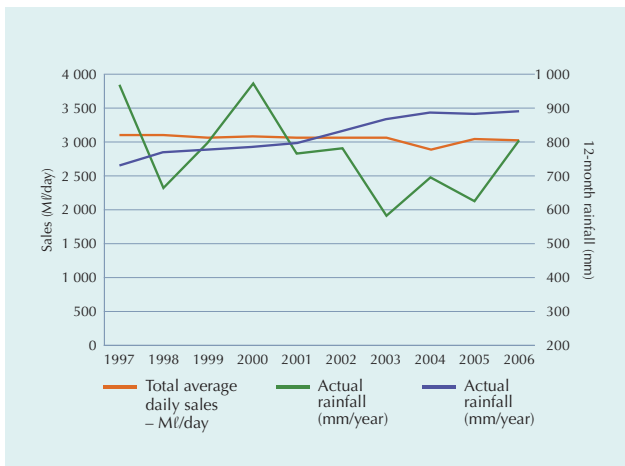
Annual average daily demand (AADD)



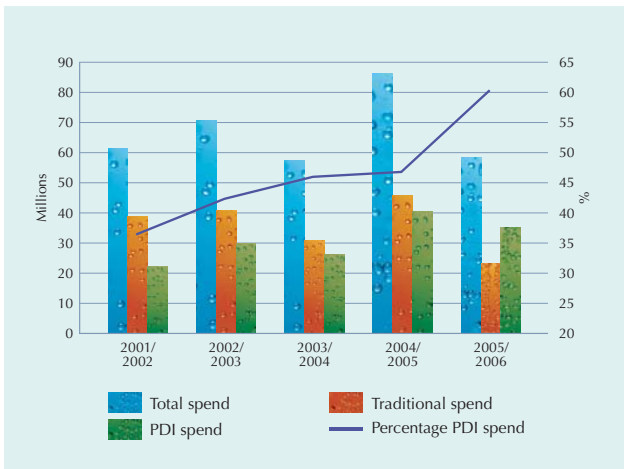
Customer sales by volume 2005/2006 financial year



Total sales versus rainfall



Commercial equity spend




28,95%

Our sales revenue for the year ended up 1,6% above budget. The actual sales for the period under review were 1 297 586 Ml. A key factor that impacted on sales was the prolonged drought which came to an end during December 2005, with uncharacteristically heavy rains. For the months of December to April, the average rainfall was between 101,8 mm and 166 mm. In comparison the long-term average rainfall for months under review were higher than the long-term average. The steady growth of water sales in our service area of about 0,9% annually remained the main contributor to the sales growth.

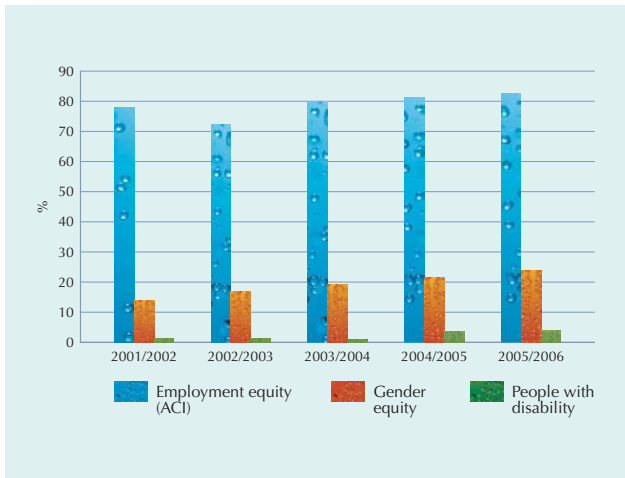
Productivity performance

Infrastructure utilisation	2006	2005	2004	2003	2002	2001
Raw Water intake						
Installed capacity (Mℓ/d)	7 511	7 511	7 511	7 511	7 511	7 511
Available capacity (Mℓ/d)	6 124	6 124	6 124	6 124	6 124	6 124
Utilisation (Mℓ/d)	3 618	3 523	3 515	3 427	3 236	3 110
Utilisation vs available capacity (%)	59	58	57	56	53	51
Treatment						
Installed capacity (Mℓ/d)	5 370	5 370	5 370	5 370	5 370	5 370
Available capacity (Mℓ/d)	5 370	5 370	5 370	5 370	5 370	5 370
Utilisation (Mℓ/d)	3 776	3 666	3 662	3 571	3 395	3 219
Utilisation vs available capacity (%)	70	68	68	66	63	60
Primary pumping						
Installed capacity (Mℓ/d)	7 686	7 686	7 686	7 686	5 201	8 146
Available capacity (Mℓ/d)	5 370	5 370	5 370	5 370	5 370	5 370
Utilisation (Mℓ/d)	3 528	3 529	3 469	3 359	3 190	3 066
Utilisation vs available capacity (%)	66	66	65	63	59	57
Booster pumping						
Installed capacity (Mℓ/d)	8 210	8 210	8 210	8 000	8 000	7 110
Available capacity (Mℓ/d)	5 370	5 370	5 370	5 370	5 370	5 370
Utilisation (Mℓ/d)	3 457	3 452	3 414	3 340	3 143	3 005
Utilisation vs available capacity (%)	64	64	64	62	59	56

- *The bottleneck in the purification and pumping process is in the treatment process which has an installed capacity of 5 370Mℓ/d (the lowest capacity compared to raw water intake primary and booster pumping capacities). However the 68% treatment plant utilisation ensures that Rand Water is in a strong position to meet future growth in demand to a total extra capacity of 1 704(5 370Mℓ/d-3 666Mℓ/d) without additional investment in new infrastructure.*

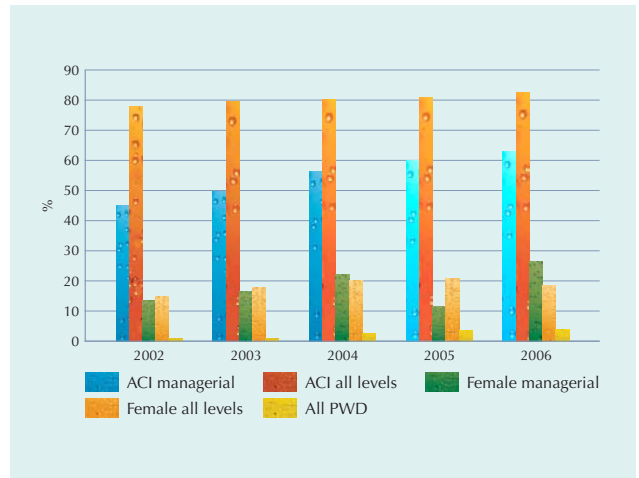
Efficiency measures	2006	2005	2004	2003	2002
Energy consumption					
Coal used t/Ml	0,41	0,900	0,690	0,737	0,711
Electricity used kWh/Ml	660,4	653	643	650	649
Cost of energy					
Cost of coal R/t	184,1	173,0	173,6	151,2	–
Cost of electricity c/kWh	17,7	17,7	17,1	15,3	–
Energy efficiencies – Mgl *kpa/kWs					
Percentage					
Zuikerbosch – Electrical	83,3	84,9	85,9	84,5	76,2
Vereeniging – Electrical	67,4	56,1	56,7	57,4	54,0
Vereeniging – Steam	9,3	9,0	11,9	11,4	10,3
Zwartkopjes – Electrical	79,0	72,4	71,7	70,3	72,6
Zwartkopjes – Steam	Phased	8,4	11,2	11,8	12,5
Palmiet – Electrical	out	81,6	84,3	82,4	82,8
Eikenhof – Electrical	82,9	81,4	81,0	81,0	82,5
Mapleton – Electrical	73,6	71,5	74,3	74,6	75,2
HUMAN RESOURCE AND PLANT MANAGEMENT					
Infrastructure utilisation					
Manpower utilisation (%) actual work hours	94,51	89,19	89,65	84,34	76,76
Plant reliability (days) total no of running days/total no of failures	36,60	40,34	35,05	29,51	18,56
Plant availability (%) running hours and standby hours	89,04	88,42	88,46	79,73	79,76
ENVIRONMENTAL PERFORMANCE INDICATORS					
Indicator	2006	2005	2004	2003	2002
Energy use					
• Electricity purchased (kWh)	1,569,610,751	1,503,183,518,3	1,443,653,501	1,418,288,534,4	1,323,588,810,0
• Coal (tons)	35,595	152,640,0	173,831,0	191,425,0	195,653,0
Liquid effluent					
Total liquid effluent (Ml)	1,444	1,356	1,883,3	3,001,0	Nm
Waste handled					
• Hazardous waste (tons)	251,290,0	244,160,5	244,104,0	Nm	Nm
• Non-hazardous waste (tons)	5,098,87	68,213,65	24,772,9	Nm	Nm
Air quality					
• Total NOx emissions (mg/m ³)	1,7	0,11	1	79	Nm
• Total SOx emissions (mg/m ³)	278	124,38	318	285	Nm
• CO (mg/m ³)	40	3,566,2	36	781	Nm
• Particulate emissions (mg/m ³)	246	217,82	339	–	Nm
Total dust fall out (mg/m ²)	4,378	5,192	1,351	718	Nm
Compliance					
Water quality standards	Class I =95% Class II =99%	Class I =95% Class II =99%	Class I = 98% Class II = 100%	Class I = 98% Class II = 100%	Nm Nm
Total ISO 14001 certifications	6	6	6	5	3
<i>Nm Not measured</i>					

Employment equity

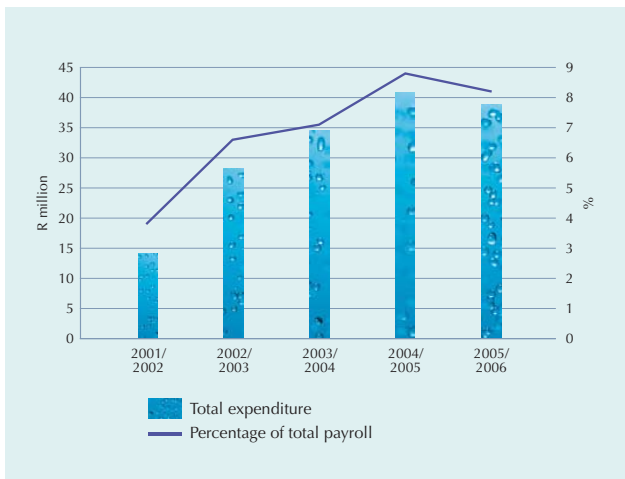


African, Coloured and Indian (ACI)

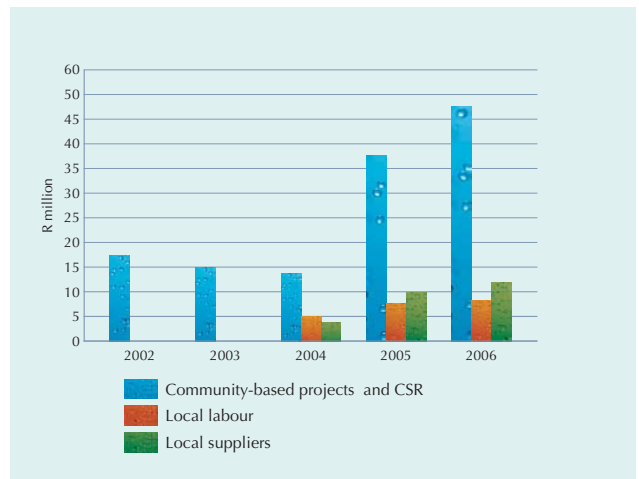
Transformation and change as per demographic category



Total expenditure on training and development

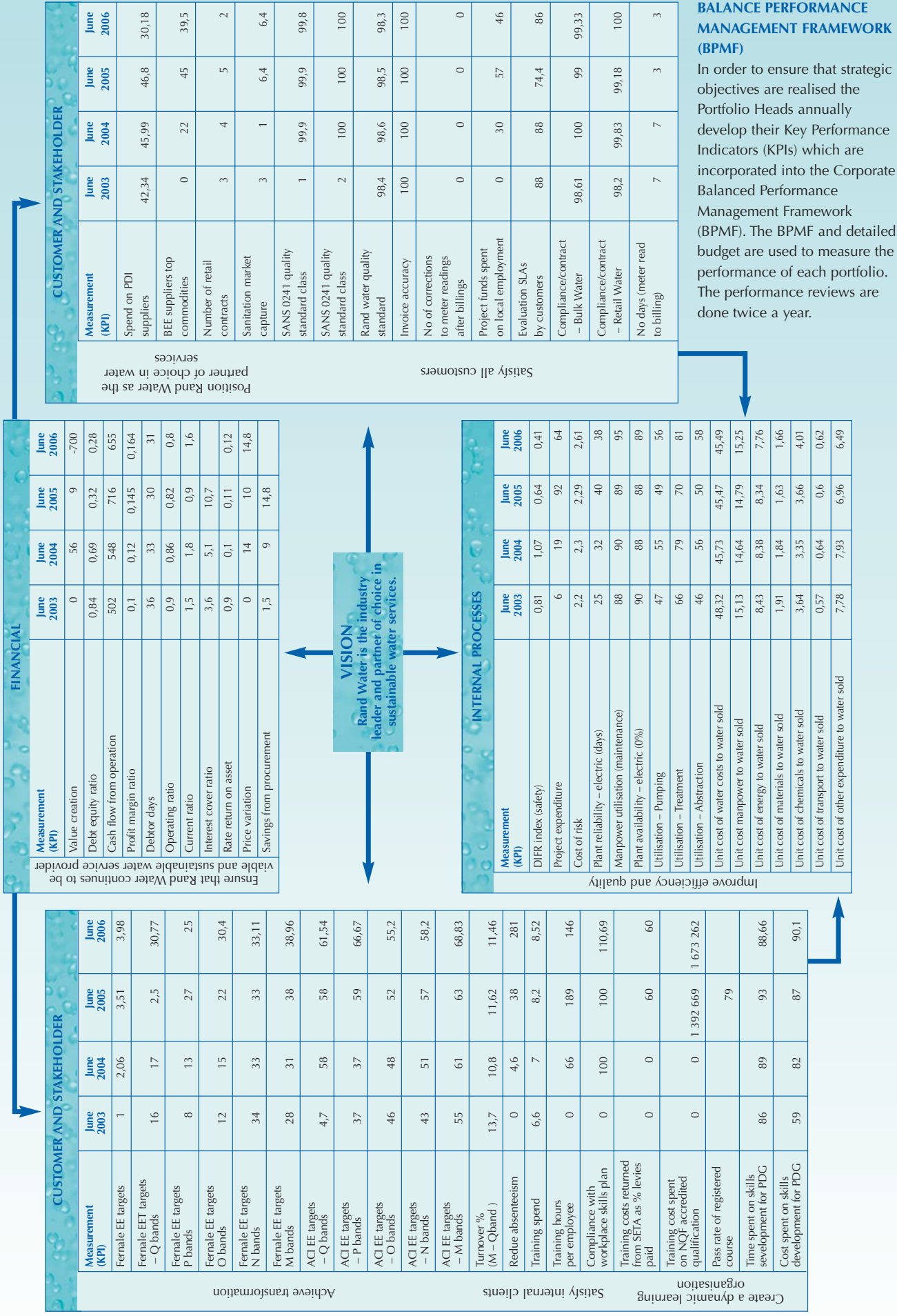


Community-based development projects and corporate social responsibility





Balance performance management framework (BPMF)



Measurement (KPI)	FINANCIAL					CUSTOMER AND STAKEHOLDER				
	June 2003	June 2004	June 2005	June 2006	June 2006	June 2003	June 2004	June 2005	June 2006	
Value creation	0	56	9	-700		Measurement	June 2003	June 2004	June 2005	June 2006
Debt equity ratio	0,84	0,69	0,32	0,28		Spend on PDI suppliers	42,34	45,99	46,8	30,18
Cash flow from operation	502	548	716	655		BEE suppliers top commodities	0	22	45	39,5
Profit margin ratio	0,1	0,12	0,145	0,164		Number of retail contracts	3	4	5	2
Debtor days	36	33	30	31		Sanitation market capture	3	1	6,4	6,4
Operating ratio	0,9	0,86	0,82	0,8		SANS 0241 quality standard class	1	99,9	99,9	99,8
Current ratio	1,5	1,8	0,9	1,6		SANS 0241 quality standard class	2	100	100	100
Interest cover ratio	3,6	5,1	10,7			Rand water quality standard	98,4	98,6	98,5	98,3
Rate return on asset	0,9	0,1	0,11	0,12		Invoice accuracy	100	100	100	100
Price variation	0	14	10	14,8		No of corrections to meter readings after billings	0	0	0	0
Savings from procurement	1,5	9	14,8			Project funds spent on local employment	0	30	57	46

Measurement (KPI)	FINANCIAL					VISION Rand Water is the industry leader and partner of choice in sustainable water services.
	June 2003	June 2004	June 2005	June 2006	June 2006	
Value creation	0	56	9	-700		Position Rand Water as the partner of choice in water services
Debt equity ratio	0,84	0,69	0,32	0,28		
Cash flow from operation	502	548	716	655		
Profit margin ratio	0,1	0,12	0,145	0,164		
Debtor days	36	33	30	31		
Operating ratio	0,9	0,86	0,82	0,8		
Current ratio	1,5	1,8	0,9	1,6		
Interest cover ratio	3,6	5,1	10,7			
Rate return on asset	0,9	0,1	0,11	0,12		
Price variation	0	14	10	14,8		
Savings from procurement	1,5	9	14,8			

VISION
Rand Water is the industry leader and partner of choice in sustainable water services.

Measurement (KPI)	INTERNAL PROCESSES					VISION Rand Water is the industry leader and partner of choice in sustainable water services.
	June 2003	June 2004	June 2005	June 2006	June 2006	
DIFR index (safety)	0,81	1,07	0,64	0,41		Satisfy all customers
Project expenditure	6	19	92	64		
Cost of risk	2,2	2,3	2,29	2,61		
Plant reliability – electric (days)	25	32	40	38		
Manpower utilisation (maintenance)	88	90	89	95		
Plant availability – electric (0%)	90	88	88	89		
Utilisation – Pumping	47	55	49	56		
Utilisation – Treatment	66	79	70	81		
Utilisation – Abstraction	46	56	50	58		
Unit cost of water costs to water sold	48,32	45,73	45,47	45,49		
Unit cost manpower to water sold	15,13	14,64	14,79	15,25		
Unit cost of energy to water sold	8,43	8,38	8,34	7,76		
Unit cost of materials to water sold	1,91	1,84	1,63	1,66		
Unit cost of chemicals to water sold	3,64	3,35	3,66	4,01		
Unit cost of transport to water sold	0,57	0,64	0,6	0,62		
Unit cost of other expenditure to water sold	7,78	7,93	6,96	6,49		

Measurement (KPI)	CUSTOMER AND STAKEHOLDER					VISION Rand Water is the industry leader and partner of choice in sustainable water services.
	June 2003	June 2004	June 2005	June 2006	June 2006	
Fernale EE targets – Q bands	1	2,06	3,51	3,98		Achieve transformation
Fernale EEI targets – Q bands	16	17	2,5	30,77		
Fernale EE targets P bands	8	13	27	25		
Fernale EE targets O bands	12	15	22	30,4		
Fernale EE targets N bands	34	33	33	33,11		
Fernale EE targets M bands	28	31	38	38,96		
ACI EE targets – Q bands	4,7	58	58	61,54		
ACI EE targets – P bands	37	37	59	66,67		
ACI EE targets – O bands	46	48	52	55,2		
ACI EE targets – N bands	43	51	57	58,2		
ACI EE targets – M bands	55	61	63	68,83		
Turnover % (M – Q band)	13,7	10,8	11,62	11,46		
Reduce absenteeism	0	4,6	38	281		
Training spend	6,6	7	8,2	8,52		
Training hours per employee	0	66	189	146		
Compliance with workplace skills plan	0	100	100	110,69		
Training costs returned from SETA as % levies paid	0	0	60	60		
Training cost spent on NQF accredited qualification	0	0	1 392 669	1 673 262		
Pass rate of registered course	0	0	79			
Time spent on skills development for PDG	86	89	93	88,66		
Cost spent on skills development for PDG	59	82	87	90,1		

VISION
Rand Water is the industry leader and partner of choice in sustainable water services.

Measurement (KPI)	INTERNAL PROCESSES					VISION Rand Water is the industry leader and partner of choice in sustainable water services.
	June 2003	June 2004	June 2005	June 2006	June 2006	
DIFR index (safety)	0,81	1,07	0,64	0,41		Improve efficiency and quality
Project expenditure	6	19	92	64		
Cost of risk	2,2	2,3	2,29	2,61		
Plant reliability – electric (days)	25	32	40	38		
Manpower utilisation (maintenance)	88	90	89	95		
Plant availability – electric (0%)	90	88	88	89		
Utilisation – Pumping	47	55	49	56		
Utilisation – Treatment	66	79	70	81		
Utilisation – Abstraction	46	56	50	58		
Unit cost of water costs to water sold	48,32	45,73	45,47	45,49		
Unit cost manpower to water sold	15,13	14,64	14,79	15,25		
Unit cost of energy to water sold	8,43	8,38	8,34	7,76		
Unit cost of materials to water sold	1,91	1,84	1,63	1,66		
Unit cost of chemicals to water sold	3,64	3,35	3,66	4,01		
Unit cost of transport to water sold	0,57	0,64	0,6	0,62		
Unit cost of other expenditure to water sold	7,78	7,93	6,96	6,49		

BALANCE PERFORMANCE MANAGEMENT FRAMEWORK (BPMF)

In order to ensure that strategic objectives are realised the Portfolio Heads annually develop their Key Performance Indicators (KPIs) which are incorporated into the Corporate Balanced Performance Management Framework (BPMF). The BPMF and detailed budget are used to measure the performance of each portfolio. The performance reviews are done twice a year.



Board of directors



Ms Jean Maureen Ngubane 53
Chairperson

Non-Executive Member

Ms Ngubane is on a number of boards including Trees for Life, Trust-Wits Technikon and Technikon Northern Gauteng. She is a former director of the Association for Rural Advancement, Rural Transformation Association, the South African Council of Churches and a former researcher for Human Sciences Research Council. She holds a BA, postgraduate diploma in applied social sciences and is completing her MBA.

Appointed 1 April 1995
Reappointed 1 April 2005

Executive, audit Δ and remuneration Δ



Mr Andile Kenneth Fihla 39
Deputy Chairperson

Non-Executive Member

Mr Fihla is the chief executive officer of Business Against Crime South Africa. He is a director of companies, including AVI Ltd. He holds an MBA, MSc in financial economics, post-graduate diploma in economic principles, certificate in land reform and rural development and national intermediate diploma in mechanical engineering.

Appointed 1 April 1997
Reappointed 1 April 2005

Audit, executive, remuneration, RWS board, RWS audit and risk, RWS remuneration and human resource



Mr Thamba Ofentse Nkabinde 45
Chief Executive
Executive Member

Appointed 1 June 2006

Executive, capital investment, remuneration, audit, risk, treasury, provident fund and medical scheme, RWS board, RWS audit and risk*, RWS business and investment



Mr Dawood Coovadia 43
Non-Executive Member

Mr Coovadia is a chartered accountant and registered auditor, practising as Coovadia Associates. He holds a B Compt honours degree. He is a non-executive director of Johannesburg Roads Agency (Pty) Limited and a member of various professional institutions, including SA Institute of Management, SA Institute of Chartered Secretaries and Administrators, Institute of Management Consultants and Institute of Internal Auditors.

Appointed 1 April 2005

Audit, treasury, RWS audit and risk



Ms Mirriam Dooms 67
Non-Executive Member

Ms Dooms is a mayoral committee member of the City of Tshwane Metro Council, responsible for water and sanitation. She has served in various standing council committees, including health, community services, financial affairs and tender and electricity. She received the Women in Water award for 2004 in the community development category. She was mayor of Pretoria from 1997 to 1998. She is a board member of Magalies Water. She is a registered nurse by profession.

Appointed 1 June 2002
Reappointed 1 April 2005

Bursary and farm



Dr Michael John Ellman 59
Non-Executive Member

Dr Ellman is a senior consultant and managing member of Siyadingana Consulting cc. He has more than 35 years' professional and managerial experience in the mining, chemical, oil and gas, electricity, standards development and water industries. He is president of the South African national committee of the International Electrotechnical Commission (IEC) in Geneva, and chairman of the electrotechnical sector board of the SABS. Dr Ellman has a doctorate in chemical engineering and MBA degree.

Appointed 1 June 2002
Reappointed 1 April 2005

Capital investment, medical scheme, provident fund, risk, RWS board, RWS audit and risk

* Alternate at meeting
 Δ Invitee at meeting
 β Served until December 2005
 \dagger Served until March 2006



Ms Xoliswa Kakana 42
Non-Executive Member
 Ms Kakana holds MBA, BSc, diploma ingeneur electrotechnik, and diploma in management. She is a founder and managing director of ICT – Works. She has extensive experience in IT and telecommunications. She is also founder and chairperson of the Women in ICT (WICT) forum.

Appointed 1 June 2003
 Reappointed 1 April 2005

Capital investment, executive, risk, RWS board, RWS business and investment, RWS remuneration and human resource



Ms Janet Yetta Love 49
Non-Executive Member
 Ms Love holds a BA and postgraduate diplomas in public administration and economics. As a member of parliament from 1994 to 1999, she was involved in the development of the water services act and the national water act. Ms Love heads the strategy, research and support department at the Reserve Bank.

Appointed 1 June 2002
 Reappointed 1 April 2005

Audit, executive*, remuneration and treasury*



Adv Mohale Joseph Maluleke 53
Non-Executive Member
 Adv Maluleke is executive director of the National Institute for Community Education Trust and managing director of NICET Investment Holdings (Pty) Ltd. He is chairperson of the National Coordinating Committee on Community Education, and actively involved in education and community development. He holds a BA, LLB degrees.

Appointed 1 June 2002
 Reappointed 1 April 2005

Bursary, capital investment, executive, RWF board, RWS board, RWS business and investment, RWS remuneration and human resource*



Ms Nomsa Maureen Maseko 54
Non-Executive Member
 Ms Maseko is former speaker of Metro Council and currently chairperson of the health and social committee in SALGA. She holds certificates in local government administration and management (Unisa) and leadership training and community development (ICI Centre, Israel).

Appointed 1 April 1997
 Reappointed 1 April 2005

Executive, medical scheme, provident fund, RWF board



Ms Nandi Mayathula-Khoza 48
Non-Executive Member
 Ms Mayathula-Khoza is speaker of the City of Johannesburg Council. She is also secretary of the Gauteng Association of Local Authorities and an executive committee member of SALGA. She holds BSc and BEd degrees, and is completing her master's degree in public and development management.

Appointed 1 June 2002
 Reappointed 1 April 2005

Bursary, farm, remuneration and treasury



Ms Sethe Patricia Mothibi 32
Non-Executive Member
 Ms Mothibi holds an MBA and public relations management diploma EDP – Wits, PDM – UCT, Strategy – Harvard. She is group corporate development manager at Global Forests Products, and has occupied senior positions in the South African Air Force, SABC, Absa and City of Johannesburg. She is a full member of the Prestigious Women's Room, Konrad Adenauer Foundation and a member of the Young Women's Academy. She received the Women in Water award for 2005.

Appointed 1 April 2005

Risk and treasury



Ms Phumelela Ndumo 38
Non-Executive Member

Ms Ndumo holds MBL, BCom degrees, and a higher diploma in computer auditing. She served as a member of the audit committee for two other water boards. Ms Ndumo has held senior positions in Transnet, NBS Boland Bank and Nedcor. She is managing director of Phumelela Property Holdings (Pty) Ltd.

Appointed 1 April 2005

Audit and executive



Prof Frederick Ochieng A Otieno 50
Non-Executive Member

Prof Otieno has a PhD in civil engineering and MBA. He is a professional engineer in South Africa and the UK. He is currently professor of civil engineering and dean of the faculty of engineering at Tshwane University of Technology. He has worked as a consulting engineer, researcher and entrepreneur in civil and environmental management. Prof Otieno is a non-executive director and a member of companies.

Appointed 1 April 2005

Capital investment, RWF board



Mr Moabi Mosotho Petlane 38
Non-Executive Member

Mr Petlane is an executive councillor in the Emfuleni Municipal Council. He holds BA, LLB degrees and a postgraduate diploma in business administration. He was director of student affairs at Vaal Triangle Technikon and chairperson of the Technikon Institutional Forum.

Appointed 1 June 2002
Reappointed 1 April 2005

Bursary



Ms Ferhina Saloojee 47
Non-Executive Member

Ms Saloojee is a Rustenburg Local Municipality councillor and chairperson of North-West Province Local Government Association. She is a member of the SALGA committee for restructuring electricity distribution. Ms Saloojee is a director of companies, including Halotsal (Pty) Ltd and chairperson of the Rustenburg Business Forum and member of the Royal Bafokeng administration.

Appointed 1 June 2002
Reappointed 1 April 2005

Capital investment and remuneration



Mr Mdibanisi Tsheke 39
Non-Executive Member

Mr Tsheke is executive mayor of Govan Mbeki and executive committee member of SALGA. His community development activities include serving as an executive of SANCO responsible for the Highveld Ridge reconstruction and development. Mr Tsheke holds a national preliminary certificate in business education and BBA degree from University of Potchefstroom.

Appointed 1 June 2002
Reappointed 1 April 2005

Executive, medical scheme and provident fund.



Mr Phiroshaw Camayt 59
NGO Sector
Non-Executive Member

Appointed 19 April 1993
Reappointed 1 April 2005

Provident fund and medical scheme

Served until March 2006

Resigned



Mr David John Dallingt 67
Ex-Parliamentarian Business Sector
Non-Executive Member

Appointed 1 January 1995
Reappointed 1 April 2005

Farm and risk.

Resigned

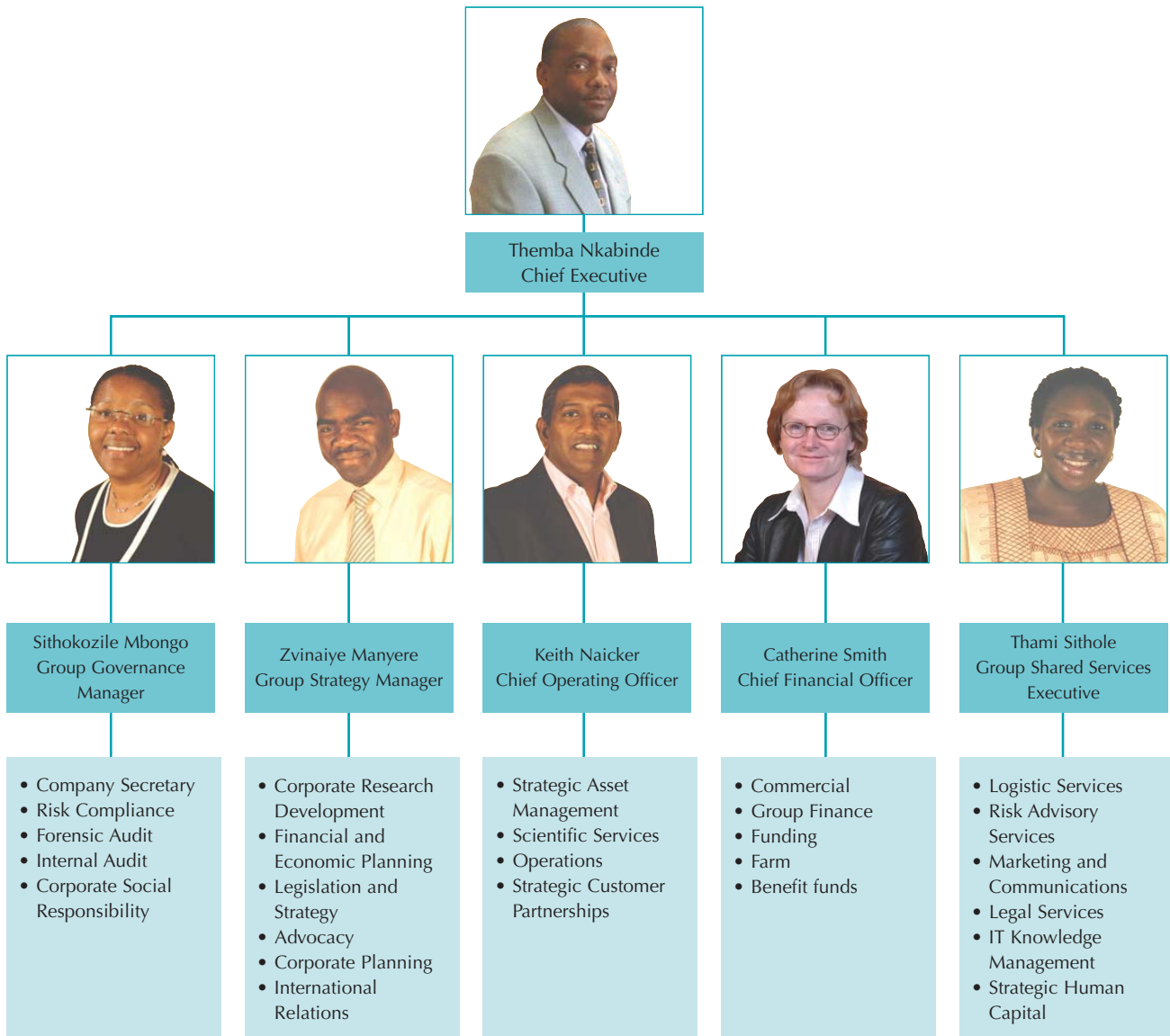


Dr Dugmore Simosezwe Simphive Lushaba 39
Chief Executive
Executive Member

Executive, capital investment, remuneration, audit, risk, treasury, provident fund and medical scheme, RWS board, RWS audit and risk, RWS business and investment.

Resigned

Portfolio Integrating Committee (PIC)



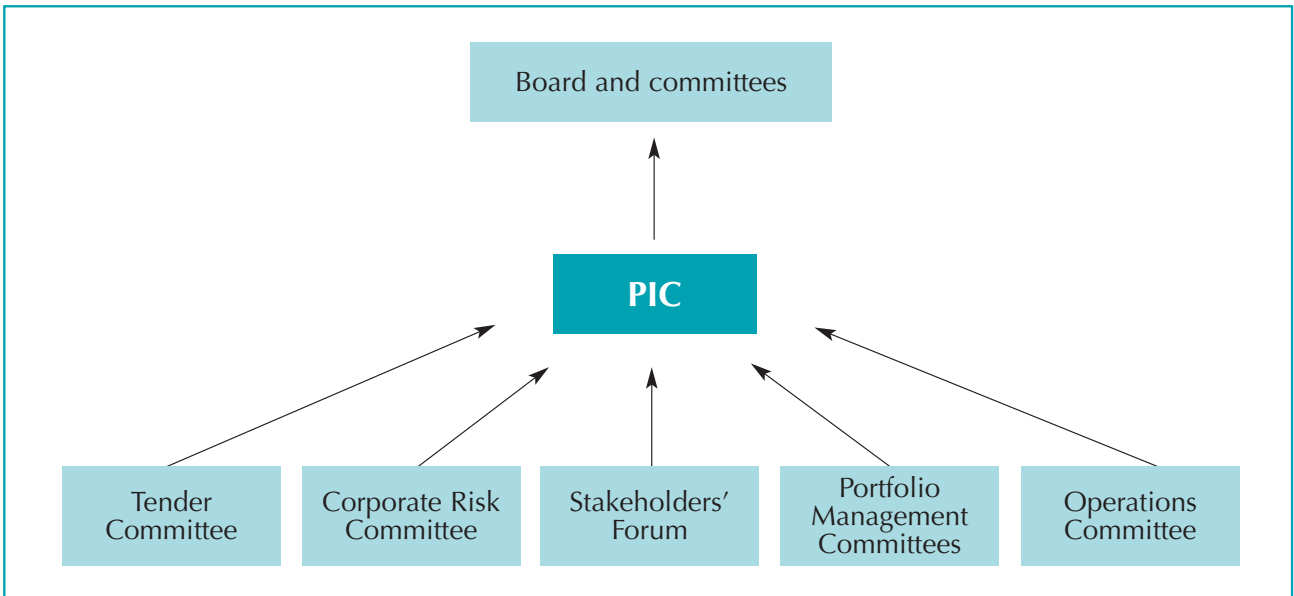
The PIC is a new committee formally established in October 2005 with the implementation of the new executive management structure that replaced the previous management committee (MANCO). The PIC is made up of the Chief Executive Officer, Group Governance Executive, Group Strategy Executive, Chief Operating Officer, Chief Financial Officer and Group Shared Services Executive and is the highest management structure at Rand Water. The PIC reports into the Board and its various committees.

Executive Management Role

The day-to-day management of Rand Water is the responsibility of the Chief Executive assisted by Portfolio Heads. The Chief Executive and the Portfolio Heads oversee the implementation of strategies, policies and decisions of the Company.

In order to ensure that strategic objectives are realised the Portfolio Heads annually develop their Key Performance Indicators (KPIs) which are incorporated into the Corporate Balanced Performance Management Framework (BPMF). The BPMF and detailed budget are used to measure the performance of each portfolio. The performance reviews are done twice a year.

Management Governing Framework





RAND WATER



RAND WATER

The official drink of Gauteng

Chairperson's Report



Towards a shared vision for hope and sustainability in the 21st century

It is with great pleasure that Rand Water welcomes the new Minister of Water Affairs and Forestry, Ms LB Hendricks and the new Director General, Mr J Sindane.

Rand Water has evolved as an entity and matured as a business over the few years. This has galvanised resources and released new energy and commitment. It is an achievement for Rand Water to be able to transform itself from a traditional company of old, to a modern twenty first century company with clearly defined growth and development opportunities, in both the business and socio-economic arenas.

The Annual Report of Rand Water is presented with immense honour and pride. The report captures the achievements of the company for the financial period under review. The annual report gives an account of the performance of Rand Water.

The highlights of the financial results for the period ending June 2006 include:

- A net profit of R593 million has been

achieved. This is a 20% improvement on the previous year's reported earnings of R494 million.

- Sales have improved from 3 452 Ml/d for the previous year to 3 457 Ml/d for the current year.

The success of a company is not exclusively measured in financial terms; but also by a number of other key administrative and operational factors. In addition to fiscal prudence, Rand Water's success is attributable to the diligent management of process highlighted hereunder:

THE NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

Rand Water has embraced and implemented the new International Financial Reporting Standards. The financial statements in this report comply with IFRS as well as SAGAAP.

INFRASTRUCTURE MANAGEMENT

Rand Water is over a century old. Capital and operational infrastructural investments are hence reflective of its age. Optimal

performance is dependent on prudent and effective investment in infrastructural development and maintenance. Going forward, this will continue to be the main challenge. Rand Water has developed long, medium and short term strategies to respond to the challenges.

THE RAND WATER SERVICES (PTY) LIMITED

The ever changing business environment and the company's commitment to water provisioning, has given rise to the establishment of Rand Water Services (Pty) Limited, a wholly owned subsidiary of Rand Water. This enables Rand Water to participate internationally and beyond the allocated area of supply within South Africa.

THE RAND WATER FOUNDATION

The Rand Water Foundation was established to focus on water related projects within the broader community. The main objective is to develop communities in conjunction with other role players in the Rand Water's area of supply. The co-operative approach adopted allows the Foundation to work with government and business development agencies.

THE TRANSFORMED TOP MANAGEMENT STRUCTURE

Rand Water has completed the transformation of the top management structure, in alignment with the mission, vision, values and objectives of the organisation. The incoming Chief executive is Mr Themba Ofentse Nkabinde. The team is skilled, experienced, dedicated and committed to deliver in accordance with organisational goals.

CORPORATE GOVERNANCE

Rand Water as a Public Utility is regulated by legislation, in particular, the Water Services Act, the National Water Act, the PFMA, and the MFMA. Rand Water is equally compliant with International Financial Reporting Standards, enabling the company to operate within a regulated legal and financial framework and to conduct business effectively and efficiently.

Corporate governance is the foundation on which the company's business and interaction with stakeholders is based. The policies and structures of the Board of Rand Water are informed by The King Reports on Corporate Governance. Rand Water practices the principle of transparency, integrity and independence of opinion. The interest of the company is uppermost in the functioning of the board.

SOCIAL DEVELOPMENT

Rand Water is a major player in water provisioning. The company is committed to the social development of the communities that are linked directly or indirectly to our area of supply. Two units that are dedicated to this cause are Community Based Projects Department (CBPD), and Corporate Social Investment (CSI). These divisions give support to the government's drive to alleviate poverty and assist in the achievement of development goals especially in the water and sanitation arena. Rand Water facilitated the disbursement of R48 million in various development projects as an implementation agent through CBPD. Rand Water also sponsored professorial chairs in Engineering

at two universities and sponsored bursars at various tertiary institutions. Objectives of this effort coincide with the government's JIPSA program.

THE BOARD

Our value driver is reflected in the partnership approach adopted based on our mission, vision and the values of equity, transformation, caring and excellence. The board positions its leadership roles on good corporate and co-operative principles. Directors conduct their duties with diligence and in accordance with sound governance principles.

APPRECIATION

I would like to record my sincere appreciation to the Chief Executive, Mr Themba Nkabinde and to management for their continued dedication and leadership and to Ms Catherine Smith for taking on the role of Acting Chief Executive from January to June 2006. We are indeed very grateful.

I thank my colleagues on the Board of Rand Water for their courage and conviction in several important decisions made by the board in the year under review. Personally, I thank the board for their support and guidance.



Ms Jean Maureen Ngubane
Rand Water Chairperson

October 2006



Chief Executive's Report



Excellent service remains the only real differentiator in the provision of water services.

I take great pleasure in submitting this report for the year ending 30 June 2006. It confirms our achievements against the strategic direction set for Rand Water in the previous year and shows how well Rand Water acquits itself of challenges and is ready to accept new ones. Rand Water has maintained its excellent performance of recent years.

In recognition of the outstanding skills and competencies of Rand Water, its mandate was extended to supply bulk water to Kungwini in Mpumalanga province. This entailed laying a new pipeline from Mamelodi to Kungwini. This was at a cost of R112 million to which Rand Water contributed R42 million, the balance coming from Department of Water Affairs and Forestry (DWAF). The line capacity is 30 Ml/day.

Rand Water will continue developing its people in order to successfully meet similar challenges in the future. Rand Water relishes opportunities to apply its skills for delivery of water services to South African society.

THEME

Continuing with our tradition of an annual theme, this year Rand Water has focused on: *Going beyond Gold.*

In an era where sustainability of our environment has become more and more of an issue, it helps to reflect on where we come from.

Against this backdrop I now review all the important activities and initiatives for the year.

The year under review was very rewarding for Rand Water's stakeholders. It was a fulfilling year of meeting the expectations of stakeholders through a trusted strategy that concentrated most of the group's energy on:

- enhancing the customer experience;
- embracing transformation;
- investing for the future;
- diversifying income streams; and
- boosting brand reputation.

Because the shareholder is not the sole beneficiary of company success, Rand Water endeavours to share its progress with

all its stakeholders – its customers, employees, regulators, suppliers and the broader community.

The organisation recorded wealth creation and distribution of R1 401 million, an increase of 4,3% from 2005.

ECONOMIC PERFORMANCE

It is gratifying to report that the financial health of the organisation has continued to strengthen. Our profit ratio rose to 16,2% which is our highest level over the past five years while the debt/equity ratio was reduced to 25,2%.

We sold a total of 1 262 011 897 Ml of water, an average of 3 457 million litres per day. Distribution increased by 1,4% and our revenue for the period was R3 672 million, indicating 0,16% growth in sales volume.

Customer feedback is our guide to success and our philosophy is that when our customers talk, we sit up and listen.

To this end, we are proud to report 77% customer service satisfaction for the year a decrease of 1% from 78% in 2005.

During the review period, project expenditure involved in augmenting, refurbishing and upgrading existing infrastructure was R607,4 million.

To maintain the organisation's financial viability, the RW01 bond of R860 million was redeemed in September 2005.

To curb our losses with farm activities, we have rationalised farming activities to concentrate primarily on maize production and have developed an exit strategy to permanently withdraw from farming activities.

As per the Water Services Act, our ringfenced secondary activities in the form of Rand Water Services and Rand Water Foundation have stabilised and are yielding some economic value for the organisation.

Rand Water Services has used the international alliance with Cornet & Kinsbergen as an entry strategy into the pipeline industry. In many cases, it has revolutionised the pipeline integrity market by offering technologies such as eddy current scanning, thermal remote sensing, carbon fibre repairs and other acoustic-based technologies. Numerous projects have been executed at the Department of Water Affairs and Forestry for water boards and metropolitans. In addition, industrial consumers have also used the pipeline integrity management services available at Rand Water Services. Turnover for the financial year was R4,9 million.

Further, to strengthen our footprint in Africa and contribute to the development of the water sector on the continent, Rand Water Services successfully tendered in partnership with a Dutch company, Vitens International, to manage the Ghana Water Company for five years. The World Bank pledged US\$120 million through a grant to the Ghanaian government to improve services to the urban water sector. Rand

Water Services and Vitens have accordingly incorporated a joint venture, Aqua-Vita, to manage Ghana Water Company. It is envisaged that this contract will enable additional bilateral investment in the urban water sector in Ghana.

ENHANCING THE CUSTOMER EXPERIENCE

Customer satisfaction remains a priority. During the year, it was addressed by expanding the distribution footprint, training employees and educating customers. As a result, the organisation has maintained its customer satisfaction levels on all factors assessed.

Excellent service remains the only real differentiator in the provision of water services. As a foundation for the way in which the organisation interacts with its customers, Rand Water refined its service credo and standards, communicated to all employees as part of an organisation-wide programme called *“izandla ziyagezana – together we make water work”*.

Internally employees who are living the service credo, standards and brand values are recognised through awards. Simultaneously, customers are encouraged through an external service campaign to tell Rand Water about their expectations. A customer education drive, aimed at empowering customers with knowledge, enables them to make more informed decisions about their service packages. Research is conducted to ensure Rand Water has an in-depth understanding of its customer needs and expectations.

SUSTAINING THE BENCHMARK FOR WATER QUALITY STANDARDS

During the year, there have been various incidents, real or alleged, throughout the country – that have increased consumer sensitivity about water quality.

To counter this, Rand Water informs bulk customers and stakeholders about its extensive water quality management programme which is on par with the most modern international trends. The organisation's *water quality safety plan* covers the entire water supply chain, starting in the catchment area, progressing through the water purification system, the bulk water distribution system and ending in its tap water-sampling programme.

Underpinning the water quality safety plan is the *Hazard Assessment and Critical Control Point* (HACCP) system, a multiple barrier system in which critical control points have been identified at each point of intervention. At each critical control point, operational limits have been set, monitoring programmes developed to measure compliance or deviations and corrective actions stipulated should any deviations be noted.

Water quality remains one of Rand Water's key focus areas because customers must be able to assume that the water they receive from Rand Water pipeline infrastructure is safe and wholesome at all times. Underscoring this focus, Rand Water has again succeeded in continually supplying water to its customers that exceeds the national water quality criteria (SANS

241 2001/2005). During the year, Rand Water participated extensively in the SABS committee that revised the SANS 241 standard.

ERP TECHNOLOGY PLATFORM

The SAP ERP system was embedded into the organisation and a process of continuous improvement and refinement initiated to ensure the system remains aligned with business processes and continues to satisfy the requirements of Rand Water. An extensive support and decision-making organisation, fully involving business process owners and executive decision-makers, was established to manage and facilitate this process.

BLACK EMPOWERMENT AND EMPOWERMENT EQUITY

Rand Water views black economic empowerment (BEE) as a business imperative and strives to meet and exceed set organisational targets in the absence of sectoral targets. During the year, Rand Water increased its discretionary BEE procurement spend from 46,8% in 2005 to 60,4%, continuing the steady increase of the past five years.

Rand Water has entrenched a culture that embraces BEE and makes it a leader in transformation through initiatives to improve access, to create innovative approaches for empowerment and demonstrate the organisation's commitment to enhancing the well-being of targeted stakeholders through corporate social investment.

Rand Water actively promotes a transformed, vibrant and globally positioned water sector that reflects the demographics of South Africa and contributes to the establishment of an equitable society.

With transformation as one of its primary corporate objectives, Rand Water has placed significant emphasis on employment equity and social transformation within the workplace. The past years have seen marked progress in the employment of women and people with disabilities to counterbalance its historical male dominated profile.

By the financial year-end management levels comprised of 63,2% African Coloured and Indian employees and 28% women. Overall people with disabilities made up nearly 4% of the workforce. Rand Water's efforts in respect of people with disabilities were enhanced when the organisation gained the support of the Local Government and Water Services Sectoral Education and Training Authority (SETA) to implement a learnership programme for 20 people with disabilities to gain workplace competencies. The 20 learners were engaged in January 2006 and will complete their learnerships by the end of 2006.

GOVERNANCE

Board of directors

The Board has fully met its fiduciary responsibilities during the year in dealing with Rand Water matters in a responsible and transparent manner. Frequent meetings were held to discharge these responsibilities.

The Board conducted a self-efficacy assessment during the year which showed that a high degree of effectiveness was achieved. No material aspects were highlighted. Two Board members retired during the year and the only executive director, Dr Lushaba, resigned and was replaced by myself, Mr Themba Nkabinde, in June 2006.

I would also like to acknowledge the sterling work done by Catherine Smith in her capacity as Acting Chief Executive from January 2006 to May 2006.

Risk management

All significant risks are quantified by determining the likelihood and impact on the business objectives of the organisation. Risk quantification is performed on strategic and operational risks. All other risks such as social, environmental and positioning are also assessed and quantified.

The effectiveness of mitigation strategies is continually evaluated and monitored. The focus during the past year was to integrate risk management into an enterprise-wide risk management framework (EWRM). The benefit of applying this approach and performing regular risk reporting is increased appreciation by employees of the entire spectrum of risks to which the enterprise is exposed.

We regret the unfortunate flooding incident that occurred in Meredale in July 2005 due to a 41 year old steel pipe that ripped open on a "welded seam" of the G23 pipe inside a valve chamber. The claims against the organisation were significantly less than

what was anticipated and almost all have been settled. We have since embarked on an elaborate disaster aversion programme that will ensure that such incidents are prevented before they happen.

OPERATIONAL HIGHLIGHTS

Organisational transformation

The new executive management, also known as the Portfolio Integrating Committee (PIC), came into effect in October 2005. This structure replaced the previous management committee and followed a two-year consultative process to change and streamline the top management of the organisation into portfolios to enhance the efficiency and effectiveness of operations.

Financial reporting

Rand Water instituted a project during the current year to manage the implementation of the changes to the South African Statements of Generally Accepted Accounting Practice (SA GAAP). The changes to SA GAAP were necessitated by the adoption of changes to align this local financial reporting framework with the international developments.

This project included engaging consultants with the expertise to ensure that all the relevant changes to the Standards are identified and where applicable applied to Rand Water's financial statements.

The annual financial statements for the year ended 30 June 2006 fully comply with the SA GAAP requirements effective at this date and where applicable, the comparative figures have been restated for the changes.

Awards

In a strategic partnership between Rand Water and the Johannesburg Zoo, the Central Lake project won first prize in the Mail & Guardian *Greening The Future Water Care Award*.

Kelloggs Star in You: Rand Water won the award for the Sunday Times Generation Next study 2005 for best social campaign directed at children and Khuza Awards in 2006 for best experimental/educational campaign directed at youth. The Star in You campaign is an emotional intelligence programme that educates children that there is a star in every person and if we care for ourselves, others and the world, we can make a difference.

In an independent ranking of employers by young professionals, Rand Water featured twelfth among young female engineers and scientists as the most preferred employer.

Contribution to water sector developments

The water sector has been undergoing significant change over the last few years. Rand Water has not been significantly impacted by the changes, however it now needs to curve out a new strategy to announce its role in fulfilling government's water and sanitation access goals. Needless to say this role has to be achieved in a sustainable manner.

Sustainable environment

Rand Water strives to protect the environment by regulating its own activities and educating people on the dangers of environmental neglect and the importance of good management of all our natural resources, specifically water.

Rand Water is committed to supporting the requirements of the National Water Act, which provides the legal framework for the effective and sustainable management of the country's water resources. During the year, water quality objectives for the Vaal Barrage and Vaal Dam sub-catchments were accordingly incorporated into the memorandum of understanding between Rand Water and the Department of Water Affairs and Forestry.

Significant progress has been noted in the implementation of environmental systems across our sites. All our major operational sites retained their ISO 14001 certification, following surveillance audits conducted by the SABS in March 2006.

We are also pleased to report that the process of phasing out the steam plants is nearly completed. This will eliminate gaseous emissions such as nitrogen oxide, sulphur dioxide and carbon monoxide emissions from the boiler stacks.

We retained our ISO 9001 and OHSAS 18001 certifications for 2006. We also converted our old ISO 14001 certifications to the new ISO 14001: 2004, indicating we met the requirements of the new standard.



OUR PEOPLE

Our employees have the ability to enhance the organisation's growth prospects for the benefit of stakeholders by understanding and responding to stakeholder needs. Rand Water employs sound business principles and practices in pursuit of employment equity.

Staff totals decreased from 3 049 in June 2005 to 3 006 in June 2006 due to natural attrition. The number of Blacks (ACI) in managerial levels increased from 379 to 404 which reflects a 3,2% increase from the previous year. The number of women in management positions increased from 212 to 227 bringing about a 14,78% improvement over the same period.

Rand Water values diversity and enables the optimisation of individual and collective human capital in the organisation. Leadership is key to making the culture of the organisation come alive through *Leading the Rand Water Way*, an ongoing programme that addresses culture change and transformation and influences and challenges leadership mental models. Leadership development and leadership mental models are influential in creating a diversity-friendly work environment.

During 2006 we spent 8,2% of total payroll on Training and Development down slightly from 8,8% in 2005.

Awards – "Ziyagezana"

Staff members were invited to nominate candidates who best exemplified organisational values through the "Ziyagezana awards". The following staff members won the various categories of the awards; HIV/Aids Peer Educator; Chris Emmanuel, Innovator of the Year; Carl

Schoeman, Mover and Shaker of the Year, Joe Dlamini, Boss of the Year; Estelle Maartens and Employee of the Year; Annelie Maritz.



Observing occupational health and safety

Our company understands that safety in the workplace comes first and we have a responsibility to ensure our work environment is safe for employees, contractors and stakeholders. The DIFR index was reduced to 0,41 in 2006 from 0,64 in 2005. While we deeply regret the loss of one individual from one of our contractors, our safety committees are continuously ensuring appropriate initiatives and interventions are in place, and our target remains an injury-free working environment for everybody.

Rand Water is among the first to achieve triple accreditation on ISO 9001, ISO 14001 and OSHAS 18001 and the first in the water sector in South Africa to be certified by SABS.

Employee well-being

For close on 10 years Rand Water has played a leading role amongst South African organisations in addressing the scourge of HIV/Aids in the workplace, with committed leadership from and close attention to its strategies and achievements from the Board.

An escalating process has been followed: beginning with determination of HIV prevalence in Rand Water and business impact; followed by intensive workforce education and communication; voluntary counselling and testing of employees and regular assessment of the impact of education and communication on attitudes, knowledge and behaviour of employees in relation to the pandemic.

The above is backed by a Life Threatening Diseases Management Policy and a comprehensive HIV/Aids Strategy that is implemented under the watchful eye and active participation of an HIV/Aids Project Manager and a fully representative Steering Committee that includes active trade union commitment and support. The Strategy has four legs: Epidemic Impact Containment, Economic Impact Containment, Living with Aids, and Research and Continuing Education.

The past year saw ongoing peer counselling and education led by a team of 98 trained peer counsellors, further campaigns to encourage participation in voluntary counselling and testing, and a third assessment of knowledge, attitudes and practices among employees. In December 2005 a total of 594 specimens were collected during the VCT campaign, which comprised 18.6% of the total workforce of 3 200 staff. Of the specimens collected, 47 staff members (8% of the total number tested) tested positive for the HIV antibody through the ELISA test method. Forty of the staff members were already aware of their HIV status through previous testing and only seven of the total HIV positive staff were new cases. Gender distribution for staff who tested positive was 43 males and four females, with the highest number of HIV positive staff falling within the 41 – 50-year age group.

The Knowledge, Attitude and Practices (KAP) survey in December 2005 followed earlier assessments done in 2002 and 2000, and was characterised by a jump of 61% in participation rate from the previous administration thereof. It is believed that this in itself is indicative of heightened awareness among staff. Data quality was described by the service provider as exceptional, with all measurement scales falling in the highly reliable range. Improvements ranging between 3 and 12% were identified in all seven dimensions, with an overall 6% improvement knowledge, attitudes and practices being achieved.

Talent retention

Rand Water has a long tradition of low rates of labour turnover, but has been aware of increased challenges to this in an environment imposed by escalating competition for scarce skills – particularly in the hands of previously disadvantaged employees. Rand Water employs a relatively large pool of well-trained engineers, scientists, technicians, technologists and other skilled staff. Furthermore its bursary schemes and recruitment efforts have resulted in a proportionately large group of these staff being of colour and/or female. Turnover amongst these employees has started to rise as Government-led capital projects and manufacturing take off. Concurrently attraction of such employees into Rand Water, especially among more experienced groups, has become more challenging.

Rand Water has also made use of bursary schemes to attract potential employees and enhance its employer image. 83 students were enrolled at universities, technikons and other tertiary educational institutions

during the year with financial assistance provided by Rand Water. This included 37 students who are benefiting from open bursaries, which are available to members of the public, and 43 children of staff members. Furthermore three additional tertiary bursaries were awarded this year as part of Rand Water's corporate social investment initiative.

Among the above, seven of the Open Bursars were new to the scheme in 2006, of which five were women. 24 of the children of Staff Bursaries were new in the 2006 academic year, 12 of which went to females. The gender emphasis supports Rand Water's endeavour to promote the development of females.

Criteria for the award of bursaries include academic merit, financial need and employment equity status – with some of the Children of Staff bursaries weighted more towards financial need and others towards academic merit. The search for Open Bursary candidates targets schools in low-income areas so that many of the recipients might not be at tertiary institutions.

Apprenticeships provide a further source of technically competent job entrants and Rand Water has an annual intake of apprentices as per managers' requirements. Currently there are 13 apprentices in the system, of which 11 (84,6%) are females.

The organisation has managed to keep the effects of the war for talent at bay to some degree through revision of its compensation policy and strategy, extensive training and study assistance schemes for staff (with retention provisions), its comprehensive benefits packages, projection of a positive

employer image, bursary schemes for tertiary study, etc. Further initiatives are identifying critical strategic competencies to enable targeted recruitment and retention.

Employment equity

With transformation as one of its primary corporate objectives, Rand Water has placed significant emphasis on employment equity and social transformation within the workplace. The past year has seen marked progress in the employment of women and people with disabilities to counterbalance its historical male dominated profile.

By the financial year-end management levels were comprised of 63,2% African Coloured and Indian employees and 28% women. Overall people with disabilities made up nearly 4% of the workforce. Rand Water's efforts in respect of people with disabilities were enhanced when the organisation gained the support of the Local Government and Water Services Sectoral Education and Training Authority (SETA) to implement a learnership programme for 20 people with disabilities to gain workplace competencies. The 20 learners were engaged in January 2006 and will complete their learnerships by the end of 2006.

Change Management

With its focus on becoming a value-driven organisation, Rand Water has constantly encouraged value-aligned behaviour amongst its employees. The five corporate values are highly in evidence throughout the company and value champions have been identified and trained as peer counsellors to promote the values and align behaviour amongst all employees. This was supplemented during the year with training

programmes on Understanding Rand Water's Business and Living Rand Water's Values. The value champions were also up-skilled as change agents in helping to bring about change linked to other initiatives below.

As a learning organisation, Rand Water is committed to continuous improvement of its operations. Leading change and transition has thus become key in one of the major organisational initiatives taking place in the review year: Project Segó Sa Metsi embraces the implementation of an integrated Enterprise Resource Planning system in Rand Water. Change Management played an essential role in preparing the organisation and its employees for the implementation of the project through creating awareness, sharing information on project developments and achievements. A team of Change Agents Network from sites was trained to facilitate the driving of project messages to the broader Rand Water community. Change Management also created a platform for people to be trained as competent users of the system.

In an effort to encourage performance and customer orientated behaviour Rand Water established its Ziyagezana Awards in 2003 to recognise achievement in a wide range of fields in the workplace and draw on extensive employee participation to determine winners. The annual awards were presented at a glittering event attended by Board members, Management, award nominees and their partners in November 2005. During the course of the review year the annual awards were supplemented by quarterly awards at each of the major sites.

Employee Wellness

In light of its core value of Caring, Rand Water has integrated its long-standing

HIV/Aids programme, its Employee Assistance Programme and its Sports and Recreation functions into a holistic Employee Wellness Programme.

The integration has enabled the Strategic Human Capital to identify wellness outputs, streamline and speed up wellness strategy. The integration will also enable Rand Water to offer a one stop shop for all wellness relocated services to its employees under one umbrella – Strategic Human Capital. The integration has been critical in demonstrating how wellness services can contribute to both the human resources needs of Rand Water and personal needs of employees.

The Programme is geared up to provide:

- The traditional wellness services including professional counselling services, family support and advice, HIV/Aids counselling and support, personal financial training and advice, removing blockages to healthy functioning of individuals in the organisation.
- Trend analyses and reporting to management.
- Education and training in the “soft competencies” as well as the relevant “hard competencies” in participating in the design of organisational programmes that deal with managing the emotional areas at work

The above counselling services provided by internal professionals are supplemented by an external programme entitled Wellness@Work, which provides a 24 hours independent telephone access to confidential counselling, health information and advice for employees and their families. Unlimited access to Wellness@Work website is also available through Rand Water's intranet.

It is encouraging to note that the annual utilisation rate of the EAP programme has increased from 10% to 13% in the current financial year – indicative of growing employee trust in a well established programme.

- Workplace equity and diversity
- Accommodation and nutrition
- Remuneration

CORPORATE SOCIAL RESPONSIBILITY

Rand Water fully subscribes to the view that corporate social responsibility is no longer about philanthropy; rather it is about constructing a legacy of empowered communities able to sustain our efforts and go on to enjoy a better quality of life in future.

This year we invested R6 454 million in social responsibility and community programmes compared to R8 611 million in 2005.

Some 1 389 temporary jobs were created, compared to the 1 459 jobs created in the prior financial year. Of the total number of people employed on community projects, 53,16% were women.

Rand Water took an active part in the *Take a Girl-Child to Work Day* programme in 2006 for the second year running. The objective of this initiative is to expose girl scholars in Grade 11 and 12 to different career options specifically those that are water sector specific to reverse gender

stereotypes as well as creating a pool of qualified women to address employment equity in the future.

ACKNOWLEDGEMENTS

I express my sincere gratitude to all who contributed to Rand Water’s successful performance over the past financial year. Thank you to our customers for being our guiding light and inspiration. Thank you to our government, especially the ministry of the Department of Water Affairs and Forestry for the confidence you have in Rand Water.

Thank you to the chairperson and members of the Board for their exceptional guidance and support during the year. Lastly a big thank you to all employees at Rand Water – without your efforts, we would not have come this far. Your dedication and hard work is a cornerstone in the process of building a truly great water utility.

POST-BALANCE SHEET EVENTS

There were no material post-balance sheet events impairing upon the financial results or operations for the year under review.



Mr Themba O Nkabinde
Chief Executive



Performance review

Introduction

During the year under review, the organisation focused on specific performance issues and organisational transformation to ensure that the organisation optimises efficiency and effectiveness to realise our strategic objectives within an acceptable risk framework.

This past year has been a momentous one for Rand Water, with the organisation delivering a noteworthy performance across its operations. The combination of a favourable economic climate, the organisation's positioning, optimisation of capital expenditure and investment produced the organisation's best-ever results.

Economics and operations

The overall operations of Rand Water was exceptional for the financial year under

review. In general terms our sales exceeded budget, generally costs were within budget and our customer service continued to maintain good ratings.

The actual sales volumes for the period under review (AADD) Annual Average Daily Demand was 3 457 Ml/d, 0,9% higher than 2005 sales. A wet season and water demand management implemented by Metropolitan Councils and Municipalities contributed to the fall in sales growth in the major consumer's category. Despite the rise in sales volumes of 54 Ml/d from 47 Ml/d for retail customers and 253 Ml/d from 230 Ml/d for Mines customers, the total sales revenue was 1,61% below budget.

A critical factor that influenced our operations was the rapid filling of the Vaal Dam from 32% to 106% in a week following significantly higher than normal rainfall from around 29% to over 100% within one week. As a result of the rapid filling of the dam and the associated increase of organic material in

the water, we experienced deterioration in the quality of the raw water. This necessitated the use of higher than planned for quantities of chemicals. Notwithstanding this, our primary pumping stations continued to purify and pump potable water of highest quality.

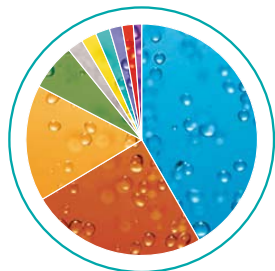
Performance review operations

Up until March 2006, Vereeniging Pumping station used a mix of coal-fired steam driven turbines and electrically driven pump-sets. Further efficiencies were derived from the discontinuation of steam driven turbines at Vereeniging Pumping station without disrupting the supply of water. Plant efficiency as a result of using electricity instead of steam will increase from 35% to 72%.

Volumes sold in Kℓ/A (Kilolitres per annum)

Type of customer	2005/2006 Kℓ	2004/2005 Kℓ	2003/2004 Kℓ	2002/2003 Kℓ	2001/2002 Kℓ
Municipal sales	1 157 630 984	1 158 639 188	1 144 740 057	1 105 684 606	1 037 400 895
Mining sales	84 655 724	84 098 450	90 783 912	92 313 521	91 544 567
Industry and direct sales	19 725 189	17 211 034	17 338 207	17 495 867	18 331 361
Total of all sales	1 262 011 897	1 259 948 672	1 252 862 176	1 215 493 994	1 147 276 823

Rand Water customer base



Greater Johannesburg Metro	41,71%
Ekurhuleni Metro	24,69%
Tswane Metro	16,25%
Emfuleni Metro	6,50%
ODI total	2,19%
Rustenburg Metro	2,15%
Mogale Metro	2,01%
Metsimaholo Metro	1,76%
Highveld East Metro	1,57%
Impala platinum Ltd	1,16%

Meeting customer expectations

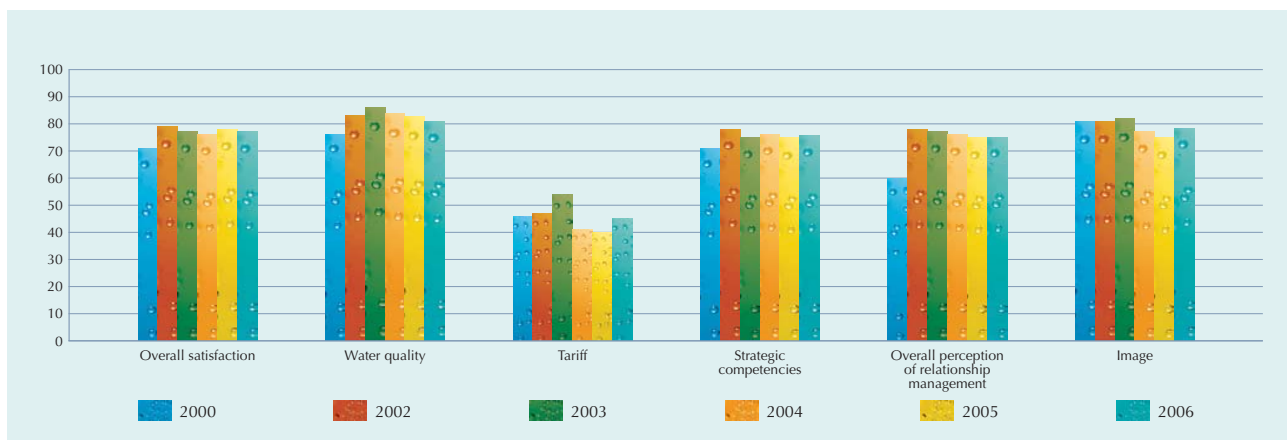
Rand Water has taken a strategic decision to position itself as a customer oriented “regional utility” that offers a full range of services in support of water service delivery imperatives, in all its customer segments and to contribute to the protection of water resources. In pursuit of this strategy, effective customer interaction structures have been developed to improve communication both at customer and organisational level. Through these forums, Rand Water gets to know and understand all its customer segment challenges and offers appropriate solutions through member participation. Current structures include the Water Services Forum, the Mining Forum, the Industry and Direct Customers Forum.

The forums

The forums continue to be used as the platform for information sharing and for the tariff consultation process. Through the forums, Rand Water understands its customers’ challenges on the delivery of bulk water services and offers appropriate solutions through interactive participation by all members.

The Water Services Forum meets monthly and interrogates relevant issues on the delivery of sustainable water services to our customers. The Mining Forum meets quarterly and the Industry and Direct Consumer Forum meets bi-annually. The Municipal Finance Management Act, Act No 56 of 2003 and the Water Services Act, Act No 108 of 1997 as amended requires

Bulk water customer satisfaction levels



that Rand Water consult with its customers when setting tariffs. The forums are used as one of the platforms for consultation with the relevant stakeholders.

Customer satisfaction

In the last five years Customer Relationship Management (CRM) has been an important business consideration for Rand Water. The implementation of the CRM recognises that quality and customer service activities are closely aligned. Rand Water has revamped its key business processes that relate to customer care. As part of its commitment to improving customer value, delivery and retention, Rand Water continues its programme of customer measurement and management.

Customer value management

Providing quality service to our customers is one of our critical pillars of success and it is imperative that we obtain customer feedback on our service. The Customer Value Management (CVM) measurements are based on a quarterly review process to assess and improve on customer and supplier loyalty levels.

According to the 2006 Customer Value Management survey the overall customer satisfaction levels have decreased by 1% since 2005. This can be attributed to a decline in mines by 1% and local municipalities 2%. Direct customers and industry perceptions have increased by 2% and 3% respectively.

Water quality perception

Overall perceptions of water quality declined by 2% due to taste and odour problems, caused by the decline in chemical composition of water as a result of heavy rainfall and the rapid filling of the Vaal dam. Despite this, the product quality complies with the SABS 241:2001 standard at all times.

Corporate image

Municipal customer perception of Rand Water's corporate image declined by 2% whilst other customer perceptions increased steadily over the past year. It has been noted that industries increased by 2%, direct customers by 3% and mines remained the same as 2005.

Strategic partnerships

Rand Water and South African Local Government Association (SALGA)
A Memorandum of Understanding (MOU) between SALGA and Rand Water was entered into during the year under review.

The objective of the MOU is to achieve a common understanding of the roles and responsibilities of the parties in water services delivery and to complement each others' resources and capacity in improving service delivery to local municipalities.

Challenges and issues

Prior to the start of the bulk water supply contract model agreed with municipalities, SALGA and South African Association of

Water Utilisation (SAAWU), Rand Water provided bulk water services to municipalities, direct end-consumers, some mines and industries.

To comply with the Water Services Act, 108 of 1997, Rand Water has signed bulk water supply contracts with its customers. Contracts were developed in consultation with SALGA, SAAWU the Metropolitan Municipalities and the Department of Water Affairs and Forestry in the interest of the region. However, only eight of 18 municipalities have signed contracts as each municipality wants to negotiate the contract on its own terms, often to the disadvantage of other municipalities in Rand Water's area of supply.

Bulk water supply contract signatories to date

Customers	Percentage of concluded contracts
Municipalities	46,6%
Mines	53,3%
Industry and direct consumers	8%

Performance in the water sector

Rand Water benchmarks quality of water supplied to customers against the WHO drinking water quality standard. The non-organic assessment can be found on table Kn 717 at the end of this report. The results in the table compare favourably with WHO water quality standards. Monitoring of

organic parameters is subject to ongoing investigation as measurement is complex and limited analytical capacity is available in South Africa.

Capital work and capital projects

During the financial year ending 30 June 2006, the capital expenditure involved in the development of new infrastructure and refurbishing and upgrading of existing infrastructure amounted to R607,4 million. Of this amount R450,1 million was for infrastructure under Independent Capital Projects, R13,7 million for replacements and refurbishment.

Western Highveld Region

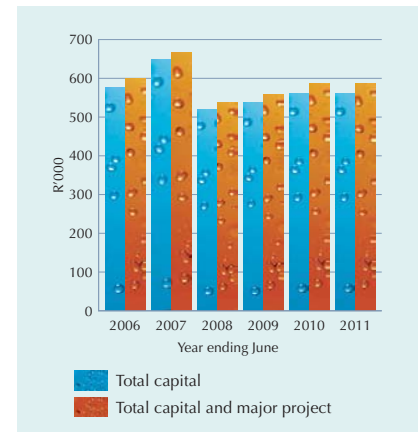
Water supply was extended to the Western Highveld Region by installing a new pipeline and two additional pumping stations from Mamelodi to Ekandustria

via Cullinan with a capacity of 30 M/d. The cost of the completed scheme was R112 million with a R70 million contribution from DWAF. Rand Water fully owns and operates this pipeline.

Capital and major project expenditure plan (2005 – 2011)

The value of approved work under independent capital works for 2005/2006 is R1 296,8 million of which the outstanding value of approved work in progress is R921,8 million. These projects range in value from R200 000 to over R100 million. A summary of the capital expenditure budget and major projects presently being undertaken is reflected below:

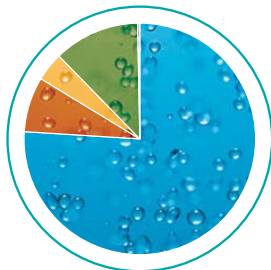
Capital and major project expenditure plan (2005 – 2011)



Brakfontein/Hartebeespoort Dam scheme

This project will strengthen supply to the Rustenburg region and comprises:

Appropriation of capital budget for the year ended 30 June 2006



Independent capital projects	76%
Independent capital project: SAP implementation project	7,7%
Replacements and refurbishments	4%
Supplementary budgets: Moveable assets	12%
Land and rights	0,3%

Pipeline section	Length	Diameter	Pipeline ID
Brakfontein reservoir to the proposed Pretoriusrand reservoir site	8 km	1 400 mm	H34
Proposed Pretoriusrand reservoir site to Mnandi reservoir	3 km	1 000 mm	H35
Mnandi reservoir to H24 pipeline (near Pelindaba)	17 km	1 000 mm	H35
H24 pipeline to Hartebeespoort Dam	0 km	800/600 mm	H35
Pretoriusrand to Diepsloot reservoir	6 km	600 mm	H33

Replace steam turbine-driven pump sets with electric motor-driven pump sets at Zwartkopjes and Vereeniging

The work was broken down into Zwartkopjes phases 1 and 2 and Vereeniging phases 1 to 3. Phase 1 of the work at Zwartkopjes involves installing four 100 Ml/d electric motor-driven pump sets in the existing engine room 1. Three of these pump sets are in service and the final unit should be commissioned by June 2006.

Phase 1 of the work at Vereeniging has been completed while work on phase 2 will start during the coming period with completion planned for June 2006.

Upgrading pipe work at Zwartkopjes

This includes the refurbishment and replacement of suction pipe work and delivery pipe work at Zwartkopjes.

Replacement of pumps in engine room 3 extension at Zwartkopjes

This work involved replacing pumps 18 – 22 in engine room 3 extension at Zwartkopjes. The five No 68 Ml/day pumps will be replaced by five No 100 Ml/day, three-stage units, and a new 1 400 mm diameter delivery header that will be capable of efficiently pumping to Forest Hill, Yeoville, Meyers Hill, Meredale and Benoni. The scheme will reduce operating costs at Zwartkopjes and enable the deferral of stage 2 of the steam plant replacement project for approximately ten years.

Variable speed drives

Rand Water has not had reliable performance from its variable-speed motors and newer technology is available in which

the motors that drive the pumps remain at fixed speed and a common frequency converter is used to alter the speed of any fixed-speed motor in an engine room. The cost of replacing the USDs with newer technology for 20 engine rooms is approximately R100 million, which will only be motivated once further investigative work on the reliability and viability of these drives has been completed.

Hydro-electric power at the control works

There is an opportunity to generate electricity from the head in the Vaal Dam. A previous study by the planning section indicated that this project would only recoup its investment in under 15 years. However, in light of global warming and the imperative to reduce CO₂ emissions, it would be beneficial for Rand Water to seriously consider this project, which could cost R30 million.

CO₂ reliability

Rand Water uses CO₂ to control the acidity or alkalinity (pH) of the water. The supply of CO₂ is supplied under contract by Air Products and is unreliable. Rand Water is exploring other options for alternative or back-up supply.

Vaal Dam-Zoekfontein control works – BG3 pipeline

It has become necessary to duplicate the existing raw water pipeline from the Vaal Dam to Zoekfontein control works. This pipeline will increase the capacity that can be provided to Zuikerbosch pumping station, especially when the Vaal Dam is low.

Pipeline renovations

A strategic renovation plan for the systematic renovation of pipelines in the distribution system is being implemented and it is estimated that up to R75 million will be spent annually on this work. There are a number of specific projects in addition to the strategic renovation plan, the main one being the refurbishment of the B4 pipeline estimated at R130 million.

Replacements and refurbishments

Due to the decline in demand for new supply schemes infrastructure, Rand Water is taking the opportunity to replace or refurbish plant and equipment that has reached or exceeded its designed life expectancy. In this way, Rand Water will ensure the sustainability of the organisation while continuing to optimise its operations and provide the most cost-effective supply to consumers.

The year under review saw the completion of replacing 70-year old steam-driven pump sets to electric-driven pump sets at Zwartkopjes pumping station and the start of replacing steam-driven pumps to electric pumps at Vereeniging pumping station, at a combined cost of R150 million.

Although much of the pipeline infrastructure is in good condition, as unaccounted for water statistics indicate, it is nevertheless necessary to maintain a programme of proper refurbishment, renovation and replacement of pipeline to maintain infrastructure. Continued efforts have been focused on pre-stressed concrete pipelines and base-line condition

monitoring, using eddy current field-testing. During the year, a total of R75 million was spent on renovating pipeline and it is expected that expenditure will increase over the next few years as the condition of pre-stressed concrete pipelines is determined and refurbishment work is undertaken.

Disaster aversion control

The set-up of disaster aversion control centres at Central Depot, Zwartkopjes, Zuikerbosch and Vereeniging pumping stations has started and will be completed by December 2006. Each centre is equipped to monitor and measure reservoir levels, pipeline flows, pipeline pressures and zone water balances.

IT infrastructure investments and improvements

Significant investments were made during 2005/6 in information technology infrastructure to:

- improve the reliability, availability and performance of the IT platform
- cater for increased capacity requirements
- provide the necessary support for the SAP ERP system, and realise its full benefits.

ERP technology platform

The SAP ERP system was embedded into the organisation and a process of continuous improvement and refinement initiated to ensure the system remains aligned with business processes and continues to satisfy the requirements of Rand Water. An extensive and consultative support and decision-making entity – fully involving the business process owners and executive

decision-makers of the organisation – was established to manage, direct and facilitate this process.

IT service management

An IT service management solution was implemented at a cost of R14,6 million to plan, monitor, control and report on the quality and performance of IT infrastructure and service. The Unicentre suite of products was selected and implemented. This suite of products allows the Information division to monitor and proactively respond to incidents and outages. It also allows for objective measurement of IT services provided to the organisation. After implementation of this solution, IT infrastructure availability improved by 16% and the turnaround time for IT services by 37%. The emphasis in 2006/7 will be on improving IT services and processes as well as longer-term planning based on this platform.

IT risk management

A focus area for 2006/07 will be assessing the existing IT security environment and ensuring Rand Water adheres to all relevant IT-related regulations.

We will also review and improve Rand Water's business continuity plan and ensure that the IT business continuity plan satisfies the requirements of Rand Water, providing a cost-effective ability to recover critical systems in the event of a disaster.

Business process management

A business process management centre of excellence was created to support the business functions of Rand Water in terms

of process management expertise and services. This initiative directly supports the strategic objective to improve process efficiency at Rand Water. The focus of this function in the next financial year will be to identify value-adding processes, document existing business processes, align systems with processes, identify opportunities for improvements, implement and apply process measurements and benchmarks, report on process performance and start the continuous improvement cycle.

Environmental performance review

Product quality

The quality of drinking water has come to the fore in recent years and none more so than in 2005/2006 period. Consumer awareness has reached new heights and a proliferation of water quality problems around the country resulted in many queries by concerned consumers. In this regard, the process technology department provided much-needed advice and reassurance to both individuals and industries with respect to water quality and treatment options.

Rand Water would like to assure its customers that it has a very extensive water quality management programme in place that is in good standing with most modern international trends. Its Water quality Safety Plan covers the entire water supply chain starting in the catchment, progressing through the water purification system, the bulk water distribution system and ending in its tap water sampling programme. Underpinning the Water Quality Safety plan

is the Hazard Assessment and Critical Control Point (HACCP) system, which constitutes a multiple barrier system where critical control points have been identified at each point of intervention. At each of these critical control points operational limits have been set, monitoring programmes developed to measure compliance/deviations from operational limits and corrective actions should any deviations be noted.

Quality assurance

Water quality specifications

Rand Water has adopted the SANS 241 drinking water quality standard (95 compliance to class I and 99% compliance to Class II) as delivery specification to its customers. In addition the organisation has a more comprehensive and more stringent internal production specification, designed to provide the organisation with a buffer, so that it can deliver to its customers with certainty on the SANS 241 specifications.

During the year under review, Rand Water participated extensively in the SABS committee that revised the SANS 241 standard. The organisation’s specifications are in the process of being revised in line with the new SANS 241 standard.

Water quality measurement and reporting

Rand Water has extensive measurement capacity consisting of three ISO9001 certified site laboratories, over 30 online instruments and an offsite ISO17025 accredited laboratory detailed monitoring programs have been documented and complied.

Water quality management system

Rand Water is committed to a documented systematic water quality management system. In line with this, a draft water Quality Safety Plan (WQSP), which is based on HACCP and ISO9001 principles, has been produced. Gap analyses with the different operating units has commenced. In addition, a multifunctional water quality management standing committee has been functional for the last four years.

Independent water quality audit

To ensure confidence in Rand Water quality measurements the organisation subjects itself to an independent system to assess water quality supplied by Rand Water to its customers. This is done via a contracted external party. The service provider was CSIR for the reporting year. The result of the exercise can be seen on table Kn 720 at the back of this report. The results compare favourably with internal measurements as seen in the above table.

Our water quality management programme is further backed by:

- a fully South African National Accreditation System (SANAS) 2505-accredited laboratory thus ensuring that all analytical results are correct;
- ISO 9001 accreditation, ensuring that the operational systems we implement are in line with international best practices;
- more than 350 online monitors, ensuring that we have critical water quality information 24 hours a day; and
- an audit performed randomly throughout our entire bulk distribution system on a monthly basis by a totally independent

laboratory such as the Council for Scientific and Industrial Research (CSIR) or the South African Bureau of Standards (SABS) (Refer to Kn 720)

- Rand Water also benchmarks itself against the World Health Organisation. (Refer to Kn 717)

Water quality has been one of Rand Water’s key focus areas as it considers that customers must take if for granted that the water that they receive on tap is safe and wholesome all the time. Rand Water has succeeded in supplying water to its customers on a sustained basis meeting the national water quality criteria. (SANS 241 2001/2005) in excess of 99,8% (See Kn 718 at the back of this report) of the time, thus ensuring that it has honoured and in fact exceeded its water quality commitment. Although some incidences of taste and odour and a slight discolouring of our water have occurred following the near flood conditions in February, all national water quality standards were still complied to.

Breakdown of large areas of newly inundated vegetation in the Vaal dam gave rise to increased organic loadings in the water which resulted in an increase in colour from the normal five colour units to ten (National standards is 20), which gave rise to the slight yellow tint that was perceived by some customers. Goesmin and two methyl isoborneol (MIB), two extra-cellular products produced by certain algal blooms in the Vaal Dam again gave rise to some odour complaints at the sub-microgram per litre levels. Although these may give rise to slight aesthetic problems

they do not have any health related problems

The Tap Analysis Programme (TAP) has been a continued success this year. With many of the participants being involved with the programme since the initiation of the programme in 1998, it has allowed the Water Quality Services department to build up an extensive database on water quality at the end consumer, for various regions within our area of supply. With a number of municipalities now involved with the TAP programme, Water Quality Services took the opportunity this year to initiate information sharing sessions with the technical and customer orientated staff of various municipalities. Here various water quality issues such as home treatment devices, bottled water and taste and odour were presented and discussed.

There were 76 customer complaints (up to end May 2006) that required technical investigation recorded during the 2005/2006 reporting period. These complaints have been grouped as health related (18), taste and odour (18), invertebrates, (11), visual including colour (14), bitumen (4), chemical (4) and general water quality (7). The majority of invertebrate complaints (10) were received during the Rat-tailed Maggot scare while 11 of the visual complaints were colour problems experienced during the rapid filling of the Vaal Dam. All complaints to date have been resolved to the satisfaction of the customers.

Water resource conservation

In line with the global trend of increasing populations and higher levels of urbanisation, South Africa, particularly Gauteng, has experienced a similar overwhelming urbanisation trend.

According to the United Nations, a country is said to be in a water crisis if it has supplies of less than 1 000 m³ per person per year, which could lead to problems with food security and economic production. South Africa is currently classified as having 1 206 m³ per person/year.

Demand management

Rand Water relies on scientific demand forecasting and infrastructure planning to determine sales forecast in the immediate, medium and long term. This information is vital because it determines water tariffs, operations capacity, investment strategy and capital expenditure related to infrastructure development.

The construction of the Additional Water Supply scheme in 1992 coincided with a drought in the region and curtailed supplies from the Vaal Dam, subsequently magnified by the effectiveness of water conservation measures. Greater awareness of the need for water demand management and the efficient use of scarce water resources have ensured that the capacity provided by the scheme will probably meet demand at least until 2015.

Catchment management

A critical principle of the National Water Act is that all South Africans should be able

to participate in water management. This is achieved through the establishment of new institutions, such as catchment management agencies. The agency for the upper Vaal water management area is scheduled to be established in 2009.

The overall purpose of catchment management is to protect the sources from which Rand Water abstracts its raw water. The better we protect the sources, the more efficiently we will be able to supply world-class potable water at the lowest possible cost. However, there is also a “bigger picture” involved, and that is to play a leading role in the overall management of threatened water resources of our country.

The rivers and dams in the catchments are extensively monitored, and much effort goes into conveying the status of catchments to consumers. This takes place through involvement in every catchment forum, and the Upper Vaal Water Management Area’s water quality website, which is maintained by Rand Water.

Rand Water is by far the biggest user (stakeholder) of water in the Upper Vaal Water Management Area, hence our active role in catchment forums. Rand Water fulfils the role of water quality auditor and facilitator in these forums, as we have the most comprehensive database of chemical, biological, and microbiological data. The main focus of the forums is to provide a platform where water-related issues can be tabled, discussed openly and resolved using best management practices.

Social

Empowerment equity and transformation

With transformation as one of its primary corporate objectives, Rand Water has placed significant emphasis on employment equity and social transformation within the workplace. The past year has seen marked progress in the employment of women and people with disabilities to counterbalance its historical male dominated profile.

By the financial year-end management levels comprised 63% African Coloured and Indian employees and 28% women. Overall people with disabilities made up nearly 3,9% of the workforce. Rand Water's efforts in respect of people with disabilities were enhanced when the organisation gained the support of the Local Government and Water Services Sectoral Education and Training Authority (SETA) to implement a learnership programme for 20 people with disabilities to gain workplace competencies. The 20 learners were engaged in January 2006 and will complete their learnerships by the end of 2006.

Rand Water has ensured that employment equity is aligned to the organisation's strategic objectives and is integrally linked to our human resource development and skills development strategy. The Company embraces employment equity as a coherent and systematic approach to redress the imbalances created by the past; and as an opportunity primarily to provide its employees with opportunities for skills

development and growth, which are integrally linked to skills development strategy as well as learnership programmes for people with disabilities.

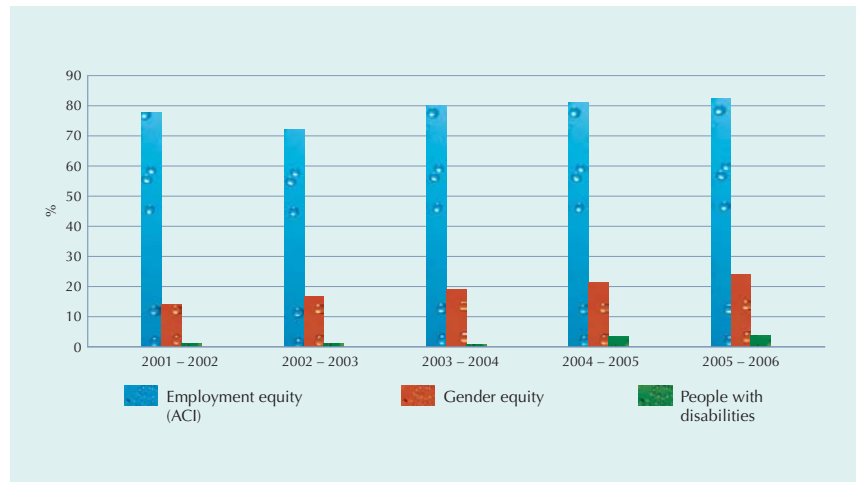
Rand Water will not permit or tolerate any unfair discrimination against employees in any aspect of employment. We will strive to ensure that we create an equitable working environment where all employees have equal opportunities, and that no employee is treated unfairly based on race, sex, disability, political opinion, religion, ethnic origin, pregnancy or other arbitrary grounds as prescribed by our labour law.

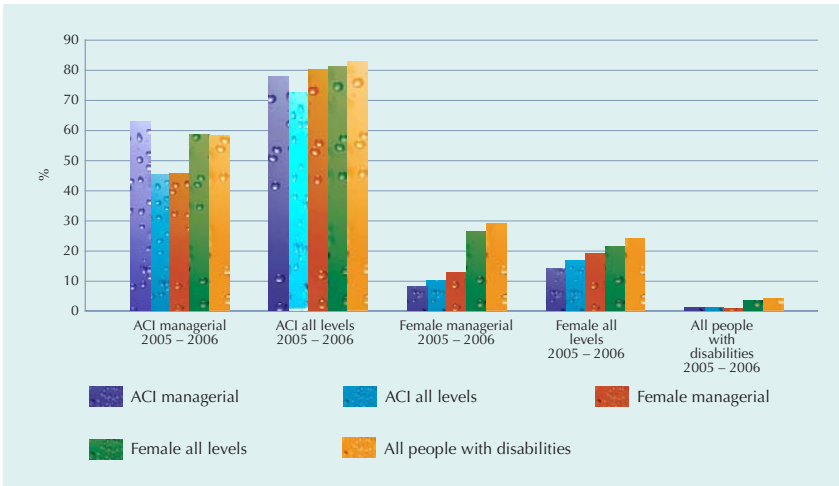
The organisation's employment equity strategy is designed in consultation with all relevant stakeholders, including the three representative trade unions. Although the employment equity strategy emphasises advancing members of

designated groups (defined in the act as Africans, Coloured people and Indians, women and people with disabilities), company policy strives to ensure that other deserving employees are not unfairly denied access to growth and advancement opportunities on a progressive and structured career path.

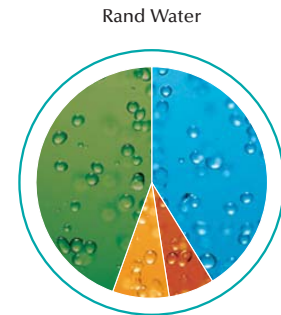
Preference in appointment for groups that are underrepresented in different occupational levels, with specific preference for African women and people with disabilities, is a key feature of the strategy. Rand Water believes in the business case for employment equity, which means that an effective and efficient strategy and process enables the Company to provide excellent service delivery; increasingly motivate its employees; and ensure it maintains a competitive edge in water service delivery.

Since June 2000, Rand Water has made good progress towards transformation in the following areas:

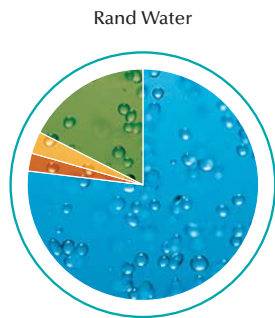




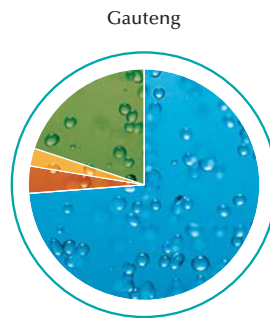
Specifically referring to women, the comparison is as follows.



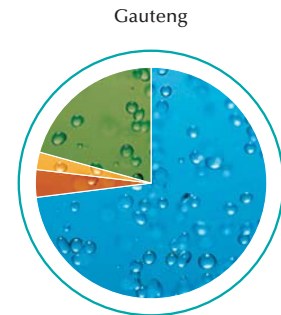
African	16,2%
Coloured	1,1%
Indian	1,4%
White	4,8%



African	76,9%
Coloured	2,5%
Indian	3,1%
White	17,5%



African	73,8%
Coloured	3,8%
Indian	2,5%
White	19,9%



African	36%
Coloured	1,9%
Indian	1,2%
White	10,2%

Since June 2000, Rand Water has made good progress towards transformation in the following areas as follows:

Categories	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005	2005/ 2006
ACI managerial %	32,1	45,0	45,6	58,6	63,0
ACI all levels %	77,7	72,4	80,0	81,1	82,6
Female managerial %	8,0	10,0	12,8	26,1	28,0
Female all levels %	14,0	16,7	19,0	21,4	23,5
All PWD %	1,3	1,1	0,9	3,5	3,9

Rand Water has made steady progress in improving its employment of People with Disabilities (PWDs). During the year under review to date 3,9% (120 people), of the total number staff employed is PWDs, up from the previous year's 3,5%.

Rand Water's ultimate goal is to match the demographic profile of its area of supply, of which Gauteng province makes up the majority. According to Statistics South Africa, the percentage of Blacks (ACI) in Gauteng is 74%. Men comprise 48% and women comprise 52% of the population. In the review year Rand Water's demographic profile compared with the Gauteng averages as follows.

Race group	Rand Water %	Gauteng %
African	76,9	73
Coloured	2,5	3,8
Indian	3,1	2,5
White	17,5	19,9

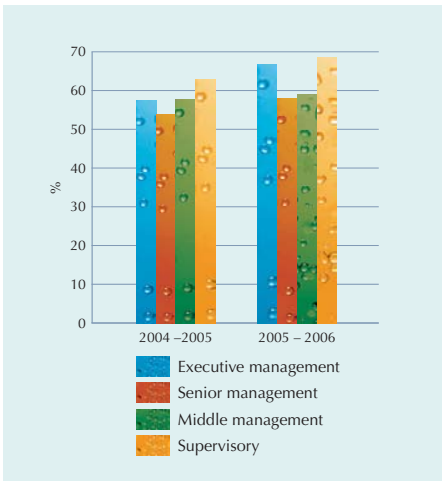
Specifically in reference to women, the comparison is as follows.

Race	Rand Water %	Gauteng %
African	16,2	36,0
Coloured	1,1	1,9
Indian	1,4	1,2
White	4,8	10,2

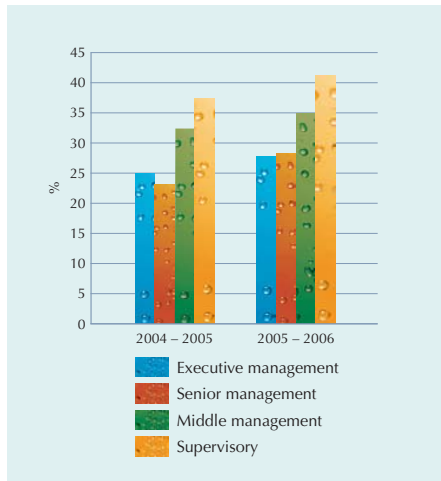


The number of ACIs in managerial levels increased from 379 to 404 between June 2005 and June 2006, and women have increased from 212 to 227 over the same period. Percentages per level are indicated below.

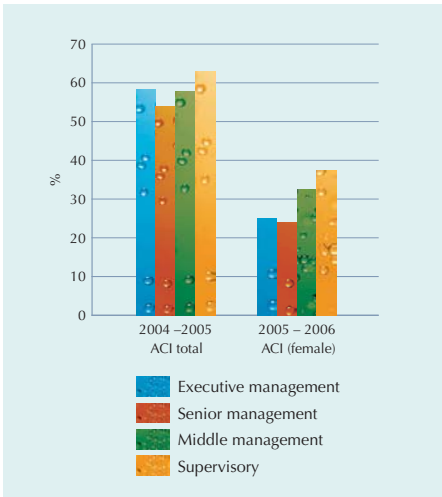
ACI



Females



ACIs and women in managerial level



PCP structures

Rand Water’s participation, co-operation and Partnership (PCP) forum plays a significant role in influencing workplace interactions and options, having been designed 11 years earlier to foster participation at all levels and ensure widespread consensus on all policy matters affecting staff.

It was through the PCP processes that management and recognised trade unions concluded the first minimum services collective agreements ratified by the Essential Services Committee of the CCMA in 1998. In terms of the agreement all

employees who are directly involved in the supply and distribution of water services have sacrificed their constitutional right to strike in favour of ensuring that there is continuous supply of water in the event of an industrial action. During the review year consensus was achieved on a revised agreement which is fairer to labour in that it recognises that larger numbers of employees may participate in industrial action of a short duration without disrupting water supply. In effect a small number of jobs has been identified as essential in the event of a strike of short duration. The revised agreement was ratified by the Essential Services Committee.

How does the PCP function

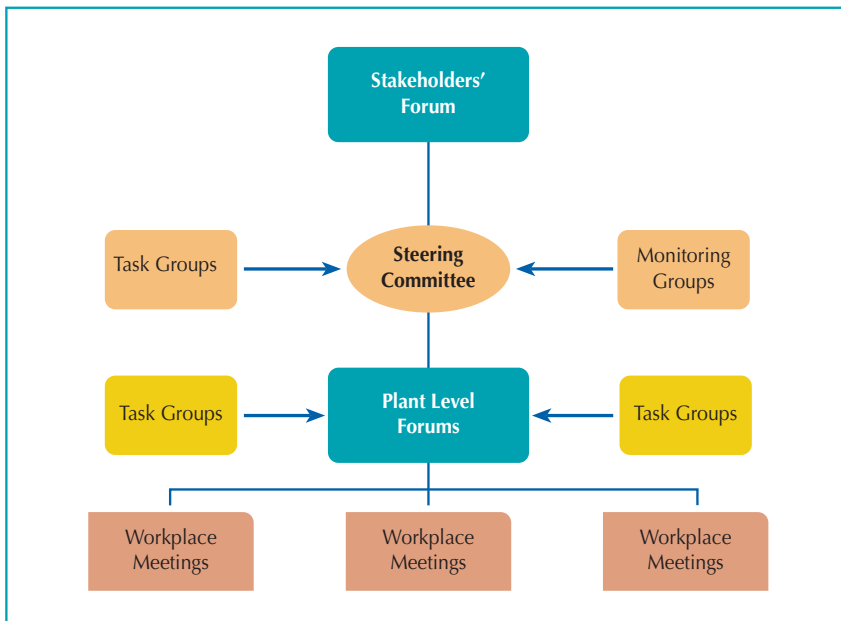
The PCP (Participation, Co-operation and Partnership) is based on the key principles of joint responsibility and interest-based decision-making. The success of the PCP depends to a large extent on all parties reaching a consensus, as opposed to unilateral decision making or the use of simple majority to resolve issues. The PCP has three layers of consultation, namely the Stakeholders Forum, the Site Forum and the Workplace meetings. The Stakeholders forum is corporate in nature and deals mainly with policy issues that affect the whole organisation. The Site forum deals specifically with site issues that directly affects the employees of that particular site. Workplace meetings allow decisions to be made at the lowest levels of Rand Water. They are the first and most important participative structure in the workplace and are attended by all employees in that section.

PCP achievements

In addition to the cordial and mutually beneficial relations enjoyed over the last 11 years between Rand Water Management and Organised Labour, The PCP has produced more than 25 policies and guidelines, which would have been otherwise impossible to achieve.

Among them have been the Affirmative Action policy, the Essential Services Agreement, the Contract Staff Policy, the Disciplinary Code and Grievance procedure.

These policies ensure that Rand Water complies with all relevant legislation that govern the relationship between Employer and Employee, but more importantly they



were formulated with the active participation of employees.

Way forward for the PCP

It is in the best interests of Management and Trade Unions that the PCP structures grow from strength to strength, especially in the light of achievements over the past ten years. The process has not been without problems but the benefits for all parties far outweigh the problems. Management will look at ways of consolidating and strengthening PCP structures.

Occupational health and safety

During the period, increased emphasis was placed on safety, health and environmental compliance. There has been a reduction in the number of disabling injuries reported. Audits were conducted during the year to evaluate the effectiveness of health and safety programmes, and to identify potential exposures. Emergency planning exercises were also conducted at various sites to assess and improve their co-ordination of and response to emergency situations.

Rand Water retained its OHSAS 18001 certification. Our efforts in improving contractor safety at our sites will be intensified in the coming year enforcing compliance to the requirements of construction regulations as framed under the OSHAS as well as Rand Water SHE policies.

Continuous change and new developments in the field of occupational health and safety requires appropriate upgrading and development of the knowledge and skills of managers, supervisors, practitioners and employees. Therefore training and

awareness form a key component of ongoing improvement to the safety culture throughout the organisation.

Skills development

During the period, the core of the human resources development strategy was reflected in the implementation of the corporate workplace skills plan, which was submitted to the Energy and Water Sectoral Education and Training Authority (EWSETA).

Personal development plans for all employees ensured that the workplace skills plan provided access to training and development for the entire workforce.

In addition to the emphasis on building functional technical competencies, the focus on corporate priority programmes that began in the previous two years was maintained; with 1 386 employees trained in a personal and group leadership programme entitled *Investment in Excellence*, since the programme was launched in Rand Water. In addition, 1 960 employees were trained in *Understanding Rand Water's Business and Living Rand Water's Values* since the programme's inception two years ago.

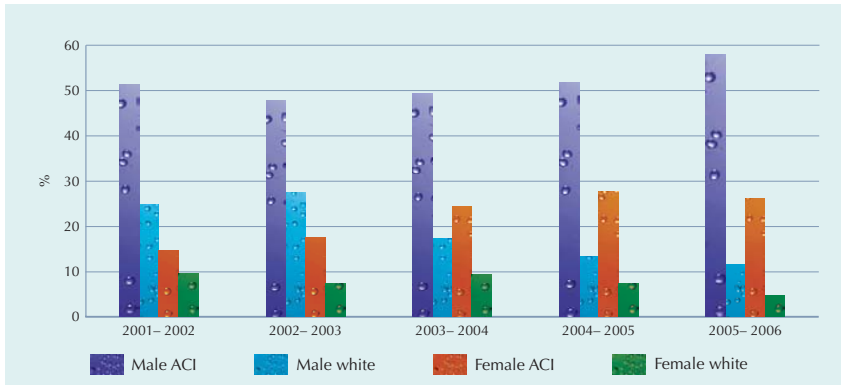
The accelerated skills transfer pilot programme in the scientific services division was successfully completed, and a new model for transferring skills and expertise developed from the lessons of the pilot programme. A team of 15 senior HR practitioners has been trained to roll out the accelerated skills transfer process within the organisation.

Three new learnerships were implemented: a disability learnership, a management learnership (NQF3) and a water learnership (NQF1).

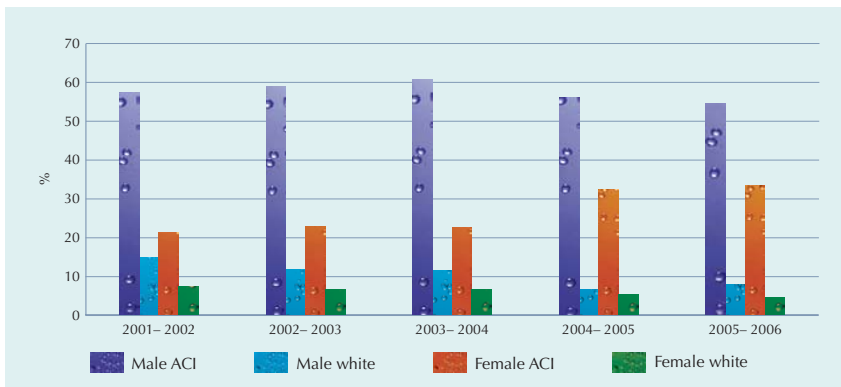
ISETT SETA-accredited training has replaced non-accredited training in the organisation.

Two very successful women's development programmes were run during the year. The first programme was *Office Excellence*, in which 12 secretarial staff participated, the second programme, *Upwards for Excellence*, was attended by 11 candidates from senior administration positions, who were looking to move into professional and junior management roles in the organisation.

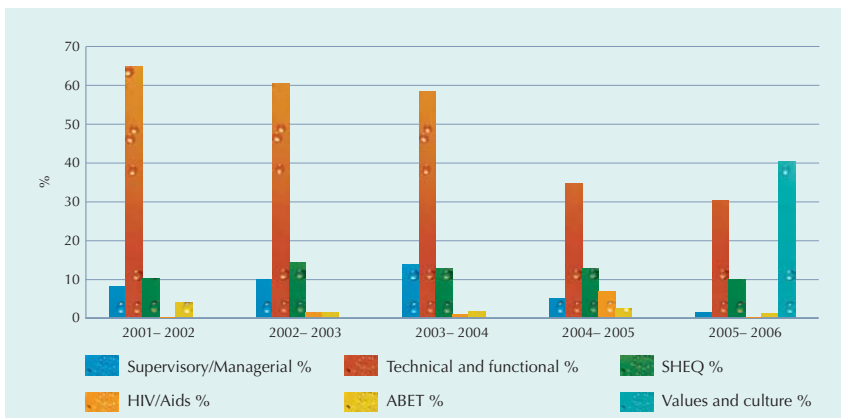
Percentage spend by race and gender



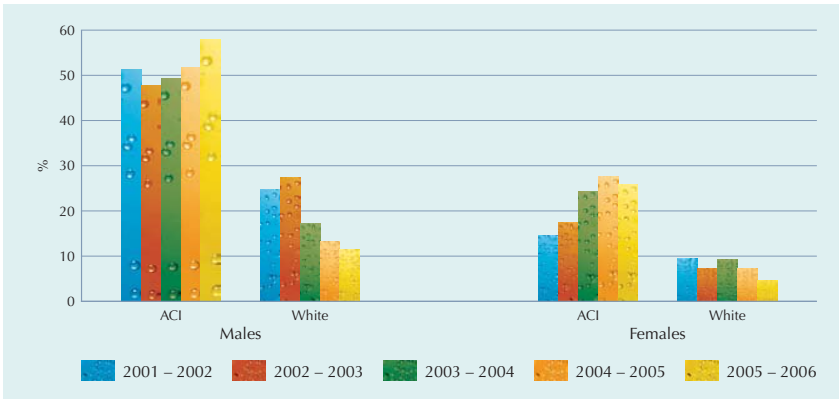
Percentage training hours by race and gender



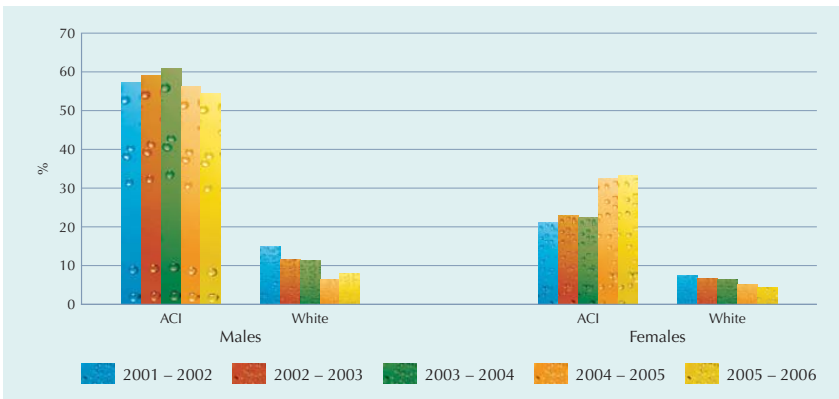
Percentage spend by training priorities



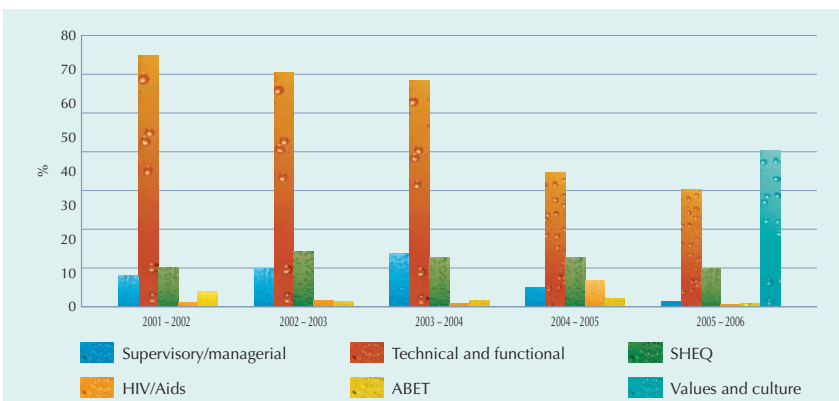
Training spend by race and gender



Training hours by race and gender



Training priorities



BEE policy

During the course of 2005/06 a revised preferential procurement policy was introduced. The policy includes specific initiatives aimed at promoting BEE spend in a more impactful manner.

Commercial equity spend

Financial year	Total spend Rm	Traditional spend Rm	PDI spend Rm	Percentage PDI spend %
2005/2006	583 066 121	231 185 575	351 880 547	60,35
2004/2005	862 440 487	458 813 203	403 627 284	46,80
2003/2004	572 856 841	309 377 779	263 479 062	45,99
2002/2003	707 052 497	407 651 948	299 400 549	42,34
2001/2002	612 816 123	389 576 676	223 239 446	36,42
2000/2001	341 666 487	304 752 454	36 914 329	10,80





Subsidiary and secondary activities

Subsidiaries

Rand Water Services

“QUENCHING AFRICA’S THIRST”

Rand Water Services (Pty) Limited has been created to develop the commercial aspects of Rand Water. The Water Services Act of 1997 enabled the creation of a commercial entity to capitalise on the potential of the water industry by allowing business partnerships and joint ventures with private and public companies in developing water infrastructure with a national and pan-African focus.

Historically, Rand Water support has tended to focus on issues such as governance and capacity building; however, there has been a shift in focus to infrastructure development and related asset management. Rand Water Services intends to promote this new profile. Water supply and sanitation services need large amounts of money to build water treatment works for potable water supply, pipelines and pumping stations to distribute the water, wastewater treatment works and sewerage collection systems. Rand Water Services is a mechanism created to kick-start infrastructure development for water supply and sanitation development in South Africa and beyond its borders. It intends leveraging on current development initiatives and foster relationships with banks and international development

finance institutions to structure financial packages and provide a strategic service in ensuring that clean water becomes accessible to all. It will focus on areas where Rand Water has already demonstrated its capacity and expertise and look to create investment opportunities within the water sector.

Rand Water Services is unique among the many initiatives for the continent that have been launched, because it was conceived in response to the challenges faced by the lack of infrastructure, and because it is in fact the outcome of development initiatives to address policy frameworks and the perennial question of lack of capital through the Nepad initiative. Given this alignment with Nepad and its relationship with financial institutions, it is strategically placed to shape the development process through its vision to “raise the profile of water” politically within South Africa and the continent and among donors and local institutional investors. Because Rand Water Services also seeks to address capacity building at subregional, regional and national levels and, given its linkages with Africa-wide and international initiatives and goals, it can help harmonise policy goals with practical outputs.

Vision

To be an internationally recognised leader in the provision of water management services in sub-Saharan Africa.

Rand Water Services intends to be a leader in the provision of technical, operational and management services to the water sector in South Africa as well as the rest of sub-Saharan Africa. It intends to be a world-class company that can be favourably benchmarked with other leading water services companies in the world.

Mission

The mission is to provide leading products and services to support public and private institutions involved in the African water sector for them to operate more efficiently and sustainably. The client base would involve institutions in all spheres of the water cycle and it is the intention to leverage on the water sector experience and expertise within Rand Water to support our products and services. Rand Water Services also intends to develop competencies in various technologies and offer the best, most competitively priced, appropriate and effective range of products into the African market. In addition, Rand Water Services will invest in business opportunities that align with and enhance its core service offerings.

The philosophy of the business is entrepreneurial, innovative, driven by achievement and accomplishment with a strong customer focus. This would be achieved by striving for excellence with strong business ethics.

Around these values, the objectives will be to attract and retain high-calibre staff, enjoy significant financial returns and enhance shareholder value.

What Rand Water Services does

Rand Water Services is primarily a technology company offering a range of complementary services designed around the need to develop, manage, rehabilitate and repair water infrastructure in South Africa. As such, the Company will develop competency in various technologies to keep abreast and offer a competitive and appropriate range of products into the South African market and beyond.

In addition, Rand Water Services will invest in business opportunities that add value to its stakeholder (Rand Water) and reflect its own entrepreneurship, and will seek to create business relationships that project its status as a major player in the development of water infrastructure in Africa.

Institutional investments will therefore focus on business activities such as technology, bottled water, and other opportunities which develop its entrepreneurial flair, but the basis of the business is to secure contracts to advise, implement, and fund technological products to assist in

maintaining infrastructure. Rand Water Services is therefore an integral part of the infrastructure asset management process that is now gaining momentum worldwide.

Strategic objectives

The key strategic objectives can be described as follows:

- **To become a leading, financially sustainable company**
 - In developing the company, much emphasis will be placed on profitability and ensuring the Company engages in an opportunity that is economically sustainable in the long term.
- **To become a leading water infrastructure advisor and consultant**
 - The emphasis of the business is to develop key competencies in infrastructure asset management and to provide key input in how to manage, finance and rehabilitate all aspects of water infrastructure.
- **To develop partnerships, locally and internationally**
 - The business, because of its size, will best use its capacity by seeking and creating partnerships including investments that elevate its stature.
- **To develop key differentiated technologies, resources, expertise and product offerings**
 - The company's ability to develop and market niche technology will provide its point of difference in the market.
- **To optimise the use of strategic human capital**
 - Working off a small and highly technical and motivated skills base,

the intellectual capacity of the Company will become its foremost competitive advantage.

How we do this

Rand Water Services will use the proven sectoral experience and expertise of Rand Water to support our products and services. Rand Water is an acknowledged leader in the South African water sector and has a strong reputation in Africa. We will therefore capitalise on this brand in enhancing our competitiveness.

Rand Water Services will develop competency in various technologies to stay abreast and offer the most suitable range of products into the South African market and beyond. We will also focus on niche market technologies and strive to achieve first-mover advantage in all the technologies we develop.

Rand Water Services will actively pursue investment and acquisition opportunities that align with our strategic positioning and enhance our core service offerings.

Rand Water Services will ensure effective risk management by implementing an enterprise risk management framework.

Business expansion and growth goals

- **Market penetration:** High-quality water services delivery and sustainable partnerships are critical to the growth of our economy. As one of the largest water utilities in Africa providing bulk potable water, Rand Water's client base includes metropolitans of Johannesburg, Tshwane and Ekurhuleni and 13 other municipalities, including mines and direct industries. Through market penetration, Rand Water Services will target these municipalities and metropolitans. It is envisaged that public-private partnership agreements will be concluded between Rand Water Services and these municipalities.
- **Market development:** Other metropolitans, municipalities and even water utilities outside Rand Water's area of supply will also be targeted.
- **Product development:** A key initiative will be for Rand Water Services to focus on complementary products and service providers such as infrastructure development institutions. Rand Water Services will develop an appropriate implementation and finance mechanism and develop differentiated product offerings.

Business unit strategy

Technology and innovation

- The intention is to develop a basket of differentiated technologies to ensure Rand Water Services does not rely on only one supplier or partner. This will

also ensure Rand Water Services can tailor offerings to meet specific customers' needs.

Services offered in the technology unit Africa

Africa presents a lucrative opportunity for developing infrastructure. There is currently a concentrated effort by international organisations to address water related constraints to economic growth. The water initiatives around the Nepad platform are one example. The concept is to use the existing range of technology and advisory services as an entry point for securing contracts in selected African countries.



Bottled water

Demand for bottled water has grown rapidly over the last five years, estimated at around 30% per annum. The value of the market is estimated to be R500 to 600 million, which makes it an attractive industry. To capitalise on this expanding market, Rand Water Services has established a bottled-water unit.

Advisory services

Very few municipalities currently enjoy the necessary in-house skills, knowledge, experience and capacity to successfully

implement integrated developments.

A further constraint is the lack of available funding for capital investment in infrastructure and the operation and maintenance of services provided. The concerns and problems experienced by the majority of municipalities in South Africa can be summarised as follows:

- The need to extend water services infrastructure to exploit new water resources
- The need to upgrade infrastructure to conduct effective demand management and reduce water wastage
- The need to maintain, refurbish and upgrade water services infrastructure
- The need to meet growing water sales and address backlogs.

Achievements

We have used our international alliance with Cornet and Kinsbergen as an entry strategy into the pipeline industry. In many cases, we have revolutionised the pipeline integrity market by offering technologies such as eddy current scanning, thermal remote sensing, carbon fibre repairs and other acoustic-based technologies (refer to figure 1).

We have also introduced a web-based portal system which allows customers to log on to a secure site to access and obtain up-to-date information on the status of their projects.

Numerous projects have been executed at the Department of Water Affairs and Forestry, for water boards and for metropolitans. In addition, industrial consumers have also used the pipeline integrity management services available at Rand Water Services.

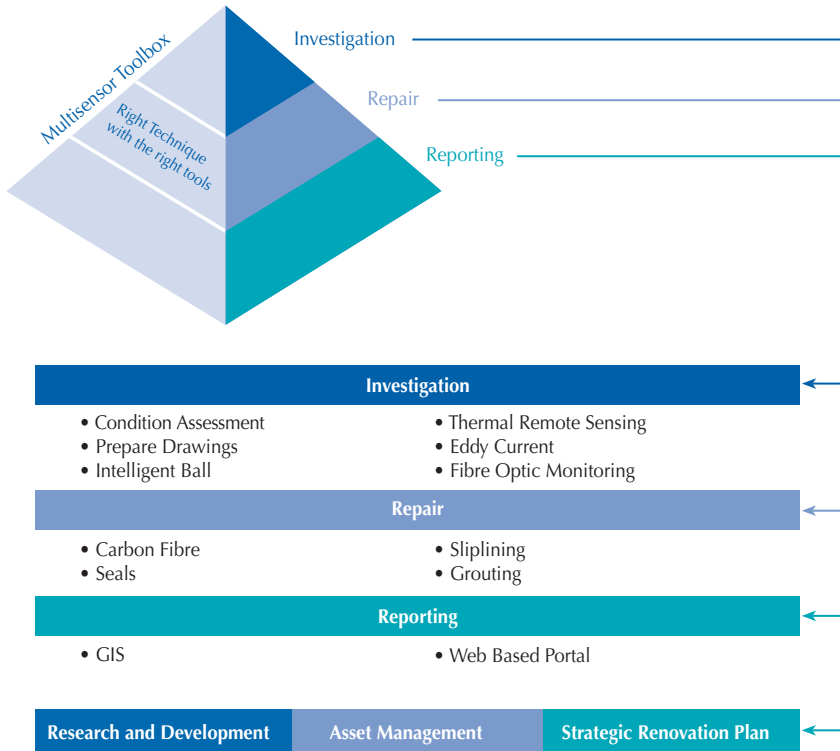
Turnover for the last financial year was approximately R80 million.

Ghana

In 2005, we successfully tendered in partnership with a Dutch company, VITENS International to manage the Ghana Water Company. The World Bank pledged US\$120 million through a grant to the government in Ghana to improve services to the Urban Water Sector. Rand Water Services and Vitens have created and incorporated a Joint Venture called Aqua-Vita, which will manage Ghana Water Company for a period of five years. It is envisaged that this contract will enable additional bilateral investment in the Urban Water Sector in Ghana.

Innovation pipeline

As a unit that offers specialised services, we view our access to and network of partners involved in research and development as a competitive advantage. Our research and development strategy is currently being crafted and the aim is to secure an R&D retainer with Rand Water and the Water Affairs and Forestry Department. In terms of new products, we will launch a new acoustic system to provide information about the integrity of the pipeline without having to take the pipeline out of commission. In addition, our focus on management information systems has proved beneficial and provides the platform for an integrated strategic asset management strategy.



Rand Water Foundation

“SOME PEOPLE THIRST FOR WATER, OTHERS THIRST FOR A BETTER LIFE”

The main function of the Rand Water Foundation is to source funds for use in implementing water related projects with the aim of assisting Municipalities preferably in Rand Water’s area of service to meet their service delivery targets on water services.

The Foundation has four focus areas namely:

- Water and Sanitation services addressing: Infrastructure providing domestic leaks repairs, alien vegetation clearance and wetlands rehabilitation.
- Capacity building Including health, hygiene, conservation and sanitation education programmes to enable communities to reap the full benefits of improved water and sanitation facilities.
- Food security Developing sustainable water supplies for local or community-based farming.
- Job creation All the focus areas have to ensure maximum employment through use of labour intense methods. The employment of youths and females is also the focus of the foundation’s job creation initiatives.

While water and sanitation services are essential for the sustenance of life, so too are jobs, education and opportunities. So

fulfilling the needs of those who thirst for a better life is as much an objective of Rand Water as providing clean drinking water.

So, every under-privileged and under-served community in which our Community Based Projects Department operated is involved in the initiation and maintenance of the project. We only use local suppliers and labour-based construction methodologies. And we ensure that there is capacity within local communities and governments to make the most of the new opportunities for development that are brought by the improved access to water.

Organisational performance

Rand Water Foundation raised R1,370 million that came to the foundation’s account and R13 million in partnerships during the year under review.

Project descriptions

Siluma Wetlands

The Rand Water Foundation in partnership with Ekurhuleni Metropolitan Municipality, Working For Wetlands and the Gauteng Department of Public Works are involved in the rehabilitation of the Siluma View wetland, which lies between Tokoza and Katlehong. Rand Water involvement in this project is through coordinating the funds. It has also brought in experts who know about Wetlands. Rand Water was one of those organisations that took part in initiating the protection of catchments through restoration and rehabilitation of the wetlands. Rand Water believes that by

protecting wetlands they will be maintaining the existence of catchments thus getting better quality water. The first phase of the Siluma project provided employment for 35 people, while the second phase is employing 26 people of which 14 are females.

Winterveldt Sanitation Project: Funded by Tshwane Municipality and DWAF

The key objective of this project is to achieve an improvement in health by changing poor hygiene behavioural practises as well as by improving sanitation facilities. Major focus is on the development of an enabling environment through skills training in which facilities can be maintained and improved, local businesses can receive management skills and material suppliers are trained to produce quality products.

Bushbuckridge Infrastructure Project – Shatale bulk water supply

A 1,8 Ml reservoir and connecting pipework is to be constructed in Relani to provide for increased demand on the existing system. Rand Water is the implementing agent on the project and will be initiating limited skills training to the local labour force on site.

Alien Invasive Plants Projects

The removal of Alien Species Project is a national and provincial initiative of the Gauteng Department of Agriculture, Conversation and Land Affairs as well as the Department of Environmental Affairs and Tourism. All activities within this project are aimed at securing vital water resources.

Employees are trained in skills relevant to the project as well as in management and supervision, which helps them to secure more lucrative jobs elsewhere.

Donga Rehabilitation Project

The Donga Reclamation Projects are being implemented in sensitive catchment areas. The main causes that lead to the formation of Dongas are addressed in the programme. Incorrect farming methods, cattle drawn sledges, uncontrolled burning of veld and overgrazing cause the washing away of valuable top soil. This causes dams and river systems, including wetlands to be clogged with salt. The project rehabilitates and preserves catchment areas by eradication dongas, re-vegetating bare ground, educating local people thus securing water resources through Local Community participation in areas of operation.

Domestic Leaks Repair Project

As part of our Social Responsibility Programme, Rand Water has since 1998 implemented a domestic leaks repair project in various areas within Gauteng province. This project entails the once-off repair of leaking pipes and the retrofitting of dual flush cisterns. This significantly reduces consumption levels, enhances payment levels, increases levels of water services and creates temporary within communities.

Tshwane Leaks Project

Rand Water has partnered with the City of Tshwane to implement a leaks repair project in Mamelodi and Eersterust. The project helped to address problems resulting

from leaking plumbing installations in domestic households. More than 1 840 households leaks have been fixed out of a targeted 2 200 households.

The leaks repair project created temporal employment opportunities and people who were not skilled with plumbing now have certificates. An amount of R400 000,00 was committed to this project and 62 temporarily employments were created. Also most of the funds used at this project were retained within the community as contract opportunities were provided for local individuals and groups.

Encroachment Project

The objective of Rand Water's encroachment project is to ensure that people do not settle on Rand Water servitude and that rubble and other waste products are not dumped on them.

The project includes the following:

- The installation of beacons, using local labour to indicate the position of the Rand Water pipeline.
- The construction of sign walls to warn people of danger associated with settling on Rand Water servitudes.
- The introduction of community workshops and awareness campaigns to enhance sustainability of the project and to ensure the safety of the community.
- The introduction of capacity building training to ensure that project steering committee members and other project workers are able to carry out their duties effectively.

Community Education Programme

In 1992 Rand Water initiated a community education programme that entailed taking people (councillors, schools and community organisations) from various areas of water supply to tour the Zuikerbosch Pumping station to learn about potable water processing and the cost of the purification process as well as to be educated about the value of water, the reduction of water losses and how to use water wisely. An average of 6000 people are exposed to the Rand Water Community Education Programme every year.



Mnweni Cultural Centre Tourism Project

The Mnweni River Catchment area is one of the most important sources of water in South Africa. It supplies five provinces namely KwaZulu-Natal, the Free State, Gauteng, North West province and Northern Cape.

The result of joint effort between Rand Water, the Wildlife and Environment Society of South Africa (WESSA), Bergwatch as well as the communities of amaNgwane in the Upper Mnweni Valley of the Drakensberg,

the Rand Water Mnweni Trust established with an initial capital investment of R2 million from Rand Water was launched in 1999.

The value and spectacular beauty of Mnweni Valley offers a unique blend of opportunities to the local communities. The rich and vibrant culture of the community and their intimate knowledge of the area has never been appropriately exploited. Tourism opportunities that are sensitive to environment and culture are being explored through the Mnweni Trust.

The Department of Environment Affairs and Tourism appointed the Rand Water Mnweni Trust as the appropriate implementing agent to develop the Mnweni Valley Cultural and Hiking Centre.

The project hopes for financial sustainability within the shortest possible time. Money will be generated by means of entrance fees, accommodation fees at shelters and campsites, the hire of guides and horses, community tourism activities as well as the sale of crafts and indigenous/medical plants.

Eco-circle Project: Container gardening self-feeding scheme – Orange Farm

This innovative training programme assists in developing in communities an understanding of the importance of growing of growing food for sustainable farming in restricted areas and encourages the community to experiment with different crops at home.

Projects undertaken in 2006

Wetlands projects

The foundation has two wetlands projects in Ekurhuleni:

1. Siluma View Wetland Project completed its second phase during the year

Beneficiaries:	26 people
	14 females
Budget:	R370 000
Partners:	Working for Wetlands Ekurhuleni Rand Water Foundation

2. Blesbokspruit Wetland Project completed its first phase during the year

Beneficiaries:	54 people
	37 females
Budget:	R1 215 390
Foundation contribution:	R200 000
Partners:	Working for Wetlands Gauteng Department of Agriculture, Conservation and Environment Rand Water Foundation

Domestic water leaks

Tshwane

Beneficiaries:	45 people, 17 females
Budget:	R1 500 000
Foundation contribution:	R400 000
Partners:	Department of Water Affairs and Forestry Rand Water Foundation

Metsi a Lekoa

Beneficiaries:	25 people, 15 females
Budget:	R1 900 000
Foundation contribution:	R500 000
Partners:	Department of Water Affairs and Forestry Metsi a Lekoa

Community farming (local economic development)

Beneficiaries:	40 people, 23 casuals, 18 females
Budget:	R7 000 000
Foundation contribution:	R1 000 000
Partners:	West Rand District Municipality Gauteng Economic Development Agency National Development Agency Rand Water Foundation



Change in leadership

The foundation has its own independent board. The old foundation board's term expired in December 2004. A new Board was appointed in May 2005. Patricia Mothibi was acting chairperson for six months until a Board chairperson was appointed in December 2005.

Partnerships

- Rand Water Foundation acquired five new partners during the year.

Administration

Company registration number:

2001/029882/08

Contact person:

Angie Phaliso

Physical address:

522 Impala Road, Glenvista

Telephone number:

011 682 0806

Fax number:

086 6308

Email address:

angiep@randwater.co.za

Secondary

Zwartkopjes Farm

A portion of land adjacent to the Zwartkopjes pumping station, originally purchased for potential future expansion, has been farmed on a commercial basis for many years, although the strategic necessity for ownership of the land no longer exists.

In recent years farming activities have concentrated primarily on dairy farming and maize production. The drop in maize prices, in particular during 2004/05, and the escalation in fodder prices over recent years has had a detrimental impact on the viability of farming activities. In response to this, dairy farming activities were discontinued during in the latter half of 2005, and the dairy herd dispersed by auction. In addition the decision was taken to restrict maize production to irrigated lands. Although these initiatives have helped curtail the extent of the farming losses experienced during the 2005/06 financial year, the farming activities are neither complimentary to Rand Water's core business nor considered to be commercially sustainable and an exit strategy is in place.

Employee benefits

Rand Water Provident Fund

The Rand Water Provident Fund is registered in terms of the Pension Funds Act, 1956 as amended. At the Fund's last financial year-end, 30 June 2005, there were 2018 members who enjoyed membership on the Fund. Contributions comprise 25,86% of pensionable emoluments of which members pay 8,67%. The assets of the Fund are held separately from those of the Group in respect of funds under the control of the Trustees.

Prior to the Second Amendment Act, 2001 (surplus legislation) the Fund, being a defined contribution fund, was exempt from an actuarial valuation. However, the legislation has now made it a prerequisite that the Fund conduct an actuarial valuation and surplus apportionment scheme following the commencement date of the Amendment Act.

As a result the Fund was actuarially valued on the solvency basis as at 30 June 2004 in order to determine if there were any

surpluses due to former members. The valuation reflected that there was no surplus in the Fund and thus a nil scheme was submitted to the Financial Services Board.

On 1 July 2005 the Provident Fund's membership grew by 281 members with the closure of the Rand Water Superannuation Fund (Defined benefit fund) on 30 June 2005. Members of the Superannuation Fund were given the option to transfer to either the Rand Water Provident Fund or the SAMWU National Provident Fund.

An important element of the closure of the Superannuation Fund was the outsourcing of the provision of pensions from 1 July 2005. Pensioners, whose actuarial reserves were in excess of R1 million, were given the option to utilise their reserves to purchase individual living annuities or to form part of the bulk transfer to a registered insurer from whom inflation-linked pensions had been purchased. 43 pensioners with a total reserve value of R82 million bought individual living annuities whilst the remaining 903 pensioners participated in

the bulk transfer. A total of R270 million was allocated from the Fund's assets in respect of the pensioner liability for outsourcing process.

As a precursor to the liquidation of the Superannuation Fund, the surplus apportionment scheme was submitted to the Financial Services Board in July 2005. The Actuarial valuation as at 31 December 2004 revealed a surplus of R54 million for distribution to former members and pensioners. A major milestone was reached when the Financial Services Board approved the Surplus Apportionment Scheme as at 31 December 2004 in March 2006. Payments to former members and pensioners are currently under way.

Rand Water Medical Scheme

The Rand Water Medical Scheme is an in-house administered scheme providing health care for members and their dependants, via a choice of two registered options of the scheme.

Option A

This option offers benefits to members and their dependants within registered rules of the scheme in the form of a traditional comprehensive health care plan. The total membership of this option at 31 December 2005 stood at 2,295 of which 531 are continuation members (pensioners). For the second year in succession there was no increase in the contribution rates to the option even though certain benefits were improved. The solvency ratio of the scheme was 86% as at 31 December 2005 significantly in excess of the required minimum. This option is available to all staff.

Option B

Option B is a low cost primary healthcare option, which provides healthcare at site clinics and through specific service providers. This option is geared primarily to cater for the needs of the support staff. At 31 December 2005 membership of the "B" option stood at 518.



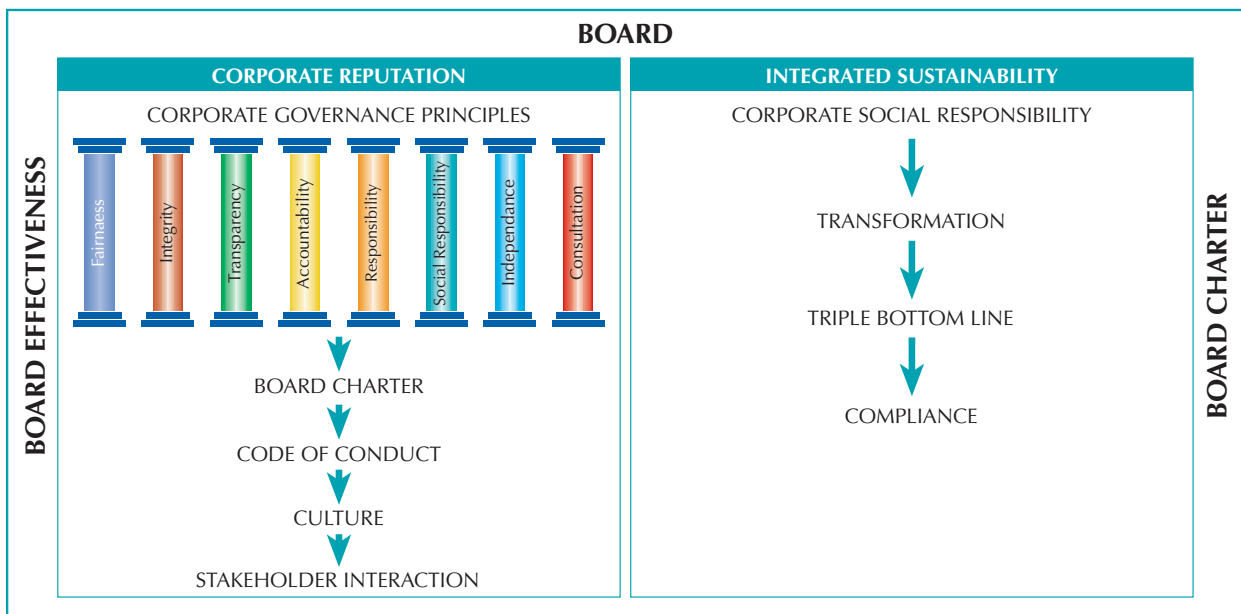
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Corporate governance

The directors of Rand Water commit to conducting the business of the organisation in accordance with the highest standards of integrity, behaviour and ethics, recognising that good corporate governance is critical to the successful growth of the organisation. Accordingly, the directors comply with the code of corporate practices and conduct as recommended by the King II report on corporate governance.

Rand Water is committed to an open governance process through which its stakeholders derive assurance that the business is being managed ethically and according to prudently determined risk parameters in compliance with best international practices.

The corporate governance principles of accountability, responsibility, equity, transparency, discipline and social responsibility, independence, and integrity are at the centre of all our business understandings with all stakeholders.



Good corporate governance practices add value and assist Rand Water in achieving integrated sustainability which contributes to relationship enhancement with its stakeholders and strengthens long-term viability of the organisation.

The directors, management and employees of Rand Water are committed to transparent, sound and ethical business practices as expressed in Rand Water's code of conduct. This code of ethics applies to its Board and staff and is clearly communicated at all levels within the organisation. A Board Charter has been established for the board of directors, and includes the directors, code of ethics. The chief executive officer and the group governance portfolio are responsible for overseeing compliance with the code of ethics by management and staff.

BOARD OF DIRECTORS

Composition of the board

During the year under review, three directors vacated their positions and they were: Messrs DJ Dalling, P Camay and the chief executive, DSS Lushaba.

There was one appointment to the Board and that was the chief executive, Mr TO Nkabinde, who was appointed with effect from 1 June 2006.

Non-executive directors – 16
Executive director – 1

Non-executive directors are appointed for a 4-year term, which ends 2009. The new CEO, appointed on a five-year fixed-term contract, remains the only executive director on the board.

Board charter

A Board charter has been developed for the Board of Directors, and includes the directors' code of conduct.

The Board Charter, inter alia, provides for:

- accountability
- fiduciary duties
- duty to declare conflict of interests
- appointment of committees
- relationship with Rand Water staff
- meeting procedures
- responsibility to report on integrated sustainability
- monitoring operational performance and management
- determination of policy and processes to ensure the integrity of Rand Water's risk management and internal controls
- communications policy
- director selection, orientation, evaluation and assessment.

Rand Water's Board is fully committed to maintaining the standards of integrity, accountability and openness required to achieve effective corporate governance.

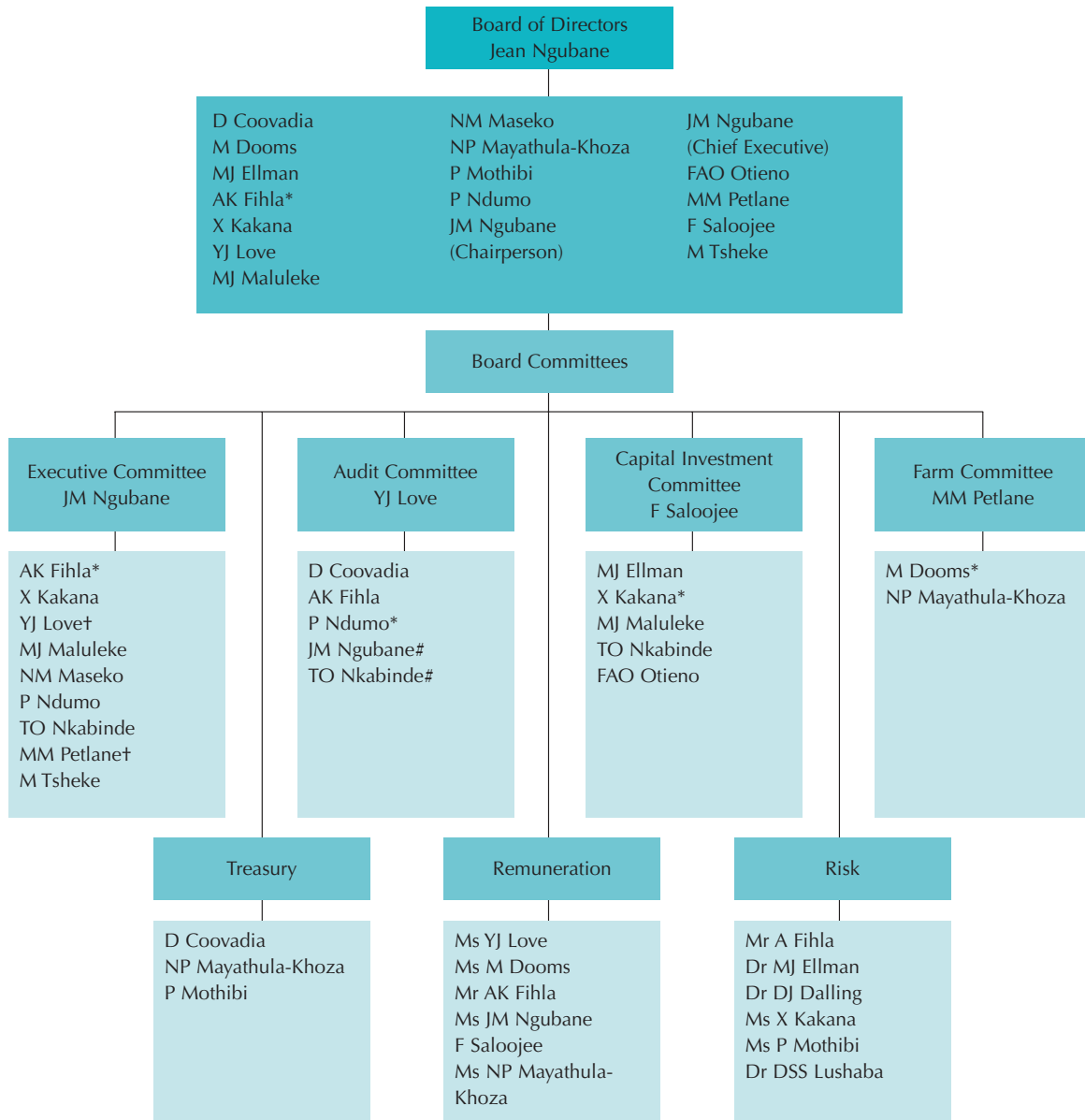
Role and function

As the Board is the accounting authority of Rand Water in terms of the PFMA, its role embraces the following functions:

- Exercising the duty of utmost care to ensure reasonable protection of assets and records
- Providing strategic direction and leadership
- Identification and monitoring key risk areas and key performance indicators
- Ensuring the preparation of annual financial statements in accordance with generally accepted accounting practice (GAAP)
- Appointing independent auditors to review and report on annual financial statements
- Ensuring adequate, efficient, effective and transparent internal controls and systems of financial and risk management using a risk-based approach
- Monitoring and reviewing performance and effectiveness of controls and systems
- Ensuring the maintenance of adequate financial records
- Approving transactions beyond the authority of management
- Maintaining full and effective control over the operations of the organisation
- Approving the delegation of authority
- Ensuring good corporate governance and ethics
- Monitoring and ensuring triple-bottom-line performance
- Identification and monitoring of non-financial aspects relevant to the business.

Board of Directors and Committees

as at 1 June 2005



* Denotes Deputy Chairperson † Denotes Alternatives # Denotes Invitee ‡ Denotes member serves only on Subsidiary or Benefit Fund ^Member until March 2006

Risk management statement

The Board is accountable for the process of risk management and system of internal control, which is regularly reviewed for effectiveness and for establishing appropriate risk and control policies and communicating these throughout Rand Water.

There is an ongoing process for identifying, evaluating and managing the significant risks faced by Rand Water, which was in place for the review period and up to the date of approval of the annual report and financial statements. It is regularly reviewed by the Board.

There is a documented and tested process in place that will allow Rand Water to continue its critical business processes in the event of a disastrous incident impacting on its activities.

Board evaluation

Rand Water recognises that its Board is the focal point of the corporate governance system in the organisation. The Board operates within an established structure that ensures there are adequate processes in place to monitor its operation.

Assessment of the effectiveness of both the structure and processes of the Board is vital to the achievement of Rand Water's objectives.

All members of Rand Water's Board completed an efficacy assessment in March 2006. The assessment examined the following areas:

- Board role, agenda setting, monitoring performance and strategic planning
- Size, composition and independence of the Board
- Director orientation and development
- Board leadership, teamwork and management relations
- Board meetings and subcommittees
- Director and Board evaluation and compensation
- Management evaluation and compensation
- Succession planning
- Constituencies.

Remuneration of the Board

The directors are remunerated on a basis determined by the Minister of Water Affairs and Forestry. The non-executive members of the Board, are remunerated on the basis of Board meeting attendance, including attendance at subcommittees.

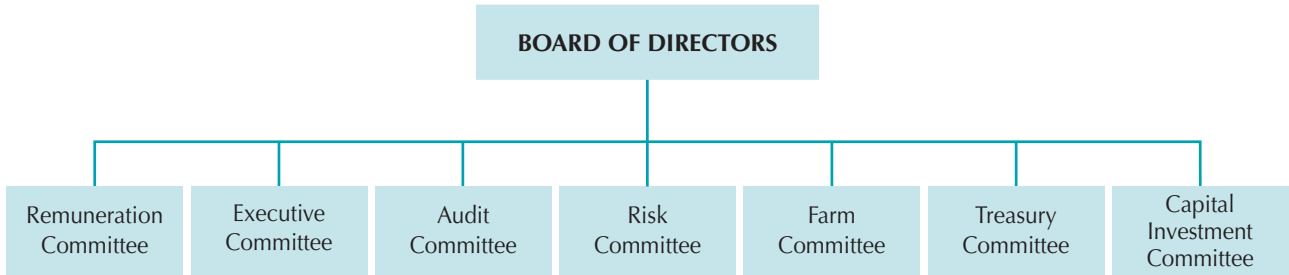
The details of directors' remuneration are stated in note 4 to the annual financial statements.

Independence of the board

The independence of the Board is maintained by adhering to certain key principles:

- having the number of hours to spend doing Rand Water's work limited to 40 or 50 hours per month for Board member and chairperson respectively
- keeping separate the positions of chairperson and CEO
- having an independent non-executive member of the Board as chairperson
- having all Board subcommittees chaired by independent non-executive members
- enabling all Board members to have access to independent advice and services if necessary, at the cost of Rand Water.

Board governance framework



Board meetings are convened monthly and the chairperson of each Board subcommittee reports to the Board on the proceedings of that specific committee, and recommends matters for decision.

Board committee responsibilities are as follows:

Executive Committee: Primary responsibility

Responsible for

- annual strategy options for Rand Water for consideration and determination by the Board.
- annual review of the policy statement of Rand Water, for consideration and approval by the Board.
- annual five-year business plans for Rand Water for consideration and approval by the Board.
- annual high-level budget and tariff proposals for Rand Water.
- set the requirement for and approve detailed annual budget for Rand Water.
- the appointment of service provider(s) for each item in excess of R20 million within budget.
- approve variances for operational expenditure from the detailed annual budget of amounts over R5 million.
- maintain financial control of revenue and expenditure.
- Award tenders for goods and services for all amounts exceeding R20 million.
- bi-annually review the award of all contracts by the Tender Committee, which were awarded to tenderers who did not submit the lowest tender price for work in accordance with the specification.
- oversee the implementation of corporate policies which are of strategic importance to Rand Water including housing, employment equity, HIV/Aids and commercial equity.
- undertake additional duties as the Board may from time to time require.

12 meetings were held during the financial year

Capital Investment Committee: Primary responsibility

- To evaluate and make recommendations to the Board on investments in new business ventures either Primary Activities or Other Activities in accordance with the requirement of the Water Services Act 108 of 1997. To evaluate and make recommendations to the Board on the value of capital investment above R20 million which are in support of Rand Water's Primary Activities.
- To evaluate and make recommendations to the Board on the value of capital investment proposals referred to it by the Board of Rand Water Services (Pty) Ltd which the Board itself is regarded to fund as an Other Activity of Rand Water.
- To review bi-annually all Authorised Votes approved by the Executive Committee and the Management Committee as part of Rand Water's Primary Activities or Other Activities and to report thereon to the Board.
- To review bi-annually all Authorised Votes approved by the executive management or Board of Rand Water Services (Pty) Ltd as part of Rand Water's Other Activities and to report thereon to the board.
- To undertake such additional duties as the Board may from time to time require.

Frequency of meeting: Bi-monthly

Remuneration Committee: Primary responsibility

The Remuneration Committee will address, in an integrated manner, key strategic human resources issues that are appropriate for monitoring by the Board. Its functions will include the following in particular:

- To investigate and determine the remuneration of the Chief Executive.
- To receive the recommendations of the Chief Executive relating to the remuneration of the executives who report directly to him, and to investigate and determine such remuneration.
- To investigate and make recommendations regarding the fees payable to non-executive Board members, both for services as members of the Board in the attendance of meetings and for other services requested by the Board from time to time.
- To consider and make recommendations concerning the establishment and operation of an executive performance incentive scheme and the granting of incentives in terms of the scheme.
- To make other general recommendations to the Board regarding the remuneration strategy of the Company affecting its senior executives, and the remuneration policy guidelines hereinafter set out.
- To oversee and apply Rand Water's bursary schemes, in accordance with Rand Water's Bursary Policy, and make proposals for their amendment and review from time to time. It is the Remuneration Committee's role to:
 - Approve bursary awards to children of staff as recommended by management; and
 - Review bursaries awarded by the Management Committee to potential employees in terms of the Open Bursary Scheme, recommending amendments or corrective action to the award process or decision-making where deemed necessary.
- To make other general recommendations to the Board regarding the bursary schemes.
- To report at least annually to the committee of the whole Board on its proceedings, deliberations, determinations and recommendations.

Frequency of meeting: Quarterly

Farm Committee: Primary responsibility

This committee was only setup to oversee the winding up of the farming activities on Rand Water's Zwartkopjes farm. It will be disbanded once the operations are wound up. The committee had three meetings.

Frequency of meeting: Quarterly

Treasury Committee: Primary responsibility

- Developing and approving investment, funding and liquidity strategies
- Establishing and monitoring implementation of treasury policies
- Developing a risk management policy framework incorporating treasury performance measurements and benchmarks
- Making recommendations to management on treasury issues

Frequency of meeting: Bi-monthly

Risk Committee: Primary responsibility

- Review the Corporate Risk.
- Identify and agree the risk profile/register of Rand Water.
- Ensure that management has effectively identified the key business risks and incorporated them into their activities.
- Assess the appropriateness of management responses to significant risks.
- Consider the control environment directed towards the proper management of risk.
- Liaise with the Audit Committee – to ensure adequate coverage of the risks and decide on what assurance efforts are appropriate to provide the coverage.
- Keep abreast of all changes to the risk management and control system and ensure the risk profile and common understanding is updated, as appropriate.
- Report to the Board on the work undertaken in establishing and maintaining the understanding of the risks that need to be managed and the adequacy of action taken by management to address identified areas for improvement.
- Satisfy the corporate governance reporting requirements.

Frequency of meeting: Quarterly

Audit Committee: Primary responsibility

- Review the external audit and internal audit plans including the scope of the audit, timing and budgeted fees.
- Review the extent of reports, timing and identification of high-risk areas and any exposures
- Review all internal audit reports for the current year and determine possible implications on the external audit and the annual financial statements
- Ensure all key controls have been identified and audited to confirm that they have been and are functioning correctly.
- Review the draft annual financial statements prior to recommending them for Board approval.
- Assess the performance of the External and Internal Auditors over the past year.
- Assess the performance of Management in respect of financial matters over the past year.
- Formulate recommendations to the Board for the appointment of External Auditors for the forthcoming year.
- Recommend the fees payable to the External Auditors

Frequency of meeting: Quarterly



INTERNAL, FINANCIAL AND OPERATING CONTROLS

The Board acknowledges its responsibility for ensuring that Rand Water implements and monitors the effectiveness of systems of internal, financial and operating controls. These systems are designed to guard against material misstatement and loss. The Rand Water audit and risk committees review these matters regularly on behalf of the board.

The Board adopted a risk-based approach to establishing a sound system of internal control and reviewing its effectiveness. This is incorporated in normal management and governance processes.

Rand Water's internal control systems facilitate the effectiveness and efficiency of operations, help ensure the reliability of internal and external reporting and compliance with laws and regulations.

The entity's effective financial controls, including the maintenance of proper accounting records, are an important element of internal control. They help ensure Rand Water is not unnecessarily exposed to avoidable financial risks and that financial information used within the business and for publication is reliable.

They also contribute to safeguarding assets, including the prevention and detection of fraud.

The Board has considered all significant aspects of internal control for Rand Water for the year under review and up to the date of approval of the annual report and accounts.

The internal and external audit functions as well as the risk advisory and compliance functions assist in providing the Board and executive management with monitoring mechanisms for identifying risks and assessing controls appropriate to managing such risks.

In terms of the PFMA, the Board is pleased to confirm that no material loss through criminal conduct was experienced by the business and no irregular expenditure or fruitless and wasteful expenditure was incurred during the period under review.

To ensure that business practices are conducted in a manner that is above reproach under all reasonable circumstances, all employees are required to maintain the highest ethical standards. Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The auditors confirm that nothing has come to their attention during the course of their normal statutory audit to indicate that any material breakdown in the function of internal controls, procedures and systems has occurred during this period.

COMPLIANCE AND REGULATORY REVIEWS

Public Finance Management Act

- Rand Water has implemented governance structures and processes in conformance with the provisions of PFMA.
- Regular compliance reviews are conducted on compliance with the provisions of PFMA. Such findings are reported to the audit and risk committees.

King Report on Corporate Governance for South Africa – 2002 (King II)

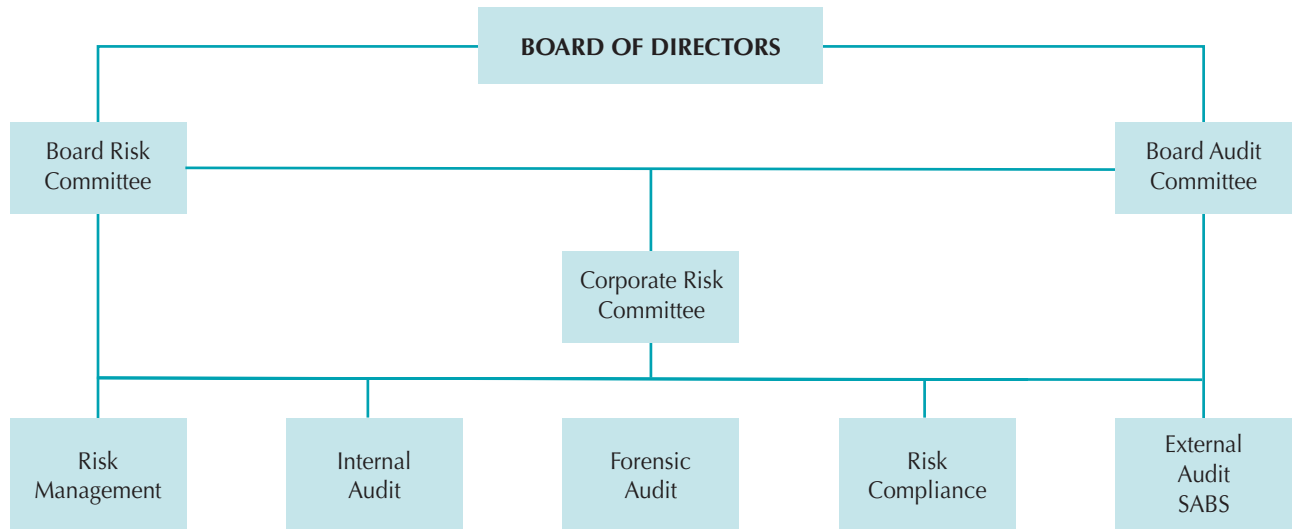
- An annual compliance review was conducted. Rand Water substantially complies with the code of corporate practices and conduct.
- Rand Water's company secretariat is completely aligned to the traditional role of a company secretary as set out in King II. Rand Water is satisfied this function is adequately performing its role within the organisation.

Other legislation

In order to ensure compliance with legislation, Rand Water has put systems in place to facilitate and monitor legal compliance. Policies and procedures are continuously reviewed in order to ensure that they respond to relevant and applicable legislation. The legal environment is also scanned continuously for the organisation to keep abreast of development in law. To intensify focus on compliance, a compliance section has been established within the Secretariat department.

INTEGRATED ASSURANCE FUNCTION

The risk control function is provided by internal audit, forensic audit and risk advisory services – this is an objective assurance and consulting activity designed to add value and improve an organisation's operations. It assists all levels of management of Rand Water and the audit and risk committees of the Board in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, recommendations, counsel and information concerning the activities reviewed; and by promoting effective control at reasonable cost.



The risk control activity evaluates and contributes to the improvement of risk management, control and governance systems on:

- The information systems environment
- Reliability and integrity of financial and operational information
- Compliance and adherence to quality standards
- Effectiveness and efficiency of operations
- Safeguarding of assets
- Compliance with laws, regulations, and contracts
- Organisational ethical culture
- Prevention and detection of fraud

The risk control function assisted the Board in achieving the group's objectives by evaluating and developing recommendations for enhancing or improving processes through which:

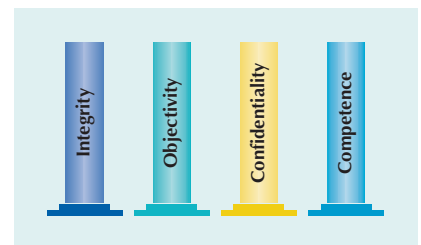
- objectives and values are established and communicated

- the accomplishment of objectives is monitored
- accountability is ensured
- corporate values are preserved.

STANDARDS AND BEST PRACTICES

The risk control function aspires to adhere to international standards and best practice, including standards for professional practice. The heads of risk control functions uphold the professional code of ethics which prescribes the following principles: Executive management is accountable to the Board for designing, implementing and monitoring the process of risk management and control, and integrating it into day-to-day activities.

The Board has appointed the risk and audit committees, comprising non-executive directors, to assist it in implementing its oversight responsibilities.



The internal audit function provides assurance on management's assertions on the adequacy and effectiveness of risk management, control and governance processes.

The forensic audit function provides assurance by investigating, detecting and reporting on crime, corruption, dishonest behaviour, non-compliance to policy and legislation. It is also responsible for prosecuting identified offenders, recovering financial loss and performing background checks on new Board members, senior management and staff.

The internal audit function provides assurance by systematically evaluating compliance to policies and procedures, contracts and agreements, legislation, regulations and guidelines.

The risk advisory function is responsible for implementing risk mitigation controls and works closely with line managers to ensure that set standards, policies and procedures are implemented in the same way across the organisation. Further, this function ensures that Rand Water adheres to all its independent standards and maintains its certification. The SABS provides independent assurance on compliance to quality control standards by reviewing Rand

Water policies, processes and practices for the period. The certification is awarded for compliance with ISO 14001, ISO 9001 and OHSAS 18001 international standards. Risk management is the link for external liaison with the SABS.

The external auditors provide independent assurance by evaluating the effectiveness of the organisation's operational activities, attendant business risks and the system of internal, operational and financial controls.

The internal assurance providers constantly liaise on risks facing Rand Water, and recommend improvements to the risk management, control and governance

process. Liaison occurs during planning, executing and reporting on engagements. The effectiveness of risk management is monitored through the corporate Risk Committee comprising executive, senior and divisional managers, risk management, internal audit and forensic audit.

Internal audit is the link to external liaison with external auditors.

External liaison

The internal and external audit functions liaise on audit coverage for the period to maximise assurance on financial, operational and compliance control, and minimise duplication of effort.

RAND WATER BOARD COMMITTEE MEMBERS AND ATTENDANCE

July 2005 – June 2006

Board

Name	Designation	Meetings attended
Ms JM Ngubane	Chairperson	8
Mr AK Fihla	Deputy Chairperson	5
Mr D Coovadia	Member	8
Ms M Dooms	Member	4
Mr P Camay	Member (until February)	4
Mr DJ Dalling	Member (until February)	4
Dr MJ Ellman	Member	8
Ms X Kakana	Member	7
Ms YJ Love	Member	3
Ms NM Maseko	Member	7
Adv MJ Maluleke	Member	8
Ms NP Mayathula-Khosa	Member	6
Ms P Mothibi	Member	5
Ms P Ndumo	Member	6

Name	Designation	Meetings attended
Prof FAO Otieno	Member	88
Ms F Saloojee	Member	7
Mr M Petlane	Member	7
Mr M Tsheke	Member	8
Mr TO Nkabinde	CE (appointed 1 June 2005)	1
Dr DSS Lushaba	CE (resigned in December 2005)	4

Meetings held: 8

Directors emoluments are available on page 106 of this report.

Audit Committee

Ms YJ Love	Chairperson	3
Mr D Coovadia	Member	4
Mr AK Fihla	Member	3
Ms P Ndumo	Member	4
Ms JM Ngubane	Member	4
Dr DSS Lushaba	CE (resigned in December 2005)	2

Meetings held: 4

Remuneration Committee

Ms YJ Love	Chairperson	3
Ms M Dooms	Member (appointed in February 2005)	1
Mr AK Fihla	Member	4
Ms JM Ngubane	Member	4
Ms F Saloojee	Member	1
Ms NP Mayathula-Khoza	Member	1

Meetings held: 4

Capital Investment Committee

Ms F Saloojee	Member	4
Dr MJ Ellman	Member	4
Adv M Maluleke	Member	5
Ms X Kakana	Member	2
Prof FAO Otieno	Member	0
Dr DSS Lushaba	CE (resigned in December 2005)	0

Meetings held: 5

RAND WATER BOARD COMMITTEE MEMBERS AND ATTENDANCE

July 2005 – June 2006 continued

Treasury Committee

Name	Designation	Meetings attended
D Coovadia	Chairperson	2
Ms NP Mayathula-Khosa	Member	2
Ms P Mothibi	Member	0

Meetings held: 2



Risk Committee

Mr A Fihla	Chairperson	4
Dr MJ Ellman	Member	4
Mr D Dalling	Member (until February 2006)	2
Ms X Kakana	Member	2
Ms P Mothibi	Member	1
Dr DSS Lushaba	CE (resigned in December 2005)	1

Meetings held: 4

Executive Committee

Ms JM Ngubane	Member	11
Mr AK Fihla	Member	9
Dr DSS Lushaba	Member	5
Mr M Maluleke	Member	10
Ms MM Maseko	Member	8
Ms P Ndumo	Member	4
Mr M Tsheke	Member	10
Ms X Kakana	Member	

Meetings held: 11

Farm Committee

Mr MM Petlane	Chairperson	4
Mr MM Dooms	Member	4
Ms NP Mayathula-Khosa	Member	3
Mr DJ Dalling	Member (until February 2006)	2

Meetings held: 3

CODE OF ETHICS FOR EMPLOYEES

Rand Water has a code of ethics in place which was developed through consensus in the stakeholders' forum. Failure by an employee to conform thereto and to comply with the code of ethics results in the transgressors being disciplined in accordance with the procedures as set out in Rand Water's disciplinary codes and procedures.

Executive management and line managers have a special responsibility to communicate, implement and monitor compliance with the code.

The directors believe the ethical standards and the criteria set out in the Code were being met.

GOING CONCERN

The directors are satisfied Rand Water has adequate resources to stay in operation for the foreseeable future. For this reason, Rand Water continues to adopt the going-concern basis in preparing its accounts. The independent auditors concur with this basis.

INDEPENDENT AUDITORS

SizweNtsaluba VSP

COMPANY SECRETARY

The company secretary is a critical function at Rand Water. The chairperson and Board look to this function for guidance on how their duties and responsibilities should be properly discharged in the interests of Rand Water.

The primary responsibilities of the company secretary include:

- Giving guidance to the Board collectively, and each director individually, on their duties and responsibilities and making them aware of all legislation and regulations relevant to Rand Water
- Ensuring that the procedure for the appointment of directors is properly carried out, assisting in the proper induction and orientation of directors, assessing the specific training needs of directors and executive management in their fiduciary and other responsibilities
- Ensuring unhindered access to information by all Board members and committee members so that they can contribute to Board meetings and other discussions
- Compilation of Board and sub-committee packs and ensuring compliance with good governance standards
- Raising matters that may warrant the attention of the Board
- Ensuring compliance with all relevant statutory and regulatory requirements
- Ensuring that board decisions and instructions are clearly communicated to the relevant people
- Providing guidance and advice on matters of ethics and governance
- Communicating with DWAF and ensuring that due regard is paid to its interest
- Acting as primary point of contact for institutional entities and stakeholders on matters of corporate governance.



Risk management

INTRODUCTION

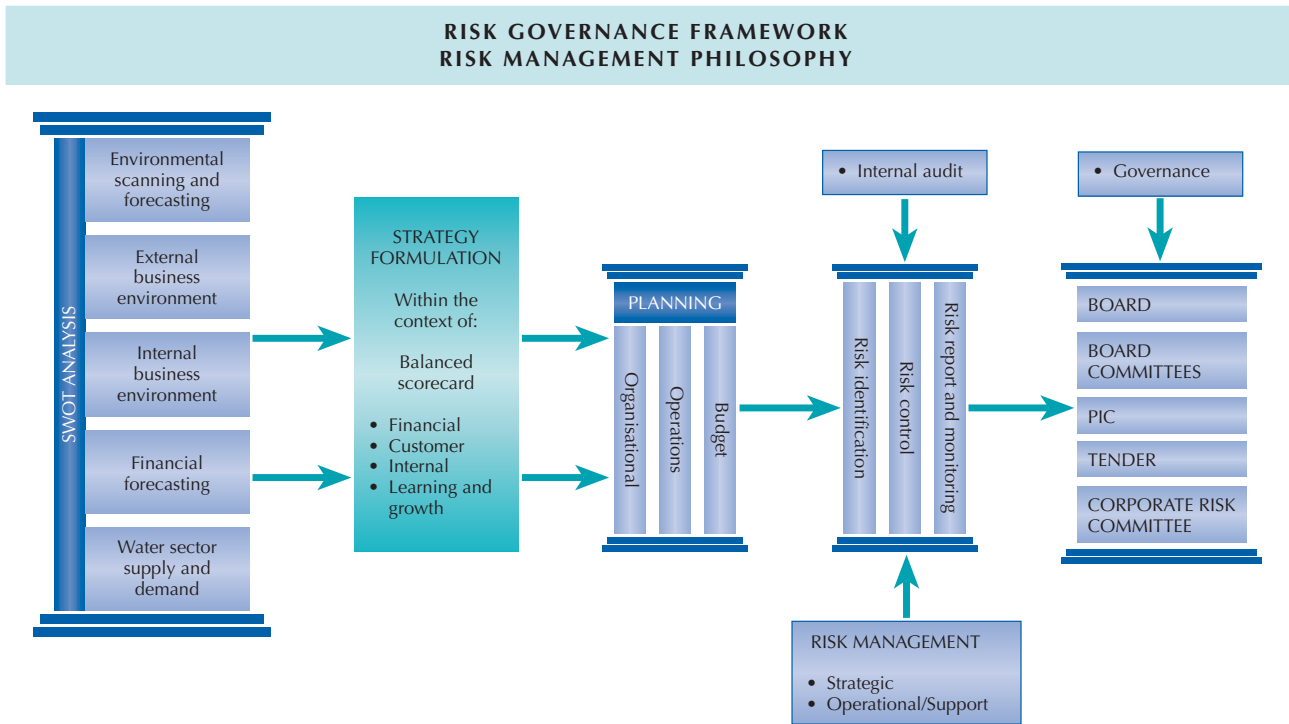
The enterprise-wide risk management framework encompasses the environmental scanning and forecasting process within the context of liability management and Rand

Water's balanced scorecard strategy. Within this framework, risks are identified, controls designed and implemented to address and manage these risks. Monitoring and reporting procedures are designed to enhance the risk

management function further. Results of this process are reported to the audit and risk committees of the board.



RISK MANAGEMENT GOVERNANCE FRAMEWORK



Overview of Rand Water risk management process

Rand Water recognises that certain risks are inherent to the normal pursuit of its business under its operating and legislative framework and endeavours, where possible and practical, to minimise those risks. While the focus is on proactive risk management,

a necessary prerequisite demands that it takes place in a well-defined and clearly articulated risk management framework, determined and formulated by the Portfolio Integrating Committee and approved by the Board Risk Committee, in accordance with the risk philosophy and policies established by the Board.

The above diagram illustrates the decision-making level/authority with respect to policies, strategy, tactics formulation and implementation as they stem from the overall risk philosophy of the organisation.

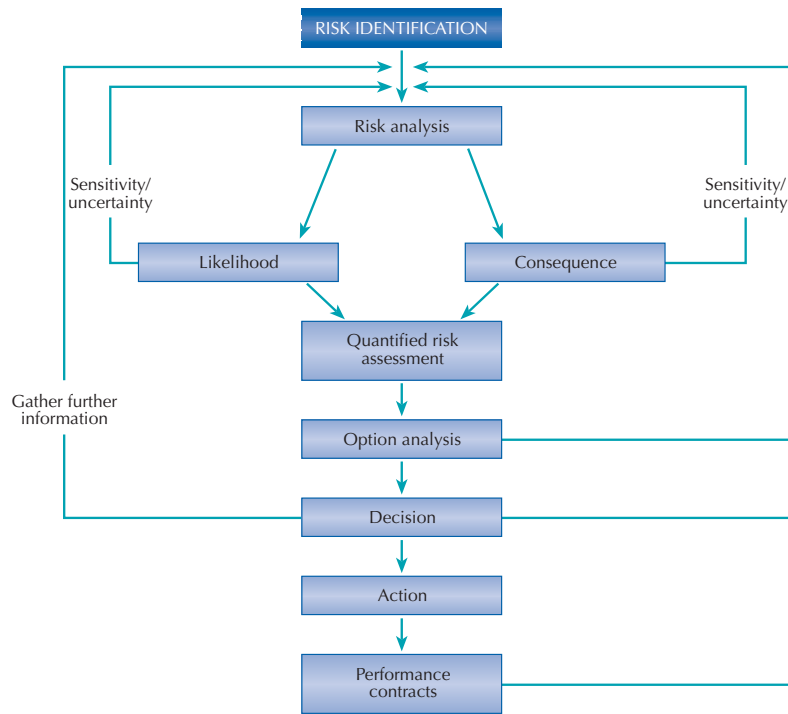
Risk management philosophy

Rand Water’s risk management philosophy is defined as conservative, meaning that the organisation has a low level of risk tolerance.

An important aspect of the risk management philosophy is that Rand Water does not view the risk management function as a process of eliminating all identified risks to the greatest extent possible. Rather a more holistic approach is taken whereby risk retention may be appropriate after giving consideration to factors such as:

- The specific risk characteristics of the operations
- The interrelationships between certain risk variables and natural hedging mechanisms which may exist
- The achievement of various business objectives.

The following workflow figure outlines the full risk management framework, emphasising that risk management is a dynamic process which needs to be constantly readdressed.



RISK MANAGEMENT FUNCTION

In keeping with the overall risk philosophy, as well as internationally accepted best practices, Rand Water maintains a risk management function independent of its front-line activities. This function's primary responsibility is measuring, monitoring and

reporting on risk consistent with policies established by the board. At the same time, Rand Water maintains a compliance function, again independent of front-line activities, mandated to ensure continued compliance with all regulatory and legislative requirements and internal policies.

financial repercussions. Apart from all other forms of crisis situations, disastrous disruptions in our business could have serious effects on both Rand Water and consumers. The impact of such disasters should be anticipated and systems of control in the form of the business continuity programme are in place in Rand Water.



There is no blueprint for risk management, rather a dynamic process in which factors affecting the decision-making environment are constantly changing. Effective risk management requires very clear objectives and equally clear strategies to achieve these objectives.

The level of effectiveness of the risk management function will depend on:

- Focus on key business
- Timeliness of identification of risk
- Speed of communication to senior management and the board
- Ability to manage the residual risk
- Extent to which the risk management process is ongoing or dynamic
- Risk management and internal controls should be part of the vocabulary throughout the organisation (embedding principles and risk awareness to all levels).

Risk control programmes

During the year, Rand Water broadened its scope of risk control. In partnership with other utilities, Rand Water is involved in a complex programme of protecting its infrastructure from external factors, especially the impact of illegal settlement

on its servitudes. This practice and sinkholes in dolomite areas impact negatively on the infrastructure and safety of communities.

Project risk system

Rand Water has developed risk management systems aimed at ensuring that the process of risk identification, evaluation, control and finance and feasibility studies are undertaken from inception to completion of all projects. This programme helps Rand Water to ensure that all projects are recorded and related liabilities and costs are appropriately managed.

Business continuity programme

Water is one of the basic services local government is required to deliver to communities. Also, the industry sector needs water for a number of economic activities in addition to normal domestic use. Water quality is of prime importance in water supply and a key measure of quality services. For this reason, a risk-based business continuity programme has been developed in Rand Water.

A number of natural perils with disastrous implications could impact on the ability of the organisation to provide services, with

During the year, Rand Water communicated its business continuity programme to stakeholders and conducted simulation exercises to test its effectiveness. Subsequently, management will address recommendations to improve its crisis management capacity. The outlook for our business continuity programme is as follows:

- Conduct a business impact analysis study for the entire organisation
- Regular testing of IT backups
- Review and update IT disaster recovery plan
- Establish a fully equipped central emergency control centre
- Develop and implement business continuity management awareness and training programme
- Ongoing disaster simulation exercises at all sites
- Conduct business continuity management audit.

Quality management system

During the period, we retained our certification to ISO 9001:2000 after regular external audits conducted by SABS. We have extended our scope of certification to Emhlangeni pipe (engineering) and, during the next surveillance audit in September, we are striving to include the transport department.

Implementation, registration and daily maintenance to ISO 9001:2000 needs attention and resources. Management recognises the value of a systems approach to business and a process approach to

operations in achieving continual improvement in our quality management system.

All employees are aware that maintaining certification is a goal in achieving customer-focused service delivery. Awareness and training on the quality management system has made it possible for all in Rand Water to cooperate in meeting this objective.

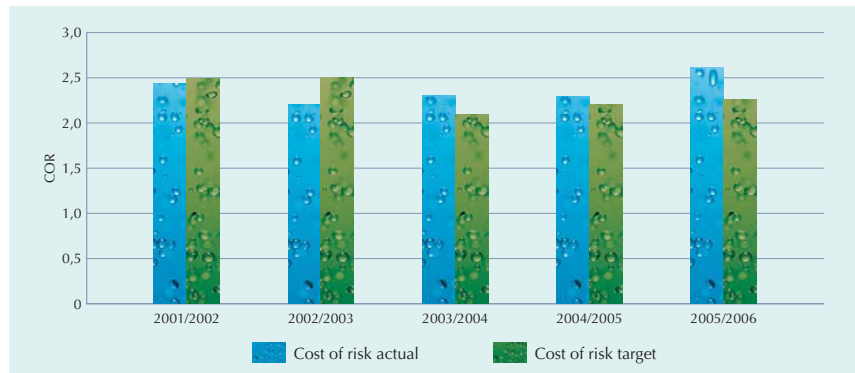
We acknowledge the dedication of every employee in implementing and maintaining this system and the contribution of the precise teamwork of all involved.

Risk financing

Rand Water has adopted the process of enterprise risk management and risk financing forms an integral part of this process. In line with this, Rand Water has revised its risk financing strategy and the salient points, as extracted from the revised strategy, are:

- Risk financing serves to provide appropriate, flexible, innovative and dynamic solutions that seek to manage both inherent and residual risk, following annual risk assessments conducted by Rand Water
- Any risk financing mechanism adopted by Rand Water must be comprehensive and cost effective, with the ultimate aim being to ensure Rand Water’s sustainability and continued growth
- Risk financing solutions will adequately address all risks facing the organisation, ie both pure and business risks
- Rand Water’s aim is to move away from using the traditional placement of insurance cover, combined with self-insurance funding as the only appropriate risk financing mechanism
- Rand Water will actively pursue the use of alternative risk transfer mechanisms
- All risk financing-related activities and mechanisms will be managed

Cost of risk: Five-year comparison: actual versus target



holistically, consolidated and managed centrally, taking into account our business requirements and processes.

Cost of risk

Cost of risk is still used as a key indicator of the effectiveness of our risk management initiatives. Cost of risk at Rand Water comprises all risk-related costs and is expressed as a percentage of turnover for the period. Rand Water’s overall cost of risk for the 2006 financial year is 2,52% compared to 2,29% for 2005.

The main components are insurance costs (statutory and non-statutory), cost of self-insured/self-retained losses, risk control costs and corporate administration costs. Each component is analysed below.

Insurance costs

Non-statutory premium: Rand Water’s insurance premium increased from R9 436 924 in 2005 to R9 744 459 in 2006. This was due to an increase in the principal controlled insurance sums insured as well as professional indemnity and Sasria. Risk financing is also considering recovering from Rand Water subsidiaries as well as various projects within the organisation.

Statutory premium: The assessment rate has increased from a discounted rate of 68c to 87c with effect from March 2006. The premium was R3 046 758 in 2005, and had been R2 396 580 in 2006. For Rand Water to qualify for a rebate at the end of three years, the organisation should pay its assessment at a normal rate.

Self-retained losses

The objective of this fund is to obtain cost-effective premiums and a good claim history with the insurer because these losses mostly relate to high-frequency, low-severity incidents. In the period, insurance costs totalled R6 334 374 against a budgeted R8 000 000.

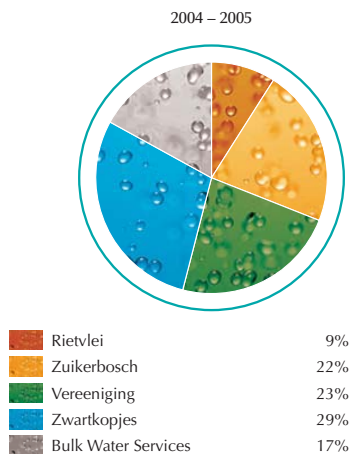
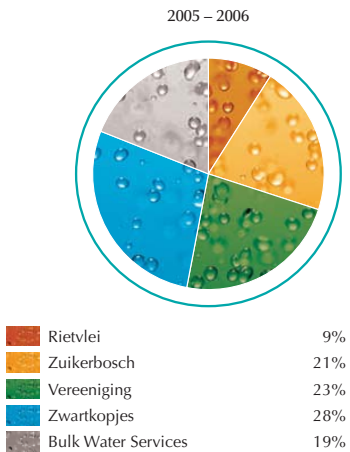
Self-retained losses from 2002 to 2006 (Rm)



Risk control costs

These are made up of actual operating expenditure for the review period. There has been an increase in risk control costs.

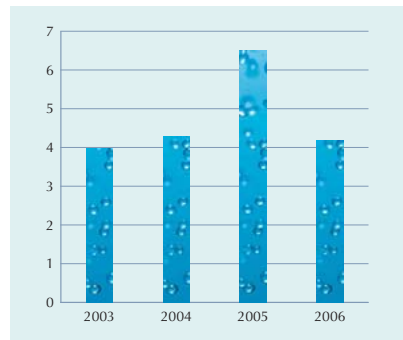
Two-year comparison: risk control costs



Corporate administration costs (risk management costs)

Corporate administration costs increased from R6 512 105 in 2005 to R7 553 365 in this financial year.

Corporate administration costs from 2003 to 2006 (Rm)



Alternative risk transfer

Rand Water is actively pursuing alternative risk transfer mechanisms through a detailed exercise in this area, with the ultimate aim being to:

- Ensure we have the most comprehensive and cost-effective coverage
- Smooth risk financing expenditure patterns through hard market conditions
- Extend cover to areas currently uninsured – these are either extremely expensive to purchase or cover is not available in traditional markets
- Possibly look at extending alternative risk transfer initiatives to the wider water sector.

Safety risk management

Occupational health and safety

During the period, increased emphasis was placed on ensuring safety, health and environmental compliance. There has been a reduction in the number of disabling injuries reported. Audits were conducted to evaluate the effectiveness of health and safety programmes, and to identify potential exposures. Emergency planning exercises were also conducted at various sites to assess and improve coordination and response to emergency situations.

Rand Water retained its OHSAS 18001 certification. Our efforts to improve contractor safety at our sites will be intensified in the coming year, focusing on measuring contractor incidents, improving safety, health and environment compliance and investigating all contractor disabling incidents.

Continuous changes and new developments in the field of occupational health and safety require appropriate upgrading and development of the knowledge and skills of managers, supervisors, practitioners and employees. Training and awareness form a key component of ongoing improvement to the safety culture throughout the organisation.

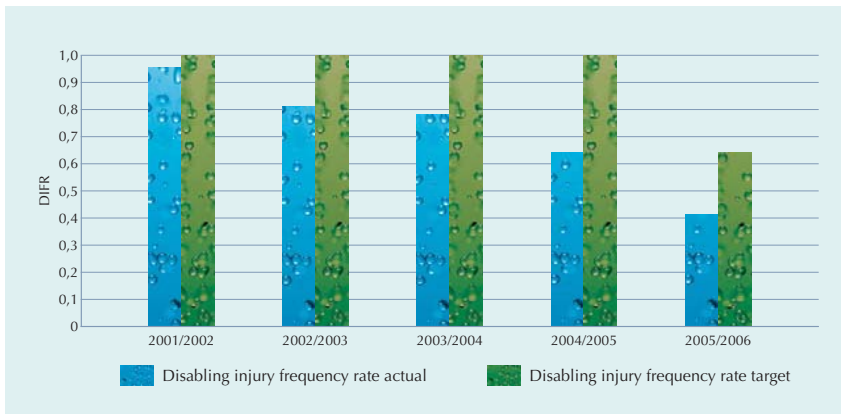
Rand Water DIFR – Five-year comparisons
 (NB: The comparison figures for 2006 are as at 31 March 2006)

Rand Water uses the disabling injury frequency rate per thousand manhours worked (DIFR) as a key performance indicator for its safety management system. DIFR has decreased significantly in the last four years, indicating that Rand Water is

adhering to the safety management systems employed in the organisation.

The DIFR decreased from 0,64 to 0,47 during the year under review. There has been an increased level of reporting and investigation of occupational health-related diseases, being noise-induced hearing loss cases.

Disabling injury frequency rate: Five-year comparison: actual versus target





Sustainability report

FINANCIAL SUSTAINABILITY

Rand Water's ability to supply water on a long-term basis is dependent on the development and maintenance of infrastructure with sufficient capacity to satisfy current and future demand. The lead time to produce water infrastructure to cater for increasing demand requires that detailed long-term planning is undertaken, not only to

ensure that capacity is available when required but also, from a financial perspective, that funds are available when needed to finance the construction of that infrastructure.

The impact of future capital expenditure is considered in determining current bulk water tariffs in order to avoid extreme fluctuations

in the tariffs from year to year. With the continued solid operating performance, Rand Water, management to redeem RW01 bond in September of 2005. The state of the balance sheet enables Rand Water to access requisite funding for currently anticipated capital requirements.

WEALTH DISTRIBUTION

Value added statement

For the year ended 30 June 2006

The value added statement shows total wealth created by regulated and non-regulated business activities and how that wealth has been distributed to various stakeholders and the portion that has been re-invested to maintain and develop operations.

	2006 Rm	2005 Rm	2004 Rm
Revenue	3 672	3 460	3 258
Cost of materials and services	2 358	2 261	2 156
Value added by operations	1 314	1 199	1 102
Other income	87	144	76
Total wealth created	1 401	1 343	1 178
Staff costs	590	585	524
Providers of capital	80	119	144
Depreciation	139	145	135
Net profit	592	494	375
Wealth distributed	1 401	1 343	1 178

HUMAN RESOURCES

Employee relations

The labour peace and stability that Rand Water continues to enjoy in the period under review is borne out of various notable achievements such as the settlement levels on the wages and other terms and conditions of the employment.

A survey by Andrew Levy Employment Publications indicates that average settlement by industries on salaries and wages ranged between 6 and 6,9% and minimum wages ranged from R3 425 in the Municipal/Utility sector. Rand Water's 6% level of settlement reached in 2005 is in line with these trends and its minimum wage higher than that of its Municipal counterparts at R3 815. This settlement level in partnership with trade unions was made possible through interest-based negotiations that Trade Unions and Management embarked on. The settlement level will immensely contribute towards the stability of the environment in the future as a result of a two-year wage agreement concluded with the trade unions, extending to June 2007.

Despite goals of cost efficiency, Rand Water continues to preserve jobs in line with Government's job creation objective. This was evident when the 2005–6 year commenced with virtually all employees, whose jobs were displaced by the conversion of steam plants to electricity, absorbed elsewhere in the company. The employment of all but a handful who chose early retirement or voluntary retrenchment was achieved through close, constructive cooperation between Management and trade unions.

Rand Water remains highly unionised at 90% of employees belonging to either, The SA Municipal and Allied Workers' Union (SAMWU) (the majority union), the United Association of SA (UASA), or the Rand

Water Staff Association (RWSA) – which are sufficiently representative trade unions. The other 10% of employees are covered by the Agency Shop agreement concluded by Management and trade unions to cater for those employees who are not union members.

REMUNERATION

The focus of remuneration strategy in the review year was on striving for internal equity, promoting performance, attraction and retention of key competencies. An independent audit by a specialist consultant confirmed a positive degree of equity in terms of race and gender throughout the organisation. Several industry-wide benchmark surveys verified that Rand Water median salaries per job band compare favourably with commercial market levels in all areas but those of senior executives. This challenge is being explored in consultation with the SA Association of Water Utilities and the Department of Water Affairs and Forestry.

During the year an evolving performance management system was extended as all senior employees' performance was focused and assessed according to both performance contracts and incentive contracts. This was supplemented by performance assessments for all other staff in the Officials category and personal development plans for every employee.

All Rand Water employees participated in a performance incentive bonus scheme for the third successive year. Whilst for Support Staff, Operators and Artisans incentives were based on Company performance as a whole; incentives for more senior staff were modified based on individual performance against stretch targets contained in their incentive contracts.

The Corporate Balanced Performance Management Framework, shown elsewhere in this Report, is cascaded down into Portfolio scorecards to ensure that all organisational performance is aligned towards the achievement of Rand Water's corporate objectives. Individual performance in turn is linked to Portfolio scorecards to ensure total clarity on the causal relationship between performance and strategic achievement.

HIV/Aids

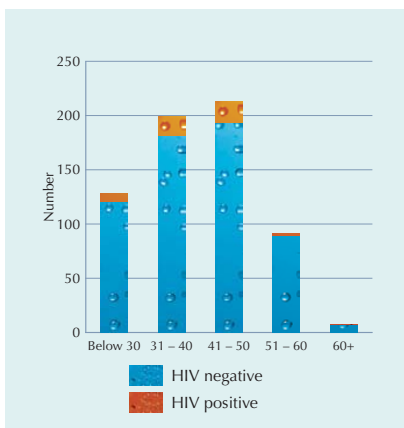
Rand Water's approach to HIV/Aids in the workplace is rooted in a Life Threatening Diseases Policy and a comprehensive HIV/Aids Strategy. An HIV/Aids Steering Committee includes professional specialists in various relevant areas such as Employee Wellbeing professionals and the Medical Scheme Administrator, together with leadership of all trade unions and other employee groups. An HIV/Aids Project Manager facilitates and administers the workings of the Steering Committee and project manages a range of interventions in line with the Strategy. The Strategy has four legs: Epidemic Impact Containment, Economic Impact Containment, Living with Aids, and Research and Continuing Education.

In line with Rand Water's HIV/Aids Strategic Plan, a Voluntary Counselling and Testing (VCT) campaign, as well as a Knowledge, Attitude and Practices Survey, were conducted in December 2005. These were in addition to ongoing workplace educational, counselling and testing activities.

A total of 594 specimens were collected during the VCT campaign, which comprised 18.6% of the total workforce of 3 200 staff. Of the specimens collected, 47 staff members (8% of the total number tested)

tested positive for the HIV antibody through the ELISA test method. Forty of the staff members were already aware of their HIV status through previous testing and only seven of the total HIV positive staff were new cases. Gender distribution for staff who tested positive was 43 males and 4 females, with the highest number of HIV positive staff falling within the 41 – 50 year age group.

HIV positive as proportion of all tested per age group



The 8% positivity in the above-mentioned study is significantly lower than found in previous studies in the organisation (December 2003 showed a 14,9% positivity). This may indicate an encouraging decline in the prevalence rates amongst Rand Water staff, which could be attributed to the various successful campaigns and knowledge awareness interventions within the organisation.

Rand Water will continue to intensify its HIV/Aids programmes in an attempt to prevent new infections amongst its staff. Gender-focused programmes are being planned to assist in reducing stigma and other behavioural problems related to HIV/Aids.

Interventions that will be strengthened and enforced even further are:

- Prevention measures
- Treatment and care measures
- “Mainstreaming” HIV/Aids activities into all aspects of the organisation and not allocating this responsibility solely to health services and peer educators.

A repeat Knowledge, Attitudes, and Practices (KAP) survey was conducted at Rand Water in December 2005. The baseline assessment was conducted in 2000, with second assessment taking place in 2002. The third assessment in 2005 has highlighted progressive changes in knowledge, attitudes and practices over time, enabling evaluation of the effectiveness of Rand Water’s HIV/Aids prevention and treatment programme over a five-year period. Both positive finding and areas of concern warranting further intervention are indicated, with a view to integrating these into the Rand Water HIV/Aids Strategy and Action Plan through a considered set of recommendations.

Notwithstanding a relatively high employee participation rate in the 2002 KAP survey, there was 61% increase in sample size for the 2005 KAP survey. Give that participation was voluntary and anonymous; this improved participating rate affirms a general buy-in by employees into the Rand Water comprehensive

HIV/Aids intervention programme. Sample size surpassed that of the 2005 survey, with the result that findings are generalisable to the Rand Water employee population with less than 1% statistical error. Further, data quality was exceptional, with all measurement scales falling in the highly reliable range

Below is a summary of the most important findings arising from comparative 2002–2005 surveys. This summary presents key findings for each knowledge, attitudinal and behavioural variable that was investigated. There was improvement in performance on all seven variables that were investigated as shown below:

In terms of composite performance across all seven variables, a 6% improvement in company performance is noted from 2002 to 2005, with the greatest improvement being recorded for the variables related to fear about HIV/Aids (12%) positive perceptions regarding HIV/Aids (7%). While changes in knowledge are usually easier to produce than changes in attitudes, emotions and behaviours, the above findings demonstrate improvements in all of these variables. Thus, improvements in knowledge were matched by positive changes in beliefs, attitudes and behaviours as well as a reduction in fears, all of which form the basis for a reduction in discriminatory, prejudicial and high risk behaviour.

Table 2: Quality of service as assessed by educators from July 2004 to June 2006

Standard of service measured by educators through the use of evaluation from according to financial years	Delta environmental centre	Rand Water nature centre	Water Wise Room at the Vereeniging purification station	Overall service
July 2003 – June 2004	93,35%	92,21	90,28%	91,95%
July 2004 – June 2005	92,35%	92,09%	95,15%	93,2%
July 2005 – June 2006				93,28%

ENVIRONMENTAL SUSTAINABILITY

Water resource protection

To protect its annual investment in raw water of more than R1 billion, Rand Water is active in all aspects of managing the total water cycle. The water quality safety plan manages water quality risks in the supply process, in line with the requirements of the national water act, which recognises that water will be managed as one cycle.

The water quality objectives for the Vaal Barrage and Vaal Dam sub-catchments have consequently been incorporated into the memorandum of understanding between Rand Water and the Department of Water Affairs and Forestry. The department has also adopted these water quality objectives as guidelines in determining discharge licence conditions.

Pollution impact

Rand Water is intimately involved and deeply concerned with the quality of water in the Vaal River and more particularly in the Vaal River barrage, where much of its raw water was abstracted.

A deterioration in raw water quality results in health hazards, and increased treatment costs. Pollution of the Vaal River barrage stems from three main sources, ie sewage effluents discharged by local authorities, underground water pumped by gold mines, and surface pollution that is washed or dumped into streams.

Treating barrage reservoir water instead of Vaal Dam water would increase Rand Water's cost by as much as 40%, and may also require different methods of treatment.

More advanced technologies using powdered activated carbon to remove taste and odour as well as reverse osmosis to remove salinity may have to be considered in future if the pollution of raw water resources continues unabated.

Natural environmental management

As owners of the Vaal River barrage, Rand Water is also responsible for the implementation of annexure C of the Vaal River complex structure plan of 1996, promulgated under the Physical Planning Act. This involves the management and control of riparian development along the barrage reservoir, to minimise pollution risks related to increased population densities. Examples of such risks are overloaded sewer systems, development within flood lines, and damage to riparian vegetation. High-level interaction with developers and local, regional and provincial authorities ensures that risks are minimised, and the reservoir remains suitable for intended uses.

Since the promulgation of this legislation in 1982, Rand Water has been tasked to ensure that development along the river takes place in a controlled and structured manner. The structure plan specifies that no habitable structures may be erected within the 1975 flood line, a 100 m cordon sanitaire needs to be maintained, and properties may not be subdivided to have less than 100 m of river front.

One of the biggest challenges of implementing the structure plan is to continually develop solutions to accommodate various changes to land use planning by the relevant local authorities.

The overall purpose of Catchment Management is to protect the sources from where the Rand Water abstracts its raw water. The better we can protect the sources, the more efficiency we will be able to supply world class potable water at the lowest possible cost. However, there is also a " bigger picture" involved, and that is to play a leading role in the overall management of the threatened water resources of our country.

The rivers and dams in the catchments are extensively monitored, and a great deal of effort goes into conveying the status of the catchments to the consumers. This takes place through involvement in each and every catchment forum, and the upper Vaal Water fulfils the role of water quality auditor and facilitator in these forums, as we have the most comprehensive database of chemical, biological and microbiological data. The main focus of the forums is to provide a platform where water related issues can be tabled, discussed openly, and resolved utilising best management practices.



Environment environmental awareness



Water Wise is Rand Water’s educationally based brand advocating the conservation of water which is a valuable resource that should be conserved by all in South Africa and thus also to conserve the environment at large.

The Water Wise brand is a strategic imperative for Rand Water as it represents the conscientious drive of Rand Water to ensure not only adequate supply of water to its customers sustainably, but also the conservation of water for end-consumers, appreciation of the value of water as a scarce resource and providing audiences with relevant education in using water effectively and efficiently in all aspects of life.

Value

Water Wise uses the VALUE of water to motivate behavioural change and thus use water wisely. When something is perceived to have value, it is appreciated and thus leads to motivators for altered behaviours. When the value, scarcity of water, purification process are demonstrated and explained people realise the importance, benefits and thus are more motivated to change behaviour relative to not being educated in this regard.

Educational

Water Wise programmes are based on an educational approach to issues around water conservation. It is due to lack of education that people are ignorant of the value of water, why people must save water, and how to do so. The brand thus imparts valuable information and knowledge on water scarcity, why and how to save water.

Water Wise education programmes

During the 2005/06 financial year the Water Wise Education Team introduced some new programmes and methodologies into their array of Water Wise activities for schools:

- “The Water Wise Treasure Hunt” at the Rand Water Nature Centre, which saw learners hunting for clues and natural treasures all over the nature reserve;
- The Water Wise Room at Delta Environment Centre was increased in size and revamped. The theme follows the journey of a water droplet through the water cycle through the use of artwork, funky furniture, sounds and lighting;
- The bathrooms at Delta Environment Centre were retrofitted with new improved Water Wise devices;
- Puppet shows are offered from three of the bases, ie Delta Environment Centre, Rand Water Nature Centre and the Water Wise Room at the Vereeniging Purification Station;
- Workshops at the JNF/Water Sisulu Environment Centre in Mamelodi have taken off with great results;

- A new environment centre for the Rand Water Nature Centre is being planned. The architectural drawings have been drawn and now the centre needs to be built;
- Three new Manzi costumes have been produced and a Character Management Programme has been put into place;
- The Water Wise Holiday Programme was a great success for staff children with visits to the Montecasino Bird Gardens, A-maize-ing Mazes and the Rand Water Nature Centre.
- New education brochures were produced and educational activities placed in a number of external publications that spread the Water Wise message.
- A funky Water Wise song was produced which has had the learners dancing in their seats at the end of every workshop.

Water is the source of all life on earth! Thus, water and the environment are inextricably linked. It is therefore important to not only conserve water but also the environment. Environmental conservation is also a

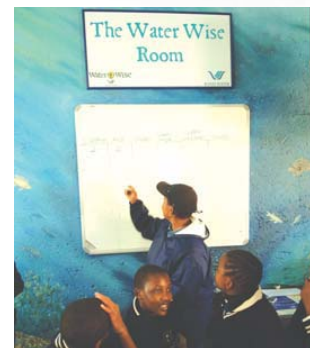


Table 1: Attendance of Water Wise workshops from July 2002 to June 2006

	July 2002 – June 2003	July 2003 – June 2004	July 2004 – June 2005	July 2005 – June 2006
Number of learners	13 822	17 966	19 062	17 808
Number of educators	888	765	975	1 199
Holiday programme	510	695	567	777
Staff induction	90	131	7	0
Total learners and educators	15 310	19 557	20 611	19 784
Number of workshops	227	274	293	337

derivative of water conservation e.g. conserving the quality of our water by not polluting it, is also a form of environmental conservation. The Water Wise brand also addresses environmental issues, interventions and conscientiousness.

It is EVERYONE's responsibility to save water. We all exist on this earth together,

water is a resource that must be made accessible to ALL. Thus it is everyone's responsibility to conserve it, and the Water Wise brand is therefore, relevant to ALL. Whether you pay for your water or not, whether you live near a river or not, whether it rains or not. The total amount of water on earth is itself limited and we ALL share this water. We must ALL be Water Wise.



CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2006

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STATEMENT OF RESPONSIBILITY BY THE MEMBERS OF THE BOARD

for the year ended 30 June 2006

In accordance with the Water Services Act of 1997 and the Public Finance Management Act, 1999 (Act No 1 of 1999), as amended, the Board members are required to prepare consolidated annual financial statements that comply with statements of South African Generally Accepted Accounting Practice.

Board members are responsible for ensuring that complete, accurate and reliable accounting records form the basis for preparing annual financial statements. The financial statements include judgements and estimates that are reasonable and prudent made by management, reviewed and accepted by Board members. Board members also ensure that accounting policies are appropriate to the entity's circumstances. To achieve this objective, Board members rely on the systems of internal control set up and maintained by management.

Independent internal auditors assist Board members in their task of ensuring that internal controls are adequate and operated as intended throughout the financial year under review. The internal controls include a risk-based system of internal accounting and administrative controls designed to provide reasonable, but not absolute, assurance that the assets are safeguarded and transactions executed and recorded in accordance with generally accepted business practices, as well as with the entity's policies and procedures. The board, however, has ultimate responsibility for this system of internal controls and reviews the effectiveness of its operations primarily through the Audit Committee.

The Board members have every reason to believe that the Group has adequate resources in place to continue in operation in the foreseeable future and has for this reason adopted the going concern basis in preparing the consolidated annual financial statements.

The external auditors, SizweNtsaluba VSP, who were given unrestricted access to all financial records and related data, including minutes of the meetings of the Board and committees of the Board, have audited the consolidated financial statements. The Board members believe that all representations made to the independent auditors during their audit are valid and appropriate. Their unqualified audit report on the consolidated annual financial statements is presented on page 99.

The Board members are of the opinion that the consolidated financial statements fairly present the financial position of the Group at 30 June 2006, and the results of their operations and cash flows for the year then ended. Material facts or circumstances between the accounting date and the date that the report has been signed have been disclosed in the consolidated annual financial statements.

The consolidated financial statements which appear on pages 108 to 110, have been approved by the members of the Board on 22 September 2006 and signed on its behalf by:



JM Ngubane
Chairperson



TO Nkabinde
Chief Executive

REPORT OF THE INDEPENDENT AUDITORS

for the year ended 30 June 2006

TO THE MINISTER OF WATER AFFAIRS AND FORESTRY

We have audited the consolidated annual financial statements of Rand Water and its subsidiaries set out on pages 108 to 110 for the year ended 30 June 2006. The consolidated annual financial statements are the responsibility of the Board of Directors of Rand Water. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

Scope

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the consolidated annual financial statements are free of material misstatement. The audit was also planned and performed to obtain reasonable assurance that our duties in terms of sections 27 and 28 of the Public Audit Act, 25 of 2004, have been complied with. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated annual financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall consolidated annual financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion:

- The consolidated financial statements fairly present, in all material respects, the financial position of Rand Water and its subsidiaries at 30 June 2006, and the results of its operations and cash flows for the year then ended as required, in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Water Services Act of 1997 and sub-section 55(1)(b) of the Public Finance and Management Act 1 of 1999 as amended.
- The performance information, set out on pages 102 to 103 of the financial statements, furnished in terms of sub-section 55(2) of the PFMA, 1 of 1999, as amended, fairly presents, Rand Water's performance for the year ended 30 June 2006 against the predetermined objectives, and where applicable, consistent with the preceding year.
- The transactions of Rand Water that have come to our attention during our audit were in all material respects, in accordance with the mandatory functions of the organisation, as determined by law.

Sizwe Ntsaluba vsp.

SizweNtsaluba VSP

*Registered Accountants and Auditors
Chartered Accountants (SA)*

Johannesburg
2 September 2006



REPORT OF THE AUDIT COMMITTEE

for the year ended 30 June 2006

The Audit Committee is pleased to present the report for the financial year ended 30 June 2006 as recommended by the Public Finance Management Act, 1 of 1999, as amended.

The Audit Committee has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter, and has discharged all of its responsibilities contained therein.

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

- reports from both internal and external auditors, and from forensic investigations concerning the effectiveness of the internal control systems;
- reports from internal and external audits detailing their concerns arising out of audits and ensured that there are appropriate responses from management, which would result in the concerns being addressed;
- the risk areas of the group's operations as identified by, and covered, in the scope of internal and external auditors' work programmes;
- the adequacy, reliability and accuracy of financial information provided by management and other users of such information;
- the entity's compliance with legal and regulatory provisions to the extent that such issues have been brought to the attention of the Audit Committee by either management, internal or external auditors;
- the effectiveness of the internal audit function;
- the activities of the internal audit function, including its annual work programme, coordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations;
- the independence and objectivity of the external auditors;
- the scope and results of the external audit function, its cost effectiveness, as well as the independence and objectivity of the external auditors.

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

Nothing significant has come to the attention of the Audit Committee to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the period under review.

The Audit Committee has evaluated the consolidated financial statements of Rand Water and its subsidiaries for the year ended 30 June 2006 and, based on the information provided to the Audit Committee, considers that they comply, in all material respects, with the requirements of the Public Finance Management Act, 1 of 1999, as amended and South African Statements of Generally Accepted Accounting Practice. The Audit Committee concurs that the adoption of the going concern premise in the preparation of the consolidated financial statements is appropriate.

The Audit Committee has therefore recommended the adoption of the consolidated financial statements by the Board members, at their meeting held on 6 September 2006.



J Love
Chairperson – Audit Committee

6 September 2006



BOARD MEMBERS' REPORT

for the year ended 30 June 2006

INTRODUCTION

The Board members are pleased to present their report and the audited consolidated annual financial statements for the year ended 30 June 2006. In the opinion of the Board members, the consolidated financial statements fairly represent the financial position of Rand Water at 30 June 2006 and the results of its operations and cash flow information for the year then ended.

GOING CONCERN

The consolidated financial statements have been prepared on the going-concern basis. The Board members have every reason to believe that the business has adequate resources to continue as a going concern in the foreseeable future.

POST-BALANCE SHEET EVENTS

Material events that have occurred since balance sheet date have been disclosed in the annual consolidated financial statements.

PUBLIC FINANCE MANAGEMENT ACT (ACT 1 OF 1999, AS AMENDED)

Public Finance Management Act (PMFA) compliance is one of the key business issues that the Board members manage and monitor. Non-compliance with the PFMA is viewed very seriously by the Board and is dealt with in terms of the organisation's processes. In addition, the external auditors also perform a PMFA checklist review at year-end.

The Board has also considered the PFMA provisions relating to fruitless and wasteful expenditure and is of the opinion that there is nothing to be reported to the stakeholders in this regard.

WATER SERVICES ACT NO 108 OF 1997

The Board members are committed to compliance with the Water Services Act and are of the opinion that Rand Water and its subsidiaries comply in all material respects.

Business address

522 Impala Road
Glenvista
2058

Postal address

PO Box 1127
Glenvista
2000

FUNCTIONS

Rand Water extracts raw water from the Vaal River basin, treats, transports and stores it in order to deliver potable water to municipalities, mines, industries and small consumers. Raw water is also delivered to certain industries by agreement. The organisation engages in secondary activities, which are deemed to be supportive of the primary activities.



BOARD MEMBERS' REPORT CONTINUED

for the year ended 30 June 2006

PERFORMANCE FOR THE YEAR

An overview of the performance against objectives is contained in the table below:

Initiative	Key performance indicator	Performance results
Reliability of service	Supply peak daily demand	Achieved
Product quality	SABS 241:2001	Complied with
Financial credit ratings	Standard and Poor's: <ul style="list-style-type: none"> Local currency A/Stable Foreign currency BBB+/Stable CA Ratings: <ul style="list-style-type: none"> Long-term zaAA Short-term zaA1+ 	Foreign currency rating changed from 'BBB' to 'BBB+'. Outlook has remained stable Outlook has remained positive
Health and safety	Integrated SHE system	Maintained the corporate multilisting certificate in March 2006
Environmental management	ISO 14001 accreditation all sites	Maintained certification at five major operational sites and Rietvlei head office
Laboratory accreditation	ISO 17025	100% accreditation status maintained
Commercial equity	Procurement from PDIs	Achieved 60,4%
Employment equity	ACI in management, professional and supervisory positions Woman in management, professional and supervisory positions Persons with disabilities in total staff complement	Achieved 63% Achieved 28% Achieved 3,95%

BUSINESS PLAN

The corporate business plan, which sets out Rand Water's strategic direction as well as the key performance indicators, is developed each year in consultation with the appropriate stakeholders.

The first year of the said plan is compiled in full detail to be used as the annual budget for the forthcoming year. Monthly progress and performance results are compared with the budget and material variances are analysed for managerial purposes.

FINANCIAL PERFORMANCE

		2002 Actual	2003 Actual	2004 Actual As restated	2005 Actual As restated	2006 Actual
Revenue	Rm	2 481	2 884	3 258	3 461	3 672
Profit for the year	Rm	193	281	392	494	593
Property, plant and equipment	Rm	3 447	3 552	3 663	3 903	4 113
Capital expenditure (including interest capitalised)	Rm	284	231	239	385	339
Long-term loans	Rm	1 828	1 749	1 627	742	735
Accumulated reserves – restated	Rm	2 006	2 293	2 685	3 187	3 772
Potable water bulk tariff	R/kl	2,0926	2,2809	2,4862	2,6278	2,7671
Net interest paid	Rm	177	158	144	119	80

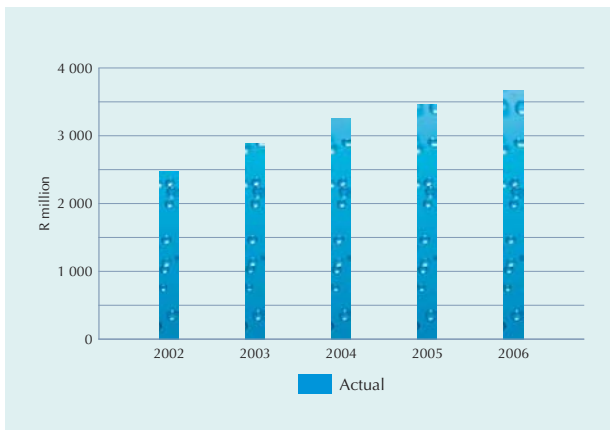
The revenue for the year exceeds the prior year mainly as a result of the tariff increase at the beginning of the year and a minor increase in volume sold.

Profit for the year has increased primarily due to an increase in revenue and a decrease in net operating expenditure.

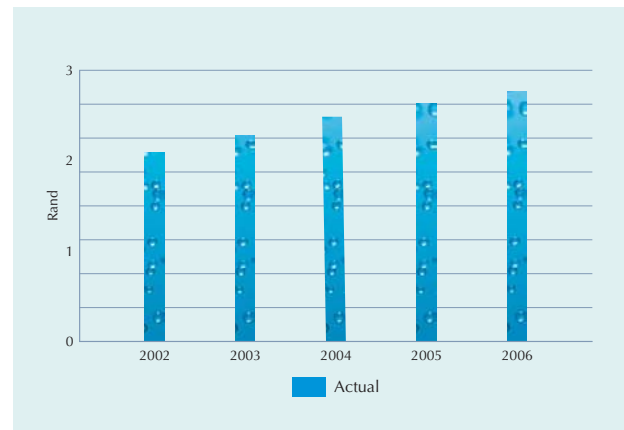
The capital expenditure has reduced by 12% from the previous financial year due to a lack of sufficient capacity, however, capital expenditure is expected to return to normal levels in the new financial year.

It is Rand Water's policy to recover all operational costs in the tariffs set. In order to improve the debt: equity ratio of the organisation, provision is made in the bulk water tariffs to fund some of the infrastructure developments internally. The impact is also evidenced the reduction of net interest payable.

Revenue



Bulk tariff



BOARD MEMBERS' REPORT CONTINUED

for the year ended 30 June 2006

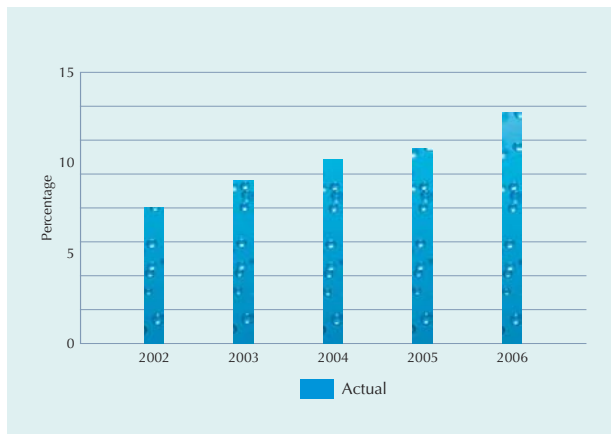
BUSINESS PERFORMANCE

		2002	2003	2004	2005	2006
		Actual	Actual	Actual	Actual	Actual
				As restated	As restated	
Profit margin	%	7,8	9,7	12,04	14,29	16,16
Income per employee	R'000	62,30	90,44	126,70	162,18	197,41
Interest cover		2,1	2,8	3,7	5,2	8,4
Average cost of capital	%	13,00	13,00	12,00	13,00	13,00
Debt-equity ratio		0,98	0,84	0,69	0,29	0,25
Return on assets	%	7,5	9,0	10,2	10,8	12,5
Assets turnover ratio		0,6	0,7	1,2	1,2	1,2
Current ratio		1,2	1,5	1,8	0,9	1,4

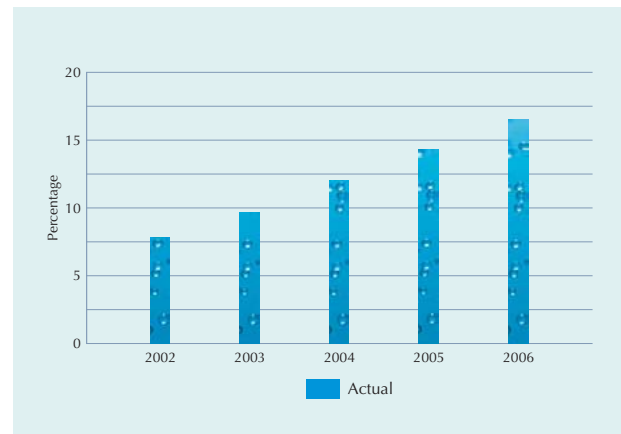
The profit margin has increased by 13,1% in comparison with the prior year mainly as a result of an increase in revenue and a reduction in the net operating expenditure. This has also contributed to the improvement in the income per employee, interest cover, return on assets and assets turnover ratios.

The redemption of loans in the 2006 financial year has resulted in a decrease in the debt-equity ratio in 2005 and the corresponding reduction in the current portion of interest-bearing borrowings has improved the current ratio in 2006.

Return on assets



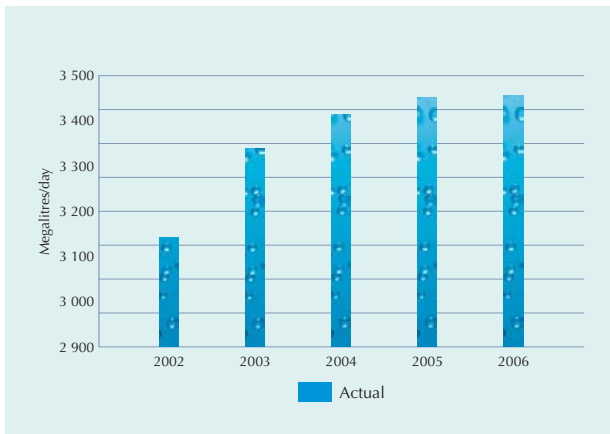
Profit margin



OPERATIONAL PERFORMANCE

		2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual
Volume sold	Ml/d	3 143	3 340	3 414	3 452	3 457
Number of employees at year-end		3 105	3 108	3 097	3 049	3 006

Volume sold



The volume sold has increased only marginally from the prior year due to the higher than normal rainfall experienced in the current year.



BOARD MEMBERS' REPORT CONTINUED

for the year ended 30 June 2006

RAND WATER BOARD MEMBERS' EARNINGS 2005/2006

	Fees for services as Board member R'000	Basic salary R'000	Other cash benefits R'000	Performance incentive bonus R'000	Contributions to retirement, medical and life cover benefits R'000	Total R'000
Executive Board members						
DSS Lushaba (Chief Executive)**	–	617	342	798	52	1 809
TO Nkabinde (Chief Executive)*	–	89	22	–	–	111
Non-executive Board members						
JM Ngubane (Chairperson)	273	–	–	–	–	273
P Camay**	89	–	–	–	–	89
D Coovadia	142	–	–	–	–	142
DJ Dalling**	91	–	–	–	–	91
M Dooms	107	–	–	–	–	107
MJ Ellman	160	–	–	–	–	160
AKL Fihla	112	–	–	–	–	112
X Kakana	115	–	–	–	–	115
JY Love	107	–	–	–	–	107
MJ Maluleke	149	–	–	–	–	149
NM Maseko	153	–	–	–	–	153
P Mayathula-Khoza	118	–	–	–	–	118
P Mothibi-Thinane	125	–	–	–	–	125
P Ndumo	139	–	–	–	–	139
FO Otieno	138	–	–	–	–	138
M Petlane	155	–	–	–	–	155
F Saloojee	128	–	–	–	–	128
M Tsheke	137	–	–	–	–	137
Total Rand Water Board members	2 438	706	364	798	52	4 358

EXECUTIVE MEMBERS' EARNINGS 2005/2006

	Fees for services as Board member R'000	Basic salary R'000	Other cash benefits R'000	Performance incentive bonus R'000	Contributions to retirement, medical and life cover benefits R'000	Total R'000
Executive members						
KM Naicker (Chief Operating Officer)		583	334	331	145	1 393
C Smith (Chief Financial Officer)		672	173	320	129	1 294
TS Sithole (Group Shared Services Executive)*		698	90	–	–	788
Z Manyere (Group Strategic Planning Executive)*		382	62	–	–	444
S Mbongo (Group Governance Executive)*		442	80	–	11	533
Total executive members		2 777	739	651	285	4 452

* Members appointed during the year

** Members resigned during the year

SUBSIDIARIES BOARD MEMBERS' EARNINGS 2005/2006

	Fees for services as Board member R'000	Basic salary R'000	Other cash benefits R'000	Performance incentive bonus R'000	Contributions to retirement, medical and life cover benefits R'000	Total R'000
Rand Water Services (Pty) Limited						
Executive Board members						
RHK Max	–	780	363	440	–	1 583
Non-executive Board members						
MP Mandela (chairperson)	74					74
X Kakana	71					71
HM Brown	71					71
MJ Ellman	71					71
AKL Fihla	73					73
DSS Lushaba**	–					–
MJ Maluleke	81					81
Z Motshabi	72					72
PE Pokane*	24					24
JM Pohlwana	76					76
Total	613	780	363	440	–	2 196
Rand Water Foundation						
Non-executive Board members						
TA Shange (chairperson)	16					16
ZM Budnik-Lees	11					11
MF Kalako-Williams	8					8
ED Maluleke	10					10
MJ Maluleke	11					11
NM Maseko	11					11
A Mostert	11					11
P Mothibi-Thinane	11					11
FO Otieno	11					11
Total	100	–	–	–	–	100

* Members appointed during the year

** Members resigned during the year

CONSOLIDATED INCOME STATEMENT

for the year ended 30 June 2006

	Notes	2006 R'000	2005 R'000 As restated
Revenue		3 672 119	3 460 099
Cost of sales		(1 668 333)	(1 572 097)
Gross profit		2 003 786	1 888 002
Other operating income	3	87 494	144 102
Staff costs	4	(590 220)	(584 737)
Energy		(288 384)	(288 937)
Depreciation		(124 486)	(137 420)
Amortisation		(14 652)	(8 162)
Chemicals		(136 679)	(116 607)
Other operating expenses	5	(265 021)	(283 032)
Operating profit before finance costs		671 838	613 209
Finance income	6	49 970	88 683
Finance expense	6	(129 999)	(207 406)
Profit before taxation		591 809	494 486
Taxation	7	1 615	–
Net profit for the year		593 424	494 486

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

	Notes	2006 R'000	2005 R'000 As restated
Available for sale (losses)/gains taken through equity	17	(9 044)	7 900
Effect of prior year adjustment	17	–	(2 495)
Net (expense)/income recognised directly in equity		(9 044)	5 405
Profit for the year		593 424	496 982
Total recognised income and expense for the year		584 380	502 387

CONSOLIDATED BALANCE SHEET

as at 30 June 2006

	Notes	2006 R'000	2005 R'000 As restated
ASSETS			
Non-current assets			
		4 430 963	4 225 093
Property, plant and equipment	9	4 112 658	3 903 124
Intangible assets	10	173 035	164 817
Biological assets	11	–	3 622
Investments	12	138 270	147 314
Employee loans	13	5 385	6 216
Deferred tax assets	7	1 615	–
Current assets			
		955 874	1 480 201
Inventories	14	34 786	36 980
Trade and other receivables	15	403 011	392 666
Current portion of employee loans	13	7 961	8 008
Cash and cash equivalents	16	510 116	1 042 547
Total assets		5 386 837	5 705 294
EQUITY AND LIABILITIES			
Equity			
Accumulated reserves	17	3 771 756	3 187 376
Non-current liabilities			
		951 297	935 148
Interest-bearing borrowings	18	735 175	741 650
Retirement benefit obligations	19	216 122	193 498
Current liabilities			
		663 784	1 582 770
Trade and other payables	20	650 697	686 467
Current portion of interest-bearing borrowings	18	13 087	896 303
Total equity and liabilities		5 386 837	5 705 294

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 June 2006

	Notes	2006 R'000	2005 R'000 As restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		3 657 217	3 447 526
Cash paid to suppliers and employees		(2 871 290)	(2 620 717)
Cash generated from operations	21	785 927	826 809
Interest received		49 970	85 546
Interest paid		(124 038)	(193 751)
NET CASH FROM OPERATING ACTIVITIES		711 859	718 604
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property, plant and equipment		(339 137)	(385 486)
Acquisitions of intangible assets		(22 870)	(6 489)
Proceeds from sale/disposal of property, plant and equipment		12 490	3 623
Net decrease/(increase) in employee loans		879	(1 568)
NET CASH USED IN INVESTING ACTIVITIES		(348 638)	(389 920)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in interest-bearing borrowings		396	359
Interest-bearing borrowings redeemed		(896 048)	(136 643)
NET CASH USED IN FINANCING ACTIVITIES		(895 652)	(136 284)
Net (decrease)/increase in cash and cash equivalents		(532 431)	192 400
Cash and cash equivalents at 1 July		1 042 547	850 147
CASH AND CASH EQUIVALENTS AT 30 JUNE	16	510 116	1 042 547

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2006

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NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2006

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated annual financial statements of Rand Water, an organisation domiciled in South Africa, for the year ended 30 June 2006 comprise Rand Water and its subsidiaries together referred to as the "Group".

The financial statements were authorised for issue by the Board members on 22 September 2006.

1.1 STATEMENT OF COMPLIANCE

The consolidated annual financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice (SA GAAP) and the Public Finance Management Act, Act 1 of 1999, as amended. These are the Group's first consolidated financial statements.

1.2 BASIS OF PREPARATION

The financial statements are presented in Rands, rounded to the nearest thousand. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading, financial instruments classified as held-for-sale and biological assets.

The preparation of financial statements in conformity with SA GAAP requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of the revised statements of SA GAAP that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 34.

The principal accounting policies as set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening balance sheet at 1 July 2004 for the purposes of correcting prior year adjustments.

The accounting policies have been applied consistently by Group entities.

1.3 BASIS OF CONSOLIDATION

(a) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(b) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains or losses or income or expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

1.4 REVENUE

(a) Goods sold and services rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue comprises the net invoiced value of water sales, exclusive of value-added tax, at declared tariffs arising from normal trading activities.

Income from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at balance sheet date.

(b) **Rental income**

Rental income is recognised in the income statement on a straight-line basis over the term of the lease. Rental income is incidental in nature and is not derived from investment property.

(c) **Interest income**

Interest income comprises interest received from funds invested and is recognised in the income statement as it accrues, using the effective interest rate method over the period to maturity.

1.5 **COST OF SALES**

Raw water and bottled water purchases are considered to be cost of sales. All other costs are considered to be operating expenses.

1.6 **EXPENSES**

(a) **Operating lease payments**

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

(b) **Finance lease payments**

Minimum lease payments are apportioned between the finance charge and the 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 of interest on the remaining balance of the liability.

(c) **Finance expense**

Finance expenses comprise interest payable on borrowings calculated using the effective interest rate method. The interest expense component of finance lease payments is also recognised in the income statement using the effective interest rate method.

(d) **Income tax**

Rand Water is exempt from tax in terms of section 10(1)(b) read with section 1(b) of the Income Tax Act 58 of 1962.

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of prior periods.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related benefit will be realised.

1.7 **PROPERTY, PLANT AND EQUIPMENT**

(a) **Owned assets**

Items of property, plant and equipment are stated at the cost of acquisition or construction, less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2006

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(b) **Leased assets**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Lease payments are accounted for as described in the relevant accounting policy.

(c) **Subsequent costs**

The Group recognises in the carrying amount of property, plant and equipment, the cost of replacing part of such an item when the cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised as expenses as incurred.

(d) **Depreciation**

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land and assets under construction are not depreciated.

The estimated useful lives are as follows:

Asset category	Estimated useful life (years)	
	Prior years	Current
Buildings	50	10 – 80
Plant and equipment		
– Plant and reservoirs	50	5 – 80
– Furniture and equipment	3 – 10	3 – 10
– Motor vehicles	5	6 – 15
– Movable machinery	10	3 – 10
Pipelines	20 – 50	25 – 75

The residual values have been reassessed for the first time this year and, if significant, will be reassessed annually.

1.8 INTANGIBLE ASSETS

(a) **Intangible assets**

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Expenditure on internally generated goodwill and brands is recognised as an expense in the income statement as incurred.

(b) **Subsequent expenditure**

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. All other expenditures are expensed as incurred.

(c) **Amortisation**

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with indefinite useful lives are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use.

The estimated useful lives are as follows:

Asset category	Estimated useful life (years)
Water rights	20
Servitudes	Indefinite
Computer software	3

1.9 BIOLOGICAL ASSETS

Biological assets are stated at fair value less estimated point-of-sale costs, with any resultant loss or gain recognised in the income statement. Point-of-sale costs include all costs that would be necessary to sell the assets, excluding costs necessary to get the assets to market.

(a) Livestock

The fair value of livestock is based on the market price of livestock of similar age, breed and genetic merit.

1.10 GRANTS

Grants consist primarily of capital contributions received from customers, benefiting specific projects, which are recognised when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably. The contribution is recognised to the extent that there are no further obligations arising from the receipt thereof.

Contributions received are deducted from the cost of the related asset and are recognised as income over the life of the depreciable asset by way of a reduced depreciation charge.

1.11 BORROWING COSTS

Borrowing costs directly attributable to the construction of qualifying assets are added to the cost of those assets, until the assets are substantially ready for their intended use. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from borrowing costs capitalised. All other borrowing costs are charged against income in the period in which they are incurred.

1.12 INVESTMENTS

Financial instruments held by the Group are classified as being available-for-sale and are stated at fair value with any resultant gain or loss recognised directly in equity. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. Where these investments are interest bearing, interest calculated using the effective interest method is recognised in profit or loss.

The fair value of financial instruments as classified as available for sale is the quoted bid price at balance sheet date.

Financial instruments classified as available for sale are recognised/derecognised by the Group on the date it commits to purchase/sell the investment.

1.13 INVENTORIES

Inventories are stated at the lower of cost, determined on the weighted average cost basis, and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

Biological assets related to agricultural activity and agricultural produce at the point of harvest are measured at fair value less cost to sell.

1.14 TRADE AND OTHER RECEIVABLES

Trade and other receivables are stated at their cost less impairment losses.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS CONTINUED

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1.15 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, bank balances and investments in money market instruments.

1.16 IMPAIRMENTS

The carrying amounts of the Group's assets, other than biological assets and inventories, are reviewed at each balance sheet date to determine whether there is an indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

For goodwill, assets that have indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the assets are impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

(a) Calculation of recoverable amount

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (ie the effective interest rate computed at initial recognition of these financial assets). Receivables with a shorter duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(b) Reversal of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment was recognised. An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.17 INTEREST-BEARING BORROWINGS

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. The discount or premium on the issue of loans is amortised over the period from acquisition to maturity so that a constant rate of interest is paid on the loan. The amortised amount is recognised in the income statement.

Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

1.18 DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments to hedge its exposure to interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value.

The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current credit worthiness of the swap counter parties.

1.19 EMPLOYEE BENEFITS

(a) Defined contribution plans

Obligations for contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

(b) Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit the employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on AAA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations.

In accordance with the requirements of the Pension Funds Act, No 25 of 1956 as amended, the valuation of defined benefit funds is performed by a qualified actuary, every three years, using the projected unit credit method.

(c) Long-term service benefits

The Group's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is actuarially calculated at balance sheet date, every year, using the projected unit credit method and is discounted to its present value and the fair value of any related assets is deducted. The discount rate is the yield at the balance sheet date on AAA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations.

1.20 TRADE AND OTHER PAYABLES

Trade and other payables are stated at amortised cost.

1.21 PROVISIONS

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

1.22 SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group has no distinguishable components, which are subject to risks and rewards that are different from those of other segments.

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for the year ended 30 June 2006

	2006 R'000	2005 R'000 As restated
2. FORMATION OF SUBSIDIARY		
Rand Water's wholly owned subsidiary Rand Water Services (Pty) Limited began trading on 1 July 2005. The subsidiary was established by Rand Water to provide business support, technology, consulting, advisory and capacity building services for water infrastructure related projects throughout Africa. The subsidiary has contributed a net loss of R8 million to the consolidated net profit for the year.		
3. OTHER OPERATING INCOME		
Project revenue	49 044	91 906
Other income	34 850	52 196
Net gain on disposal of property, plant and equipment	3 600	–
	87 494	144 102
4. STAFF COSTS		
Executive members	3 503	1 781
Non-executive members	3 151	2 201
Board members' fees and emoluments	6 654	3 982
Salaries	383 725	376 567
Contributions to defined contribution plan	48 140	29 480
Contributions to defined benefit plan	–	19 610
Other staff costs	151 701	155 098
	590 220	584 737
5. OTHER OPERATING EXPENSE		
Auditors' remuneration	2 159	1 089
– prior year underprovision	337	42
– current year	1 822	1 047
Contract expenses	19 630	26 546
Courses and seminars	27 019	28 001
Insurance costs	17 037	18 548
Legal claim settlement	1 500	4 584
Loss on disposal of property, plant and equipment	–	5 358
Maintenance spares and consumables	44 822	49 842
Post-retirement medical benefit (gain)/loss	22 624	(19 302)
Replacements, refurbishments, special projects and periodic maintenance	59 463	63 832
Software licences	9 248	7 034
Telephone and cellphone costs	9 514	8 258
Other overheads	52 005	89 242
	265 021	283 032

	2006 R'000	2005 R'000 As restated
6. NET FINANCING COSTS		
Interest income	(3 578)	(3 759)
Fair value gain on interest rate swaps	–	(3 137)
Other investments	(46 392)	(81 790)
Financial income	(49 970)	(88 683)
Interest expense	143 023	208 675
Fair value loss on interest rate swaps	1 534	–
Interest capitalised	(18 985)	(14 898)
Amortised discount on issue of long-term loans	4 427	13 629
Financial expenses	129 999	207 406
Net financing costs	80 029	118 723
Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 13% (2005: 13%).		
7. TAXATION		
Current tax credit		
Current year	1 615	–
	1 615	–
Deferred tax credit		
Benefit of tax losses recognised	1 615	–
Total income tax credit in income statement	1 615	–
Rand Water Services (Pty) Limited is the only tax paying entity in the Group. In terms of section 10(1)(b) read with section 1(b) of the Income Tax Act, 58 of 1962, Rand Water is exempt from income tax. Rand Water Foundation is in process of applying to be classified as a Public Benefit Organisation that will exempt them from tax.		
8. SECONDARY ACTIVITIES		
Included in operating profit before finance costs are the following profits/(losses) derived from secondary activities:		
Farming	(6 706)	(13 607)
Community-based projects	(136)	(1 312)
Sanitation	550	(468)
New business	(1 034)	1 149
Retail water	(2 757)	(700)
Emhlangeni pipe	153	322
Loss on secondary activities	(9 930)	(14 616)

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2006

	Land and buildings R'000	Plant and reservoirs R'000	Pipelines R'000	Vehicles, furniture and equipment R'000	Assets under construction R'000	Total R'000
9. PROPERTY, PLANT AND EQUIPMENT						
Cost						
Balance at 1 July 2004	303 016	1 934 524	2 145 608	178 229	148 034	4 709 411
Acquisitions	9	10 211	–	21 227	354 039	385 486
Transfers from assets under construction		50 703	(6 713)	–	(43 990)	–
Disposals		(16 318)		(2 865)	–	(19 183)
Balance at 30 June 2005	303 025	1 979 120	2 138 895	196 591	458 083	5 075 714
Balance at 1 July 2005	303 025	1 979 120	2 138 895	196 591	458 083	5 075 714
Acquisitions	5 779	22 197	(64 847)	13 664	362 344	339 137
Transfers from assets under construction	5 515	92 697	–	(263)	(97 949)	–
Disposals	(682)	(11 251)	–	(5 061)	–	(16 994)
Balance at 30 June 2006	313 637	2 082 763	2 074 048	204 931	722 478	5 397 857
Depreciation and impairment losses						
Balance at 1 July 2004	84 154	487 409	386 456	88 431	–	1 046 450
Depreciation charge for the year	7 648	79 470	30 849	19 453	–	137 420
Impairment losses	–	–	–	–	–	–
Disposals	–	(8 463)	–	(2 817)	–	(11 280)
Balance at 30 June 2005	91 802	558 416	417 305	105 067	–	1 172 590
Balance at 1 July 2005	91 802	558 416	417 305	105 067	–	1 172 590
Depreciation charge for the year	6 694	67 869	32 964	16 959	–	124 486
Impairment losses						
Disposals	(603)	(6 662)	(13)	(4 599)	–	(11 877)
Balance at 30 June 2006	97 893	619 623	450 256	117 427	–	1 285 199
Carrying amounts						
Balance at 1 July 2004	218 862	1 447 115	1 759 152	89 798	148 034	3 662 961
Balance at 30 June 2005	211 223	1 420 704	1 721 590	91 524	458 083	3 903 124
Balance at 1 July 2005	211 223	1 420 704	1 721 590	91 524	458 083	3 903 124
Balance at 30 June 2006	215 744	1 463 140	1 623 792	87 504	722 478	4 112 658

9. PROPERTY, PLANT AND EQUIPMENT (continued)

Leased assets

Vehicles, furniture and equipment

The Group leases equipment under a number of finance lease agreements. At 30 June 2006, the net carrying amount of leased equipment was R721 000 (2005: R348 000). The leased equipment secures lease obligations of R755 000 at 30 June 2006 (2005: R359 000) (see note 22).

Plant and reservoirs

Other leased assets with a value of R2,4 million are encumbered by finance lease liabilities (refer note 22).

Property, plant and equipment under construction

The Group undertakes a number of independent capital work projects. Total budgeted capital expenditure for the year was estimated at R451 million of which R362 million was undertaken in the current financial year. The balance is expected to be expended in the 2007 financial year.

Capital contributions

Included in the cost of assets is a credit of R71 million relating to capital contributions received from customers for construction of assets.

	Software R'000	Servitudes R'000	Water rights R'000	Total R'000
10. INTANGIBLE ASSETS				
Cost				
Balance at 1 July 2004	644	40 340	162 523	203 507
Acquisitions	2 958	3 531	–	6 489
Disposals	–	–	–	–
Balance at 30 June 2005	3 602	43 871	162 523	209 996
Balance at 1 July 2005	3 602	43 871	162 523	209 996
Acquisitions	20 896	1 974	–	22 870
Disposals	–	–	–	–
Balance at 30 June 2006	24 498	45 845	162 523	232 866
Amortisation and impairment losses				
Balance at 1 July 2004	174	–	36 843	37 017
Amortisation for the year	307	–	7 855	8 162
Impairment losses	–	–	–	–
Disposals	–	–	–	–
Balance at 30 June 2005	481	–	44 698	45 179
Balance at 1 July 2005	481	–	44 698	45 179
Amortisation for the year	6 840	–	7 812	14 652
Impairment losses	–	–	–	–
Disposals	–	–	–	–
Balance at 30 June 2006	7 321	–	52 510	59 831
Carrying amounts				
Balance at 1 July 2004	470	40 340	125 680	166 490
Balance at 30 June 2005	3 121	43 871	117 825	164 817
Balance at 1 July 2005	3 121	43 871	117 825	164 817
Balance at 30 June 2006	17 177	45 845	110 013	173 035

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2006

10. INTANGIBLE ASSETS (continued)

Leased assets (continued)

Indefinite useful lives

Servitudes have an indefinite useful life and are not amortised but are assessed by means of annual impairment test. These servitudes consist of land expropriated by Rand Water containing infrastructure owned by the Group and used in the production of revenue. Land is not depreciated.

Leased assets

Included in the carrying amount of intangible assets, are assets to the value of R53 million that are encumbered by finance lease liabilities (refer note 22).

	Livestock R'000
11. BIOLOGICAL ASSETS	
Balance at 1 July 2004	3 727
Acquisitions	–
Decrease due to sales	(611)
Decrease due to death	(468)
Increase due to birth	266
Change in fair value less estimated point-of-sale costs	708
Balance at 30 June 2005	3 622
Balance at 1 July 2005	3 622
Acquisitions	–
Decrease due to sales	(3 716)
Decrease due to death	(57)
Increase due to birth	86
Change in fair value less estimated point-of-sale costs	65
Balance at 30 June 2006	0

During the year ended 30 June 2006, the Group sold all livestock comprising 639 cattle.

	2006 R'000	2005 R'000 As restated
12. INVESTMENTS		
Non-current investments		
Securities available for sale	138 270	147 314
Rand Water holds an investment of R120 million in Republic of South Africa R153 stock. These bonds are traded in the secondary market. The interest rate is 13%, which is paid biannually, and the maturity date is 2010.		
13. EMPLOYEE LOANS		
Non-current portion of loan	5 385	6 216
Current portion of loans	7 961	8 008
	13 346	14 224
Employee loans represents micro loans granted to employees. The scheme is registered with the Micro Finance Regulatory Council. Repayment period of the loans vary from one to three years, and closing interest rate is 13% (2005: 12,5%).		

	2006 R'000	2005 R'000 As restated
14. INVENTORIES		
Raw materials and chemicals	16 364	19 070
Maintenance and consumable stores	15 695	15 731
Biological assets	2 727	2 179
	34 786	36 980
Maintenance and consumables are shown net of impairment losses/(gains) amounting to R2 009 (2005: (R3 452)) recognised in the year.		
15. TRADE AND OTHER RECEIVABLES		
Trade receivables	343 453	327 344
Recoverables work-in-progress	8 833	–
Other receivables and prepayments	50 725	65 322
	403 011	392 666
Trade receivables are shown net of provision for bad debts amounting to R200 (2005: R1 009) recognised in the year, determined by reference to past default experience.		
16. CASH AND CASH EQUIVALENTS		
Bank and cash balances	67 831	189 539
Call deposits	149 838	134 134
Money market (term and discount transactions)	292 447	718 874
Cash and cash equivalents in the statement of cash flows	510 116	1 042 547

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2006

	Note	Fair value reserves R'000	Accumulated profit R'000	Total equity R'000
17. CAPITAL AND RESERVES				
Reconciliation of movement in capital and reserves				
Balance at 1 July 2004 as consolidated		–	2 670 660	2 670 660
Effect of prior year adjustments	30	–	14 329	14 329
Change in accounting policy – available for sale government bonds	30	16 912	(16 912)	–
Restated balance at 1 July 2004		16 912	2 668 077	2 684 989
Profit for the year		–	504 882	504 882
Effect of prior year adjustments	30	–	(2 495)	(2 495)
Fair value adjustment on available for sale government bonds	30	7 900	(7 900)	–
Restated balance at 30 June 2005		24 812	3 162 564	3 187 376
Restated balance at 1 July 2005		24 812	3 162 564	3 187 376
Total recognised income and expense		(9 044)	593 424	584 380
Balance at 30 June 2006		15 768	3 755 988	3 771 756

Fair value reserve

The fair value reserve relates to the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised.

Accumulated profit

The accumulated profits of Rand Water are not available for distribution and are utilised to fund infrastructure development, investments and working capital.

	2006 R'000	2005 R'000 As restated
18. INTEREST-BEARING BORROWINGS		
<i>Non-current liabilities</i>		
Secured bank loans	100 000	100 000
Unsecured bond issues	624 028	619 902
Finance lease liabilities	11 147	19 666
Derivative instruments	–	2 082
	735 175	741 650
<i>Current liabilities</i>		
Current portion of secured bank loans	–	29 001
Current portion of finance lease liabilities	9 055	6 815
Unsecured bond issues	300	860 487
Derivative instruments	3 732	–
	13 087	896 303

The bank loans are secured over a R100 million indefinite note and finance lease liabilities are secured over plant and equipment and intangible assets to the value of R57,4 million.

	Minimum lease payment 2006 R'000	Interest 2006 R'000	Principal 2006 R'000	Minimum lease payment 2005 R'000	Interest 2005 R'000	Principal 2005 R'000
Finance lease liabilities						
Less than one year	13 237	4 182	9 055	12 567	5 752	6 815
Between one and five years	13 441	2 294	11 147	26 209	6 543	19 666
More than five years	–	–	–	–	–	–
	26 678	6 476	20 202	38 776	12 295	26 481

Under the term of the lease agreements, no contingent rents are payable.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2006

	2006 R'000	2005 R'000 As restated
19. RETIREMENT BENEFIT OBLIGATIONS		
Balance as at 1 July	193 498	212 800
Interest cost	15 856	19 882
Service cost	9 729	10 221
Employer disbursements	(6 972)	(7 038)
Actuarial (gain)/loss	4 011	(42 367)
Total employee benefit	216 122	193 498
Liability for defined benefit obligation		
Rand Water has an obligation to continue to fund a portion of employees' contributions to the Rand Water Medical Scheme after retirement. The liability is actuarially calculated each year in accordance with the stated accounting policy.		
Movements in the net liability for defined benefit obligation recognised in the balance sheet		
Net liability for defined benefit obligation at 1 July	193 498	212 800
(Income)/expense recognised in the income statement	22 624	(19 302)
Net liability for defined benefit obligation at 30 June	216 122	193 498
Income/expense recognised in the income statement		
The (income)/expense is recognised under the following items in the income statement:		
Other income	–	(19 302)
Other expense	22 624	–
	22 624	(19 302)
Liability for defined benefit obligations		
Principal actuarial assumptions at the balance sheet date:		
Discount rate (% per annum)	8,0	8,5
Health care cost inflation (% per annum)	6,5	6,5
CPI inflation (% per annum)	5,0	4,0
Salary inflation (% per annum)	6,5	5,5
Membership continued at retirement (%)	100	100
20. TRADE AND OTHER PAYABLES		
Trade payables	320 262	292 600
Other payables	263 715	287 587
Leave pay	27 772	35 573
Bonus	28 199	37 220
VAT	10 749	33 487
	650 697	686 467

	2006 R'000	2005 R'000 As restated
21. CASH GENERATED FROM OPERATIONS		
Profit for the year	591 809	494 487
Adjustments for:		
Depreciation	124 486	137 420
Amortisation	14 652	8 162
Interest income	(49 970)	(88 683)
Interest expense	125 572	193 751
(Gain)/loss on sale of property, plant and equipment	(3 600)	5 358
Change in value of biological assets	(151)	(974)
Amortised discount on issue of long-term loans	4 427	13 629
Post-retirement medical benefits actuarial loss/(gain)	22 624	(19 302)
Operating profit before changes in working capital	829 849	743 848
Increase in trade and other receivables	(10 345)	(13 346)
Decrease/(increase) in inventories	2 194	(2 836)
(Decrease)/increase in trade and other payables	(35 771)	99 143
Cash generated from operations	785 927	826 809

22. FINANCIAL INSTRUMENTS

Exposure to credit, interest and currency risk arises in the normal course of the Group's business. Derivative financial instruments are used to hedge exposure to fluctuations in interest rates.

Liquidity risk

The Group manages liquidity risk through proper management of working capital, capital expenditure and actual versus forecasted cash flows. Adequate reserves, liquid resources and unutilised borrowing facilities are also maintained.

Interest risk

The Group manages its interest rate risk by maintaining an appropriate mix between fixed and floating interest rate borrowings and investments, as well as by entering into interest rate swap contracts on outstanding borrowings. The swaps mature over the year following maturity of related loans (see following table) and have fixed swap rates ranging from 13,8% NACQ to 14,1% NACS. At 30 June 2006 the Group had interest rate swaps with a notional contract amount of R70 400 (2005: R215 150).

The Group classifies interest rate swaps as cash flow hedges and states them at fair value. The fair value of swaps at 1 July 2004 was adjusted against the opening balance of the hedge reserve at that date.

The net value of swaps at 30 June 2006 was R2 288 (2005: R1 644) comprising liabilities of R3 732 (2005: R8 958). These amounts were recognised as fair value derivatives.

Credit risk

Hedging

Financial assets, which potentially subject the Group to the risk of non-performance by counter-parties and thereby subject the Group to concentrations of credit risk, consist mainly of cash and cash equivalents, investments, trade receivables and derivative financial instruments. Credit risk is controlled through the application of credit approvals, limits and monitoring procedures.

The Group limits its treasury counter-party exposure by only dealing with well-established financial institutions with high credit ratings assigned by international credit-rating agencies. The Group's exposure and the credit ratings of its treasury counter-parties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counter-parties. The Group does not expect any treasury counter-parties to fail to meet their obligations, given their high credit rating.

Credit risk with respect to trade receivables is limited as the Group does not have any significant exposure to any individual customer or counter-party. Accordingly, the Group does not consider there to be any significant concentration of credit risk, which has not been adequately provided for. Trade receivables are presented net of the allowance for doubtful debt.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2006

22. FINANCIAL INSTRUMENTS (continued)

Credit risk (continued)

Effective interest rates and repricing analysis

In respect of income earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

	Effective interest rate R'000	Total R'000	Less than six months R'000	Six to twelve months R'000	One to two years R'000	Two to five years R'000	More than five years R'000
2006							
Secured bank loans:							
ABSA Indefinite	8,74	100 000	–	–	–	100 000	–
ABSA Enhanced	–	–	–	–	–	–	–
Unsecured bank loans:							
SCMB#3	7,19	6 025	6 025	–	–	–	–
Effect of interest rate swap	7,19	(5)	(5)	–	–	–	–
SCMB#2 Effect of interest rate swap	–	–	–	–	–	–	–
SCMB#3 Effect of interest rate swap	8,39	(2 288)	(2 288)	–	–	–	–
Unsecured bond issues:							
78	16,50	300	300	–	–	–	–
RW01	–	–	–	–	–	–	–
RW02	13,00	633 454	–	–	–	–	633 454
Finance lease liabilities	7,14	19 447	–	8 721	10 726	–	–
Cash and cash equivalents	7,23	510 116	510 116	–	–	–	–
2005							
Secured bank loans:							
ABSA Indefinite	10,54	100 000	–	–	–	100 000	–
ABSA Enhanced	9,46	22 125	10 740	11 385	–	–	–
Unsecured bank loans:							
SCMB#3	6,81	12 785	3 270	3 605	5 910	–	–
Effect of interest rate swap	6,81	(2 183)	–	–	(2 183)	–	–
SCMB#2 Effect of interest rate swap	7,28	434	434	–	–	–	–
SCMB#3 Effect of interest rate swap	7,38	(2 078)	(2 078)	–	–	–	–
Unsecured bond issues:							
78	16,5	300	–	–	300	–	–
RW01	12,0	860 487	860 487	–	–	–	–
RW02	13,0	633 454	–	–	–	–	633 454
Finance lease liabilities	7,70	26 123	–	6 685	19 438	–	–
Cash and cash equivalents	6,96	1 042 547	1 042 547	–	–	–	–

22. FINANCIAL INSTRUMENTS (continued)

Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows:

	Carrying amount 2006 R'000	Fair value 2006 R'000	Carrying amount 2005 R'000	Fair value 2005 R'000
Equity securities available for sale	120 000	138 270	120 000	147 314
Employee loans	13 346	13 346	14 224	14 224
Trade and other receivables	403 011	403 011	392 666	392 666
Cash and cash equivalents	510 116	510 116	1 042 547	1 042 547
Secured bank loans	106 025	103 732	134 910	131 083
Unsecured bond issues	633 754	624 328	1 494 241	1 480 388
Finance lease liabilities	19 447	20 202	26 123	26 481
Trade and other payables	650 697	650 697	686 467	686 467

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

Securities

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

Derivatives

Interest rate swaps are marked to market using zero coupon curves derived from the BESA. These quotes are tested using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at balance sheet date. Where other pricing models are used, inputs are based on market related data at balance sheet date.

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

Finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements. The estimated fair values reflect change in interest rates.

Trade and other receivables/payables

For receivables/payables with a remaining life of less than one year, the nominal amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2006

22. FINANCIAL INSTRUMENTS (continued)

Interest rates used for determining fair value

The Group uses the government yield curve as of 30 June 2006 plus an adequate constant credit spread to discount financial instruments. The interest rates used are as follows:

	2006 %	2005 %
Derivatives	7,19 – 9,07	6,65 – 7,74
Loans and borrowings	7,14 – 16,5	7,7 – 16,5
Leases	13,0	13,0
Receivables	2,0 – 13,5	2,0 – 13,0

23. OPERATING LEASE COMMITMENTS

Operating lease rentals are payable as follows:

	2006 R'000	2005 R'000 As restated
Leases as lessee		
The Group leases a number of office and residential facilities under operating leases. The leases run for periods of between one to three years, with an option to renew the lease after that date. Lease payments are subject to an annual escalation to reflect market rentals. None of the leases include contingent rentals.		
Less than one year	497	106
Between one and five years	623	332
More than five years	–	–
	1 120	438
Leases as lessor		
The Group leases out a number of properties under operating leases. These property leases do not qualify as investment property as the properties were purchased for future operational use and the related income is incidental in nature. The future minimum lease payments under these leases are as follows:		
Less than one year	193	239
Between one and five years	304	497
More than five years	–	–
	497	736

During the year ended 30 June 2006, R345 was recognised as rental income in the income statement (2005: R210). Property leases consist mainly of vacant land and therefore little or no costs have been realised for repairs and maintenance.

24. RETIREMENT BENEFIT INFORMATION

Employees are members of the Rand Water Superannuation Fund, the Rand Water Provident Fund or the South African Municipal Workers' Union National Provident Fund.

On 1 July 1997 the Rand Water Retirement Fund was merged with the Rand Water Superannuation Fund. The Superannuation Fund is a defined benefit fund, which requires an actuarial valuation every three years. A valuation was conducted as at 31 December 2003 and in the opinion of the actuary, the defined benefit plan was found to be in a sound financial position. A snapshot valuation was conducted as at 30 June 2005 and based on the same assumptions as the previous valuation. The fund is in the process of voluntary liquidation.

24. RETIREMENT BENEFIT INFORMATION (continued)

The following information is provided in respect of the Rand Water Superannuation Fund:

	2005 R'000	2003 R'000
Present value of obligation	654 935	572 800
Fair value of plan assets	792 292	656 300
The best estimates assumptions basis has been adopted for the valuation.		
Key assumptions used are as follows:		
Discount rate (% per annum)	4,5	9,1
Expected rate of salary increases (% per annum)	N/A	5,9
Inflation (% per annum)	4,9	5,0

25. CAPITAL COMMITMENTS

The Group is committed in respect of capital expenditure including expected contract price adjustments. This expenditure will be financed from internal resources and out of loans.

	2006 R'000	2005 R'000 As restated
Contracted for but not provided in the financial statements	301 406	200 679
Authorised but not contracted for	368 433	289 141
Authorised but not contracted for in foreign currency (USD367 000)	2 762	–
Total future commitments	672 601	489 820

26. CONTINGENT LIABILITIES

Legal claims**General claims**

Various proceedings have been instituted against Rand Water. The amounts being claimed from Rand Water total approximately R1 million. Rand Water's legal advisors have advised that they believe that Rand Water has reasonable defences and that the probability of loss will be minimal. Accordingly, no provision has been made in the annual financial statements.

Afin (Pty) Limited/Vivien Frances Rutherford

Rand Water was ordered to pay the plaintiff an amount of R4,58 million in 2005, in respect of unlawful termination of contract. The arbitration award in respect of legal costs was settled via a settlement agreement in favour of Afin and Rand Water was ordered to pay R1,5 million.

Green's Green Fresh as Tomorrow

The plaintiff is suing for damages to crops and soil caused by a pipe burst on his property. The quantum of the claim was R11 million, however a settlement agreement to the value of R2,75 million was reached. No provision has been made for the claim as it will be covered by the insurers.

Guarantees

At 30 June 2006 the Group has contingent liabilities in respect of guarantees given to third parties which amount to R7,2 million (2005: R4 million).

Project performance bond

The Group is also liable for 49% of a project performance bond in respect of a joint venture with Vitens Rand Water Service BV, a Netherlands-based company. The joint venture will hold a management contract with Ghana Urban Water. The value of the project performance bond is R24,9 million (USD3,43 million) which will mature over the next five years. The exposure will reduce as the management contract matures.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2006

27. RELATED PARTIES

The Group has a related party relationship with its subsidiary and with its executive officers and Board members. As Rand Water is a state controlled entity it also has a related party relationship with all other entities within the same sphere of government.

Transactions with key management personnel

In addition to their salaries, the Group also provides non-cash benefits to executive officers and contributes to a post-employment defined benefit plan on their behalf.

Key management personnel compensations are as follows:

	2006 R'000	2005 R'000 As restated
Short-term employee benefits	19 623	11 961
Post-employment benefits	1 102	1 092
	20 725	13 053
Total remuneration is included in personnel expenses (see note 4).		
Board members	3 150	2 201
Executive and general management	17 575	10 852
	20 725	13 053

Subsidiaries

	Country of incorporation	Ownership interest
Rand Water Services (Pty) Limited	South Africa	100%

Rand Water Services (Pty) Limited is a 100% owned subsidiary of Rand Water. The Company was incorporated in February 2000 but only began trading on 1 July 2005.

Rand Water Foundation

Rand Water Foundation is an association incorporated under section 21. The members of Rand Water Foundation are officials of Rand Water.

The following transactions were carried out with subsidiaries:

	Rand Water Services (Pty) Limited 2006 R'000	Rand Water Foundation 2006 R'000	2005 R'000
Purchases of goods and services	7 204	–	–
Contribution to associates	–	3 713	3 654
Sale of assets	536	–	–
Interest received	17	–	–
Year-end balances arising from transactions			
Receivables	9 038	3 493	540
Payables	8 579	–	–

27. RELATED PARTIES (continued)

Group entities

The Group is 100% controlled by the government of South Africa represented by the Department of Water Affairs and Forestry.

Rand Water and its subsidiaries are schedule 3B enterprises in terms of the Public Finance Management Act. The related parties of Rand Water consist mainly of government departments and state-owned enterprises and other public entities in the national sphere of government.

Below is a summary of transactions with other state controlled entities in the national sphere of government:

	2006 R'000	2005 R'000
Sales of goods and services	328 671	254 819
Purchases of goods and services	2 041 648	1 585 296
Interest received	44	63
Bad debts	–	70
Statutory liabilities	135 235	219 021
The above transactions with related parties are on an arm's length basis at market related prices.		
Year-end balances arising from transactions		
Receivables	12 341	6 908
Payables	312 355	267 219
Allowance for bad debts	–	70
All receivables/payables are due within 30 days from date of invoice.		
Interest receivable/payable is in accordance with normal market practice.		

28. SUBSEQUENT EVENTS

After year-end Rand Water agreed to assist Rand Water Services (Pty) Limited by subordinating, subject to certain terms and conditions, its claim against the Company in favour of and for the benefit of other creditors of the company. The value of the subordinated loan is R9,039 million.

The operations of Vitens Rand Water Services BV only commenced in the new financial year. Information on capital commitments and project performance bonds in respect of the joint venture have been disclosed in notes 25 and 26.

No other material events have occurred between the balance sheet date and the date on which the annual financial statements were approved.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2006

29. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements consist of Rand Water and its subsidiaries. The consolidated financials have not been split between Company and Group results due to the transactions incurred by the subsidiaries being immaterial. The details are set out below.

	Rand Water Services (Pty) Limited 2006 R'000	Rand Water Foundation 2006 R'000	2005 R'000
Revenue	4 898	–	–
Other income	–	2 676	912
Cost of sales	(1 523)	–	–
Net operating expenses	(8 973)	(4 046)	(1 070)
Net finance (costs)/income	30	701	530
Profit/(loss) for the year	(5 568)	(669)	372
Assets			
Non-current	2 118	–	–
Current	4 666	12 226	7 139
Total assets	6 784	12 226	7 139
Equity			
Reserves	(3 953)	(222)	448
Liabilities			
Non-current	9 039	8 515	6 000
Current	1 698	3 933	691
Total equity and liabilities	6 784	12 226	7 139

30. RESTATEMENT OF COMPARATIVES

The Group has implemented the following revised statements and changes in accounting policy:

IAS 1 Presentation of Financial Statements

IAS 8 Accounting Policies, changes in accounting estimates and errors

IAS 17 Leases

IAS 20 Government grants

IAS 24 Related parties disclosures

IAS 38 Intangible assets

IAS 39 Financial Instruments: Recognition and measurement

IAS 41 Agriculture

The implementation of the above statements and interpretations and impact thereof on the consolidated financial statements is indicated below.

The implementation of IAS 16 Property, plant and equipment, resulted in a change in accounting policy. The Group previously did not revise the residual value of assets on an annual basis and together with a change in estimate of the economic useful lives of the assets the resultant change was a retrospective adjustment in accumulated depreciation.

The implementation of IAS 17 Leases, highlighted that lease payments incurred during the year were not recognised on a straight-line basis over the period of the lease. The Group also did not previously capitalise operating leases that qualified as finance leases. This adjustment was applied retrospectively. The impact of this restatement is not material.

The revision of IAS 20 Government grants, resulted in a change in the methodology of accounting for grants. The Group now deducts the grant from the cost of the relevant asset and the grant is recognised as income over the life of a depreciable asset by way of a reduced depreciation charge. Previously the grant would have been recognised as income on a systematic basis.

The implementation of IAS 24 Related parties disclosures, resulted in extensive disclosures in the financial statements whereas previously state controlled entities were excluded from the requirement.

The implementation of IAS 39 Financial instruments: Recognition and measurement, has resulted in the fair value changes in available-for-sale investments to be recognised through equity. The adjustment was applied retrospectively and is included in the fair value reserves in the statement of changes in equity.

The implementation of IAS 41 Agriculture, highlighted that biological assets were not disclosed as per the requirements. The Group has retrospectively adjusted the classifications in line with the requirement on the face of the balance sheet and in the notes to the consolidated annual financial statements.



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2006

	Previously reported	Adjustment	Restated
30. RESTATEMENT OF COMPARATIVES (continued)			
Balance sheet 2005			
Non-current assets	4 281 628	(56 535)	4 225 093
Property, plant and equipment	3 966 402	(63 278)	3 903 124
Intangible assets	161 696	3 121	164 817
Biological assets	–	3 622	3 622
Investments	147 314	–	147 314
Loans to employees	6 216	–	6 216
Current assets	1 482 517	(2 316)	1 480 201
Inventories	39 296	(2 316)	36 980
Trade and other receivables	392 666	–	392 666
Current portion of employee loans	8 008	–	8 008
Cash and cash equivalents	1 042 547	–	1 042 547
Total assets	5 764 145	(58 851)	5 705 294
Equity			
Reserves	3 175 542	11 834	3 187 376
Non-current liabilities	1 003 739	(68 591)	935 148
Interest-bearing borrowings	741 291	359	741 650
Employee benefits	193 498	–	193 498
Deferred income	68 950	(68 950)	–
Current liabilities	1 584 864	(2 094)	1 582 770
Trade and other payables	686 467	–	686 467
Current portion of interest-bearing borrowings	896 303	–	896 303
Current portion of deferred income	2 094	(2 094)	–
Total equity	5 764 145	(58 851)	5 705 294

WATER QUALITY

Water quality compliance in the bulk distribution network as measured by independent third party (CSIR) – Kn 718
July 2005 to June 2006

Parameter	Units of measure	Specification adopted by Rand Water based on SANS 0241: 2001		Number of results	Compliance levels (%)	
		Class I 95% min	Class II 99% min		Class I	Class II
Chemical and physical properties						
Colour	(mg/l as Pt)	20	50	60	100,0	100,0
Conductivity	(mS/m)	150	370	60	100,0	100,0
pH	(pH units)	5,0 – 9,5	4,0 – 10,0	60	100,0	100,0
Turbidity	(NTU)	1	10	60	100,0	100,0
Total dissolved solids	(mg/l)	1 000	2 400	60	100,0	100,0
Taste	(TTN)	5	10	60	100,0	100,0
Odour	(TON)	5	10	60	100,0	100,0
Organic determinants						
Total trihalomethanes	(ug/l)	200	300	60	100,0	100,0
Phenols as C ₆ H ₅ OH	(ug/l)	10	70	60	100,0	100,0
Dissolved organic carbon	(mg/l)	10	20	60	100,0	100,0
Micro elements						
Antimony	(µg/l as Sb)	10	50	60	100,0	100,0
Arsenic	(µg/l as As)	50	200	60	100,0	100,0
Cadmium	(µg/l as Cd)	5	10	60	98,4	100,0
Chromium	(µg/l as Cr)	100	500	60	100,0	100,0
Cobalt	(µg/l as Co)	500	1 000	60	100,0	100,0
Cyanide (total)	(µg/l as CN)	200	300	60	100,0	100,0
Lead	(µg/l as Pb)	50	100	60	100,0	100,0
Mercury	(µg/l as Hg)	2	5	60	100,0	100,0
Nickel	(µg/l as Ni)	150	350	60	100,0	100,0
Selenium	(µg/l as Se)	20	50	60	100,0	100,0
Vanadium	(µg/l as V)	200	500	60	100,0	100,0
Macro elements and miscellaneous determinants						
Aluminium	(mg/l as Al)	0,3	0,5	60	100,0	100,0
Ammonia	(mg/l as N)	1	2	60	93,4	100,0
Calcium	(mg/l as Ca)	150	300	60	100,0	100,0
Chloride	(mg/l as Cl)	200	600	60	100,0	100,0
Copper	(mg/l as Cu)	1	2	60	100,0	100,0
Fluoride	(mg/l as F)	1	1,5	60	100,0	100,0
Iron	(mg/l as Fe)	0,2	2	60	100,0	100,0
Magnesium	(mg/l as Mg)	70	100	60	100,0	100,0
Manganese	(mg/l as Mn)	0,1	1	60	100,0	100,0
Nitrate and nitrite	(mg/l as N)	10	20	60	100,0	100,0
Potassium	(mg/l as K)	50	100	60	100,0	100,0
Sodium	(mg/l as Na)	200	400	60	100,0	100,0
Sulphate	(mg/l as SO ₄)	400	600	60	100,0	100,0
Zinc	(mg/l as Zn)	5	10	60	100,0	100,0

WATER QUALITY CONTINUED

Water quality compliance in the bulk distribution network as measured by independent third party (CSIR) *continued*
July 2005 to June 2006

Parameter	Units of measure	Specification adopted by Rand Water based on SANS 0241: 2001			Number of results	Compliance levels (%)		
		Class I 95% min	96% min	Class II 99% min		Class I 95% min	96% min	Class II 99% min
Microbiological (<i>Microbiological specification does not have a class categorisation, but specific percentage compliance requirements</i>)								
Standard plate count	(cfu per 1 ml)	100	1 000	10 000	60	88,3	90,0	96,7
Total coliforms	(cfu per 100 ml)	Not detected	10	100	60	100,0	100,0	100,0
Faecal coliforms	(cfu per 100 ml)	Not detected	1	10	60	100,0	100,0	100,0
E. coli	(cfu per 100 ml)	Not detected	Not detected	1	60	100,0	100,0	100,0
Coliphages	(per 10 ml)	Not detected	1	10	60	98,0	98,0	98,0
Giardia	(org/10 l)	Not detected	Not detected	1	60	100,0	100,0	100,0
Cryptosporidium	(org/10 l)	Not detected	Not detected	1	60	100,0	100,0	100,0
Enteric viruses	(per 10 l)	Not detected	1	10	60	100,0	100,0	100,0
Other determinants as required by supply contract								
Limits								
Chlorine total	(mg/l)	<0,1			54	22,2		
Chlorine total	(mg/l)	>0,3			54	50,0		
Chlorine total (spec = 95% min)	(mg/l)	0,1 – 0,3			54	27,8		

**Compliance of water quality in the bulk distribution network with WHO standards – Kn 717
July 2005 to June 2006**

Parameter	Units of measure	WHO standard	Number of samples	Compliance levels (%)
Physical and organoleptic properties				
Colour	(mg/l as Pt)	<15	3 885	99,97
Turbidity	(NTU)	<0,1 ⁽⁵⁾	9 152	0,16
Turbidity	(NTU)	<5 ⁽³⁾	9 152	99,93
Total dissolved solids	(mg/l)	<600	3 742	100,00
Hardness	(mg/l as CaCO ₃)	<200 ⁽³⁾	3 942	99,49
Radioactivity				
Alpha	(Bq/l)	<0,5	8	100,00 ⁽¹⁾
Beta	(Bq/l)	<1 ⁽⁷⁾	8	100,00 ⁽¹⁾
Inorganic				
Aluminium	(mg/l as Al)	<0,2	3 941	99,92
Ammonia	(mg/l as N)	<1,5	3 934	99,87
Antimony	(µg/l as Sb)	<20	3 181	100,00
Arsenic	(µg/l as As)	<10	3 084	100,00
Barium	(mg/l as Ba)	<0,7	29	100,00
Boron	(mg/l as B)	<0,5	3 964	100,00
Cadmium	(µg/l as Cd)	<3	3 938	100,00
Chloride	(mg/l as Cl)	<3	3 822	100,00
Chloramines	(mg/l)	<3	9 327	100,00 ⁽²⁾
Chlorine total	(mg/l)	<0,6 ⁽³⁾	15 625	37,63
Chlorine total	(mg/l)	<5 ⁽⁴⁾	15 625	99,97
Chromium	(µg/l as Cr)	<50	3 944	99,97
Copper	(mg/l as Cu)	<1 ⁽³⁾	3 944	100,00
Copper	(mg/l as Cu)	<2 ⁽⁴⁾	3 944	100,00
Cyanide (total)	(µg/l as CN)	<70	3 891	100,00
Fluoride	(mg/l as F)	<1,5	3 830	100,00
Iron	(mg/l as Fe)	<0,3	3 934	100,00
Lead	(µg/l as Pb)	<10	3 943	100,00
Manganese	(mg/l as Mn)	<0,1 ⁽³⁾	3 944	100,00
Manganese	(mg/l as Mn)	<0,4 ⁽⁴⁾	3 944	100,00
Mercury	(µg/l as Hg)	<1	3 133	100,00
Mycrocystin	(µg/l)	<1 ⁽⁸⁾	65	100,00 ^(1, 9)
Molybdenum	(mg/l as Mb)	<0,07	3 963	100,00
Nickel	(µg/l as Ni)	<20	3 936	100,00
Nitrate	(mg/l as N)	<11,29	3 934	100,00
Nitrite	(mg/l as N)	<0,91	3 940	99,87
Nitrate/nitrite ratio ⁽⁶⁾	(mg/l as N)	<1	3 957	99,85
Selenium	(µg/l as Se)	<10	3 107	99,94
Sodium	(mg/l as Na)	<200	3 943	100,00
Sulphate	(mg/l as SO ₄)	<250	3 943	100,00
Uranium	(µg/l as U)	<15	8	100,00 ⁽¹⁾
Zinc	(mg/l as Zn)	<3	3 940	100,00
Microbiological				
Total coliforms	(cfu per 100 ml)	0	15 664	98,83
Faecal coliforms	(cfu per 100 ml)	0	15 677	99,70
E. coli	(cfu per 100 ml)	0	15 664	99,77

Notes

(1) Analysed at the outlets of Purification works

(2) Monochloramine

(3) Aesthetic effects

(4) Health effects

(5) For effective disinfection

(6) (NO₃)/11,29 + (NO₂)/0,91

(7) Excluding radiation from potassium-40

(8) LR type

(9) Total (LR + LA + RR + YR)

WATER QUALITY CONTINUED

Water quality compliance in the bulk distribution network – Kn 720
July 2005 to June 2006

Parameter	Units of measure	Specification adopted by Rand Water based on SANS 0241: 2001		Units of measure	Compliance levels (%)	
		Class I 95% min	Class II 99% min		Class I	Class II
Chemical and Physical properties						
Colour	(mg/l as Pt)	20	50	3 885	99,97	100,00
Conductivity	(mS/m)	150	370	9 072	100,00	100,00
pH	(pH units)	5,0 – 9,5	4,0 – 10,0	9 078	99,93	100,00
Turbidity	(NTU)	1	10	9 152	99,51	99,97
Total dissolved solids	(mg/l)	1 000	2 400	3 742	100,00	100,00
Taste	(TTN)	5	10	3 932	100,00	100,00
Odour	(TON)	5	10	3 939	100,00	100,00
Organic determinants						
Total trihalomethanes	(ug/l)	200	300	3 862	99,95	100,00
Phenols as C ₆ H ₅ OH	(ug/l)	10	70	1 980	100,00	100,00
Dissolved Organic Carbon	(mg/l)	10	20	3 340	100,00	100,00
Micro elements						
Antimony	(µg/l as Sb)	10	50	3 181	100,00	100,00
Arsenic	(µg/l as As)	50	200	3 084	100,00	100,00
Cadmium	(µg/l as Cd)	5	10	3 938	100,00	100,00
Chromium	(µg/l as Cr)	100	500	3 944	100,00	100,00
Cobalt	(µg/l as Co)	500	1 000	3 944	100,00	100,00
Cyanide (total)	(µg/l as CN)	200	300	3 891	100,00	100,00
Lead	(µg/l as Pb)	50	100	3 943	100,00	100,00
Mercury	(µg/l as Hg)	2	5	3 133	100,00	100,00
Nickel	(µg/l as Ni)	150	350	3 936	100,00	100,00
Selenium	(µg/l as Se)	20	50	3 107	100,00	100,00
Vanadium	(µg/l as V)	200	500	3 944	100,00	100,00
Macro elements and miscellaneous determinants						
Aluminium	(mg/l as Al)	0,3	0,5	3 941	99,92	100,00
Ammonia	(mg/l as N)	1	2	3 934	99,87	99,92
Calcium	(mg/l as Ca)	150	300	3 943	100,00	100,00
Chloride	(mg/l as Cl)	200	600	3 822	100,00	100,00
Copper	(mg/l as Cu)	1	2	3 944	100,00	100,00
Fluoride	(mg/l as F)	1	1,5	3 830	100,00	100,00
Iron	(mg/l as Fe)	0,2	2	3 934	99,75	100,00
Magnesium	(mg/l as Mg)	70	100	3 943	100,00	100,00
Manganese	(mg/l as Mn)	0,1	1	3 944	100,00	100,00
Nitrate and nitrite	(mg/l as N)	10	20	3 934	100,00	100,00
Potassium	(mg/l as K)	50	100	3 944	100,00	100,00
Sodium	(mg/l as Na)	200	400	3 943	100,00	100,00
Sulphate	(mg/l as SO ₄)	400	600	3 791	100,00	100,00
Zinc	(mg/l as Zn)	5	10	3 940	100,00	100,00

Water quality compliance in the bulk distribution network *continued*
July 2005 to June 2006

Parameter	Units of measure	Specification adopted by Rand Water based on SANS 0241: 2001			Units of measure	Compliance levels (%)		
		Class I 95% min	96% min	Class II 99% min		Class I 95% min	96% min	Class II 99% min
Microbiological <i>(Microbiological specification does not have a class categorisation, but specific percentage compliance requirements)</i>								
Standard plate count	(cfu per 1ml)	100	1 000	10 000	15 653	91,92	98,40	99,97
Total coliforms	(cfu per 100 ml)	Not detected	10	100	15 664	98,83	99,92	99,97
Faecal coliforms	(cfu per 100 ml)	Not detected	1	10	15 677	99,70	99,93	99,98
E. coli	(cfu per 100 ml)	Not detected	Not detected	1	15 664	99,77	99,77	99,96
Coliphages ⁽¹⁾	(per 10 ml)	Not detected	1	10	1 434	99,30	99,65	99,93
Giardia ⁽¹⁾	(org/10 l)	Not detected	Not detected	1	309	99,68	99,68	100,00
Cryptosporidium ⁽¹⁾	(org/10 l)	Not detected	Not detected	1	309	99,03	99,03	100,00
Enteric viruses ⁽¹⁾	(per 10 l)	Not detected	1	10	96	100,00	100,00	100,00
Other determinants as required by supply contract								
Limits								
Chlorine total	(mg/l)	<0,1			15 625	1,77		
Chlorine total	(mg/l)	>0,3			15 625	80,07		
Chlorine total (Spec = 95% min)	(mg/l)	0,1 – 0,3			15 625	18,16		

Notes

(1) Analysed at the outlets of the Purification works

(2) Specifications revised as per Management Committee report dated 19 May 2003

GLOSSARY OF TERMS

ACI	Africans, Coloureds, and Indians
AMCOW	African Minister's Council on Water
CBPD	Community-Based Project Department
CCMA	Council for Conciliation, Mediation and Arbitration
COR	Cost of Risk
DIFR	Disabling injury Frequency Rate
DWAF	Department of Water Affairs and Forestry
ERP	Enterprise Resource Planning
ERM	Enterprise Risk Management
HACC	Hazard Assessment Critical Control
LGWSETA	Water Services Sectoral Education and Training Authority
NDA	National Development Agency
NEPAD	The New Partnership for Africa's Development
OHSAS	Occupational Health and Safety Assessment System
PFMA	Public Finance Management Act
PCP	Participation, Co-operation and Partnership
RWS	Rand Water Services (Pty) Limited
SAAWU	South African Association for Water Utilities
SANS	South African National Standards
SABS	South African Bureau of Standards
SAICE	South African Institute of Civil Engineers
SALGA	South African Local Government Association
SAMWU	South African Municipal Worker's Union
SAP	Systems Application Products
SHE	Safety Health and Environment
WHO	World Health Organisation
WQSP	Water Quality Safety Plan
WRC	World Research Commission





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