

CDP South Africa Water Executive Summary 2016

Written on behalf of 643 investors with US\$67 trillion in assets



Introduction

In addition to a higher number of A listers, overall performance scores have improved across the board for South African responding companies, demonstrating the value of disclosure and company involvement in CDP water.

The adoption of the Sustainable Development Goals (SDGs) in 2015 has seen water, including its management and access, gain in global prominence. There is now a dedicated global goal for water and sanitation (SDG6) and water is increasingly recognised as an enabler of economic growth and of the SDGs as a whole, particularly in relation to tackling hunger, improving human health and adapting to climate change.

The SDGs call for business to be a key driver of sustainable development, and this is especially true in the water sector where substantial private sector investment is needed¹. It is clear that business, working together with government and other stakeholders, is essential to ensuring sustainable water supply, whether through financing, the sharing of expertise or through good water management practice.

Within this context, 2016 marks the 7th consecutive year in which the National Business Initiative (NBI) has implemented CDP water in South Africa in partnership with CDP. This year the water questionnaire was sent on behalf of 643 investors with over US\$67 trillion in assets under management. The CDP water information request is sent to selected companies within the 100 largest companies by market capitalisation on the FTSE/JSE Africa All Share Index, with these companies operating in sectors believed to have the greatest impact on, or that are significantly impacted by, water resources. 60 South African companies received the water information request in 2016. Companies that respond outside of this sample are not included in this year's analysis, but from 2017 self-selected respondents will be incorporated into the formal analysis.

As with CDP climate change, the NBI has changed how we make CDP water data and analysis available. We no longer produce a full, long report, but rather produce a short executive summary supported by infographics. The summary report and infographics complement a CDP online platform (<http://globalwaterresults.cdp.net>) that enables you to interact with the data, drawing your own lessons and conclusions. This summary provides the high level trends that the NBI see in the data and provides the most critical data points. To understand a specific company or their actions there is no substitute for reviewing the individual company response. To view company responses in full please visit: <https://www.cdp.net/en/responses>

In considering the analysis in this report, it should be borne in mind that it is a relatively small sample and the impact of companies entering and exiting the sample is significant. In 2016 three companies were included for the first time. First time responders tend

to have less complete and less mature responses and can therefore skew the data.

The scoring of company responses within CDP water is now firmly entrenched, both globally and in South Africa, with the scores made publicly available. CDP approaches scoring by assessing responding companies across four consecutive levels which represent the steps a company takes as it progresses towards water stewardship. The levels are Leadership (A or A-, the highest scoring band), Management (B or B-), Awareness (C or C-) and Disclosure (D or D-). Companies who are requested to disclose their data and fail to do so, or fail to provide sufficient information will receive an F (failure to disclose), which signifies their failure to provide sufficient information to CDP to be evaluated for this purpose. An F does not indicate a failure in environmental stewardship.

2016 has been a significant year for CDP water in South Africa, as we now have 4 companies on the global water A list (out of 24 companies recognised internationally). South Africa has more companies on the A list than a number of developed countries, including the United States, Australia, France and Germany. This is a substantial achievement and compares favourably to the 2 South African companies recognised on the global A list in 2015. This year's A listers are Anglo American Platinum, Harmony Gold Mining Company, Kumba Iron Ore and Royal Bafokeng Platinum. In addition to a higher number of A listers, overall performance scores have improved across the board for South African responding companies, demonstrating the value of disclosure and company involvement in CDP water.

These performance improvements and the increasing significance of water management for responding companies are important for supporting a resilient economy. Water risk, already reported as immediate and severe by companies in 2015, has worsened, with the result that ever more determined and collaborative approaches are needed. Water restrictions have also been in place across the country for some time, with water-related issues threatening to hamper economic development in key growth nodes. Finally, the systemic risks related to institutional and structural factors (as highlighted in the 2015 CDP water report) remain in the water sector, constraining the country's ability to effectively manage water assets, water resources and drought conditions.

Thus, despite the gains made by responding companies, it is clear that further effort and the broadening of the water response by business is needed. Water is key for economic growth, and without it growth is severely hampered. Companies in South Africa as a whole have a clear interest in implementing strong water management practice and sharing their expertise with others.

1 World Bank Group. 2016. *The Costs of Meeting the 2030 Sustainable Development Goals Targets on Drinking Water, Sanitation and Hygiene*. Accessible here: <http://www.worldbank.org/en/topic/water/publication/the-costs-of-meeting-the-2030-sustainable-development-goal-targets-on-drinking-water-sanitation-and-hygiene>

Responses to the CDP water program (2016, 2015, 2014, 2013, 2012) and CDP climate program 2016

Company	Sector	2016 CDP Water Score	2016 CDP Water Response	2015 CDP Water Response	2014 CDP Water Response	2013 CDP Water Response	2016 CDP Climate Change Score/Response
AECI Ltd Ord	Materials	Management (B)	AQ	AQ	AQ	AQ	B
African Rainbow Minerals	Materials	Management (B)	AQ	DP	DP	DP	B
Anglo American	Materials	Leadership (A-)	AQ	AQ	AQ	AQ	B
Anglo American Platinum	Materials	Leadership (A)	AQ	AQ	AQ	AQ	A
AngloGold Ashanti	Materials	Management (B)	AQ	AQ	AQ	AQ	B
Aspen Pharmacare Holdings	Health Care	Management (B)	AQ	AQ	AQ	AQ (NP)	B
Assore Ltd	Materials	Failure to disclose (F)	NR	DP	DP	DP	AQ (NP)
Attacq Ltd	Financials	Failure to disclose (F)	NR	DP	/	/	B
Avi Ltd	Consumer Staples	Failure to disclose (F)	NR	DP	DP	DP	NR
Barloworld	Industrials	Management (B)	AQ	AQ	AQ	AQ	B
BHP Billiton	Materials	Leadership (A-)	AQ	AQ	AQ	AQ (SA)	B
Bidvest Group Ltd	Industrials	Failure to disclose (F)	DP	AQ	AQ	AQ	DP
British American Tobacco	Consumer Staples	Management (B)	AQ	AQ	AQ	AQ	A-
Capital & Counties Properties	Financials	Failure to disclose (F)	NR	DP	/	/	B
Clicks Group Ltd	Consumer Staples	Failure to disclose (F)	NR	DP	DP	DP	A-
Compagnie Financière Richemont SA	Consumer Discretionary	Failure to disclose (F)	DP	DP	AQ	AQ	C
Datatec	Information Technology	Failure to disclose (F)	NR	DP	/	/	AQ (NP)
Distell Group Ltd	Consumer Staples	Management (B)	AQ	/	/	/	A-
Exxaro Resources Ltd	Energy	Management (B)	AQ	AQ	AQ	AQ	B
Famous Brands Limited	Consumer Discretionary	Failure to disclose (F)	DP	DP	NR	NR	DP
Foschini Group Ltd	Consumer Discretionary	Failure to disclose (F)	DP	DP	DP	AQ (NP)	B
Gold Fields Limited	Materials	Leadership (A-)	AQ	AQ	AQ	AQ	A
Harmony Gold Mining Co Ltd	Materials	Leadership (A)	AQ	/	AQ	DP	A
Hosken Consolidated Investments	Industrials	Management (B)	AQ	AQ	DP	DP	B
Impala Platinum Holdings	Materials	Management (B)	AQ	AQ	AQ	AQ	A-
Imperial Holdings	Consumer Discretionary	Failure to disclose (F)	NR	DP	/	/	B
Italtile Ltd	Consumer Discretionary	Failure to disclose (F)	NR	/	/	/	AQ (NP)
KAP Industrial Holdings Ltd	Industrials	Failure to disclose (F)	NR	DP	/	/	AQ (NP)
Kumba Iron Ore	Materials	Leadership (A)	AQ	AQ	AQ	AQ	A
Life Healthcare Group Holdings Ltd	Health Care	Failure to disclose (F)	NR	DP	DP	DP	C
Massmart Holdings Ltd	Consumer Staples	Failure to disclose (F)	NR	DP	NR	DP	C
Mediclinic International	Health Care	Management (B)	AQ	AQ	AQ	AQ	A
Mondi Limited	Materials	Not Scored	AQ (SA)	AQ (SA)	AQ (SA)	AQ (SA)	AQ (SA)
Mondi PLC	Materials	Management (B)	AQ	AQ	AQ	AQ	A
Mr Price Group Ltd	Consumer Discretionary	Failure to disclose (F)	DP	DP	DP	DP	DP
Nampak Ltd	Materials	Failure to disclose (F)	NR	DP	DP	DP	A-
Netcare Limited	Health Care	Management (B)	AQ	AQ	AQ	AQ	B
New Europe Property Investments plc	Financials	Failure to disclose (F)	NR	NR	/	/	NR
Northam Platinum Ltd	Materials	Management (B)	AQ	AQ	AQ	AQ	B
Oceana	Consumer Staples	Failure to disclose (F)	NR	DP	DP	DP	A-
Omnia Holdings Ltd	Materials	Leadership (A-)	AQ	DP	DP	NR	B
Pick n Pay Stores Ltd	Consumer Staples	AQ (NP)	AQ (NP)	AQ (NP)	AQ (NP)	AQ	A
Pioneer Foods	Consumer Staples	AQ (NP)	AQ (NP)	AQ	DP	DP	AQ (NP)
PPC Ltd	Materials	Failure to disclose (F)	NR	DP	DP	DP	C
RCL Foods Ltd	Consumer Staples	Failure to disclose (F)	NR	AQ	DP	/	A
Reunert	Industrials	Management (B-)	AQ	AQ	AQ	AQ	C
SABMiller	Consumer Staples	Leadership (A-)	AQ	AQ	AQ	AQ	A-
Sappi Limited	Materials	Failure to disclose (F)	DP	/	/	/	B
Sasol Limited	Energy	Management (B)	AQ	AQ	AQ	AQ	A-
Shoprite Holdings Ltd	Consumer Staples	Failure to disclose (F)	NR	DP	DP	DP	AQ (NP)
Sibanye Gold Ltd	Materials	Failure to disclose (F)	NR	NR	DP	/	A
Steinhoff International Holdings	Consumer Discretionary	Failure to disclose (F)	NR	DP	DP	DP	C
Sun International Ltd	Consumer Discretionary	Management (B-)	AQ	AQ (NP)	/	/	A-
Super Group	Consumer Discretionary	Failure to disclose (F)	NR	DP	/	/	NR
The Spar Group Ltd	Consumer Staples	Management (B)	AQ	DP	DP	DP	B
Tiger Brands	Consumer Staples	Management (B)	AQ	AQ	AQ	DP	C
Tongaat Hulett Ltd	Consumer Staples	Leadership (A-)	AQ	AQ	AQ	AQ	B
Truworths International	Consumer Discretionary	Failure to disclose (F)	NR	DP	DP	DP	B
Tsogo Sun Holdings Ltd	Consumer Discretionary	Not scored	AQ (SA)	AQ (SA)	/	/	AQ (SA)
Woolworths Holdings Ltd	Consumer Discretionary	Leadership (A-)	AQ	AQ	AQ	AQ	B

AQ – Answered questionnaire

AQ (NP) – Answered questionnaire but declined permission to make this public

AQ (SA) – Answered questionnaire via parent company

AQ (SSR) – Answered questionnaire as a self-selected respondent

DP – Declined to participate

NR – No response

Leadership: A / A-

Management: B / B-

Awareness: C / C-

Disclosure: D / D-

Failure to disclose: F*

*Not all companies requested to respond to CDP do so. Companies who are requested to disclose their data and fail to do so, or fail to provide sufficient information to CDP will receive an F. An F does not indicate a failure in environmental stewardship

Key findings

There is a need to broaden water management capabilities within business as a whole, in order to address the scale of the challenge. Ultimately a step change is needed to address the underlying water risks facing business.

Message 1: South African companies who respond to CDP water are improving their performance

In 2016, 32% of responding companies received an A or A- score, up from just 3% in 2015. This figure is well above the percentage of companies in the leadership category globally, which stands at 17%. At the same time, the number of companies receiving a C has declined from 17% in 2015 to 7% in 2016. This performance improvement is commendable and demonstrates that responding companies are gaining in maturity, particularly in their internal governance of water.

As of 2016, 97% of responding companies have Board oversight for water, while 90% of companies have water management integrated into business strategy (2015: 83%) and a further 90% have a water policy in place that sets out goals and guidelines for action (2015: 83%). The completion of a company-wide risk assessment, a key component in drawing water awareness in to corporate governance structures, stands at 87% (2015: 87%).

The improvements made across the CDP sample indicates that the gap between the poorest responders and the leaders is closing, which bodes well for future action and further advances in performance. It is arguable that South Africa's CDP water respondents are reporting leading business practice on water in a manner that has moved considerably ahead of the private sector at large.

Message 2: The closing of the performance gap demonstrates the value of company involvement in the CDP water community

The increasing aggregation of performance scores within higher bands suggests that it is better to be in the CDP water community than outside of it. Responding companies are required to ask the right questions, undertake appropriate analysis and learn from their peers. Responding also helps companies identify water-saving opportunities that can lead to cost savings and greenhouse gas emission reductions. What is concerning, however, is that the CDP water response rate of 55% (33 companies) remains relatively unchanged since 2014.

As the water risk profile for the country worsens there is a concern that the development of South African water leaders does not reflect business as a whole, nor the scale of the challenge nationally. A far greater company response is needed, and CDP water provides a key avenue to achieve this and improve water practice.

Message 3: It is surprising that the water message has not gained strong traction in South Africa, given that the already severe and immediate risk is worsening

With a company response rate of 55% in 2016 (compared to 56% in 2015 and 55% in 2014) the disclosure rate has plateaued in South Africa at a time when water risk is increasing. In 2015 we demonstrated that the quality of water reporting outside the responding companies, with a few exceptions, is comparably very poor. As such, the response rate reflects a worrying trend that needs to be addressed.

In 2016, operational risks from water rose to 94% (up from 83% in 2015) and still represents the highest percentage of any global CDP sample. All risks considered to be of medium to high impact and also highly probable have risen from 15% in 2015 to 18% in 2016. Physical risks with high impact have increased to 46% (2015: 44%). The financial impacts experienced by responding companies has also increased to R1.1 billion² in 2016 (2015: R841 million).

From those companies that do disclose to CDP it is clear that water risk, particularly concerns related to physical risk and water stress, are on the up in South Africa and have material financial impacts. Company concerns related to drought, water stress and water scarcity have all increased from 2015. The immediacy of risk has also shortened, with water risks expected to materialise in the next 3 years rising to 74% in 2016 (2015: 69%).

In assessing the reasons why the response rate remains lower for water than for climate change, we postulate that the lower perceived regulatory risk within the water sector, the lack of a common water accounting framework, the relatively inexpensive nature of water and the narrow focus on operational risks and metrics, are key reasons why the appreciation of water challenges has not reached the level disclosed to CDP climate change. For example, current water risk metrics do not describe the nature of the collective water risk very well and the huge range of measurement approaches and therefore data outcomes make data comparability and sharing rather difficult. Furthermore the internal, operational nature of these metrics may be a factor in the limited breadth of company risk assessments.

Overall, we are concerned that the CDP water response rate should be higher, given that water security is critical for economic growth and climate change adaptation in what is already a water-scarce country.

² All currency conversions made in November 2016

Self-selected respondents to CDP water

Company	GICS Sector	2016 Performance	2015 Response	2014 Response	2013 Response	CDP Climate Change Performance 2016
Allied Electronics Corporation Ltd (Altron)	Industrials	Management (B-)	SSR	SSR	AQ	B-
Aveng Ltd	Industrials	SSR (NP)	SSR (NP)	AQ (NP)	AQ (NP)	B-
Illovo Sugar Ltd	Consumer Staples	Management (B)	AQ	AQ	AQ	B
Lonmin	Materials	Management (B)	AQ	DP	DP	A-
Murray and Roberts	Industrials	Not Scored	/	/	/	B
Redefine Properties Ltd	Financials	Not Scored	/	/	/	A-
Royal Bafokeng Platinum Ltd	Materials	Leadership (A)	SSR	AQ	AQ	B
Sanlam	Financials	Management (B-)	SSR	SSR	/	A-
Scaw South Africa (pty) Ltd	Materials	SSR (NP)	SSR (NP)	SSR (NP)	SSR (NP)	AQ (NP)

SSR – Self-selected respondent³

SSR (NP) – Self-selected respondent (not public)

AQ – Answered questionnaire

AQ (NP) – Answered questionnaire (not public)

DP – Declined to participate

Message 4: The gap between expert identified risk and company identified water risk remains, despite last year's analysis

For CDP water 2015 we reported on a convening of water experts undertaken by the NBI to obtain their views on the major water risks facing companies in South Africa. The top risks identified by this expert group were municipal water supply challenges (driven by infrastructure and institutional capacity issues), water cost increases, declining water quality, regulatory incoherence in water licencing and complex water institutions with conflicting objectives. Despite this analysis, and concerns raised that the company valuation of risk may be under-estimated and too operationally focused, we see little change in the data for 2016.

Indeed, this year slightly fewer companies consider the risks in their supply chain (61% in 2016, down from 63% in 2015). Only 39% of companies require water reporting from their supply chain (almost unchanged from 40% in 2015) and only 9 companies (compared to 11 in 2015) implement best practice by assessing risk at a catchment level. Of the 59 water-related goals set by 27 companies only 51% of companies set goals outside their direct operations, compared to 55% in 2015⁴. Policymaker engagement has also fallen from 40% to 35% in 2016.

On a more positive note, 81% of companies now factor in local communities into water risk, up from 61% in the previous year, with inadequate infrastructure now also regarded as the second highest cause of water-related impacts, after drought and water scarcity.

³ Companies that respond voluntarily to CDP for the first time are not scored unless they request this service

⁴ In CDP water terminology, company goals are qualitative, while company targets are quantitative. Goals specify high-level qualitative objectives. In comparison, targets provide a quantitative indicator against which the achievement of specific objectives can be measured

Given these overall response trends, we contend that companies may not be adequately considering the wider context of their water supply, and that the focus on physical risks experienced at the operational level obscures the significant institutional and infrastructure-related challenges facing the regions in which companies operate. Also obscured is that if these key systemic risks are addressed, then the ability to cope with drought and water scarcity is enhanced for the benefit of all water users. As such, the link between physical risk on the one hand, and water management capability and adequate infrastructure on the other hand, needs to be emphasised.

Companies are encouraged to broaden their understanding of water risk, including within their supply chains and surrounding context, with an emphasis on the social and economic systems in which water provision is embedded. This wider context currently exacerbates the water risk profile of companies, and is likely to be the key factor going forward.

Message 5: Let's not wait for an external trigger before we achieve wider company action

Drawing on the analysis of both CDP climate and CDP water over the past decade, we argue that three key factors could bring about a step change in both reporting and action on water by companies as a whole. These three external factors are:

1. **A supply-side crisis.** Given current dam levels across the country, the delays in the completion of the second phase of the Lesotho Highlands Water Project, high levels of water leakage in many municipalities, a variety of infrastructure related challenges brought about by poor maintenance and water quality concerns, we are at the point of a significant supply-side crisis or approaching it fairly rapidly. The electricity crisis of 2008 brought about significant planning, regulatory and consumer changes within the energy sector. A similar experience in the water sector would arguably be more harmful to human well-being and more complex to solve given the greater number of role-players and physical assets involved.
2. **A cost explosion.** A sharp increase in water tariffs brought about by increased purification costs, rising electricity prices and the need for substantial infrastructure rehabilitation and investment, could result in a cost explosion in the water sector. Such an occurrence (again with parallels with the price curve changes for electricity between 2008 and 2015) could

Top Performers in the Water A List

Company	2016 Performance	2015 Response	2014 Response	2013 Response	2016 CDP Climate Change Performance
Anglo American Platinum	Leadership (A)	AQ	AQ	AQ	A
Harmony Gold Mining Co Ltd	Leadership (A)	SSR	AQ	DP	A
Kumba Iron Ore	Leadership (A)	AQ	AQ	AQ	A
Royal Bafokeng Platinum Ltd	Leadership (A)	SSR	AQ	AQ	B

SSR – Self-selected respondent
AQ – Answered questionnaire
DP – Declined to participate

have a significant impact on company water management. In contrast, currently low tariffs and poor revenue collection at the municipal level in many areas is likely to exacerbate water infrastructure management and investment challenges, speeding up the onset of a supply-side crisis.

3. **Increased regulation.** This is already occurring in the form of water restrictions active throughout the country, but has not yet reached the point where planned, lengthy water supply disruptions are a daily reality for most South Africans. Should this occur, or should the Waste Discharge Charge System be fully adopted and enforced, we could see a significant shift in emphasis and response to water issues by the private sector.

We are concerned that business will wait until one or more of these key factors is entrenched, before widespread action takes place. We suggest that the electricity crisis is instructive, and that given the critical role of water in livelihoods and economic development, ambitious voluntary action is urgently needed and is supported by the opportunity to learn from South Africa's water leaders.

Message 6: What are the key next steps for companies?

Looking forward, there are arguably three key next steps for companies. The first is for additional companies to join the CDP water programme, in order to better understand the intricacies and key components of water management and join the country's leading pack. The second key step is to further improve water governance, including by strengthening supply chain and policymaker engagement, expanding the scope of risk assessments to encompass the full spectrum of systemic risks facing business, ensuring the integration of water management in business strategy, and setting ambitious targets that are rooted in the context in which companies operate.

Finally companies need to decouple business growth from water impacts, whether related to water quantity or quality. This can be achieved through improved management practice and ambitious target setting. This decoupling effect is essential if the economy is to grow in a country that is projected to experience a significant supply-side deficit by 2030 (this deficit already exists in some catchments). The opportunities for business innovation, investment and value creation are significant.

Conclusion

Companies responding to CDP water have made significant progress since the water programme's inception in 2010, most notably in relation to the establishment of leading practice, the implementation of improved internal governance and the growth of water-related target setting. However, key gaps remain, particularly in the response rate, in the formation of a common accounting approach, and in the nascent role of collaboration with other water users and stakeholders. As such, responding companies can improve further by:

- ▶ Increasing engagement with suppliers, local authorities and policy-makers, and encouraging peers to respond to CDP water. Disclosure and reporting is an important first step in the water stewardship journey
- ▶ Making further improvements in company water governance, ensuring greater accuracy in water measurement and broadening risk assessments to include wider systemic risks
- ▶ Working to decouple business growth from water impacts, through both operational and collaborative means

It is clear that physical risk and current water stress is driving company impacts and associated responses, but the full consequence of our present predicament has yet to be realised. There is a need to broaden water management capabilities within business as a whole, in order to address the scale of the challenge. Ultimately a step change is needed to address the underlying water risks facing business.

In taking this next step, companies will support their ongoing resilience. Water management advancements will enable companies to reduce costs, limit operational disruptions and lower emissions. Business growth and water availability are increasingly interdependent in South Africa.