

CDP SOUTH AFRICA WATER 2018

Executive Summary

On behalf of 650 investor signatories representing US\$ 87 trillion in assets



EXECUTIVE SUMMARY

South Africa is facing a water crisis caused by insufficient water infrastructure maintenance and investment, recurrent droughts driven by climatic variation, inequities in access to water and sanitation, deteriorating water quality, and a lack of skilled water engineers.

Introduction

In 2018 the prospect of the City of Cape Town running out of water was international news. What is less well known is that other parts of South Africa simultaneously faced equally dire water shortages. Towns and cities across all 9 provinces faced water restrictions that were mainly driven by drought conditions, but also by other risk factors.

The 2017 CDP water report raised the prospect of a perfect dust storm facing the South African water sector, brought on by rising water demand and a variety of physical, institutional and infrastructure related risks. This sentiment is echoed by Government. The National Water and Sanitation Master Plan indicates that:

“South Africa is facing a water crisis caused by insufficient water infrastructure maintenance and investment, recurrent droughts driven by climatic variation, inequities in access to water and sanitation, deteriorating water quality, and a lack of skilled water engineers. This crisis is already having significant impacts on economic growth and on the well-being of everyone in South Africa” (DWS, 2018 p1)

As it stands, if demand continues to rise at current levels, national government predicts a 17% water deficit by 2030. Climate change is predicted to make drought conditions more common. Weak technical capacity, low revenue collection and inadequate maintenance are key challenges impacting municipal water management (DWS, 2014)¹. 56% of South Africa’s wastewater treatment works are dysfunctional and require urgent refurbishment, while almost half of the country’s water treatment works are in a poor or critical condition (DWS, 2018)².

Responses to CDP’s Water Security questionnaire suggest that companies’ water issues are increasingly hitting the bottom line. In 2018 the financial cost of water-related impacts in South Africa was R1.8bn, 178% higher than in 2017. Capital expenditure to mitigate water risk has also increased significantly. Considering that most companies report being located in water stressed regions³, this is a significant call to act.

2018 has been the year for companies involved with CDP water in South Africa to be introspective about their role in achieving water security. Companies have largely integrated water into their governance, strategy and business plans, with most having a

water policy in place. But is this enough?

In 2018, CDP raised the bar for corporate leadership on water security. These more stringent criteria have impacted performance scores globally and made it more difficult for companies to be recognised as water leaders. To make the global water A List, companies must now show that they:

- ▶ Regularly monitor and manage water aspects relevant to their activities through the whole value chain
- ▶ Have regular and comprehensive water risk assessment procedures that are grounded in the river basin
- ▶ Have a solid understanding of how water issues could impact their financial performance

At the same time, companies should show that they have implemented a genuine strategic response to their water-related risks, demonstrating that their governance mechanisms and long-term business strategies are informed by and actively work to improve water security.

Only 31 companies globally were able to meet these higher standards and achieve A list status in 2018, the vast majority (752) did not. In South Africa, for the first time since water scoring commenced in 2016, there are no A list companies, despite strong global representation in previous years.

As South African companies we must answer the call to action brought about by our national water context and re-establish ourselves as water leaders on the international stage. CDP’s Water Security programme provides a roadmap to achieve this goal.

While there are no South African A list companies this year, Anglo American, Anglo American Platinum, Goldfields Limited, Impala Platinum Holdings and Lonmin were all recognised as being within the Leadership Band, the highest scoring band.

The sampling context

2018 marks the ninth consecutive year in which the National Business Initiative has implemented CDP water in South Africa. In 2018 the water questionnaire was sent on behalf of 650 investors with over US\$87 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. The companies selected operate in the sectors that have the greatest impact on, or that are significantly impacted by, water resources. Applying this methodology, 65 South African companies received the water information request in 2018 and 47 of these companies responded.

¹ DWS (2014) *Municipal Services Strategic Assessment (MuSSA) for South Africa: 2013/14*.

² DWS (2018) *National Water and Sanitation Master Plan, Volume I: Call to Action. Version 10.1*.

³ 67% of companies report withdrawing more than 50% of their water needs from water stressed areas.

Responses to CDP water (2018, 2017, 2016, 2015, 2014)

Company Name	Sector	2018 CDP Water Score	2017 CDP Water Score	2016 CDP Water Score	2015 CDP Response Status	2014 CDP Response Status
AECI Ltd Ord	Energy & Materials	B	B	B	AQ	AQ
African Rainbow Minerals	Energy & Materials	B	A	B	DP	DP
Anglo American	Energy & Materials	A-	A-	A-	AQ	AQ
Anglo American Platinum	Energy & Materials	A-	A-	A	AQ	AQ
AngloGold Ashanti	Energy & Materials	B-	B	B	AQ	AQ
Aspen Pharmacare Holdings	Health Care	B-	B	B	AQ	AQ
Assore Ltd	Energy & Materials	F	F	F	DP	/
Avi Ltd	Consumer Staples	F	F	F	DP	/
Barloworld	Industrials	C	B	B	AQ	AQ
Bid Corporation Ltd	Consumer Staples	F	F	/	/	/
Bidvest Group Ltd	Industrials	F	F	F	AQ	/
Clicks Group Ltd	Consumer Staples	B	AQ (NP)	F	DP	DP
Distell Group Ltd	Consumer Staples	B-	A-	B	/	/
Exxaro Resources Ltd	Energy & Materials	B-	B	B	AQ	AQ
Famous Brands Limited	Consumer Discretionary	F	F	F	DP	/
Foschini Group Ltd	Consumer Discretionary	Not scored	F	F	DP	/
Gold Fields Limited	Energy & Materials	B	A-	A-	AQ	AQ
Harmony Gold Mining Co Ltd	Energy & Materials	B	A	A	/	/
Hosken Consolidated Investments	Industrials	B	C	B	AQ	DP
Hyprop Investments Ltd	Financials	Not scored	/	/	/	/
Impala Platinum Holdings	Energy & Materials	A-	A-	B	AQ	AQ
Imperial Holdings	Consumer Discretionary	F	F	F	DP	/
KAP Industrial Holdings Ltd	Industrials	F	F	F	DP	/
Kumba Iron Ore	Energy & Materials	B-	A	A	AQ	AQ
Life Healthcare Group Holdings Ltd	Health Care	C	D	F	DP	DP
Lonmin	Energy & Materials	A-	B	B	AQ	/
Massmart Holdings Ltd	Consumer Staples	F	F	F	DP	/
Mediclinic International	Health Care	B	A	B	AQ	AQ
Mondi PLC	Energy & Materials	B	A	B	AQ	AQ
Mr Price Group Ltd	Consumer Discretionary	F	F	F	DP	/
Murray & Roberts Holdings Ltd	Industrials	B	A-	Not scored	/	/
Nampak Ltd	Energy & Materials	C	C	F	DP	DP
Netcare Limited	Health Care	B	B	B	AQ	AQ
Northam Platinum Ltd	Energy & Materials	B-	A-	B	AQ	AQ
Oceana	Consumer Staples	B-	C	F	DP	DP
Omnia Holdings Ltd	Energy & Materials	B	A	A-	DP	DP
Pick n Pay Stores Ltd	Consumer Staples	B	AQ (NP)	AQ (NP)	AQ (NP)	AQ (NP)
Pioneer Foods	Consumer Staples	C	AQ (NP)	AQ (NP)	AQ	/
RCL Foods Ltd	Consumer Staples	C	AQ (L)	F	AQ	DP
Redefine Properties Ltd	Financials	B-	B	Not scored	/	/
Reunert	Industrials	C	B-	B-	AQ	AQ
Royal Bafokeng Platinum Ltd	Energy & Materials	B	A	A	AQ	AQ
Sanlam	Financials	C	B	B-	AQ	AQ
Sappi	Energy & Materials	F	F	/	/	/
Sasol Limited	Energy & Materials	B-	B	B	AQ	AQ
Shoprite Holdings Ltd	Consumer Staples	C	F	F	DP	/
Sibanye-Stillwater	Energy & Materials	F	F	F	NR	/
Standard Bank Group	Financials	C	F	/	/	/
Steinhoff International Holdings	Consumer Discretionary	F	F	F	DP	/
Sun International Ltd	Consumer Discretionary	B-	B	B-	AQ (NP)	/
The Spar Group Ltd	Consumer Staples	B-	B	B	DP	DP
Tiger Brands	Consumer Staples	B-	B	B	AQ	AQ
Tongaat Hulett Ltd	Consumer Staples	B-	A	A-	AQ	AQ
Transnet	Industrials	C	B	/	/	/
Truworths International	Consumer Discretionary	F	F	F	DP	/
Virgin Active South Africa (Pty) Ltd	Hospitality	Not scored	/	/	/	/
Woolworths Holdings Ltd	Consumer Discretionary	B-	A	A-	AQ	/

Through CDP, South African companies have demonstrated that their internal governance of water is strong, and that the financial value of water risk and opportunity is significant. We must convert these strong governance frameworks into the action that leads to value creation for companies.

67%

of companies with water policies report a commitment to water stewardship and/or collective action as part of their policy.

This summary report is complemented by a set of detailed infographics available on the NBI website www.nbi.org.za and the CDP online platform <https://www.cdp.net/en/water/global-water-results>, both of which enable interaction with the data to understand the state of play in corporate water management. Individual responses and specific company actions can be reviewed at: <https://www.cdp.net/en/responses>.

The new questionnaire format in 2018 did, to varying degrees, reduce data comparability and the analysis of specific trends. The questionnaire has been refined to provide a stricter benchmark for assessing water leadership. Comparisons with data and analysis from previous years should bear in mind changes in questions or the level of specificity within questions.

CDP approaches water 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.

Companies are developing maturity on water issues, but the response is not adequate relative to the level of risk

The CDP water response rate has improved slightly from 66% in 2017 to 72% in 2018, with 47 out of 65 companies responding. South Africa did, however, drop to 2nd place behind Germany in the global water response rate in 2018.

The new responders (The Foschini Group, Hyprop Investments, Shoprite, Standard Bank and Virgin Active) are welcomed, as we work towards once again leading the global response rate. It is also encouraging that 13 reporting companies are from outside the target sample, compared with 7 self-selected companies in 2017.

South African companies continue to show strong maturity on water governance. All responding companies report board oversight of water risk. A third of companies report the CEO as having the highest level of responsibility (33%, followed by a Director on the Board, 29%). Within the Leadership

Band, 3 out of the 4 companies report the CEO as having the highest responsibility for water. Maturity in governance is further evident with 91% of companies integrating water into their strategies and most companies (73%) having water policies in place.

There is, however, a need for companies to develop and publicly disclose water policies that include a commitment to water stewardship and collective action. 67% of companies with water policies report a commitment to water stewardship and/or collective action as part of their policy. The majority of companies in the consumer staples and health care sectors do not include a commitment to water stewardship within their policies. No financial sector companies include a commitment to either water stewardship or collective action. This is worrying as resilience in our most vulnerable catchments requires commitment from all sectors.

The financial value at risk is significant

The total financial value of water risks reported globally by South African companies is R42 billion, of which R35.5 billion is located in South Africa. The concentration of water risk in South Africa, when responding companies operate across a range of countries, is worth noting. Companies incurred costs of R9 billion in 2018 to respond to their identified risks.

The average financial value of water risk per company is high, especially in the energy and materials sector, which accounts for 72% of the reported financial value of water risk. Companies are rightfully very concerned about the impacts of disruptions in production and higher operating costs brought about by droughts, floods and the rationing of municipal water supply.

The catchments with the highest reported financial value of water risk are the Olifants (50%) followed by the Crocodile River Catchment (12%) and Berg-Olifants (12%). Water stewardship and collective action within these catchments is crucial to limiting both short term and long-term financial impacts.

Most risks reported are physical (78% in 2018 versus 68% in 2017) and water risks with a high impact and high likelihood are higher than in previous years (20% in 2018 versus 16% in 2017). While physical risks have increased, regulatory risks have decreased (16% of reported risks versus 25% in 2017). Interestingly, reputational and market risks have increased significantly from the previous year (15% in 2018; 7% in 2017).

Self-selected respondents to CDP water

Company	Sector	2018 CDP Water Score	2017 CDP Water Score	2016 CDP Water Score	2015 CDP Water Score	2014 CDP Water Score
Barloworld	Industrials	C	B	B	AQ	AQ
Life Healthcare Group Holdings Ltd	Health	C	D	F	DP	DP
Lonmin	Energy & Materials	A-	B	B	AQ	/
Mediclinic International	Health	B	A	B	AQ	AQ
Murray & Roberts Holdings Limited	Industrials	B	A-	Not scored	/	/
Netcare Limited	Health	B	B	B	AQ	AQ
Redefine Properties Ltd	Financials	B-	B	Not scored	/	/
Royal Bafokeng Platinum Ltd	Energy & Materials	B	A	A	AQ	AQ
Sanlam	Financials	C	B	B-	AQ	AQ
Standard Bank Group	Financials	C	F	/	/	/
Sun International Ltd	Consumer discretionary	B-	B	B-	AQ (NP)	/
Transnet	Industrials	C	B	/	/	/
Virgin Active South Africa (Pty) Ltd	Hospitality	Not scored	/	/	/	/

Companies are beginning to recognise the importance of water stewardship

Companies are increasingly concerned about their catchment level context. 80% of companies consider current stakeholder conflicts over water at a catchment level when assessing their risks. Water availability and quality at a catchment level is also a growing concern. In light of these risks, companies are increasingly motivated by water stewardship when setting water targets⁴.

With the exception of the industrials sector, the majority of water goals are catchment oriented. In 2018, 59% of goals reported are focused at the catchment level, rather than at direct operations (2017: 51%). The corporate goals reported in 2018 also reflect an increasing emphasis on community engagement and ensuring basic water access.

While these intentions are applauded, it is critical that they are converted into appropriate action at the local and value chain level, if water risks are to be effectively mitigated.

⁴ In 2018 almost half of all reported company water targets (43%) are motivated by water stewardship, followed by reducing environmental impact (19%).

Companies are not taking appropriate action despite the risk environment and financial value of opportunities

Companies see substantial business value in water, identifying R12.6 billion in water-related opportunities in 2018. The energy and materials sector alone has quantified the financial value of their water-related opportunities at R11.4 billion.

Companies predominantly see opportunities in improving water efficiency, cost savings and increased resilience to the impacts of climate change. 59% of companies indicate that a strengthened license to operate is the most financially valuable opportunity. Companies further report that 81% of opportunities can be realised within 3 years, implying that many benefits can be achieved in the short term.

Despite these significant financial opportunities, there is a need for companies to strengthen their efforts, particularly in target setting and engagement with their value chain.

Overall, the percentage of companies setting water targets and/or goals has decreased slightly from 91% in 2017 to 89% in 2018. While companies may be increasingly motivated by water stewardship, only 20% of responding companies have set Water Management Area (WMA) specific targets and/or goals. In addition, only 4% of responding companies have set site/facility specific targets and/or goals.

In 2018, a worrying 37% of companies do not engage on water with their supply chain, and 50% of companies do not engage with their value chain partners. Companies that set performance standards for their suppliers is also down from 40% in 2017 to 30% in 2018.

There is a need for companies to recognise the systemic nature of water risk and to respond accordingly. Water-related challenges cannot be addressed purely at the operational level, nor can they be addressed by one high-performing company when its peers are not pulling their weight. Achieving water security requires concerted action in collaboration with suppliers, customers, municipal authorities and surrounding communities.

Finally, certain operational improvements are also required. Only 39% of companies measure and monitor recycling/reuse at all sites. 16% of companies that identify recycled/reused water as relevant do not measure and monitor this aspect. A further 14% of companies that identify discharge

Given declining water quality in South Africa and our status as semi-arid, water scarce country, companies must ensure that their own operations are exemplars of water and wastewater monitoring and management.

quality as relevant do not measure and monitor this aspect. Given declining water quality in South Africa and our status as a semi-arid, water scarce country, companies must ensure that their own operations are exemplars of water and wastewater monitoring and management.

Conclusion

The South African water sector is at a crossroads. Our key challenges relating to deteriorating infrastructure, declining water quality and poor municipal water governance can only be addressed through a collaborative effort involving the public sector, private sector and civil society.

Through CDP, South African companies have demonstrated that their internal governance of water is strong, and that the financial value of water risk and opportunity is significant. We must convert these strong governance frameworks into the action that leads to value creation for companies. This action will reduce costs and support the development of new products and services. It will also build resilience to water-related shocks and strengthen relationships with suppliers, customers, regulators and investors. South African companies can and must take this next important step.

Important Notice

The contents of this report may be used by anyone providing acknowledgement is given to CDP Worldwide (CDP). This does not represent a license to repackage or resell any of the data reported to CDP or the contributing authors and presented in this report. If you intend to repackage or resell any of the contents of this report, you need to obtain express permission from CDP before doing so.

The NBI and CDP have prepared the data and analysis in this report based on responses to the CDP 2018 information request. No representation or warranty (express or implied) is given by the NBI or CDP as to the accuracy or completeness of the information and opinions contained in this report. You should not act upon the information contained in this publication without obtaining specific professional advice. To the extent permitted by law, the NBI and CDP do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this report or for any decision based on it. All information and views expressed herein by CDP and/or the NBI is based on their judgment at the time of this report and are subject to change without notice due to economic, political, industry and firm-specific factors.

The NBI and CDP, their affiliated member firms or companies, or their respective shareholders, members, partners, principals, directors, officers and/or employees, may have a position in the securities of the companies discussed herein. The securities of the companies mentioned in this document may not be eligible for sale in some states or countries, nor suitable for all types of investors; their value and the income they produce may fluctuate and/or be adversely affected by exchange rates.

'CDP Worldwide' and 'CDP' refer to CDP Worldwide, a registered charity number 1122330 and a company limited by guarantee, registered in England number 05013650.

© 2018 CDP Worldwide. All rights reserved.

This South African report is written by the NBI. We once again thank ADEC Innovations (formerly FirstCarbon Solutions), CDP's global scoring partner, for their support. Additional analytic support was provided by Change Pathways.