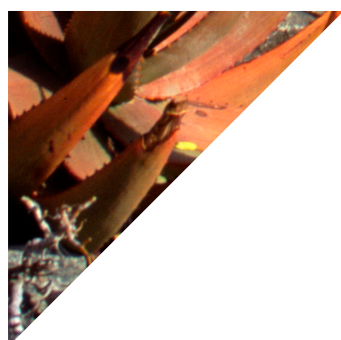


CDP South Africa Water 2017

Executive Summary

Written on behalf of 639 investors with US\$69 trillion in assets



Executive Summary

Involvement in the CDP water programme is helping South African businesses understand their water risk, drive performance and make the necessary shifts to achieve a more water resilient future.

Introduction

The significant water shortages in the Western Cape provide a stark reminder that water is central to economic development and business continuity in South Africa. Faced with the worst drought in at least 100 years, and with aggregate provincial dam levels at roughly 35% going into the dry summer, major towns in the Western Cape are embarking on unprecedented measures to avoid taps running dry. If this recent experience is anything to go by, we need to do considerably more to ensure our water security.

Companies have made great strides in improving their energy performance, adopting renewable energy and becoming proficient in the terminology of climate change. Given that the risks and immediate impacts in water are far greater and represent the frontline of climate change adaptation, an even stronger response is required in water.

South Africa is arguably facing a perfect (dust) storm on water issues: a growing population with growing water needs (increasing demand); the prospect of more frequent drought and weather variability (increasing physical risk); the poor performance of many water service authorities (institutional risks); and an associated culture of indebtedness and non-payment (investment risks). Addressing these challenges will take concerted effort by a range of stakeholders.

While it is essential that companies get their own houses in order by embracing water efficiency, conservation and reuse, it is also important to look to the implementation of localised solutions to local water challenges in collaboration with other societal partners. South Africa has many excellent examples of water stewardship practice, including collaboration with civil society and local authorities. These efforts must continue and be strengthened over time.

Involvement in the CDP water programme is helping South African businesses understand their water risk, drive performance and make the necessary shifts to achieve a more water resilient future. The significant strides of responding South African companies provide ample evidence that a process of maturity is underway within the CDP water community. This progress must be built upon and expanded to a wide group of companies to achieve a more resilient society.

2017 has been yet another excellent year for CDP water in South Africa, as we now have 9 companies on the global water A list (up from 4 companies in 2016). In fact the number of South African A list companies has doubled each year since 2015. This year's A-listers are African Rainbow Minerals, Harmony Gold Mining Company, Kumba Iron Ore, Mediclinic International, Mondi, Omnia, Royal Bafokeng Platinum, Tongaat Hulett and Woolworths. We particularly recognise Harmony Gold Mining Company and Kumba Iron Ore, who have featured annually on the global water A list since water scoring commenced three years ago.

The sampling context

2017 marks the 8th consecutive year in which the National Business Initiative has implemented CDP water in South Africa in partnership with CDP. In 2017 the water questionnaire was sent on behalf of 639 investors with over US\$69 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 those sectors that have the greatest impact on, or that are significantly impacted by, water resources. Applying this methodology, 66 South African companies received the water information request in 2017 and 41 of these companies responded.

Top Performers in the Water A List

Company	2017 Performance	2016 Performance	2017 CDP Climate Change Performance
African Rainbow Minerals	Leadership (A)	Management (B)	B
Harmony Gold Mining Co Ltd	Leadership (A)	Leadership (A)	A
Kumba Iron Ore	Leadership (A)	Leadership (A)	A-
Mediclinic International	Leadership (A)	Management (B)	A-
Mondi PLC	Leadership (A)	Management (B)	A-
Omnia Holdings Ltd	Leadership (A)	Leadership (A-)	B
Royal Bafokeng Platinum Ltd	Leadership (A)	Leadership (A)	B
Tongaat Hulett Ltd	Leadership (A)	Leadership (A-)	B
Woolworths Holdings Ltd	Leadership (A)	Leadership (A-)	B

AQ – Answered questionnaire

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

AQ (SA) – Answered questionnaire via parent company

AQ (L) – Answered questionnaire after submission deadline

DP – Declined to participate

NR – No response

Leadership: A / A-

Management: B / B-

Awareness: C / C-

Disclosure: D / D-

Failure to disclose: F*

Responses to CDP water (2017, 2016, 2015, 2014) and CDP climate change 2017

Company	Sector	2017 CDP Water Score	2016 CDP Water Score	2015 CDP Response Status	2014 CDP Response Status	2017 CDP Climate Change Score
AECI Ltd Ord	Energy & Materials	Management (B)	Management (B)	AQ	AQ	B
African Rainbow Minerals	Energy & Materials	Leadership (A)	Management (B)	DP	DP	B
Allied Electronics Corporation Ltd (Altron)	Industrials	Management (B-)	Management (B-)	-	-	C
Anglo American	Energy & Materials	Leadership (A-)	Leadership (A-)	AQ	AQ	A-
Anglo American Platinum	Energy & Materials	Leadership (A-)	Leadership (A)	AQ	AQ	A-
AngloGold Ashanti	Energy & Materials	Management (B)	Management (B)	AQ	AQ	B
Arcelor Mittal South Africa Ltd	Energy & Materials	Failure to Disclose (F)	-	-	-	C
Aspen Pharmacare Holdings	Health Care	Management (B)	Management (B)	AQ	AQ	B
Assore Ltd	Energy & Materials	Failure to Disclose (F)	Failure to Disclose (F)	DP	-	AQ (NP)
Attacq Ltd	Financials	Failure to Disclose (F)	Failure to Disclose (F)	DP	-	B
Aveng Ltd	Industrials	AQ (NP)	AQ (NP)	AQ (NP)	AQ (NP)	C
Avi Ltd	Consumer Staples	Failure to Disclose (F)	Failure to Disclose (F)	DP	-	F
Barloworld	Industrials	Management (B)	Management (B)	AQ	AQ	C
BHP Billiton	Energy & Materials	Leadership (A-)	Leadership (A-)	AQ	AQ	B
Bid Corporation Ltd	Consumer Staples	Failure to Disclose (F)	-	-	-	F
Bidvest Group Ltd	Industrials	Failure to Disclose (F)	Failure to Disclose (F)	AQ	-	F
British American Tobacco	Consumer Staples	Leadership (A-)	Management (B)	AQ	AQ	A-
Capital & Counties Properties	Financials	Failure to Disclose (F)	Failure to Disclose (F)	DP	-	A
Clicks Group Ltd	Consumer Staples	AQ (NP)	Failure to Disclose (F)	DP	DP	A-
Compagnie Financière Richemont SA	Consumer Discretionary	Failure to Disclose (F)	Failure to Disclose (F)	DP	-	AQ
Distell Group Ltd	Consumer Staples	Leadership (A-)	Management (B)	-	-	A-
Exxaro Resources Ltd	Energy & Materials	Management (B)	Management (B)	AQ	AQ	B
Famous Brands Limited	Consumer Discretionary	Failure to Disclose (F)	Failure to Disclose (F)	DP	-	DP
Foschini Group Ltd	Consumer Discretionary	Failure to Disclose (F)	Failure to Disclose (F)	DP	-	C
Glencore plc	Energy & Materials	AQ (NP)	-	-	-	B
Gold Fields Limited	Energy & Materials	Leadership (A-)	Leadership (A-)	AQ	AQ	A-
Harmony Gold Mining Co Ltd	Energy & Materials	Leadership (A)	Leadership (A)	-	-	A
Hosken Consolidated Investments	Industrials	Awareness (C)	Management (B)	AQ	DP	B
Illovo Sugar Ltd	Consumer Staples	AQ (SA)	Management (B)	AQ	-	AQ (SA)
Impala Platinum Holdings	Energy & Materials	Leadership (A-)	Management (B)	AQ	AQ	B
Imperial Holdings	Consumer Discretionary	Failure to Disclose (F)	Failure to Disclose (F)	DP	-	C
Italtile Ltd	Consumer Discretionary	Failure to Disclose (F)	Failure to Disclose (F)	-	-	F
KAP Industrial Holdings Ltd	Industrials	Failure to Disclose (F)	Failure to Disclose (F)	DP	-	F
Kumba Iron Ore	Energy & Materials	Leadership (A)	Leadership (A)	AQ	AQ	A-
Life Healthcare Group Holdings Ltd	Health Care	Disclosure (D)	Failure to Disclose (F)	DP	DP	C
Lonmin	Energy & Materials	Management (B)	Management (B)	AQ	-	B
Massmart Holdings Ltd	Consumer Staples	Failure to Disclose (F)	Failure to Disclose (F)	DP	-	A-
Mediclinic International	Health Care	Leadership (A)	Management (B)	AQ	AQ	A-
Mondi Limited	Energy & Materials	AQ (SA)	Not Scored	AQ (SA)	-	AQ (SA)
Mondi PLC	Energy & Materials	Leadership (A)	Management (B)	AQ	AQ	A-
Mr Price Group Ltd	Consumer Discretionary	Failure to Disclose (F)	Failure to Disclose (F)	DP	-	DP
Murray & Roberts Holdings Limited	Industrials	Leadership (A-)	Not Scored	-	-	B
Nampak Ltd	Energy & Materials	Awareness (C)	Failure to Disclose (F)	DP	DP	A-
Netcare Limited	Health Care	Management (B)	Management (B)	AQ	AQ	B
New Europe Property Investments plc	Financials	Failure to Disclose (F)	Failure to Disclose (F)	NR	-	NR
Norham Platinum Ltd	Energy & Materials	Leadership (A-)	Management (B)	AQ	AQ	C
Oceana	Consumer Staples	Awareness (C)	Failure to Disclose (F)	DP	DP	B
Omnia Holdings Ltd	Energy & Materials	Leadership (A)	Leadership (A-)	DP	DP	B
Pick n Pay Stores Ltd	Consumer Staples	AQ (NP)	AQ (NP)	AQ (NP)	AQ (NP)	B
Pioneer Foods	Consumer Staples	AQ (NP)	AQ (NP)	AQ	-	AQ (NP)
RCL Foods Ltd	Consumer Staples	AQ (L)	Failure to Disclose (F)	AQ	DP	A-
Redefine Properties Ltd	Financials	Management (B)	Not Scored	-	-	B
Reunert	Industrials	Management (B-)	Management (B-)	AQ	AQ	C
Royal Bafokeng Platinum Ltd	Energy & Materials	Leadership (A)	Leadership (A)	AQ	AQ	B
Sanlam	Financials	Management (B)	Management (B-)	AQ	AQ	B
Sappi	Energy & Materials	Failure to Disclose (F)	-	-	-	B-
Sasol Limited	Energy & Materials	Management (B)	Management (B)	AQ	AQ	B
Scaw South Africa (pty) Ltd	Energy & Materials	Failure to Disclose (F)	-	-	-	AQ (NP)
Shoprite Holdings Ltd	Consumer Staples	Failure to Disclose (F)	Failure to Disclose (F)	DP	-	AQ (NP)
Sibanye Gold Ltd	Energy & Materials	Failure to Disclose (F)	Failure to Disclose (F)	NR	-	A-
South African Post Office	Industrials	Disclosure (D)	-	-	-	D
South32	Energy & Materials	Management (B)	-	-	-	-
Standard Bank Group	Financials	Failure to Disclose (F)	-	-	-	B
Steinhoff International Holdings	Consumer Discretionary	Failure to Disclose (F)	Failure to Disclose (F)	DP	-	F
Sun International Ltd	Consumer Discretionary	Management (B)	Management (B-)	AQ (NP)	-	C
Super Group	Consumer Discretionary	Failure to Disclose (F)	Failure to Disclose (F)	DP	-	NR
The Spar Group Ltd	Consumer Staples	Management (B)	Management (B)	DP	DP	B
Tiger Brands	Consumer Staples	Management (B)	Management (B)	AQ	AQ	C
Tongaat Hulett Ltd	Consumer Staples	Leadership (A)	Leadership (A-)	AQ	AQ	B
Transnet	Industrials	Management (B)	-	-	-	B
Truworths International	Consumer Discretionary	Failure to Disclose (F)	Failure to Disclose (F)	DP	-	B
Tsogo Sun Holdings Ltd	Consumer Discretionary	AQ (SA)	Not scored	AQ (SA)	-	AQ (SA)
Woolworths Holdings Ltd	Consumer Discretionary	Leadership (A)	Leadership (A-)	AQ	-	B

Key findings

In 2017 drought features as the number one reported risk by companies, in line with previous reporting years. However, as outlined in previous CDP water reports, it is important to look beyond the current drought period to consider the role of the overall water system in supporting water resilience.

This summary report is complemented by a set of detailed infographics (<http://www.nbi.org.za/focus-areas/environmental-sustainability/water/cdp-water/>) and the CDP online platform (<https://www.cdp.net/en/water/global-water-results>), both of which enable interaction with the data to better understand corporate water management. Individual responses and specific company actions can be reviewed at: <https://www.cdp.net/en/responses>.

It should be noted that in 2017 self-selected companies (those that respond voluntarily) are included in the formal South African analysis for the first time. Any comparison with previous years should give adequate consideration to this sampling change. In addition, it should be borne in mind that CDP water is comprised of a relatively small sample and the impact of companies entering and exiting the sample is significant. In 2017 seven 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.

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.

Despite an increase in the number of responding companies, the response rate does not reflect the level of water risk

It is encouraging to see that the CDP water response rate has improved from 55% in 2016 to 66% in 2017¹. This represents an important step forward, but remains well below the CDP climate change response rate of 74%. Given that water represents a more immediate risk than climate change, and indeed given the increased prominence of physical risk within CDP climate change responses, we think all companies would benefit from responding.

At just 25%, the response rate in the Consumer Discretionary sector is particularly worrisome. Water is used in the direct operations of many companies in this sector and is often critical in their supply chains. Industries in this sector includes Textiles & Apparel, an industry that is undertaking a variety of important water initiatives at a global scale.

Even Consumer Staples, a sector that includes food & beverages and was associated with the highest number of reported impacts in 2016, records a moderate 67% response rate. These lower response rates could be explained by sophisticated company water reporting via other channels. However, based on analysis conducted in previous years, the evidence for such an argument is limited.

Given the nature of water risk in South Africa, it is imperative that corporate transparency on water issues continues to improve. Responding to the CDP water questionnaire allows companies to identify their water risk exposure and implement appropriate governance and management actions.

Responding to CDP helps companies develop maturity on water issues, from the starting point of improved water governance through to taking appropriate action

Despite a number of new entrants, overall performance scores remain strong in 2017, with almost half of responding companies now in the Leadership Band. In total 44% of responding companies received an A or A- score in 2017, up from 32% in 2016. This result is encouraging, as it reflects a growing water maturity amongst leading South African companies, and offers the opportunity for peer learning and collaboration amongst water leaders.

While there are more companies in the C and D bands in 2017, this is largely a result of new entrants². The general trend is for performance scores for responding companies to increase over time. For example, of the 30 companies scored in both 2016 and 2017, 18 companies scored the same as the previous year, 8 improved by one scoring band and 3 companies improved by two scoring bands. Only 1 company experienced a decline in performance relative to their 2016 score. These results strongly suggest that company involvement in CDP water supports their improved understanding, oversight and management of water.

Company water governance is also strong and is largely consistent with previous years. As of 2017, 93% of responding companies have Board oversight for water (2016: 97%), 91% of companies have water management integrated into business strategy (2016: 90%) and 91% have a water policy in place that sets out goals and guidelines for action (2016: 90%). It is arguable that this sound governance of water forms the basis for improved water management, as reflected in the improved performance scores achieved over time by responding companies.

¹ This figure is comprised of 48 responding companies out of a sample of 73. If self-selected companies are excluded the overall response rate is still 7% higher than in 2016.

² All responding companies in the Disclosure Band (D or D-) in 2017 are new entrants, as are the majority of those in the Awareness Band (C or C-).

Self-selected respondents to CDP water

Company	Sector	2017 CDP Water Score	2016 CDP Water Score	2015 CDP Response Status	2014 CDP Response Status	2017 CDP Climate Change Score
Allied Electronics Corporation Ltd (Altron)	Industrials	Management (B-)	Management (B-)	-	-	C
Aveng Ltd	Industrials	AQ (NP)	AQ (NP)	AQ (NP)	AQ (NP)	C
Lonmin	Energy & Materials	Management (B)	Management (B)	AQ	-	B
Murray & Roberts Holdings Limited	Industrials	Leadership (A-)	Not Scored	-	-	B
Redefine Properties Ltd	Financials	Management (B)	Not Scored	-	-	B
Royal Bafokeng Platinum Ltd	Energy & Materials	Leadership (A)	Leadership (A)	AQ	AQ	B
Sanlam	Financials	Management (B)	Management (B-)	AQ	AQ	B
South African Post Office	Industrials	Disclosure (D)	-	-	-	D
Sun International Ltd	Consumer Discretionary	Management (B)	Management (B-)	AQ (NP)	-	C
Transnet	Industrials	Management (B)	-	-	-	B

AQ – Answered questionnaire

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

Goal setting has also improved, with 37 companies putting in place 87 water-related goals in 2017, compared with 59 water goals set by 27 companies the year before. Lastly, there has been a slight increase in the percentage of companies completing a company-wide risk assessment, a key component in drawing water awareness into corporate governance structures. In 2017 89% of companies have completed a company-wide risk assessment, up from 87% in 2016.

The national water risk environment demands a systemic response

In 2017, drought features as the number one reported risk by companies, in line with previous reporting years. However, as outlined in previous CDP water reports, it is important to look beyond the current drought period to consider the role of the overall water system in supporting water resilience.

Effective water planning, infrastructure maintenance, demand management and investment represent key ways to ameliorate the effects of low rainfall and flooding. While by no means easy and straightforward, these are areas that companies can influence, including in the short-term. In other words, infrastructure and institutional challenges represent the manageable risk – by solving for these underlying vulnerabilities, many of the major effects of weather extremes can be mitigated.

By way of example, South Africa's total water losses within municipalities have now increased to an approximate average of 36%³. This implies that over a third of municipal reticulated water never reaches its final destination, reflecting an opportunity cost of over 1.4 billion m³ of water and R7bn per

annum. Companies can minimise their water supply disruption risk by pooling their expertise, investment and technology with government and other stakeholders to solve problems like these.

The number of companies identifying direct operational risks remains very high in South Africa at 93% (2016: 94%). The term operational in this sentence is misleading, however, as most operational risks have their origins in the wider water system. In contrast, only 58% of companies identify risk outside their direct operations. The percentage of all identified water-related risks with high impact and high likelihood has increased from 12% in 2016 to 16% in 2017.

Water risk must be viewed holistically and in a systemic manner. Unfortunately, with a few important exceptions, the overriding response of companies is not systemic in nature. Policy maker engagement has declined sharply from 40% in 2015 to 20% in 2017. This is despite the fact that certain regulatory risks are considered to have a high likelihood of occurrence and a high impact. In 2017 only 27% of companies conducted water risk assessments at the river basin level, down from 29% in 2016. The percentage of companies that factor suppliers into their risk assessments has only increased marginally from 53% in 2016 to 57% in 2017, while requirements for supply chain water reporting remain low at 36% (2016: 39%). In addition, only 51% of company water goals relate to broader catchment management and water stewardship.

While company operational measures are important, the resolution of both drought conditions and weather related uncertainty ultimately resides in a combination of catchment level action, improved water governance and effective infrastructure. Waiting for an external trigger before concerted external engagement occurs is problematic, given the often-increased difficulty in becoming self-sufficient in water and the decentralised nature of water service provision in South Africa. Relationships to solve localised water challenges cannot be forged overnight and companies are likely to experience plant stoppages and shutdowns well before a resolution is found. In short, collaboration to solve key water challenges has never been more urgent.

In addition to a systemic response, resilience requires the implementation of effective operational measures

As South Africa approaches its forecasted 2030 supply deficit, operational measures of all kinds will play a role in addressing water scarcity and minimising the water investment required. However, two important caveats are needed in this regard.

3 DWS (2017) *Benchmarking of Water Loss, Water Use Efficiency and Non-Revenue Water in South African Municipalities (2004/05 to 2005/16)*

In water, context is king. Companies that work towards the setting of ambitious context-based water targets will be able to strengthen ties with communities, customers and governmental authorities.

Firstly, from a risk and availability perspective, water withdrawals and water consumption are not equal. Reducing water withdrawals and use in water-stressed areas should be prioritised by companies. While it may be preferable to reduce usage in areas of highest cost, companies should think carefully about the costs of inaction in water scarce areas, and what the cost of water disruption is for their operations in stressed catchments.

Secondly, operational measures cannot be implemented at the expense of collaboration and partnership. The ‘inconvenient truth’ with respect to water is that both operational and collaborative action is needed. Operational measures are important to demonstrate a leadership role, reduce costs and support company credibility in engagement with external stakeholders. However, engagement with other water users, surrounding communities, national planning authorities, supply chains and relevant municipalities is a core component in addressing both short and long term water risks. Companies should therefore not be deterred from engaging with other stakeholders even as they work to ensure that their own house is in order.

Fortunately companies do see opportunities for both improved water efficiency and associated cost savings in their operations. Of the major water opportunities identified by responding companies, 35% relate to improved water efficiency and a further 28% to realizable cost savings. Some of these opportunities, in particular where they relate to the introduction of water reuse systems, on-site storage or the use of available groundwater, can also help to reduce vulnerability to water supply disruptions.

Context is king

In water, context is king. Context drives the severity, type and location of water risk, and the required response. It is therefore critical that companies think carefully about the different hydrological conditions that persist in their different areas of operation, what water related standards, rationing and licensing conditions are in place or envisaged, and the water related needs and practices of surrounding communities.

These factors form the basis for sound water management in a manner that supports localised water security, legal compliance and social license to operate. These major contextual factors also form the basis for current international efforts focused on the implementation of Context-Based Water Targets by companies⁴. These context-based targets need not be public facing, but could serve to guide internal target setting and thinking.

While group level targets do have a role to play, they do not provide the sophistication of water targets that prioritise and understand high value operations in high risk catchments, especially those associated with difficult licensing requirements and competing stakeholder expectations. Such overarching targets will also in all likelihood lack the level of ambition required in high risk areas to address actual water risks. In simple terms, targets need to be appropriate to their context.

In 2017, only 78% of companies have set water targets, down from 81% in 2016. Target setting is essential to improved water performance and achieving water security. A strengthened understanding of water risk is also needed before locally relevant targets can be set. Only 67% of companies factor in river basin management plans and only 73% give cognisance to current stakeholder conflicts over water at a local level, when assessing their risks. Worryingly, the latter implies that over a quarter of company risk assessments have not factored in existing conflicts over water in the areas where they operate.

Companies are therefore advised to broaden their risk assessments, strengthen engagement with surrounding communities and local water institutions, and work towards the setting of ambitious targets embedded in the context in which they operate. While this process will require concerted effort, the risks of inaction are great, while the opportunities to strengthen ties with communities, customers and governmental authorities are considerable.

Conclusion

There is discussion in certain parts of the country of a ‘new normal’ with respect to weather, climate and water availability. Whether or not we are seeing visible impacts of a changing climate is a moot point, and is arguably not the central issue. Ensuring South Africa’s water resilience, whether in relation to current or future weather conditions, will largely require the same actions to be undertaken.

Effective system level planning, water conservation, water reuse and infrastructure investment have allowed the most arid areas of the globe to be water secure. By supporting these actions at an operational, local and national level, South African companies have the opportunity to play a leading role in a water secure future. This is an opportunity worth harnessing.

4 Further detail on the rationale for companies setting context-based water targets can be accessed here: <https://www.ceowatermandate.org/files/context-based-targets.pdf>