a world class African city

City Power Johannesburg (Pty) Ltd

Registration No: 2000/030051/07
(In terms of Section 21 of the Companies Act
Municipal Finance Management Act, 2003 and Section 46 of the Municipal Systems Act, 2000)

Annexure A

Notes to the Annual Financial Statements for the year ended June 30, 2010

The Auditor-General: Gauteng
Issued August 31, 2010

City Power Johannesburg (Proprietary) Limited
(Registration number 2000/030051/07)
Trading as City Power
Annual Financial Statements for the year ended June 30, 2010

General Information

COUNTRY OF INCORPORATION AND DOMICILE	South Africa
NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES	The principal activity of the company is the distribution of electricity to industries, businesses and households in Johannesburg.
DIRECTORS	Ms KPM Simelane - Chairperson Ms DLT Dondur Prof T Marwala Mr. SM Zimu - Executive Mr. BM Hawksworth Adv. K-D C O Garlipp Mr. JJH Mateya Mr. G Badela Ms J Kumbirai Dr Y Ndema
REGISTERED OFFICE	40 Heronmere Road Reuven Johannesburg Gauteng 2016
BUSINESS ADDRESS	40 Heronmere Road Reuven Johannesburg Gauteng 2016
POSTAL ADDRESS	PO Box 38766 Booysens Gauteng 2016
CONTROLLING ENTITY	The City of Johannesburg Metropolitan Municipality incorporated in South Africa
ECONOMIC ENTITY	The City of Johannesburg Metropolitan Municipality
BANKERS	ABSA Bank Limited
AUDITORS	The Auditor-General: Gauteng
SECRETARY	Mr. M Smith
COMPANY REGISTRATION NUMBER	2000/030051/07
ATTORNEYS	Whalley Van Der Lith Incorporated SR Mabuza Attorneys Moloto Stofile Incorporated Mokhatla Attorneys

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The reports and statements set out below comprise the notes to the annual financial statements presented to the provincial legislature:

ABBREVIATIONS

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009

2. STATEMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

The annual financial statements have been prepared in accordance with South African Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year, at the date of authorization of these annual financial statements, the following Standards and Interpretations were in issue but not yet effective:

- GRAP 18 Segment Reporting
- GRAP 21 Impairment of non-Cash Generating Assets
- GRAP 23 Revenue from non-Exchange Transactions (Taxes and Transfers)
- GRAP 24 Presentation of Budget Information in Financial Statements
- GRAP 25 Employee benefits
- GRAP 26 Impairment of Cash-Generating Assets
- GRAP 103 Heritage Assets
- GRAP 104 Financial Instruments

3. INVENTORIES

Consumable stores	73,199	85,949
	73,199	85,949
Inventories (write-downs)	(2,429)	(4,544)
	70,770	**81,405**

4. LOANS TO/FROM SHAREHOLDERS

City of Johannesburg Metropolitan Municipality - Conduit Mirror loans	(128,738)	(232,674)
Terms and conditions		
City of Johannesburg Metropolitan Municipality - Capex Loans	(2,445,677)	(2,311,911)
Terms and conditions		
City of Johannesburg Metropolitan Municipality - Sweeping account	1,242,378	685,178
Terms and conditions		
City of Johannesburg Metropolitan Municipality - Subordinated loans	(624,793)	(624,793)
Terms and conditions		
	(1,956,830)	**(2,484,200)**

Conduit Mirror loan

The original loan is unsecured and interest is payable at 14.5% per annum and the loan is repayable in 10 years. All subsequent loans are unsecured and interest is payable at the borrowing rate of the company and these loans are also repayable over 10 years.

Capex loans

Capex loan granted in 2002: The original loan is unsecured and the loan is repayable in equal quarterly installments over the 10 year loan term. The loan bears interest at 14.02% which is compounded monthly.

Capex loan granted in 2003: The original loan is unsecured and the loan is repayable in equal quarterly installments over the 10 year loan term. The loan bears interest at 14.15% which is compounded monthly.

Capex loan granted in 2004: The original loan is unsecured and the loan is repayable in equal quarterly installments over the 10 year loan term. The loan bears interest at 12.42% which is compounded monthly.

Capex loan granted in 2005: The original loan is unsecured and the loan is repayable in equal quarterly installments over the 10 year loan term. The loan bears interest at 10.20% which is compounded monthly.

Capex loan granted in 2006: The original loan is unsecured and the loan is repayable in equal quarterly installments over the 10 year loan term. The loan bears interest at 10.20% which is compounded monthly.

Capex loan granted in 2007: The original loan is unsecured and the loan is repayable in equal quarterly installments over the 10 year loan term. The loan bears interest at 9.00% which is compounded monthly.

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009

4. LOANS TO/FROM SHAREHOLDERS (continued)

Capex loan granted in 2008: The original loan is unsecured and the loan is repayable in equal quarterly installments over the 10 year loan term. The loan bears interest at 9.00% which is compounded monthly.

Capex loan granted in 2009: The original loan is unsecured and the loan is repayable in equal quarterly installments over the 10 year loan term. The loan bears interest at 12.21% which is compounded monthly
Capex loan granted in 2010: The original loan is unsecured and the loan is repayable in equal quarterly installments over the 10 year loan term. The loan bears interest at 10.9% which is compounded monthly

Shareholder's loans

The loan is unsecured and interest is payable at 17.5% per annum. The shareholder has agreed to subordinate as much of its loan account as necessary as would enable the claims of other payable to be paid in full.
Credit quality of loans to shareholders.

Current assets	1,242,378	685,178
Non-current liabilities	(2,738,914)	(2,783,505)
Current liabilities	(460,294)	(385,873)
	(1,956,830)	**(2,484,200)**

Credit quality of loans to shareholders

The credit quality of loans to shareholders that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Loans to shareholders impaired

As of June 30, 2010, no loans to shareholders were impaired and provided for.

The amount of the provision was R Nil as of June 30, 2010 (2009: R Nil).

Conduit mirror loans

Loans outstanding at the end of year	(128,738)	(232,674)
Less amount payable within 12 months	123,521	103,935
Long term portion of loans	**(5,217)**	**(128,739)**

Capex loans

Loans outstanding at the end of year	(2,445,677)	(2,311,911)
Less amount payable within 12 months	336,773	281,938
	(2,108,904)	**(2,029,973)**

Sweeping account

Loans at beginning of the year	685,178	754,459
Movement during the year	557,200	(69,281)
	1,242,378	**685,178**

Subordinate loans movement for the year

Loans at beginning of the year	(624,793)	(624,793)
Interest charged	109,616	109,616
Interest paid	(109,616)	(109,616)

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009

4. LOANS TO/FROM SHAREHOLDERS (continued)

	(624,793)	**(624,793)**

5. TRADE AND OTHER RECEIVABLES

Prepayments made in advance	-	554
Other deposits	68	68
Sundry debtor	6,487	4,596
Rental income from straight lining of leases	-	167
Related party debtors	224,868	102,664
	231,423	**108,049**

6. RETIREMENT BENEFITS

6.1Defined benefit plan

Post-retirement liability		
Post-Retirement Medical Aid Plan	(12,835)	(12,214)
Post-Retirement gratuity plan	(59,299)	(56,224)
	(72,134)	**(68,438)**

6.1.1Post retirement medical aid plan

City Power Johannesburg (Proprietary) Limited has obligations to subsidize medical aid contributions in respect of certain qualifying staff and pensioners and their surviving spouses. Only pensioners and employees who were aged 50 or older and were members of LA Health and Munimed are included.
The above liability is unfunded. However, The City of Johannesburg Metropolitan Municipality has undertaken to cover such portion of the liability for the staff of City Power Johannesburg (Proprietary) Limited who are entitled to benefits that relates to their service with the City of Johannesburg Metropolitan Municipality since the company was established.

Movements for the year

Opening balance	(12,214)	(2,939)
Interest paid	(1,026)	(265)
Net actuarial gains or (losses)	332	(9,261)
Past service cost	(45)	(45)
Benefits paid	118	296
	(12,835)	**(12,214)**

Net expenses recognised in the Statement of financial performance

Past service cost	(45)	(45)
Interest cost	(1,026)	(265)
Net actuarial gains or (losses)	332	(9,261)
Balance at end of year	**(739)**	**(9,571)**

Key assumptions used

Assumptions used on last valuation on June 30, 2010.

Discount rates used	9.00 %	8.40 %
Expected rate of return on assets	9.00 %	8.40 %

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009

6. RETIREMENT BENEFITS (continued)

Rate of increase in employer post-retirement medical contribution subsidy payments	7.40 %	6.80 %

6.1.2Post retirement gratuity plan

City Power Johannesburg (Proprietary) Limited provides gratuities on retirement or prior death in respect of certain qualifying employees who have service with the City of Johannesburg Metropolitan Municipality or City Power Johannesburg (Proprietary) Limited when they were not members of one of the retirement funds and who meet certain service requirements in terms of the City of Johannesburg Metropolitan Municipality's conditions of employment. The gratuity amount is based on 1 month's salary per year of non-retirement funding service.
The above liability is unfunded. However, the City of Johannesburg Metropolitan Municipality has undertaken to cover such portion of the liability for the staff of City Power Johannesburg (Proprietary) Limited who are entitled to benefits that relates to their service with the City of Johannesburg Metropolitan Municipality since the company was established.
The plan is a post-retirement gratuity benefit plan.

Movements for the year

Opening balance	(57,224)	(53,989)
Interest cost	(4,447)	(5,129)
Net actuarial gains	5,826	1,894
Benefits paid	(3,454)	-
	(59,299)	**(57,224)**

Net expenses recognised in the Statement of financial performance

Interest cost	(4,447)	(5,129)
Net actuarial gains	5,826	1,894
Total included in employee benefits expense	**1,379**	**(3,235)**

Key assumptions used

Assumptions used on last valuation on June 30, 2010.

Discount rates used	9.00 %	8.40 %
Expected rate of return on assets	9.00 %	8.40 %
Expected increase in salaries	5.90 %	6.80 %

6.2Defined contribution plan

CJMM and its ME's provide post-employment benefits to all their permanent employees through defined contribution funds.

7. CONSUMER DEBTORS

Gross balances		
Electricity	2,561,161	1,785,948
Unearned Interest	9,497	6,977
	2,570,658	**1,792,925**

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009

7. CONSUMER DEBTORS (continued)

Less: Provision for debt impairment		
Electricity	(1,361,850)	(930,988)
Net balance		
Electricity	1,199,311	854,960
Other (specify)	9,497	6,977
	1,208,808	**861,937**
Electricity		
Current (0 - 30 days)	617,056	311,431
31 - 60 days	62,370	42,287
61 - 90 days	32,688	30,042
91 - 120 days	48,536	32,378
121 - 365 days	151,912	148,064
> 365 days	286,749	290,758
	1,199,311	**854,960**
Fair value adjustments		
Current (0 - 30 days)	9,497	6,977
Reconciliation of debt impairment provision		
Balance at beginning of the year	(930,988)	(1,087,014)
Contributions to provision	(426,879)	(282,869)
Debt impairment written off against provision	-	438,895
Bad debts recovered	(3,983)	-
	(1,361,850)	**(930,988)**

8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

Cash on hand	20	21

Cash is reflected at the carrying value which approximates fair value. There is no credit risk attached to the instrument.

The Company has a sweeping arrangement with the City of Johannesburg Metropolitan Municipality whereby all cash is swept on a daily basis to the City of Johannesburg Metropolitan Municipality's bank account. Petty cash is reflected as being on hand. The cash owed to the company by the City of Johannesburg Metropolitan Municipality is reflected as an amount due from the shareholder.

All bank accounts are reflected at zero balance as at 30 June 2010, due to the sweeping arrangement with the City of Johannesburg Metropolitan Municipality.

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009

9. PROPERTY, PLANT AND EQUIPMENT

	2010			2009		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land	3,544	-	3,544	3,544	-	3,544
Buildings	285,217	(138,019)	147,198	280,398	(134,297)	146,101
Leasehold property	-	-	-	3,890	(2,962)	928
Plant and machinery	5,806,233	(620,198)	5,186,035	4,870,041	(489,250)	4,380,791
Furniture and fixtures	47,473	(19,574)	27,899	39,703	(17,097)	22,606
IT equipment	90,928	(34,042)	56,886	45,550	(20,956)	24,594
Capital work in progress	410,136	-	410,136	624,197	-	624,197
Total	**6,643,531**	**(811,833)**	**5,831,698**	**5,867,323**	**(664,562)**	**5,202,761**

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	3,544	-	-	-	-	3,544
Buildings	146,101	-	-	4,819	(3,722)	147,198
Leasehold property	928	-	(928)	-	-	-
Plant and machinery	4,380,791	6,787	(7,425)	970,957	(165,075)	5,186,035
Furniture and fixtures	22,606	157	-	7,613	(2,477)	27,899
IT equipment	24,594	2,609	(12)	42,883	(13,188)	56,886
Capital work in progress	624,197	790,064	-	(1,004,125)	-	410,136
	5,202,761	**799,617**	**(8,365)**	**22,147**	**(184,462)**	**5,831,698**

Reconciliation of property, plant and equipment - 2009

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	3,452	-	-	92	-	3,544
Buildings	121,778	-	-	41,390	(17,067)	146,101
Leasehold property	1,752	217	-	-	(1,041)	928
Plant and machinery	2,391,357	23,543	(22,419)	2,071,888	(83,578)	4,380,791
Furniture and fixtures	9,515	137	-	14,414	(1,460)	22,606
IT equipment	25,786	25	(1)	3,694	(4,910)	24,594
Capital work in progress	1,773,658	1,048,276	-	(2,197,737)	-	624,197
	4,327,298	**1,072,198**	**(22,420)**	**(66,259)**	**(108,056)**	**5,202,761**

Borrowing costs capitalized

	2010	2009
Plant and machinery	19,722	19,477

Capitalization rates used during the year were 10.9% on specific borrowings for capital projects.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipal entity. Refer to note 37

10. INTANGIBLE ASSETS

	2010			2009		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009

10. INTANGIBLE ASSETS (continued)

Additional capacity rights	119,521	(14,672)	104,849	119,521	(10,547)	108,974
Computer software	92,829	(34,328)	58,501	114,976	(26,629)	88,347
Total	**212,350**	**(49,000)**	**163,350**	**234,497**	**(37,176)**	**197,321**

Reconciliation of intangible assets - 2010

	Opening balance	Transfers	Amortisation	Closing balance
Additional capacity rights	108,974	-	(4,125)	104,849
Computer software	88,347	(22,147)	(7,699)	58,501
	197,321	**(22,147)**	**(11,824)**	**163,350**

Reconciliation of intangible assets - 2009

	Opening balance	Additions	Transfers	Amortisation	Closing balance
Additional capacity rights	71,569	39,372	-	(1,967)	108,974
Computer software	28,288	-	66,259	(6,200)	88,347
	99,857	**39,372**	**66,259**	**(8,167)**	**197,321**

11. FINANCIAL ASSETS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

2010

	Loans and receivables	Total
Loans to shareholders	1,242,378	1,242,378
Trade and other receivables	1,273,220	1,273,220
Cash and cash equivalents	20	20
	2,515,618	**2,515,618**

2009

	Loans and receivables	Total
Loans to shareholders	685,178	685,178
Trade and other receivables	969,986	969,986
Cash and cash equivalent	21	21
	1,655,185	**1,655,185**

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009

12. DEFERRED TAX

Deferred tax asset / (liability)

At beginning of the year	-	-
Taxable temporary difference	(728,597)	(517,937)
Utilized assessed loss in the current year	605,843	517,890
Income received in advance	-	47
Other movements	5,547	-
	(117,207)	**-**

Deferred Tax Summary		
Deferred tax assets	-	-
Deferred tax liability	(117,207)	-
	(117,207)	**-**

13. FINANCE LEASE OBLIGATION

Minimum lease payments due		
- within one year	-	772
- in second to fifth year inclusive	-	-
- later than five years	-	-
Present value of minimum lease payments	**-**	**772**

Present value of minimum lease payments due		
- within one year	-	-
- in second to fifth year inclusive	-	772
- later than five years	-	-
	-	**772**

Non-current liabilities	-	-
Current liabilities	-	772
	-	**772**

It is the municipal entity's policy to lease certain property,motor vehicles and equipment under finance leases.

14. TRADE AND OTHER PAYABLES

Trade payables	1,167,211	1,067,477
Retentions	-	1,968
Dsm levy	-	2
Related party creditor	293,233	107,908
Unearned interest on trade payables	4,454	5,952
	1,464,898	**1,183,307**

15. VAT PAYABLE

Value added tax	354,375	232,109

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009

16. PROVISIONS

Reconciliation of provisions - 2010

	Opening Balance	Additions	Utilized during the year	Closing Balance
Bonus Provision	36,261	38,439	(34,327)	40,373

Reconciliation of provisions - 2009

	Opening Balance	Additions	Utilized during the year	Closing Balance
Bonus Provisions	22,000	50,522	(36,261)	36,261

17. CONSUMER DEPOSITS

	2010	2009
Non Current portion of Consumer deposits		
Rates	188,221	172,121

18. SHARE CAPITAL AND SHARE PREMIUM

	2010	2009
Authorized		
10,000 Ordinary shares of R1 each	10	10
Reconciliation of number of shares issued:		
Reported as at beginning of year 1 share	-	-
Issue of shares – ordinary shares	-	-
Reported as at end of year	**-**	**-**
Issued		
Share premium	112,466	112,466

Issued share capital consists of 1 issued share of R1 nominal value

19. SERVICE CHARGES

	2010	2009
Sale of electricity	7,453,301	5,558,105
New service connections	25,781	34,419
Fair valuing of revenue	(41,908)	(47,801)
	7,437,174	**5,544,723**

20. OTHER INCOME

	2010	2009
Sundry income	954	488
Street pole adds	3,749	3,187
Disposal of obsolete materials	8,829	4,725
Cut off fees	41,819	40,076
Moving fees	924	1,033
Meter testing fees	26	11
Meter reading fees	-	6,286
Dsm levy	229,557	205,456
Fair valuing other income	(1,621)	(1,847)
	284,237	**259,415**

Notes to the Annual Financial Statements

21. GENERAL EXPENSES

Figures in Rand thousand	2010	2009
Advertising	15,487	9,156
Assessment rates & municipal charges	10,547	7,383
Auditors remuneration	1,449	2,725
Bank charges	532	634
Cleaning	3,733	276
Commission paid	24,801	22,519
Consulting and professional fees	43,879	24,853
Donations	441	1,088
Entertainment	2,471	4,126
Insurance	33,045	40,038
Conferences and seminars	1,890	3,932
Lease rentals on operating lease	414,176	58,731
Levies	5,106	4,231
Magazines, books and periodicals	128	84
Motor vehicle expenses	24,699	16,184
Fuel and oil	130	(226)
Postage and courier	622	518
Printing and stationery	3,271	3,259
Security (Guarding of municipal property)	34,633	58,313
Software expenses	4,294	6,413
Staff welfare	5,833	7,436
Subscriptions and membership fees	621	323
Telephone and fax	23,513	15,713
Transport and freight	40	349
Training	2,554	4,353
Travel - local	8,552	10,029
Travel - overseas	625	121
Refuse	983	627
Tree pruning	28,154	14,749
Billing and meter reading charges	28,044	31,879
Loss on disposal of assets	8,365	22,416
Cut off fees	35,764	46,826
Material issues	4,823	23,123
Other expenses	907	1,651
Post retirement expenses	24,826	25,817
Hostel fees	31	45
Fair value adjustment	(3,475)	5,148
	795,494	**474,842**

Notes to the Annual Financial Statements

Figures in Rand thousand	Note	2010	2009

22. EMPLOYEE RELATED COSTS

Employee related costs : Salaries and wages		364,137	300,887
Employee related costs : Pension contributions		1,714	1,470
Employee related costs : Gratuities		403	446
Employee related costs : Medical aid contributions		695	936
Actuarial losses		1,638	1,836
Overtime payments		70,708	54,935
Bonus		38,439	50,676
Travel, motor car, accommodation, subsistence and other allowances		-	10
UIF		2,527	2,449
WCA		3,071	2,222
Leave pay provision charge		18,154	7,768
Leave pay		3,313	2,964
Pension cost	6	58,940	51,706
Long-service awards		4,081	3,238
13th Cheque's		10,077	9,630
Acting allowances		18,434	17,703
Car allowance		27,661	26,221
Termination benefits		2,037	1,776
Less: Employee costs capitalised to PPE		(99)	(7)
		625,930	**536,866**

23. ADMINISTRATIVE EXPENDITURE

Administration and management fees - related party	25,998	28,410

24. DEBT IMPAIRMENT

Contributions to bad-debt provision	426,879	282,869

25. INTEREST REVENUE

Interest earned - Bank	39,515	34,982
Interest earned - outstanding debtors	38,614	45,001
Unearned Interest - Fair valuing income	50,437	62,047
	128,566	**142,030**

26. DEPRECIATION AND AMORTISATION

Property, plant and equipment	196,286	116,221

27. FINANCE COSTS

Group companies	387,907	378,687
Capitalised	(19,722)	(19,477)
IAS 39 Interest	25,529	24,860
	393,714	**384,070**

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009

28. TAXATION

Major components of the tax expense

Current		
Local income tax - current period	-	-
Deferred		
Originating and reversing temporary differences	117,207	-

Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

Applicable tax rate	28.00 %	- %
Non-deductible expenditure	28.50 %	- %
Other	(46.02)%	- %
	10.48 %	**- %**

The income tax rate of 28% in 2009 was reduced to 28% in 2010.

29. AUDITORS' REMUNERATION

Fees	1,449	2,418
Adjustment for previous year	-	307
	1,449	**2,725**

30. BULK PURCHASES

Electricity	4,416,241	3,752,533

Included in the bulk purchases is a unaccounted distribution loss of R107 544:(2009: R153 576)

31. CASH GENERATED FROM OPERATIONS

Surplus	1,037,745	432,018
Adjustments for:		
Depreciation and amortisation	196,286	116,221
Interest income	(127,272)	(142,030)
Finance costs	393,714	384,070
Movements in retirement benefit assets and liabilities	3,696	11,510
Movements in provisions	4,112	14,261
Annual charge for deferred tax	117,207	-
Profit on disposal on property, plant and equipment	8,368	22,415
Changes in working capital:		
Inventories	10,635	(53,181)
Trade and other receivables	(713,882)	42,832
Consumer debtors	(313,565)	(55,550)
Trade and other payables	281,590	427,629
VAT	122,266	26,039
	1,020,900	**1,226,234**

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009

32. COMMITMENTS

Commitments in respect of capital expenditure:

Authorised and not yet contracted for		
• Property, plant and equipment	1,069,509	682,418
Authorised and contracted for		
• Property, plant and equipment	12,091	63,224
• Guarantees issued to CDC Globeleq in terms of power purchasing agreement by the City of Johannesburg Metropolitan Municipality on behalf of the company.	252,850	252,850
	264,941	**316,074**
This expenditure will be financed from:		
External Loans	1,334,450	998,492

Operating leases - as lessee

Operating lease payments represent rentals payable by the company for certain of its motor vehicles. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

Minimum lease payments due		
- within one year	409,576	404,542
- in second to fifth year inclusive	1,440,000	1,489,576
- later than five years	1,800,000	2,160,000
	3,649,576	**4,054,118**

33. CONTINGENCIES

Contingent Liabilities

A contractor working for City Power damaged Transnet pipelines whilst drilling underground. The amount of the claim from Transnet is currently unknown

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009

34. RELATED PARTIES

Relationships	
Ultimate controlling entity	The City of Johannesburg Metropolitan Municipality
Controlling entity	The City of Johannesburg Metropolitan Municipality
Other members of the group	City Housing Company (Pty) Ltd
	City of Johannesburg Property Company (Pty) Ltd
	City of Johannesburg Metropolitan Municipality
	City Power Johannesburg (Pty) Ltd
	Johannesburg City Parks
	Johannesburg Development Agency (Pty) Ltd
	Johannesburg Metropolitan Bus Services (Pty) Ltd
	Johannesburg Roads Agency (Pty) Ltd
	Johannesburg Tourism Company
	Johannesburg Water (Pty) Ltd
	Metropolitan Trading Company (Pty) Ltd
	Pikitup Johannesburg (Pty) Ltd
	Roodepoort City Theatre
	The Johannesburg Civic Theatre (Pty) Ltd
	The Johannesburg Fresh Produce Market (Pty) Ltd
	The Johannesburg Zoo
	Fried shelf 128 (Pty) Ltd
	Greater Newtown Development Company (Pty) Ltd
	Constitutional Hill Development Company (Pty) Ltd
	Joshco JV
	Kelvin Power (Pty) Ltd

Related party balances

Amounts included in Loans, Trade and other receivables regarding related parties		
City of Johannesburg Metropolitan Municipality	216,558	98,465
Johannesburg Metropolitan Bus Services (Pty) Ltd	8	10
Pikitup Johannesburg (Pty) Ltd	274	100
City of Johannesburg Property Company (Pty) Ltd	-	32
Johannesburg Water (Pty) Ltd	281	55
The Johannesburg Zoo	5	-
Metropolitan Trading Company (Pty) Ltd	(116)	-
Johannesburg City Parks	1,259	671
Johannesburg Development Agency (Pty) Ltd	35	72
Johannesburg Roads Agency (Pty) Ltd	4,529	3,259
The Johannesburg Fresh Produce Market (Pty) Ltd	2,035	-
	224,868	**102,664**

Amounts included in Loans, Trade and other payables regarding related parties		
City of Johannesburg Metropolitan Municipality	207,803	11,148
Pikitup Johannesburg (Pty) Ltd	-	36
Johannesburg Water (Pty) Ltd	107	132
Johannesburg City Parks	4,916	8,965
Johannesburg Roads Agency (Pty) Ltd	2,419	3,683
Kelvin Power (Pty) Ltd	77,990	83,944
	293,235	**107,908**

Related party transactions

Sales to related parties

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009

34. RELATED PARTIES (continued)

City of Johannesburg Metropolitan Municipality	-	5,057
Johannesburg Metropolitan Bus Services (Pty) Ltd	1,355	1,014
Pikitup Johannesburg (Pty) Ltd	1,465	1,399
Johannesburg Water (Pty) Ltd	54,629	49,799
Johannesburg Zoo	1,308	1,095
Metropolitan Trading Company (Pty) Ltd	2,932	-
Johannesburg Civic Theatre (Pty) Ltd	2,966	2,501
Johannesburg City Parks	2,863	976
Johannesburg Development Agency (Pty) Ltd	343	294
Johannesburg Roads Agency (Pty) Ltd	8,047	-
The Johannesburg Fresh Produce Market (Pty) Ltd	11,490	9,501
	87,398	**71,636**

Purchases from related parties

City of Johannesburg Metropolitan Municipality	-	57,032
Pikitup Johannesburg (Pty) Ltd	-	113
Johannesburg Water (Pty) Ltd	-	1,071
Johannesburg City Parks	28,432	22,560
Johannesburg Roads Agency (Pty) Ltd	-	5,686
	28,432	**86,462**

35. DIRECTORS' EMOLUMENTS

Refer annexure A

36. CHANGE IN ACCOUNTING POLICY

Borrowing costs

The municipal entity adopted GRAP 5 which requires interest costs incurred in the creation of assets to be capitalized to the qualifying asset. The implication of adopting this standard resulted in the restatement of the prior year accumulated surplus by R15,985 (2008) (2009: R19,477) . The Standard has been applied retrospectively

Revenue from non-exchange transactions

Grants received for which all conditions have been met without future obligations have been treated as revenue in line with GRAP 23. The implication of adopting this Standard has resulted in the restatement of the prior year accumulated surplus by R953,361(2008) R198,175 (2009) . The standard has been applied retrospectively

37. RISK MANAGEMENT

Financial risk management

The company has an integrated risk management framework. The company's approach to risk management is based on risk governance structures, risk management policies, risk identification, measurement and reporting. Three types of risks are reported as part of the risk profile, namely, operational, strategic and business continuity risks. Operational risks are events, hazards, variances or opportunities which could influence the achievement of City Power's compliance and operational objectives. For City Power, a strategic risk is a significant unexpected or unpredictable change or outcome beyond what was factored into the organisation's strategy and business model which could have an impact on the group's performance. Business continuity risks are those events, hazards, variances and opportunities which could influence the continuity of City Power. One of the risks for City Power, identified both under the operational and strategic risk categories, is the financial sustainability of City Power. The financial risks, as defined by IFRS 7, and the management thereof, form part of this key risk area. The types of financial risks which are considered to form the major part of the risk profile of City Power are liquidity risk, interest rate risk, credit risk, and price risk.
The Board of Directors (the Board) has delegated the management of enterprise-wide risk to the Audit Committee which operates through various sub-committees. One of the committee's objectives is to ensure that City Power is not

37. RISK MANAGEMENT (continued)

unduly exposed to financial and market risks. The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the company's financial performance. Treasury Risk management is carried out by a central treasury department under policies managed by the City of Johannesburg Metropolitan Municipality. The City treasury identifies, evaluates and hedges financial risks in close co-operation with the company's operating units.

Interest rate risk

The company has no significant interest-bearing assets, apart from the sweeping balance with the City of Johannesburg Metropolitan Municipality.

The company’s interest rate risk arises from long-term borrowings. There are no borrowings at variable rates of interest. Borrowings issued at fixed rates are subject to fair value interest rate risk.

The company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the company calculates the impact on profit/deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

Fair value interest rate risk

Credit risk

Credit risk consists mainly of trade receivables. The company's investments are managed by the City of Johannesburg through various instruments.

Trade receivables comprise a widespread customer base. City Power's exposure to credit risk is influenced by the individual characteristics of each customer. In monitoring credit risk, customers are grouped according to their credit characteristics, including whether they are large or small power users, geographic location, ageing profile, security (deposits and guarantees) held and payment history.

Management evaluates credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Collateral security is obtained from all customers either in the form of cash or demand guarantee.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2010	2009
Trade and other receivables	237,507	108,049
Loans to shareholders	1,242,378	685,178
Consumer debtors	714,350	861,937

Price risk

Price risk is the risk that fair value of future cash-flows of financial instruments will fluctuate because of changes in market prices. Those changes are caused by factors specific to the individual financial instruments for its users, by factors affecting all similar financial instruments in the market. The company's financial instruments are affected by the wholesale price of electricity from Eskom and Kelvin. Kelvin's costs include coal, diesel and oil pass-through costs.

37. RISK MANAGEMENT (continued)

Distribution Losses

The electricity energy losses can be classified into Technical and non-Technical losses, during 2009/10 financial year City Power non-technical losses decreased from 4.328% to 1.33%.
The non-technical losses are attributable mainly to the following:
Theft and bypass of meters
Illegal decalibration of meters
Damaged meters and faulty Voltage and Current transformers
Billing errors
Customers without meters
As part of City Power's strategy to continuously reduce the impact of non-technical losses, the following interventions have been implemented and are being reviewed and improved on an annual basis:
Installation of Automatic Meter Management Systems, for both Large and Small Power users i.e. Automated Metering technologies
Continuous replacement of faulty conventional and pre-paid meters
Automation of process to acquire new customers and change of meters (through the implementation of automated workflow and escalation system)
Utilization of anonymous “Hot line” to report theft, vandalism and tampering
Random and targeted audits are performed, followed by removal of illegal connections and normalization supply.

38. GOING CONCERN

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipal entity to continue as a going concern is dependent on a number of factors. The most significant
of these is that the Directors continue to procure funding for the ongoing operations for the company and that the subordination agreement referred to in these annual financial statements will remain in force for so long as it takes to restore the solvency of the company. Further, the company is largely dependent on the Shareholder's ability to raise funds for investment in assets to replace the ageing infrastructure. Any decrease in this investment will impact negatively both on the performance and the liquidity of the company.

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009

39. IRREGULAR EXPENDITURE

In terms of Section 36(2) of the Supply Chain Management regulations, the total deviations for the year amounted to R27,461,085.00. These deviations are approved by Management and by the Board.

Legal debt collection services, Mdlulwa Nkuhlu Inc, Twala Attorneys and Conveyancers and Nozuko Attorneys, for the extension of period by additional eight months.
The supply and installation of power line modem AMR meters, Rubbytad x-factor AMR (Pty) Ltd to the value of R18,283,595.00.
Labour contracts for the installation and maintenance of Medium and Low Voltage electrical network, by various labour contractors for the extension of period by additional two months.

Provision of physical security on electricity network and protection of ad hoc sites , Protea Coin Security (Pty) Ltd to the value R7,677,490.00.

Provision of physical security personnel for infrastructure and national key point installations, Miliswa Security Consultant (Pty) Ltd , for the extension of period by additional three months.

Provision of physical security for infrastructure and national key point installations, Linda Security CC to the value of R1,500,000.00, and an extension of period by additional three months.

Design, supply , delivery, installation and commissioning of Olivedale 88/11kV outdoor sub-station, Alstom Transmission and Distribution (Pty) Ltd, for extension of period by additional three months.