



**City Power Johannesburg (SOC) Limited
Financial statements
for the year ended June 30, 2013**

The Auditor General - Gauteng

City Power Johannesburg (SOC) Limited

(Registration number 2000/030051/30)

Financial Statements for the year ended June 30, 2013

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 within its area of supply
DIRECTORS	Rev F Chikane- Chairperson Adv G Badela Mr NE Galawe Ms ZD Hlatshwayo Mr NSA Hlubi Mr BK Mofokeng Ms NP Mohlala Dr MS Motebang Dr Y Ndema Mr TI Sithole Mr SG Xulu - Executive
REGISTERED OFFICE	40 Heronmere Road Reuven Johannesburg Gauteng 2016
BUSINESS ADDRESS	40 Heronmere Road Reuven Johannesburg Gauteng 2016
POSTAL ADDRESS	PO Box 38766 Booyens Johannesburg Gauteng 2016
CONTROLLING ENTITY	The City of Johannesburg Metropolitan Municipality incorporated in South Africa
BANKERS	ABSA Limited Standard Bank Limited
AUDITORS	The Auditor General - Gauteng
SECRETARY	Mr M Smith
COMPANY REGISTRATION NUMBER	2000/030051/30
ATTORNEYS	Hewu Attorneys Mabunda and TT Hlapholosa JV Nozuko Nxusani Inc Whalley and van der Lith Inc

City Power Johannesburg (SOC) Limited

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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
NPC	Non Profit Company
SOC	State Owned Company
SAGRAP	South African Standard of Generally Recognised Accounting Practice

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Directors' Responsibilities and Approval

The directors are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the directors to ensure that the financial statements fairly present the state of affairs of the entity as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the entity and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the directors sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the entity and all employees are required to maintain the highest ethical standards in ensuring the entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the entity is on identifying, assessing, managing and monitoring all known forms of risk across the entity. While operating risk cannot be fully eliminated, the entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the entity's cash flow forecast for the year to June 30, 2014 and, in the light of this review and the current financial position, they are satisfied that the entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

The board of directors is primarily responsible for the financial affairs of City Power (SOC) Ltd (herein referred to as the municipal entity).

The external auditors are responsible for independently reviewing and reporting on the municipal entity's annual financial statements.

The financial statements set out on pages 4 to 67, which have been prepared on the going concern basis, were approved by the board of directors on August 30, 2013.



Chairperson of the Board

City Power Johannesburg (SOC) Limited

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Financial Statements for the year ended June 30, 2013

Directors' Report

The directors have pleasure in submitting their report, including the unaudited annual financial statements for the year ended June 30, 2013.

1. INCORPORATION

The municipal entity was incorporated on 30 November 2000 and obtained its certificate to commence business on 1 January 2001.

The Companies Act, 2008 (Act 71 of 2008) became effective on 1 May 2011 and applies to annual financial periods beginning after 1 May 2011 as per proclamation R.32 published in Government Gazette 34239 on 26 April 2011. The Companies Act, 2008 repealed the whole of the Companies Act, 1973 (Act 61 of 1973), except for Chapter 14 in as far as it deals with the liquidation and winding-up of insolvent companies.

In terms of Item 4(1)(c) of Schedule 5 (transitional arrangement) to the Companies Act, 2008, the municipal entity is deemed to have amended its Memorandum of Incorporation as of the general effective date to have changed its name in so far as required to comply with 11(3).

Therefore, as from 1 May 2011, the name of the municipal entity is City Power Johannesburg (SOC) Ltd.

All references to the Companies Act in these annual financial statements are to the Companies Act, 2008, unless otherwise indicated.

2. REVIEW OF ACTIVITIES

Main business and operations

The entity is a municipal owned entity. The principal activity of the municipal entity is the distribution of electricity to industries, businesses and households in Johannesburg. The municipal entity operates principally in areas of supply in Johannesburg, South Africa.

The operating results and state of affairs of the municipal entity are fully set out in the attached annual financial statements.

Net surplus of the municipal entity was R 1,317,285 (2012: R 1,232,355), after taxation of R 44,385 (2012: R356,237). There is no tax payable in the 2013 financial period as the municipal entity has an assessed tax loss.

3. GOING CONCERN

The 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.

4. SUBSEQUENT EVENTS

The directors are not aware of any other matter or circumstance arising since the end of the financial year, not otherwise dealt with within the financial statements that would affect the operations or results of the municipal entity significantly

5. DIRECTORS' PERSONAL FINANCIAL INTEREST

The directors of the municipal entity did not have any personal interest in contracts entered into by the municipal entity during the current financial year.

6. ACCOUNTING POLICIES

The financial statements are prepared in accordance with South African Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

City Power Johannesburg (SOC) Limited

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Financial Statements for the year ended June 30, 2013

Directors' Report

7. SHARE CAPITAL AND SHARE PREMIUM

There were no changes in the authorised or issued share capital of the municipal entity during the year under review.

The entire shareholding of the municipal entity is held by the City of Johannesburg Metropolitan Municipality.

Unissued ordinary shares are under the control of the City of Johannesburg Metropolitan Municipality.

8. BORROWING LIMITATIONS

All external funding is managed under the auspices of the City of Johannesburg Metropolitan Municipality Asset and Liability Committee and Treasury Department.

9. NON-CURRENT ASSETS

There were no major changes in the physical nature of non-current assets of the municipal entity during the year.

10. DIVIDENDS

No dividends were declared or paid to the shareholder during the year.

11. DIRECTORS

The directors of the municipal entity during the year and to the date of this report are as follows:

Name	Nationality
Rev F Chikane- Chairperson	South African
Adv G Badela	South African
Mr NE Galawe	South African
Ms ZD Hlatshwayo	South African
Mr NSA Hlubi	South African
Mr BK Mofokeng	South African
Ms NP Mohlala	South African
Dr MS Motebang	South African
Dr Y Ndema	South African
Mr TI Sithole	South African
Mr SG Xulu - Executive	South African
	South African

12. SECRETARY

The company secretary is Mr M Smith.

Business address

40 Heronmere Road
Reuven
Johannesburg
Gauteng
2016

Postal address

PO Box 38766
Booyens
Gauteng
2016

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Directors' Report

13. CORPORATE GOVERNANCE

13.1 General

The municipal entity confirms and acknowledges its responsibility to total compliance with King III. The directors (executive director) discusses the responsibilities of management in this respect, at Board meetings and monitors the municipal entity's compliance with the code during the year .

The salient features of the company's adoption of the Code is outlined below:

13.1 Board of directors

The Board:

- retains full control over the municipal entity, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipal entity;
- is a unitary structure comprising:
 - Ten non-executive directors, all of whom are independent directors as defined in the code of Corporate Practices and Conduct ("the code") laid out in the King III Report on Corporate Governance for South Africa:
 - and
 - one executive director (accounting officer).

13.2 Chairman and managing director

The chairperson is a non-executive and independent director.

The roles of chairperson and managing director are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion.

13.3 Remuneration

The remuneration of the managing director, who is the only executive director of the municipal entity, is determined by the board of directors within the parameters set by the City of Johannesburg Metropolitan Municipality as provided for in section 89 of the MFMA.

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Directors' Report

13.4 Board of directors meetings

The Board has met on 5 separate occasions during the financial year. The board schedules to meet a minimum of four times per annum.

Non-executive directors have access to all members of management of the municipal entity.

Dr Ndema was on maternity leave for 3 months during the period under review. Dr Ndema and Adv Badela were retired at the AGM held on 11 March 2013. Dr Motebang resigned from the board on the 7 November 2012. Mr Mofokeng resigned from the board and audit committee on the 4 March 2013.

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Directors' Report

13.5 Audit committee

The Audit committee consists of 2 non-executive directors and 3 independent members. The committee met 7 times during the 2012/2013 financial year to review matters necessary to fulfill its role. Mr B Mofokeng (a non-executive director) resigned from the Audit Committee on the 4 March 2013.

In terms of Section 166 of the Municipal Finance Management Act no 56 of 2003 (MFMA), the City of Johannesburg Metropolitan Municipality, as a parent municipality, must appoint members of the audit committee. Notwithstanding that non-executive directors appointed by the parent municipality constituted the municipal entity's audit committee, National Treasury policy requires that parent municipalities should appoint further members of the municipal entity's audit committees who are not directors of the municipal entity onto the audit committee, and these independent members are: Ms LJ Fosu, Mr W Hattingh and Mr H Moola. The audit committee has fulfilled its responsibilities as provided for in section 166 of the Municipal Finance Management Act.

INTERNAL AUDIT

The municipal entity's internal audit function is performed internally and assisted by outside service providers in areas where internal capacity is inadequate. This is in compliance with the Municipal Finance Management Act, 2003.

14. CONTROLLING ENTITY

The municipal entity's parent is the City of Johannesburg Metropolitan Municipality.

15. BANKERS

ABSA Limited and Standard Bank Limited.

The management of the treasury function within the municipal entity is managed under the auspices of the City of Johannesburg Metropolitan Municipality Assets and Liabilities Committee and Treasury department.

16. AUDITORS

The Auditor General performs the audit in terms of section 92 of the MFMA.

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Financial Statements for the year ended June 30, 2013

Company Secretary's Certification

Declaration by the company secretary in respect of Section 88(2)(e) of the Companies Act

In terms of Section 88(2)(e) of the Companies Act 71 of 2008, as amended, I certify that the company has lodged with the Commissioner all such returns as are required of a public company in terms of the Companies Act and that all such returns appear to be true, correct and up to date.



Mr. M. Smith
Company Secretary

Place of Signature
Friday, August 30, 2013

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Financial Statements for the year ended June 30, 2013

Statement of Financial Position as at June 30, 2013

Figures in Rand thousand	Note(s)	2013	2012 Restated
ASSETS			
Current Assets			
Inventories	3	142,030	128,942
Loans to shareholder	4	2,705,337	1,190,591
Trade and other receivables	5	440,089	774,200
Consumer receivables	7	2,048,523	2,235,169
Cash and cash equivalents	8	42	30
		5,336,021	4,328,932
Non-Current Assets			
Property, plant and equipment	9	7,786,793	6,981,544
Intangible assets	10	228,964	186,830
		8,015,757	7,168,374
Total Assets		13,351,778	11,497,306
LIABILITIES			
Current Liabilities			
Loans from shareholder	4	428,960	389,517
Finance lease obligation	13	3,351	3,351
Trade and other payables	14	2,256,152	1,619,477
VAT payable	15	286,294	433,808
Provisions	17	48,103	44,955
		3,022,860	2,491,108
Non-Current Liabilities			
Loans from shareholders	4	2,628,118	2,685,047
Finance lease obligation	13	3,593	7,577
Employee benefit obligation	6	27,595	36,136
Deferred income	16	11,345	-
Deferred tax	12	1,109,213	987,976
Consumer deposits	18	221,105	278,798
		4,000,969	3,995,534
Total Liabilities		7,023,829	6,486,642
Net Assets		6,327,949	5,010,664
NET ASSETS			
Share capital and share premium	20	112,466	112,466
Accumulated surplus		6,215,483	4,898,198
Total Net Assets		6,327,949	5,010,664

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Statement of Financial Performance

Figures in Rand thousand	Note(s)	2013	2012 Restated
Revenue			
Service charges	21	12,469,888	11,844,592
Fees earned		13,687	37,962
Rental income		312	1,609
Other income	23	217,330	229,142
Government grants	22	168,909	186,441
Interest income		217,486	193,946
Total revenue		13,087,612	12,493,692
Expenditure			
Employee related costs	25	(694,132)	(696,754)
Administration	26	(122,813)	(313,315)
Depreciation and amortisation	29	(332,488)	(223,992)
Finance costs	30	(395,820)	(388,872)
Bad debts	27	(689,011)	(705,499)
Repairs and maintenance		(419,778)	(244,555)
Bulk purchases	33	(8,194,936)	(7,647,830)
General expenses	24	(876,964)	(684,283)
Total expenditure		(11,725,942)	(10,905,100)
Operating surplus		1,361,670	1,588,592
Surplus before taxation		1,361,670	1,588,592
Taxation	31	44,385	356,237
Surplus for the year		1,317,285	1,232,355
Attributable to:			
Owners of the controlling entity		1,317,285	1,232,355

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Statement of Changes in Net Assets

Figures in Rand thousand	Note(s)	Share capital & Premium	Accumulated surplus	Total equity
Opening balance as previously reported		112,466	3,818,303	3,930,769
Adjustments				
Prior year adjustments	40	-	(152,460)	(152,460)
Balance at July 01, 2011 as restated		112,466	3,665,843	3,778,309
Changes in net assets				
Surplus for the year		-	1,232,355	1,232,355
Total changes		-	1,232,355	1,232,355
Balance at July 01, 2012 restated		112,466	4,898,198	5,010,664
Changes in net assets				
Surplus for the year		-	1,317,285	1,317,285
Total changes		-	1,317,285	1,317,285
Balance at June 30, 2013		112,466	6,215,483	6,327,949

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Cash Flow Statement

Figures in Rand thousand	Note(s)	2013	2012 Restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Sale of goods and services		12,127,062	12,471,567
Other income		144,210	212,712
		12,271,272	12,684,279
Payments			
Suppliers		(9,314,180)	(12,461,696)
Finance costs		-	-
Net cash flows from operating activities	34	2,957,092	222,583
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	9	(1,118,446)	(598,670)
Purchase of other intangible assets	10	(70,374)	(13,429)
Interest Income		217,486	193,946
Finance costs		(395,820)	(388,872)
Net cash flows from investing activities		(1,367,154)	(807,025)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(1,532,232)	492,602
Movement in consumer deposits		(57,694)	91,850
Net cash flows from financing activities		(1,589,926)	584,452
Net Increase/(decrease) in cash and cash equivalents		12	10
Cash and cash equivalents at the beginning of the year		30	20
Cash and cash equivalents at the end of the year	8	42	30

City Power Johannesburg (SOC) Limited

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Statement of Financial Position

	Actual R000's	Budget R000's	Variance Budget vs Actual R000's	Revised budget R000's	Variance Budget vs Actual R000's	Comments
Assets						
Current Assets						
Inventories	142,030	74,733	(67,297)	74,733	(67,297)	
Loans to shareholder	2,705,337	1,963,946	(741,391)	1,566,374	(1,138,963)	Solar payments of R100m not budgeted for budget was based on lower opening cash position
Trade and other receivables	440,089	154,105	(285,984)	154,105	(285,984)	Increase in related party debt
Consumer receivables	2,048,523	2,884,327	835,804	2,974,560	926,037	Revenue for the year lower than budget
Cash and cash equivalents	42	30	(12)	30	(12)	Increase in petty cash float
	5,336,021	5,077,141	(258,880)	4,769,882	(566,219)	
Non-Current Assets						
Property, plant and equipment	7,786,793	7,760,549	-26,244	7,985,218	198,425	
Intangible assets	228,964	67,954	(161,010)	67,954	(161,010)	increase in capacity rights and software purchases that were not budgeted for
	8,015,757	7,828,503	(187,254)	8,053,172	37,415	
Total Assets	13,351,778	12,905,643	(446,135)	12,822,974	(528,804)	
LIABILITIES						
Current Liabilities						
Loans from shareholder						
Loans from shareholder	428,960	487,550	58,590	487,550	58,590	
Finance lease obligation	3,351	-	(3,351)	-	(3,351)	No budget for finance lease
Trade and other payables	2,256,152	3,205,196	949,044	3,011,936	755,784	Lower bulk purchases resulted in lower vat accrual
VAT payable	286,294	320,413	34,119	319,341	33,047	Budgeted due to misallocation of leave pay
Provisions	48,103	108,179	60,076	108,179	60,076	
	3,022,860	4,121,338	1,098,478	3,927,006	904,146	
Non Current liabilities						
Loans from shareholders	2,628,118	2,677,316	(49,198)	2,677,316	49,198	No budget for finance lease
Finance lease obligation	3,593	-	3,593	-	(3,593)	Reduction in qualifying employees due to retirements
Employee benefit obligation	27,595	40,088	(12,493)	40,088	(12,493)	Deferred income not budgeted for
Deferred income	11,345	-	11,345	-	(11,345)	Budget understated
Deferred tax	1,109,213	117,207	992,006	117,207	992,006	Decrease in consumer deposits
Consumer deposits	221,105	279,448	(58,343)	279,448	(58,343)	
	4,008,969	3,114,060	886,909	3,114,060	886,909	
Total Liabilities	7,023,829	7,235,397	(211,568)	7,041,065	(17,236)	
Net Assets	6,327,949	5,670,246	(657,703)	5,781,908	(546,041)	
Share capital and share premium	112,466	112,466	-	112,466	-	
Accumulated surplus	6,215,483	5,557,780	657,703	5,669,442	546,041	The budget was based on a lower retained income compared to the final results of 2012
Total Net Assets	6,327,949	5,670,246	657,703	5,781,908	546,041	

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Statement of Financial Performance comparison to budget

	Actual Balance	Budget	Variance Budget vs Actual	Revised Budget	Variance budget vs Actual	Comment
	(000's)	(000's)	(000's)	(000's)	(000's)	
Revenue						
Service charges	12,469,888	13,144,779	(674,891)	13,113,117	(643,229)	Reduction in consumer demand
Other Income	617,724	665,774	(48,050)	572,282	45,442	Increase in grants, DSM levy and cut off fees
Total Operating Income	13,087,612	13,810,553	(722,941)	13,685,399	(697,787)	
Administration and management fees						
Administration and management fees	122,813	140,072	17,259	122,902	89	Decrease in insurance costs
Advertising	9,742	8,460	(1,282)	11,116	1,374	Increased advertising for tender and outages
Assessment rates & municipal charges	12,139	9,347	(2,792)	7,887	(4,272)	Increase in the rate payable
Auditors remuneration	3,987	1,682	(2,305)	4,000	13	Increase in auditors cost
Bad debts	689,011	422,128	(266,883)	435,000	(254,011)	Lower collection levels
Bank charges	1,448	485	(963)	305	(1,143)	Cost due to increase in prepaid customers
Billing and meter reading charges	27,469	39,101	11,632	34,781	7,312	Fewer meter readings performed
Bulk purchases	8,194,936	9,006,929	811,993	8,616,342	421,406	decrease in demand
Cleaning	-	2,677	2,677	837	637	Contractor for cleaning replaced by permanent cleaning staff
Commission paid	28,989	18,298	(12,691)	26,584	(2,405)	increase in prepaid revenue
Conferences and seminars	3,620	2,631	(989)	3,080	(540)	cost saving measures
Consulting and professional fees	84,832	39,724	(45,108)	100,784	15,952	Strategic programs initiated
Depreciation, amortisation and impairment	332,488	299,188	(33,320)	218,935	(113,553)	Reassessment of useful life of assets resulted in increased depr
Donations	222	585	363	500	278	Fewer donations were made
Employee costs	694,133	775,920	81,787	774,600	80,467	Planned vacancies not filled
Entertainment	2,646	2,124	(522)	2,146	(500)	Increased costs due to additional meetings held
Material issues	221,756	10,538	(211,218)	110,443	(111,313)	Solar water geysers issued at no cost to low income communities
Fuel and oil	-	57	57	57	57	
Hostel charges	-	513	513	2,434	2,434	No subsidised hostel fees
Insurance	29,817	50,000	20,183	50,000	20,183	Insurance premium less than budget
Loss on disposal of assets (gain)	8,949	11	(8,938)	40,139	31,190	More assets were disposed
Lease rentals on operating lease	268,330	393,953	125,623	419,405	151,075	Kelvin's inability to meet budgeted demand resulted in lower cap
Levies	5,957	3,827	(2,130)	3,727	(2,230)	Inaccurate budgeting on skills development levy
Cut off fees	25,598	30,138	4,540	25,000	(598)	Customer's queries are investigated prior to cut off
Magazines, books and periodicals	115	2	(113)	150	35	Inaccurate budgeting
Motor vehicle expenses	38,899	24,815	(14,084)	25,037	(13,862)	Increase in petrol and diesel prices
Free basic electricity	2,360	5,567	3,207	1,567	(793)	Less customers applied and qualify for free basic electricity
Postage and courier	6	26	20	26	20	
Printing and stationery	2,386	3,507	1,121	4,165	1,779	Cost saving initiative
Repairs and maintenance	419,778	379,561	(40,217)	379,561	(40,217)	Unplanned and emergency work
Security	50,335	38,680	(11,655)	50,366	31	Increase in the rate per hour payable to contractors
Sundry expenses	289	1,296	1,027	1,113	844	Expenses incurred less than anticipated
Software expenses	17,551	7,086	(10,465)	22,447	4,896	Increase in Microsoft and Oracle license cost
Staff welfare	(8,518)	4,684	13,202	5,627	14,045	Adjustment on post retirement benefit
Subscriptions and membership fees	567	644	77	845	278	Lower than expected requests for subscription to professional bc
Telephone and fax	14,950	13,928	(1,022)	13,545	(1,405)	Increase in data charges for automated meter readings
Training	3,856	4,610	754	4,615	759	Delays in the implementation of training programs
Transport and freight	-	591	591	479	479	No subsidised transport and freight
Travel - local	8,699	6,739	(1,960)	6,317	(2,382)	Higher than budget staff reimbursement
Travel - overseas	200	913	713	726	526	Fewer overseas trips taken
Utilities	14,676	27,143	12,467	26,814	11,938	Less expenditure incurred on tree pruning
Fair valuing expenses	(4,889)	-	4,889	0	4,889	
Total Operating Costs	11,330,122	11,776,160	446,038	11,553,884	223,762	
Operating Profit	1,757,490	2,034,393	(276,903)	2,131,515	(374,025)	
Finance costs	(395,820)	(308,007)	(89,813)	-308,158	(87,662)	Fair value adjustment
Net Income Before Tax	1,361,670	1,726,386	(366,716)	1,823,357	(461,687)	
Taxation	44,385	446,561	401,176	428,890	384,505	
Net surplus for the year	1,317,285	1,282,825	34,460	1,394,467	(77,182)	

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Statement of changes in net assets - Actual vrs Budget

	Actual Balance (000's)	Budget (000's)	Variance Original Budget vs Actual (000's)	Revised Budget (000's)	Variance Revised budget vs Actual (000's)	Comments
Share capital and premium	112,466	112,466	-	112,466		
Accumulated surplus	6,215,483	5,557,780	657,703	5,669,442	546,041	Estimated accumulated surplus on which the budget for 2012 was based was understated
Total net assets	6,327,949	5,670,246	657,703	5,781,908	546,041	

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Cash flow statement - Actual versus Budget

	Actual R000's	Budget R000's	Variance Budget vs Actual R000's	Revised budget R000's	Variance Original Budget vs Actual R000's	Comments
Receipts						
Sale of goods and services	12,127,062	13,951,433	(1,824,371)	13,672,255	(1,545,193)	Due to a decrease in units sold
Other income	144,210	164,254	(20,044)	107,981	36,229	
	12,271,272	14,115,687	(1,844,415)	13,780,236	(1,508,964)	
Payments						
Suppliers	(9,314,180)	(12,901,760)	3,587,580	(12,019,971)	2,705,791	Variance due to a decrease in units purchased from Eskom
	2,957,092	1,213,927	1,743,165	1,760,265	1,196,827	
Net cash flows from operating activities						
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of property, plant and equipment	(1,118,446)	(952,900)	(165,546)	(1,107,276)	(11,170)	Due to the over expenditure in capex spend that was submitted to Mayoral for approval
Purchase of other intangible assets	(70,374)	(70,374)	(70,374)	(70,374)	(70,374)	Software and capacity rights purchases not budgeted for.
Interest income	217,486	130,397	87,089	135,977	81,509	Higher income due to higher than budgeted cash balance
Finance costs	(395,820)	(388,147)	(7,673)	(388,147)	(7,673)	Increase in capex resulted in higher capital loans
	(1,367,154)	(1,210,650)	(156,504)	(1,359,446)	(7,708)	
CASH FLOWS FROM FINANCING ACTIVITIES						
Repayment of borrowings	(1,552,232)	(41,978)	(1,490,254)	(439,520)	(1,092,712)	The loan to the shareholder increased substantially during the year
Movement in consumer deposits	(57,694)	38,701	(96,395)	38,701	(96,395)	Decrease in consumer deposits which are constantly being replaced by sureties
	(1,589,926)	(3,277)	(1,586,649)	(400,819)	(1,189,107)	
Net increase/(decrease) in cash and cash equivalents	12	0	12	0	12	
Cash and cash equivalents at the beginning of the year	30	30	-	30	-	
Cash and cash equivalents at the end of the year	42	30	12	30	12	

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Financial Statements for the year ended June 30, 2013

Accounting Policies

1. Presentation of annual financial statements

The financial statements have been prepared in accordance with the South African Standards of Generally Recognised Accounting Practice (SAGRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand, which is the company's functional currency. All figures are rounded to the nearest rand thousand.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Valuation of loans and receivables

The municipal entity assesses its loans and receivables for impairment at each reporting date. In determining whether an impairment loss should be recorded in surplus or deficit, the municipal entity makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The allowance for impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the effective interest rate computed at initial recognition.

Impairment testing of non-financial assets

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions made may change which may then impact management's estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipal entity reviews and tests the carrying value of cash generating units and individual assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including economic factors.

Management used the fair value less cost to sell to determine the recoverable amount of intangible assets with an indefinite useful life and identifying assets that may have been impaired.

Provisions

Provisions are raised based on management determined estimates based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net liability include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

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Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

The municipal entity determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipal entity considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Effective interest rate

The municipal entity used the City of Johannesburg Metropolitan Municipality borrowing market rate as a basis for discounting financial instruments.

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The municipal entity recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The municipal entity recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the municipal entity to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the municipal entity to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

Useful lives of property, plant and equipment

The municipal entity's management determines the estimated useful lives and related depreciation charges for property, plant and equipment. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipal entity.

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one reporting period.

Initial recognition

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipal entity; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

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Financial Statements for the year ended June 30, 2013

Accounting Policies

1.2 Property, plant and equipment (continued)

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipal entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Repairs and maintenance expenses are charged to the statement of financial performance during the financial year in which they are incurred. The cost of major renovations are included in the carrying amount of the asset when it is probable that future economic benefits or service potential in excess of the originally assessed standard of performance of the existing asset will flow to the municipal entity and the cost of the items can be measured reliably.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent measurements

Subsequent to initial measurement property, plant and equipment is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual values. Depreciation commences when the assets are ready for their intended use.

Assets under construction are carried at cost, and are depreciated from the date the assets are technically complete. Assets under construction are disclosed as a separate category of assets called capital work-in-progress.

The useful lives of items of property, plant and equipment have been assessed as follows for current and comparative period:

Item	Average useful life
Land	Infinite
Buildings	40 - 60 years
Plant and machinery	
• Transformers	55 years
• Transmission cables	61 - 85 years
• Mini-substations	55 years
• Medium voltage equipment	40 years
• Low voltage equipment	40 years
Furniture and fixtures	6 - 20 years
Finance leases	
• Motor vehicles	3 - 5 years
IT equipment	3 - 9 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

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Accounting Policies

1.2 Property, plant and equipment (continued)

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Derecognition

Property, plant and equipment of an entity are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.3 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the entity or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
- the cost or fair value of the asset can be measured reliably.

Initial measurement

Intangible assets are initially recognised at cost.

An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

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Accounting Policies

1.3 Intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

Amortisation

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Additional capacity rights	10 years
Computer software	3 - 9 years

Derecognition

Intangible assets are derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the intangible asset. It is recognised in surplus or deficit when the asset is derecognised.

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Accounting Policies

1.4 Financial instruments

Classification

The municipal entity classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipal entity becomes a party to the contractual provisions of the instruments.

The municipal entity classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

The municipal entity recognises financial assets using trade date accounting.

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipal entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

At each end of the reporting period the municipal entity assesses all financial assets to determine whether there is objective evidence that a financial asset (or group of financial assets) has been impaired.

For amounts due to the municipal entity, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

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Accounting Policies

1.4 Financial instruments (continued)

Financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Loans to / (from) group companies

These include loans to and from the controlling municipality, fellow controlled entities, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Subsequently these loans are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts.

On loans receivable an impairment loss is recognised in surplus/deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the loans receivable's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Impairment losses are reversed in subsequent periods when an increase in the loans receivable's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been, had the impairment not been recognised.

Loans to group municipal entities are classified as loans and receivables.

Loans from group municipal entities are classified as financial liabilities measured at amortised cost.

Loans to shareholder, directors, managers and employees

These financial assets are classified as loans and receivables.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Accounts receivable are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified. Amounts that are receivable within 12 months from the reporting date are classified as current.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Trade and other payables are classified as financial liabilities at amortised cost.

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Accounting Policies

1.4 Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents are classified as loans and receivables.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

The municipal entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipal entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipal entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipal entity:
 - derecognises the asset
 - recognises separately any rights and obligations created or retained in the transfer.

The carrying amount of the transferred asset is allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received, is recognised in surplus or deficit.

Financial liabilities

The municipal entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipal entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.5 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

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Accounting Policies

1.5 Tax (continued)

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting surplus or deficit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting surplus or deficit nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Current tax and deferred taxes are recognised in net assets if the tax relates to items that are credited or recognised, in the same or a different period, to net assets.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance lease assets are recognised in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the right to use the asset.

Finance leased assets are depreciated over the useful life of the asset.

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Accounting Policies

1.6 Leases (continued)

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis over the lease term.

Any contingent rent is recognised separately as an expense when paid or payable and is not straight-lined over the lease term.

1.7 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the entity incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.8 Impairment of cash-generating assets - Intangible assets

Cash-generating assets are those assets held by the entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

City Power Johannesburg (SOC) Limited

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Accounting Policies

1.8 Impairment of cash-generating assets - Intangible assets (continued)

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the entity; or
- (b) the number of production or similar units expected to be obtained from the asset by the entity.

Criteria developed by the entity to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

The municipal entity assesses at each reporting date whether there is any indication that an asset or cash-generating unit may be impaired. If any such indication exists, the entity estimates the recoverable amount of the asset.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipal entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipal entity applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the entity determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

City Power Johannesburg (SOC) Limited

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Accounting Policies

1.8 Impairment of cash-generating assets - Intangible assets (continued)

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

The municipal entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

City Power Johannesburg (SOC) Limited

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Financial Statements for the year ended June 30, 2013

Accounting Policies

1.8 Impairment of cash-generating assets - Intangible assets (continued)

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occurs when there is clear evidence that such a redesignation is appropriate.

1.9 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted when the effect is not material.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

The municipal entity provides gratuities for qualifying staff members in terms of the relevant conditions of employment. The expenditure is recognised in the statement of financial performance when the gratuity is payable.

Post-employment benefits: Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed retirement benefit schemes (or state plans) are dealt with as defined contribution plans where the municipal entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Post-employment benefits: Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to the end of the reporting period where the interim valuation is performed at an earlier date.

In measuring its defined benefit liability the company recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

In measuring its defined benefit liability the company recognises past service cost as an expense in the reporting period in which the plan is amended.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognised when the municipal entity is committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation.

Any asset is limited to the present value of available refunds and reduction in future contributions to the plan.

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Accounting Policies

1.9 Employee benefits (continued)

Other post retirement obligations

The municipal entity provides post-retirement health care benefits and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipal entity also provides a gratuity and medical aid subsidy on retirement to certain employees. An annual charge to expenditure is made to cover both these liabilities.

1.10 Provisions and contingencies

Provisions are recognised when:

- the municipal entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36 – Contingencies.

1.11 Revenue from exchange transactions

An exchange transaction is one in which the municipal entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

City Power Johannesburg (SOC) Limited

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Financial Statements for the year ended June 30, 2013

Accounting Policies

1.11 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipal entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Revenue estimation

Consumers are invoiced based on estimates of consumption where no meter reading has taken place during the billing period. These invoices are best estimates based on historical customer's average consumption and enable revenue to be measured reliably. On an annual basis the actual consumption is compared to the estimated consumption in order to provide additional assurance that significant adjustments are not required to reverse excessive estimates. In the event that significant adjustments are identified, these adjustments are treated as changes in estimates in terms of GRAP 3 and are recognised in surplus or deficit in the period of the change.

Interest

Interest is recognised on a time proportion-basis using the effective interest rate method.

1.12 Revenue from non-exchange transactions

Taxes

The entity recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the entity controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

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Accounting Policies

1.12 Revenue from non-exchange transactions (continued)

The entity analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipal entity has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.13 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.8 and . In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted.

Extended periods is periods that exceeds 12 months.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the entity completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.14 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

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Financial Statements for the year ended June 30, 2013

Accounting Policies

1.15 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.16 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA:

- expenditure incurred by a municipality or municipality entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170
- expenditure incurred by a municipality or municipality entity in contravention of, or that is not in accordance with, a requirement of the municipality System Act, and which has not been condoned in terms of this Act
- expenditure incurred by a municipality or municipality entity in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No.20 of 1998); or

expenditure incurred by a municipality or municipality entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-law giving effect to such policy, and which has been condoned in terms of such policy or by-law but excludes expenditure by municipality which falls within the definition of "unauthorised expenditure".

Irregular expenditure that was incurred and identified during the current financial period and which was condoned before year end and /or before finalisation of financial statements must be recorded appropriately in the irregular expenditure register. In such an instance, the note to the financial statement must be updated to reflect this.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such person is liable in law. Immediate steps must be thereafter taken to recover the amount from the person concerned. If recovery is not possible, write off of the amount must be considered.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

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Financial Statements for the year ended June 30, 2013

Accounting Policies

1.18 Budget information

A reconciliation between the statement of financial performance and the budget has been disclosed in the annual financial statements as determined by National Treasury. The annual financial statements and the budget are reported on the accrual basis of accounting.

The approved budget has been revised through an adjustment budget in line with the stipulation of section 28 of the MFMA . The adjustment budget takes into account the change in trading conditions and the performance of the business.

The approved budget covers the fiscal period 1 July 2012 to 30 June 2013.

1.19 Value added tax

The company registered with SARS for VAT on the payment basis, in accordance with sec 15(2(a) of the Value Added Tax Act No 89 of 1991.

1.20 Presentation currency

These financial statements are presented in South African Rand.

1.21 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.22 Capital Commitments

Items are classified as commitments where the company commits itself to future transactions that will normally result in the outflow of resources.

Capital commitments are not recognised in the Statement of financial position as a liability but are included in the disclosure note in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP
- Approved but not yet contracted commitments, where expenditure has been approved and the contract is yet to be awarded or is awaiting finalisation at the reporting date.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements

1.23 Related parties

The municipal entity operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities under the controlled by City of Johannesburg Metropolitan Municipality are considered to be related parties.

Key management are those persons responsible for planning, directing and controlling the activities of the municipal entity, including those charged with the governance of the municipal entity in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipal entity.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.24 Prior year errors

When the presentation or classification of items in the financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

City Power Johannesburg (SOC) Limited

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Financial Statements for the year ended June 30, 2013

Accounting Policies

1.24 Prior year errors (continued)

Where accounting errors have been identified in the current financial year the correction is made retrospectively as far as it is practical and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustments is made retrospectively as far as it is practical and the prior year comparatives are restated accordingly.

1.25 Going concern

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.

1.26 Income Tax

The company is liable for tax and is registered with SARS for income tax.

1.27 Expenses - Administration expenses, repairs and maintenance and general expenses

Expenses are recognised on an accrual basis and a comparability principles in the reporting period during which the related income is earned. Expenses that are not related to income earned for the period but expected to generate future economic benefits are presented in the financial statements as assets.

Expenses are measured reliably at the fair value of the consideration payable, exclusive of value added tax.

The fair value of expenses is discounted at the market interest rate. The difference is recognised as expenses for financing activities.

1.28 Bulk Purchases

Bulk purchases represent the cost of electricity purchased for onwards selling to consumers. The expense is recognised in relation to the income earned.

Expenses are measured reliably at the fair value of the consideration payable, exclusive of value added tax

The fair value of bulk purchases is discounted at the market interest rate. The difference is recognised as expenses for financing activities.

1.29 Share Capital

The entire shareholding of the municipal entity is held by the City of Johannesburg Metropolitan Municipality.

Unissued ordinary shares are under the control of the City of Johannesburg Metropolitan Municipality.

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Financial Statements for the year ended June 30, 2013

Notes to the Financial Statements

Figures in Rand thousand

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2. New standards and Interpretations

2.1 Standards and interpretations not yet effective

Entities may not early adopt Standards of GRAP if the Minister of Finance has not determined an effective date for that Standard. The following standards of GRAP have been issued but are not yet effective:

- GRAP 20 - Related Party Disclosures
- GRAP 25 - Employee Benefit
- GRAP 105 - Transfer of Functions Between Entities Under Common Control
- GRAP 106 - Transfer of Functions Between Entities Not Under Common Control
- GRAP 107 - Mergers

3. Inventories

Consumable stores	164,058	134,868
	<hr/>	<hr/>
Inventory (write-downs)	(22,028)	(5,926)
	<hr/>	<hr/>
	142,030	128,942

Inventory pledged as security

No inventories were pledged as security during the year.

4. Loans to / (from) shareholder

City of Johannesburg Metropolitan Municipality - Capex loans	(2,432,285)	(2,449,771)
Sweeping account	2,705,337	1,190,591
City of Johannesburg Metropolitan Municipality - Shareholder loans	(624,793)	(624,793)
	<hr/>	<hr/>
	(351,741)	(1,883,973)

City Power Johannesburg (SOC) Limited

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Financial Statements for the year ended June 30, 2013

Notes to the Financial Statements

Figures in Rand thousand

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4. Loans to / (from) shareholder (continued)

Capex loans

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 and has been repaid in full.

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 and has been repaid in full in the current reporting period.

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.

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.

Capex loan granted in 2011. 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.

Capex loan granted in 2012. 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.

Capex loan granted in 2013. 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 payables to be paid in full.

Current assets	2,705,337	1,190,591
Non-current liabilities	(2,628,118)	(2,685,043)
Current liabilities	(428,960)	(389,517)
	(351,741)	(1,883,973)

Capex Loans

Loans at beginning of the year	(2,060,254)	(2,170,160)
Loans raised	(399,014)	(296,543)
Repayments	26,983	16,932
Less amount payable within 12 months	428,960	389,517
	(2,003,325)	(2,060,254)

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Notes to the Financial Statements

Figures in Rand thousand	2013	2012
4. Loans to / (from) shareholder (continued)		
Short Term Portion		
Loans outstanding at the beginning of the year	(389,517)	(382,990)
Transfer from long term loans	(428,960)	(389,517)
Less amounts paid during the year	389,517	382,990
	(428,960)	(389,517)
Sweeping account		
Loans at beginning of the year	1,190,591	1,786,482
Movement during the year	1,514,746	(595,891)
	2,705,337	1,190,591
Shareholder 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
	(624,793)	(624,793)
5. Trade and other receivables		
Prepayments	-	10
Deposits	68	68
Sundry receivables	109,139	69,964
Related party receivables	330,882	704,158
	440,089	774,200

City Power Johannesburg (SOC) Limited

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6. Employee benefit obligations

6.1 Defined benefit plan

Post-retirement liability

Post-retirement medical aid plan	(2,031)	(11,505)
Post-retirement gratuity plan	(25,564)	(24,631)
Balance at end of year	(27,595)	(36,136)

6.1.1 Post retirement medical aid plan

The municipal entity has obligations to subsidise 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 municipal entity who are entitled to benefit that relates to their service with the City of Johannesburg Metropolitan Municipality since the company was established.

Movements for the year

Opening balance	(11,505)	(10,077)
Interest charged	(984)	(866)
Actuarial gains or (losses)	10,458	(1,061)
Benefits paid	-	499
Balance at end of year	(2,031)	(11,505)

Expenses recognised in the statement of financial performance

Interest charged	(984)	(866)
Actuarial gains or (losses)	10,458	(1,061)
	9,474	(1,927)

Key assumptions used

Assumptions used on last valuation on Sunday, June 30, 2013. The discount rate was set as the yield of the R186 South African bond at valuation date.

Discount rates	7.89 %	8.60 %
Expected rate of return	5.09 %	8.60 %
Health care cost inflation rate	6.67 %	7.70 %
Rate of increase in employer post-retirement medical contribution subsidy payments	6.67 %	6.70 %

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6. Employee benefit obligations (continued)

6.1.2 Post retirement gratuity plan

The municipal entity provides gratuities on retirement or on death to certain qualifying employees who have service with the City of Johannesburg Metropolitan Municipality or the municipal entity 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 one 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 the municipal entity who are entitled to benefits that relate 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	(24,631)	(28,114)
Interest charged	(2,160)	(2,416)
Actuarial gains	1,227	4,623
Benefits paid	-	1,276
Balance at end of year	(25,564)	(24,631)

Net expenses recognised in the statement of financial performance

Interest cost income (losses)	(2,160)	(2,416)
Actuarial gains	1,227	4,623
Total included in employee benefits expense	(933)	2,207

Key assumptions used

Assumptions used on last valuation on Sunday, June 30, 2013. The discount rate was set as the yield of the R186 South African bond at valuation date.

Discount rates	7.89 %	8.60 %
Expected rate of return	5.09 %	8.60 %
Health care cost inflation rate	6.67 %	7.70 %
Expected increase in salaries	6.67 %	6.70 %

Sensitivity Analysis

In order to illustrate the sensitivity of the valuation results the following assumptions have been used:

- 1% increase/decrease in the medical and salary inflation rate assumptions used

The effect of these assumptions are as follows:

Accrued Liability	-1% Medical/salary inflation	Valuation Assumptions	1% Medical/salary inflation
Post-retirement Medical aid Subsidy	1,966,000	2,031,000	2,080,000
Retirement Gratuities	24,788,000	25,564,000	26,369,000
	26,754,000	27,595,000	28,429,000

6.2 Defined contribution plan

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Notes to the Financial Statements

Figures in Rand thousand	2013	2012
6. Employee benefit obligations (continued)		
The company provides post-employment benefits to all their permanent employees through defined contribution funds.		
7. Consumer receivables		
Gross balances		
Electricity	5,457,424	5,472,711
Discounting	(13,192)	(3,456)
	5,444,232	5,469,255
The increase in consumer receivables comparative to the prior year is due to the lower than expected collection levels from customers.		
Less: Allowance for doubtful debts		
Electricity	(3,395,709)	(3,234,086)
Net balance		
Electricity	2,061,715	2,238,625
Discounting	(13,192)	(3,456)
	2,048,523	2,235,169
Electricity		
Current (0 - 30 days)	1,640,055	1,893,515
31 - 60 days	242,817	198,289
61 - 90 days	50,858	44,140
91 - 120 days	43,089	32,135
121 - 365 days	52,060	36,407
> 365 days	32,836	34,139
	2,061,715	2,238,625
Discounting		
Trade and other receivables	(13,192)	(3,456)
Reconciliation of doubtful debt allowance		
Balance at beginning of the year	(3,234,086)	(2,521,461)
Increase in the allowance account	(785,829)	(793,014)
Debt impairment written off against allowance	626,759	80,403
Bad debts recovered	(2,553)	(14)
	(3,395,709)	(3,234,086)

Credit quality of consumer receivables

The credit quality of consumer receivables 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.

Trade receivables

Consumer receivables past due but not impaired

As at June 30, 2013, R 421,667 (2012: R 312,356) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

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Figures in Rand thousand	2013	2012
7. Consumer receivables (continued)		
1 month past due	242,838	184,681
2 months past due	50,876	27,697
3 months past due and older	127,853	99,978
Consumer receivables impaired		
As of June 30, 2013, consumer debtors of R 3,395,709 (2012: R 3,234,086) were impaired and provided for.		
3 to 6 months	626,602	356,536
Over 6 months	2,769,107	2,877,550
8. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	42	30

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

The municipal entity 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 municipal entity by the City of Johannesburg Metropolitan Municipality is reflected as an amount due from the shareholder.

All bank accounts are reflected at zero balance except for Absa main account which had a closing balance of R10 538 as at June 30, 2013.

The municipal entity has the following bank accounts:

4055151157 ABSA Third party payments

4055151238 ABSA Electricity deposits

4054799051 ABSA On site collections

4054799564 ABSA Unpaid collections

4054394728 ABSA Direct deposits

4054394760 ABSA Unpaid cheques

4055418357 ABSA Prepaid account

4054636689 ABSA Sundry revenue account

4054394744 ABSA Bank charges

4054394752 ABSA Salaries

City Power Johannesburg (SOC) Limited

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8. Cash and cash equivalents (continued)

405439473	ABSA Main cheque
198641	Standard Bank Limited Bank charges account
198684	Standard Bank Limited Sundry account
198714	Standard Bank Limited Main account
198757	Standard Bank Limited Prepaid account
198854	Standard Bank Limited Electronic collections account

9. Property, plant and equipment

	2013			2012		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	10,888	-	10,888	3,544	-	3,544
Buildings	369,308	(157,327)	211,981	286,190	(148,449)	137,741
Finance leased assets	12,170	(5,644)	6,526	12,170	(1,405)	10,765
Plant and machinery	8,238,441	(1,234,783)	7,003,658	7,268,598	(952,389)	6,316,209
Furniture and fixtures	21,889	(12,231)	9,658	38,398	(12,474)	25,924
IT equipment	54,429	(44,176)	10,253	83,728	(39,821)	43,907
Capital work in progress	533,829	-	533,829	443,454	-	443,454
Total	9,240,954	(1,454,161)	7,786,793	8,136,082	(1,154,538)	6,981,544

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	3,544	257	-	7,087	-	10,888
Buildings	137,741	2,037	-	76,476	(4,273)	211,981
Leasehold property	10,765	-	-	-	(4,239)	6,526
Plant and machinery	6,316,209	4,373	(8,949)	967,879	(275,854)	7,003,658
Furniture and fixtures	25,924	513	-	(13,624)	(3,155)	9,658
IT equipment	43,907	3,457	-	(20,384)	(16,727)	10,253
Capital work in progress	443,454	1,107,809	-	(1,017,434)	-	533,829
	6,981,544	1,118,446	(8,949)	-	(304,248)	7,786,793

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Financial Statements for the year ended June 30, 2013

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9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	3,544	-	-	-	-	3,544
Buildings	140,542	936	-	(26)	(3,711)	137,741
Leasehold property	-	12,170	-	-	(1,405)	10,765
Plant and machinery	6,125,236	403,601	(20,033)	-	(192,595)	6,316,209
Furniture and fixtures	25,568	3,049	-	26	(2,719)	25,924
IT equipment	49,486	3,160	(2,169)	1,868	(8,438)	43,907
Capital work in progress	269,568	175,754	-	(1,868)	-	443,454
	6,613,944	598,670	(22,202)	-	(208,868)	6,981,544

Pledged as security

No items of property, plant and equipment are pledged as security.

Borrowing costs capitalised

No interest was capitalised during the year.

A register containing the information required by section 63 of the MFMA is available for inspection at the registered office of the municipal entity.

10. Intangible assets

	2013			2012		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Additional capacity rights	234,182	(36,000)	198,182	171,205	(28,584)	142,621
Computer software	101,311	(70,529)	30,782	93,914	(49,705)	44,209
Total	335,493	(106,529)	228,964	265,119	(78,289)	186,830

Reconciliation of intangible assets - 2013

	Opening balance	Additions	Amortisation	Total
Additional capacity rights	142,621	62,977	(7,416)	198,182
Computer software	44,209	7,397	(20,824)	30,782
	186,830	70,374	(28,240)	228,964

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Additional capacity rights	136,609	13,429	(7,417)	142,621
Computer software	51,916	-	(7,707)	44,209
	188,525	13,429	(15,124)	186,830

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10. Intangible assets (continued)

Pledged as security

No intangible assets are pledged as security.

11. Financial assets by category

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

2013

	Loans and receivables	Total
Loans to shareholder	2,705,337	2,705,337
Consumer receivables	2,048,523	2,048,523
Trade and other receivables	440,089	440,089
Cash and cash equivalents	42	42
	5,193,991	5,193,991

2012

	Loans and receivables	Total
Loans to shareholder	1,190,591	1,190,591
Consumer receivables	2,235,169	2,235,169
Trade and other receivables	774,200	774,200
Cash and cash equivalents	30	30
	4,199,990	4,199,990

12. Deferred tax

Deferred tax liability

At beginning of the year	(987,976)	(631,728)
Taxable temporary differences	(243,146)	(196,721)
Utilised assessed loss	155,618	(192,790)
Other (Specify)	(33,709)	33,263
	(1,109,213)	(987,976)

Deferred tax analysis

Fixed assets	(1,642,473)	(1,410,243)
Lease assets	(1,827)	(3,014)
Leases liability	1,944	3,060
Discounting accounts receivable	3,694	(1,014)
Discounting accounts payable	740	236
Provisions	22,043	7,997
Income in advance	3,178	-
Deferred expenditure	(36,508)	(20,951)
Prepayments	-	(3)
Assess loss	539,996	435,956
Total	(1,109,213)	(987,976)

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Figures in Rand thousand	2013	2012
13. Finance lease obligation		
Minimum lease payments due		
- within one year	4,897	4,897
- in second to fifth year inclusive	7,673	7,673
- later than five years	32	4,929
	12,602	17,499
less: future finance charges	(5,658)	(6,571)
Present value of minimum lease payments	6,944	10,928
Non-current liabilities	3,593	7,577
Current liabilities	3,351	3,351
	6,944	10,928

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

14. Trade and other payables

Trade payables	1,846,745	1,347,856
Accrual service bonus	6,566	6,855
Accrual for leave pay	75,822	67,942
Consumer debtors with credit balances	84,373	186,522
Related party creditor	245,558	10,796
Unearned interest on trade payables	(2,912)	(494)
	2,256,152	1,619,477
Fair value of trade and other payables		
Trade payables	(2,912)	(494)

15. VAT payable

Value added tax	286,294	433,808
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All VAT returns were submitted timeously during the current financial year in terms of the Value Added Tax Act.

Vat refunds totalling R67 552 944 has not yet been received from Sars. The company has been submitting vat returns on a payments basis. The completion of the vat returns are based on an approval received in 2002 from Sars. An audit was conducted by Sars for the returns submitted in August and September 2012 that gave rise to a query on the vat status of company. Proof of approval for submission of vat returns was lodged with Sars. The legal department of Sars has confirmed that the company can continue to complete vat returns on a payments basis subject to the company reapplying for registration on a payments basis. The re application is in progress. The refund to the company is not in doubt.

16. Deferred income

Unspent conditional grants and receipts comprises of:

Income in advance		
Public contributions: service connections	11,345	-

Movement during the year

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Notes to the Financial Statements

Figures in Rand thousand	2013	2012
16. Deferred Income (continued)		
Balance at the beginning of the year	-	10,187
Additions during the year	180,254	182,879
Income recognition during the year	(168,909)	(193,066)
	11,345	-

17. Provisions

Reconciliation of provisions - 2013

	Opening balance	Additions	Utilised during the year	Reversed during the year	Total
Bonus provision	44,955	48,103	(16,791)	(28,164)	48,103

Reconciliation of provisions - 2012

	Opening balance	Additions	Utilised during the year	Total
Bonus provisions	42,132	45,202	(42,379)	44,955

The provision relates to the performance bonuses that the company expects to pay to qualifying employees. The amount is based on the performance of the financial year under review and is payable within the next financial year. The provision is management's best estimate of the entity's liability at reporting date.

18. Consumer deposits

Electricity	221,105	278,798
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19. Financial liabilities by category

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

2013

	Financial liabilities at amortised cost	Total
Loans from shareholder	3,057,078	3,057,078
Trade and other payables	2,256,152	2,256,152
	5,313,230	5,313,230

2012

	Financial liabilities at amortised cost	Total
Loans from shareholder	3,074,564	3,074,564
Trade and other payables	1,619,477	1,619,477
	4,694,041	4,694,041

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Figures in Rand thousand

	2013	2012
20. Share capital and share premium		
Authorised		
10,000 Ordinary shares of R1 each	10	10
Issued		
Share premium	112,466	112,466

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

21. Revenue

Sale of electricity	12,417,775	11,791,523
New service connections	105,156	112,121
Fair value adjustments - discounting	(53,043)	(59,052)
	12,469,888	11,844,592

Estimation for unread meters

Wear and tear and other factors result in some meters not being read for an extended period. The situation was as follows at the end of the financial year:

Population of meters subject to readings	260 333	278 963
Meters for which there was no reading in the year	1 068	20 331
Unread meters as a percentage of the meter population	0.4%	7.29%

22. Other revenue

Fees earned	13,687	37,962
Rental income - third party	312	1,609
Other income	217,330	229,142
Government grants	168,909	186,441
	400,238	455,154

Source of government grants:

Municipal infrastructure grant	88,000	45,000
Department of Energy	41,914	77,982
Engineering fees contributions	33,164	29,454
COJ Housing projects	5,831	34,005
	168,909	186,441

Grants are received to finance capital projects in respect of the electrification of under developed areas.

All conditions of these grants at reporting date have been met.

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Figures in Rand thousand	2013	2012
23. Other income		
Cut off fees	14,714	12,771
Demand side management levy	184,266	192,397
Disposal of obsolete materials	5,138	8,104
Cash discount received	-	996
Street pole advertising	9,729	10,362
Tender administration fees	4,408	5,356
Fair value adjustments - discounting	(925)	(844)
	217,330	229,142
24. General expenses		
Advertising	9,742	9,496
Assessment rates & municipal charges	12,139	9,640
Auditors fees	3,987	3,788
Bank charges	1,448	1,228
Cleaning	-	2,442
Commission paid	28,989	26,727
Consulting and professional fees	84,833	50,240
Donations	222	511
Entertainment	2,646	2,068
Insurance	29,817	40,866
Conferences and seminars	3,620	1,672
Lease rentals on operating lease	268,330	325,284
Levies	5,957	5,856
Magazines, books and periodicals	115	151
Motor vehicle expenses	38,899	30,603
Postage and courier	6	7
Printing and stationery	2,386	1,537
Security expenses	50,335	49,108
Software expenses	17,551	2,269
Staff welfare	(8,518)	(2,629)
Subscription fees	567	322
Telephone and fax	14,950	18,805
Transport and freight	-	4
Training	3,856	2,846
Travel - local	8,699	9,612
Travel - overseas	200	10
Refuse	5	-
Tree pruning	14,671	17,173
Meter readings	27,469	31,963
Loss on disposal of assets	8,949	20,507
Cut off fees	25,598	16,799
Material issues	221,756	5,181
Sundry expenses	269	585
Eskom free electricity costs	2,360	3,232
Fair value adjustment	(4,889)	(3,620)
	876,964	684,283

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Notes to the Financial Statements

Figures in Rand thousand	2013	2012
25. Employee related costs		
Salaries and wages	412,386	390,223
Gratuities	-	996
Membership fees	93	177
Medical aid contributions	453	688
Protective clothing	4,696	4,366
Overtime payments	107,961	110,939
Bonus	19,938	45,203
Unemployment Insurance Fund	2,637	2,355
Workmen's Compensation	4,323	3,845
Leave pay charge	10,425	9,117
Pension fund contributions	6 50,420	46,344
Group Life Assurance	13,181	12,765
Long-service awards	4,758	3,775
13th cheques	10,094	10,611
Acting allowances	22,155	22,115
Car allowances	26,674	25,977
Cellphone allowances	3,037	2,678
Termination benefits	901	4,580
	694,132	696,754
The remuneration of staff is within the upper limits of the SALGA Bargaining Council determinations.		
26. Administrative expenditure		
Administration and management fees - related party	122,813	313,315
27. Bad debts		
Increase in allowance for doubtful debt	689,011	705,499
28. Interest revenue		
Interest earned - City of Johannesburg banking	99,117	89,924
Interest earned - outstanding receivables	55,935	49,681
Fair value adjustments - discounting	62,434	54,341
	217,486	193,946
29. Depreciation and amortisation		
Property, plant and equipment	332,488	223,992
30. Finance costs		
Group companies	355,419	362,946
Finance lease interest	913	390
Fair value adjustments - discounting	39,488	25,536
	395,820	388,872

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Notes to the Financial Statements

Figures in Rand thousand	2013	2012
31. Taxation		
Major components of the tax expense		
Current		
Income tax - prior year	(76,852)	356,237
Local income tax - recognised in current tax for p	-	-
	(76,852)	356,237
Deferred		
Under/(over) provision prior year	(216,548)	-
Under/(over) provision current year	337,785	-
	121,237	-
	44,385	356,237
Reconciliation of the tax expense		
Reconciliation between applicable tax rate and average effective tax rate.		
Income tax charge to the statement of financial performance	3.26 %	22.42 %
Non-taxable income	13.80 %	10.37 %
Non-deductible expenditure	(0.02)%	(0.02)%
Under/over provision in prior year	17.70 %	- %
Tax refund	6.30 %	- %
Temporary difference	(13.04)%	(4.77)%
	28.00 %	28.00 %
32. Auditors' fees		
Fees	3,987	3,788
33. Bulk purchases		
Electricity	8,194,936	7,647,830
Included in bulk purchases are the following:		
Technical losses for the year amounts to R754 332 :(2012: R709 461)		
Non-Technical losses for the year amounts to R1390 439 :(2012: R844 899)		

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Notes to the Financial Statements

Figures in Rand thousand	2013	2012
34. Cash generated from operations		
Surplus	1,317,285	1,232,355
Adjustments for:		
Depreciation and amortisation	332,488	223,992
Interest Income	(217,486)	(193,946)
Movements in retirement benefit assets and liabilities	(8,541)	(2,055)
Movements in provisions	3,148	2,823
Annual charge for deferred tax	44,385	356,237
Finance cost	395,820	388,872
Tax receipts	76,852	-
Loss on disposal of assets	8,949	20,507
Changes in working capital:		
Inventories	(13,088)	(99,487)
Trade and other receivables	334,111	(380,160)
Consumer debtors	186,645	96,348
Trade and other payables	636,677	(1,157,911)
VAT	(147,514)	(265,733)
Deferred income	11,345	(10,187)
Finance lease	(3,984)	10,928
	2,957,092	222,583

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Notes to the Financial Statements

Figures in Rand thousand 2013 2012

35. Commitments

Commitments in respect of capital expenditure:

Authorised and not yet contracted for

•	Property, plant and equipment	1,685,721	876,719
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Authorised and contracted for

•	Property, plant and equipment	41,336	76,181
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This expenditure will be financed from:

External Loans		56,827	399,100
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Government Grants		549,110	295,800
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Internal cash		1,121,120	258,000
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	1,727,057		952,900
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Operating leases - as lessee

Avis Fleet Services

The company currently leases 315 non specialised vehicles from Avis Fleet Services. These vehicles are leased through an agreement which was concluded by The City of Johannesburg with Avis Fleet Services on 13 November 2012. In terms of the agreement, all rentals due on vehicles leased are payable monthly in arrears and are linked to the prime overdraft rate. Furthermore the agreement places restrictions on maximum number of kilometers which can be travelled over the lease term and specifies the rate at which excess kilometers will be billed.

Minimum lease payments due

- within one year		14,551	-
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- in second to fifth year inclusive		20,150	-
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	34,701		-
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Operating leases - as lessee

Kelvin Power

Minimum lease payments due

- within one year		390,868	378,362
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- in second to fifth year inclusive		1,563,472	1,445,338
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- later than five years		1,174,745	1,441,973
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	3,129,085		3,265,673
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36. Contingencies

Contingent liabilities

The company has an ongoing legal action instituted by Grinpal Energy Management for the company to absorb its employees in term of section 197 of the LRA. An appeal process is underway after the applicant has obtained a Court Order compelling the company to absorb the employees. The potential liability is estimated at R750 000.

Litigation by Nicolaas Ligt 10122 cc a supplier is in progress relating to damages for alleged breach of contract by the company for failure to pay for services rendered. The potential liability is R4 268 499. An out of court settlement is being negotiated with the supplier. The liability has subsequently been settled.

The company has an ongoing legal dispute with Labour union regarding non-payment of bonuses to employees for the 2012 financial year. The potential liability is estimated to be R28 163 994.

ABB South Africa has launched legal action against the company on the basis of an irregular award of a tender. It is alleged that the consultant appointed by the company interfered with the tender process to the detriment of the applicant. The matter is being defended and potential liability is still unknown.

City Power is currently claiming consumer debtor impairment at 100% as a tax deduction. South African Revenue Services has approved a deduction of 25%. City Power is appealing the decision of the Receiver. The potential liability is estimated to be R152 M.

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37. Related parties

Relationships

Controlling entity

Other members of the group

The City of Johannesburg Metropolitan Municipality
 City Housing Company (SOC) Ltd
 City of Johannesburg Property Company (SOC) Ltd
 Johannesburg City Parks NPC
 Johannesburg Development Agency (SOC) Ltd
 Johannesburg Metropolitan Bus Services (SOC) Ltd
 Johannesburg Roads Agency (SOC) Ltd
 Johannesburg Water (SOC) Ltd
 The Metropolitan Trading Company (SOC) Ltd
 Pikitup Johannesburg (SOC) Ltd
 Roodepoort City Theatre NPC
 The Johannesburg Theatre NPC
 The Johannesburg Fresh Produce Market (SOC) Ltd
 The Johannesburg Zoo NPC

Related party balances

Trade and other receivables regarding related parties

City of Johannesburg Metropolitan Municipality	330,022	703,171
City of Johannesburg Property Company (SOC) Ltd	14	8
The Johannesburg Zoo NPC	14	14
Johannesburg City Parks NPC	40	198
Johannesburg Roads Agency (SOC) Ltd	792	767
	330,882	704,158

Trade and other payables regarding related parties

The City of Johannesburg Metropolitan Municipality	238,500	-
Pikitup Johannesburg (SOC) Ltd	166	-
City of Johannesburg Property Company (Pty) Ltd	4	23
The Johannesburg Zoo	-	10
The Johannesburg Theatre NPC	-	76
Johannesburg City Parks NPC	1,753	6,438
Johannesburg Roads Agency (SOC) Ltd	5,135	4,249
	245,558	10,796

Loans from related parties

The City of Johannesburg Metropolitan Municipality	3,057,078	3,074,564
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Loans to related parties

The City of Johannesburg Metropolitan Municipality	2,705,337	1,190,591
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37. Related parties (continued)

Related party transactions

Electricity sales to related parties

City of Johannesburg Metropolitan Municipality	143,601	119,029
Johannesburg Social Housing Company (SOC) Ltd	3,447	5,867
Johannesburg Metropolitan Bus Services (SOC) Ltd	2,889	3,336
Pikitup Johannesburg (SOC) Ltd	3,409	3,042
Johannesburg Water (SOC) Ltd	110,825	95,072
Johannesburg Zoo NPC	3,193	2,218
Metropolitan Trading Company (SOC) Ltd	1,395	1,831
Johannesburg Civic Theatre (SOC) Ltd	5,921	5,687
Johannesburg City Parks NPC	5,406	8,746
Johannesburg Development Agency (SOC) Ltd	-	40
Johannesburg Roads Agency (SOC) Ltd	13,542	12,471
The Johannesburg Fresh Produce Market (SOC) Ltd	24,592	22,909
	318,220	280,248

Other income from related parties

The City of Johannesburg Metropolitan Municipality	95,551	111,091
City of Johannesburg Property Company (SOC) Ltd	28	-
Johannesburg Roads Agency (SOC) Ltd	22	-
Johannesburg City Parks NPC	59	-
	95,660	111,091

Purchases from related parties

City of Johannesburg Metropolitan Municipality	534,975	370,821
City of Johannesburg Property Company (SOC) Ltd	8	402
Johannesburg City Parks NPC	16,926	18,617
Johannesburg Roads Agency (SOC) Ltd	-	1,453
	551,909	391,293

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38. Directors' emoluments

Executive

2013

	Emoluments	Other allowances	Travel allowance	Total
Mr SG Xulu - Managing Director	1,933	161	128	2,222
Ms MS Mafora - Director:Corporate Services)	1,212	96	119	1,427
Mr TG Nkgoedi - Acting Director:Retail Services	1,012	89		1,101
Mr MJ Smith - Company Secretary	888	48	93	1,029
Mr DL Pieterse- Director:Engineering Operations	1,293	96	80	1,469
Mr NW Msomi - Acting Director:Engineering Services	858	66	110	1,034
	7,196	556	530	8,282

2012

	Emoluments	Other allowance	Travel allowance	Total
Mr SG Xulu - Managing Director	1,369	121	128	1,618
Ms MS Mafora - Director:Corporate Services	1,141	88	122	1,351
Ms NP Nsele - Acting Director:Customer Services	1,097	63		1,160
Ms N Siwahla-Madiba- Director:Finance	3,844	53	81	3,978
Mr MJ Smith - Company Secretary	830	35	93	958
Mr DL Pieterse - Director:Engineering Operations	1,400	94	80	1,574
Mr NW Msomi - Acting Director:Engineering Services	845	48	110	1,003
	10,526	502	614	11,642

Non-executive

2013

	Directors' fees	Travel Allowance	Total
Adv G Badela	138	4	142
Dr Y Ndema	70	1	71
Rev F Chikane- Chairperson	336	7	343
Mr NE Galawe	114	2	116
Ms ZD Hlatshwayo	131	2	133
Mr NSA Hlubi	260	7	267
Mr BK Mofokeng	93	3	96
Ms NP Mohlala	150	2	152
Dr MS Motebang	46	1	47
Mr TI Sithole	137	3	140
Ms LJ Fosu	60		60
Mr W Hattingh	97	3	100
Mr H Moolla	108	1	109
	1,740	36	1,776

2012

	Directors' fees	Travel allowance	Total
Ms KPM Simelane	389	6	395
Mr G Badela	175	5	180
Ms DLT Dondur	343	6	349

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38. Directors' emoluments (continued)			
ADV K-D CO Gripp	146	7	153
Ms J Kumbirai	85	6	91
PROF T Marwala	116	2	118
Mr JJH Mateya	326	10	336
DR Y Ndema	129	2	131
Rev F Chikane- Chairperson	33	1	34
Mr NE Galawe	16	-	16
Ms ZD Hlatshwayo	16	-	16
Mr NSA Hlubi	22	1	23
Mr BK Mofokeng	22	1	23
Ms NP Mohlala	22	-	22
Dr MS Motebang	16	-	16
Mr TI Sithole	21	1	22
Ms LJ Fosu	105	2	107
Mr W Hattingh	128	5	133
Mr H Moolia	206	1	207
	2,316	56	2,372

39. Change in estimate

Property, plant and equipment

Depreciable assets' original remaining useful lives have been reassessed as per table below in the beginning of the current period to reflect the actual pattern of service potential derived from the assets and in addition an exercise was performed in order to align the useful lives with the company's accounting policy.

Property, Plant and Equipment	Historical useful life (years)	Aligned useful life (years)
Buildings	20 - 60	60
Furniture & Fixtures	1- 60	6
IT Equipment	1-20	1 - 6
Plant & Machinery	5 - 31	6 - 55

Intangible assets	Historical useful life (years)	Aligned useful life (years)
Software	3 -13	3 -6

The effect on the current and future periods will be as per table below.

Property, Plant and Equipment	Net Effect on P&L
Buildings	(2,942)
Furniture & Fixtures	3,065
IT Equipment	9,052
Plant & Machinery	10,697
	19,872

Intangible assets	Net Effect on P&L
Software	(6,811)

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40. Prior period errors

The accrual for electricity sales includes a decrease in revenue reported for the 2012 financial period and previous reporting periods.

Specialised vehicles leased from the City of Johannesburg since 1 March 2012 were previously reported as operating leases. The specialised nature of the asset requires the lease to be classified as a finance lease which has been capitalised as property plant and equipment retrospectively .

The allowance for doubtful debts has been adjusted to be inclusive of vat. The effect of the adjustment is to ensure fair presentation of the net position of consumer debtors.

Vat payables has been decreased by the transfer of the vat component on doubtful debts outstanding. The transfer of the vat liability was to ensure fair presentation of the net consumer debtor balance.

The fair value of trade payables has been adjusted to correct an error in the number of days used to fair value trade payables.

The effect of the error on the individual line items is as follows:

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40. Prior period errors (continued)		
Statement of financial Performance		
2011 and Prior		
Decrease in revenue		(211,751)
Decrease in tax charge		59,291
Decrease in surplus previously reported		(152,460)
FY 2012		
Decrease in revenue		(243,876)
Decrease in operating lease costs		1,632
Increase in depreciation charge		(1,405)
Increase in finance costs		(390)
Decrease in tax charge		68,335
Decrease in finance income		(5,555)
Decrease in surplus for the 2012 financial period		(181,259)
Statement of Financial Position		
FY 2011 and prior		
Decrease in consumer debtors		(211,751)
Decrease in deferred tax		59,291
Change in net assets		(152,460)
FY 2012		
Increase in property plant and equipment - cost		12,170
Increase in accumulated depreciation		(1,405)
Net Increase in Property, Plant and Equipment		10,765
Decrease in consumer debtors		(455,638)
Increase in allowance for doubtful debts (vat)		(397,168)
Net decrease in current assets		(852,806)
Increase in finance lease liability		(3,351)
Decrease in vat payables		397,168
Increase in discounting accounts payable		(5,555)
Decrease in current liability		388,262
Increase in non current finance lease liability		(7,577)
Decrease in deferred tax		127,625
Decrease in current liability		388,262
Net increase in Property, Plant and Equipment		10,765
Net decrease in current assets		(852,806)
Increase in non current finance lease liability		(7,577)
Change in net assets		(333,731)

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41. Risk management

Financial risk management

The municipal entity has an integrated risk management framework. The municipal entity'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 the municipal entity's compliance and operational objectives. For the municipal entity 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 the municipal entity.

One of the risks for municipal entity identified both under the operational and strategic risk categories, is the financial sustainability of the municipal entity. 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 the municipal entity are liquidity risk, credit risk and market risk.

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

Interest rate risk

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

The municipal entity'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 municipal entity 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 municipal entity calculates the impact on surplus/deficit of a defined interest rate shift.

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after four years
Consumer receivables	9.00 %	2,048,523	-	-	-	-
Trade and other receivables	9.00 %	440,089	-	-	-	-
Loans to shareholder	9.00 %	2,705,337	-	-	-	-
Trade and other payables	9.00 %	(2,256,152)	-	-	-	-
Loan from shareholder	11.00 %	(428,960)	-	-	-	-

Credit risk

Credit risk is the risk of financial loss to the company if a customer fails to meet its contractual obligations. This arises primarily from the company's consumer receivables.

Consumer receivables comprise a widespread customer base. The municipal entity'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.

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41. Risk management (continued)

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 guarantees.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposures to credit risk at the reporting date are as follows.

Trade and other receivables	440,089	774,200
Loans to shareholder	2,705,337	1,190,591
Consumer receivables	2,048,523	2,235,169

Price risk

Price risk is the risk that the 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 municipal entity'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.

Distribution Losses

The electricity energy losses can be classified into technical and non-technical losses, during 2012/13 financial year. The municipal entity's non-technical losses increased from 10.72% to 16.59%. 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 the municipal entity'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)
- Utilisation of anonymous "hot line" to report theft, vandalism and tampering
- Random and targeted audits are performed, followed by removal of illegal connections and normalisation supply

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41. Risk management (continued)

Liquidity risk

Liquidity risk is the risk that City Power will not have sufficient financial resources to meet its obligations when they fall due, or will have to do so at excessive cost. This risk can arise from mismatches in the timing of cash flows from revenue and capital and operational outflows. Funding risk arises when the necessary liquidity to fund illiquid asset positions, such as building new electricity capacity, cannot be obtained at the expected terms and when required. The company's risk to liquidity is a result of the funds available to cover future commitments.

The company manages liquidity risk through an ongoing review of future commitments and credit facilities. Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored. The company's funding is managed by the City of Johannesburg Metropolitan Municipality. The City borrows money in the open market through the issue of bonds as and when required.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, company treasury maintains flexibility in funding by maintaining availability under committed credit lines.

42. 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.

43. Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

Opening balance	-	-
Interest on late payments	547	16
Approved by Council or condoned	(547)	(16)
	-	-

44. Irregular expenditure

Reconciliation of irregular expenditure

Opening balance	-	-
Procurement of good and services without competitive bids and written price quotations	-	9,950
Condoned by Council	-	(9,950)
	-	-

Details of irregular expenditure condoned

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45. Supply chain deviations

Payment of copy charges not included in the original contract R373 000.

Emergency procurement for repairs to 28 routers for the AMR system R123 000.

Final payment to a supplier after expiry of contract R4 662 000.

Emergency repair and permanent restoration of Kelvin- Delta 1 and 2, Kelvin- Cydna transmission lines R4 847 000.

Emergency repair to 33kV oil filled cables amounting to R2 028 000.

Emergency repairs to 2x33kV feeders cables amounting to R439 000.

The following awards were made with less than the mandatory 3 quotes

Build mix cc - two responses received R105 355

Essential paint and hardware - one response received R 46 836

Interrest cc - two response received R 167 760

Hennox 818 BK - one response received R109 725

Fumigation worx - one response received R 55 233

Mboneni Teledata (Pty) Ltd. - one response received R81 0407

The following awards were made to sole suppliers

Software realisations cc - Licence renewal R 3 350 931

Oracle corporation - License renewal R 6 009 620

Wolters Kluwer tax & accounting Southern - Licence renewal R 260 000

Mtechsa - Licence renewal R 2000 000

Giscoe (Pty) Ltd - Licence Renewal R 1 429 902

Business day - Advertising R41 860

Sowetan - Advertising R16 108