

The Issuer accepts responsibility for the information contained in this Offering Circular, except as may be otherwise stipulated. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Issuer, having made all reasonable enquiries, confirms that this Offering Circular contains or incorporates all information which is material in the context of the issue and the offering of the Bonds, that the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading, that the opinions and the intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or expression of any such opinions or intentions misleading in any material respect.

The Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that such documents are incorporated into and form part of this Offering Circular.

African Harvest Capital (Proprietary) Limited ("**African Harvest**"), Barclays Bank Plc, South Africa Branch ("**Barclays**") and Ernst & Young Corporate Finance (Proprietary) Limited ("**EYCF**") (African Harvest, Barclays and EYCF together referred to as the "**Arrangers**" or the "**Joint Lead Arrangers and Advisors**"), the Trustee and other Professional Advisors have not separately verified the information contained herein.

Accordingly, no representation, warranty or undertaking, express or implied is made and no responsibility is accepted by the Arrangers or other Professional Advisors as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Issuer, or the Guarantors. The Arrangers, the Guarantors, the Trustee and other Professional Advisors do not accept any liability in relation to the information contained in this Offering Circular or any other information provided by the Issuer or the Guarantors in connection with the Bonds, except that DBSA confirms that the information contained or incorporated in this Offering Circular under the headings "Description of and Financial Information on the Guarantors – Description of the DBSA" on page 46 and "Authorisation" on page 116 in relation to DBSA, is true and accurate in all material respects and is not misleading and IFC confirms that the information contained or incorporated in this Offering Circular under the headings "Description of and Financial Information on the Guarantors – Description of the IFC" on page 53 and "Authorisation" on page 116 in relation to IFC, is true and accurate in all material respects and is not misleading.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, any of the Arrangers or the Guarantors. Neither the delivery of this Offering Circular nor any sale concluded in connection herewith shall under any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other financial statements or other information supplied in connection with the Bonds is correct as at any time subsequent to the date indicated in the document containing the same. The Arrangers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Bonds.

This Offering Circular does not constitute an offer or an invitation by, or on behalf of, the Issuer, the Arrangers, the Guarantors or the Trustee to subscribe for or purchase, any of the Bonds in any jurisdiction in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

This Offering Circular and any information supplied in connection with the Bonds or the Bond issue are not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer and/or the Joint Lead Managers and/or Joint Lead Arrangers and Advisors and/or the Guarantors and/or the Trustee and/or other Professional Advisors that any recipient of this Offering Circular and/or any recipient of such other information supplied in connection with the Bond or the Bond issue should acquire such Bonds.

Each potential investor contemplating the acquisition of any Bonds should conduct its own independent investigation of the financial condition and affairs and its own appraisal of the creditworthiness of the Issuer.

The distribution of this Offering Circular and the sale or offer of Bonds may be restricted by law in certain jurisdictions. None of the Issuer, the Arrangers, the Guarantors, the Trustee or the other Professional Advisors represents that this Offering Circular may be lawfully distributed, or that any Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arrangers, the Guarantors, the Trustee or the other Professional Advisors which would permit a public offering of any Bonds or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Bonds may be offered or sold, directly or indirectly and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations, and the Arrangers have represented that all offers and sales by them will be made in compliance with this prohibition.

Persons into whose possession this Offering Circular or any Bonds come must inform themselves about and observe any such restrictions on the offer or sale of any Bonds in their particular jurisdiction. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Bonds in the United States of America, the United Kingdom and the Republic of South Africa.

In the Republic of South Africa certain restrictions apply, namely that no Bond may initially be subscribed for by a Disqualified Person. See Condition 24 (Restriction on Sale of Bonds) under "Terms and Conditions of the Bonds".

Securities may not be offered in the United States without registration or an exemption from registration under the U.S. securities laws or in any other jurisdiction except in accordance with applicable law. The Bonds have not been and will not be registered under the United States Securities Act, 1933 (the "Securities Act"). The Bonds may not be offered, sold or delivered within the United States of America or to U.S. persons except in accordance with Regulation S under the Securities Act.

In this Offering Circular all references to "South African Rand", "Rand", "R" and "ZAR" are references to the lawful currency of the Republic of South Africa.

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DOCUMENTS INCORPORATED BY REFERENCE

The following documents shall be deemed to be incorporated in, and to form part of this Offering Circular:

- (a) all amendments or supplements to this Offering Circular circulated by the Issuer from time to time to the extent required;
- (b) the audited annual financial statements of the Issuer and its UAC's for the financial years ended 30 June 2003 and 30 June 2002 and all subsequent years over the life of the Bonds;
- (c) the Trust Deed; and
- (d) the Guarantee Agreement,

save that any statement contained herein or in a document which is incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise).

Copies of the most recently published audited annual financial statements of the Issuer are available free of charge at the office of the Issuer situated at 14th Floor, Jorissen Place, 66 Jorissen Street, Braamfontein, Johannesburg, 2001, contact persons: the Acting Executive Director: Finance and Economic Development, Ms Mankodi Moitse and the City Treasurer, Mr Jason Ngobeni. Copies of the most recently audited annual financial statements of the Guarantors are available free of charge at the Specified Office of the Trustee, or on the Guarantors' respective websites, namely www.dbsa.org and www.ifc.org.

SUMMARY

The following summary does not purport to be complete and is taken from, and is qualified by, the remainder of this Offering Circular. Words used in this section headed "Summary" shall have the same meanings as defined in the Terms and Conditions, except to the extent that they are separately defined in this section or this is clearly inappropriate from the context:

Issuer or COJ	City of Johannesburg Metropolitan Municipality.
Amount	ZAR1 000 000 000,00 (one billion Rand).
Joint Lead Arrangers	African Harvest Capital (Proprietary) Limited, Barclays Bank Plc, South Africa Branch and Ernst & Young Corporate Finance (Proprietary) Limited.
Description	City of Johannesburg Metropolitan Municipality ZAR1 000 000 000,00 (one billion Rand) 11,90% (eleven comma nine zero percent) unsecured partially guaranteed Bonds due 15 September 2016.
Transfer Secretary	Computershare Limited.
Currency	South African Rand (ZAR).
Denomination	Bonds will be issued with a minimum denomination of ZAR1 000 000,00 (one million Rand) each.
Interest Payable	Interest will be payable semi-annually in arrears on 15 March and 15 September in each year, on the Principal Amount until the day before the Final Redemption Date, with the first payment to be made on 15 September 2004.
Interest Rate	A fixed rate of 11,90% (eleven comma nine zero percent) per annum.
Redemption Dates	The dates of 6 (six) equal semi-annual instalments over the last 3 (three) years over the life of the Bonds, commencing on the First Redemption Date and terminating on the Final Redemption Date, unless all Bonds are redeemed or purchased and cancelled by the Issuer at a prior date/s as is contemplated in the Terms and Conditions.
First Redemption Date	15 March 2014, unless all Bonds are redeemed or purchased and cancelled by the Issuer at a prior date/s as is contemplated in the Terms and Conditions.
Final Redemption Date	15 September 2016, unless all Bonds are redeemed or purchased and cancelled by the Issuer at a prior date/s as is contemplated in the Terms and Conditions.
Redemption Value	100% (one hundred percent) of the Principal Amount of the Bond.
Early Redemption	The Issuer may redeem the Bonds at their Principal Amount (together with accrued interest thereon) before the Final Redemption Date upon notice for taxation reasons, on the basis set out in Condition 8.2 of the Terms and Conditions.
Principal Amount	The face value of each Bond and after the First Redemption Date, the face value of each Bond less the aggregate of all partial redemptions of the Principal Amount on the various Redemption Dates, up to the relevant date of calculation.
Register	The Register shall be closed prior to each Interest Payment Date and the Redemption Dates for the periods as described in Condition 15 of the Terms and Conditions.
Negative Pledge	Condition 5 of the Terms and Conditions provides for a negative pledge by the Issuer in favour of Bondholders.
Taxation	As at the date of this Offering Circular, all payments in respect of the Bonds will be made without withholding or deduction for or on account of taxes levied in South Africa. In the event that withholding tax or such other deduction is required by law, the Issuer will, subject to certain exceptions provided in Condition 9 of the Terms and Conditions, pay such additional amounts as shall be necessary in order that the net amounts received by the Bondholders after such withholding or deduction shall equal the respective amounts of the Principal Amount and interest which would otherwise have been receivable in respect of the Bonds as the case may be, in the absence of such withholding or deduction.

Selling Restrictions	There are selling restrictions in relation to the United States of America, the United Kingdom and the RSA and such other restrictions as may be required in relation to the offering or sale of the Bonds.
Joint Lead Managers	ABSA Corporate & Merchant Bank, a division of ABSA Bank Limited and Barclays Bank Plc, South Africa Branch.
Listing	An application was made to list the Bonds on BESA under stock code number COJ02. The application was granted on 30 June 2004 and the Bonds may be traded by and through members of BESA from 30 June 2004.
Status of the Bonds	The Bonds will constitute direct, unconditional, unsecured, partially guaranteed and unsubordinated obligations of the Issuer and will rank equally in all respects amongst themselves and (save for certain debts which are already secured (see "Negative Pledge" in Condition 5 of the Terms and Conditions) or required to be preferred by law) equally with all other present or future unsecured obligations of the Issuer, including without being limited to the bonds issued pursuant to the First Bond Issue.
Guarantee Agreement	The Issuer's obligations under the Bonds, for payment of the Principal Amount and interest, are irrevocably guaranteed, subject to the conditions described in Article 2 of the Guarantee Agreement dated 24 June 2004 (set out in Annexure "A" to the Terms and Conditions and described in Condition 4 of the Terms and Conditions), on a several but not joint basis, by the International Finance Corporation and the Development Bank of Southern Africa Limited, up to an aggregate maximum of 40% (forty percent) of the Principal Amount.
Guarantors	International Finance Corporation and the Development Bank of Southern Africa Limited, acting on a several but not joint basis.
Trustee	Sonnenberg Hoffmann & Galombik Trustees (Proprietary) Limited, Registration Number 1997/013478/07, a private company incorporated under the laws of the RSA, unless the Issuer and the Guarantors elect to appoint another entity as Trustee, as contemplated in the Terms and Conditions.
Status of Guarantee Agreement	The obligations of each Guarantor under the Guarantee Agreement will constitute unsecured obligations of that Guarantor, subject to the conditions described in Article 2 of the Guarantee Agreement and will rank equally in all respects with all other present and future unsecured and unsubordinated obligations of that Guarantor.
Stamp Duty	Under South African legislation, no stamp duty or transfer tax is payable upon the issue or transfer of listed bonds.
Governing Law	The Bonds, the Guarantee Agreement and the Trust Deed will be governed by, and construed in accordance with the laws of the RSA.
Electronic Settlement	Bond transactions will be cleared and settled in accordance with the rules of BESA and the Central Depository through STRATE. Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking société anonyme ("Clearstream, Luxembourg") may settle offshore transfers in the Bonds through their appointed BESA Settlement Agent which is currently The Standard Bank of South Africa Limited.
Blocked Rand	Blocked Rand may be used to purchase Bonds subject to the South African Exchange Control Regulations, 1961.
Terms and Conditions	The terms and conditions of the Bonds set out in this Offering Circular.
Professional Advisors	All the advisors set out at the end of this Offering Circular.

FORM OF THE BONDS

Words used in this section headed "Form of the Bonds" shall bear the same meanings as defined in the Terms and Conditions, except to the extent that they are separately defined in this section or this is clearly inappropriate from the context.

The Bonds will be listed on BESA. The Bonds will be issued in accordance with the Terms and Conditions set out below in this Offering Circular in the form of a single certificate, without interest coupons (the "**Global Certificate**"), which will be lodged in the Central Depository which forms part of the settlement system of BESA. This will entail that the Bonds represented by the Global Certificate, will be deposited with and registered in the name of, and for the account of, the Central Depository. Beneficial Interests in Bonds represented by a Global Certificate lodged in the Central Depository may, in terms of existing law and practice, be transferred through the Central Depository by way of book entry in the securities accounts of the Central Depository Participants, who are also approved by BESA to act as Settlement Agents and therefore perform electronic settlement of both funds and scrip on behalf of market participants. A certificate or other document issued by a Central Depository Participant as to the Principal Amount of such Beneficial Interest in Bonds standing to the account of any person shall be *prima facie* proof of such Beneficial Interest.

Beneficial Interests in Bonds may be exchanged, without charge by the Issuer, for Bonds in definitive registered form ("**Definitive Certificates**") in accordance with the provisions of Condition 13 of the Terms and Conditions. Such Definitive Certificates will not be issuable in bearer form. The Bonds represented by the Global Certificate and such Definitive Certificates will be registered in the names of the individual Bondholders in the register of Bondholders maintained by the Transfer Secretary (the "**Register**"). The Issuer shall regard the Register as the conclusive record of title to the Bonds. The Central Depository shall be recognised by the Issuer as the owner of the Bonds represented by the Global Certificate and the registered holders of Definitive Certificates shall be recognised by the Issuer as the owners of the Bonds represented by such Definitive Certificates. Bonds represented by Definitive Certificates may only be transferred in accordance with the provisions of Condition 13 of the Terms and Conditions.

TERMS AND CONDITIONS OF THE BONDS

The following is the text of the terms and conditions of the Bonds which (subject to completion and amendment) will be incorporated by reference into each Global Certificate and each Definitive Certificate.

In terms of resolutions of the Council of the Issuer passed on 29 January 2004 and 23 June 2004, the Issuer is authorised to issue Bonds with a nominal amount of ZAR1 000 000 000,00 (one billion Rand) and in addition has the necessary authority to issue the Bonds in terms of section 230(1) of the Constitution of the RSA, 1996 and section 10G(8)(a)(i) of the Local Government Transition Act, 1993 of the RSA.

In these terms and conditions, unless inconsistent with the context, the following expressions shall have the following meanings:

- “Aggregated Net Tangible Assets”** means total assets less intangible assets and total liabilities as reflected in the Latest Balance Sheet and the latest balance sheets of all the UAC’s;
- “Applicable Procedures”** means the rules and operating procedures for the time being of BESA, the Central Depository and the Settlement Agents, as the case may be;
- “Auditor-General”** means the Auditor-General of the RSA, who in addition to the powers and functions conferred upon him in terms of section 188 of the Constitution of the Republic of South Africa Act, 1996 has the powers and performs the duties specified in the Auditor-General Act, 1995;
- “Beneficial Interest”** means the undivided share of a co-owner of the Bonds represented by a Global Certificate, as provided in section 4 of the Custody and Administration of Securities Act, 1992;
- “BESA”** means the Bond Exchange of South Africa, a licensed financial exchange in terms of the Financial Markets Control Act, 1989 or any exchange which operates as a successor exchange to BESA;
- “Bond Acceleration”** means the acceleration of the Bonds by the Trustee in accordance with Condition 12 of the Terms and Conditions;
- “Bondholder” and “holder”** means, in relation to any Bond, the person whose name is entered in the Register as the holder of such Bond;
- “Bonds”** means the direct, unconditional, unsecured, partially guaranteed and unsubordinated, fixed rate bonds with a minimum denomination of ZAR1 000 000,00 (one million Rand) each, which will rank equally in all respects amongst themselves and (save as provided for in Condition 5 of the Terms and Conditions and save for claims required to be preferred by law) will rank equally with all other present or future unsecured and unsubordinated obligations of the Issuer including without being limited to the bonds issued pursuant to the First Bond Issue, which will be issued pursuant to these Terms and Conditions and will be represented by a Global Certificate and/or Definitive Certificate(s), as the case may be;
- “Business Day”** means any day (other than a Saturday, Sunday or official public holiday within the meaning of the Public Holidays Act, 1994) on which commercial banks settle Rand payments in Johannesburg, South Africa and on which commercial banks are open for business in Washington D.C., United States of America;
- “Central Depository”** means STRATE, conducting the business of a central securities depository in terms of the Custody and Administration of Securities Act, 1992, or its nominee or any additional or alternative central securities depository approved by the Issuer and BESA;
- “Central Depository Participant”** means a depository institution accepted by the Central Depository as a participant in terms of the Custody and Administration of Securities Act, 1992;
- “DBSA”** means the Development Bank of Southern Africa Limited, existing under the Development Bank of Southern Africa Act, 1997 of the RSA;

"Definitive Certificate"	means a registered Bond in definitive form issued or, as the case may be, required to be issued by the Issuer in accordance with these Terms and Conditions in exchange (in whole or in part) for a Beneficial Interest in Bonds represented by a Global Certificate in accordance with Condition 13 of the Terms and Conditions;
"Disqualified Person"	means, in relation to the initial subscription for the Bonds, a person who or which is not a "resident" as defined in section 1 of the Income Tax Act, 1962, of the RSA;
"Early Redemption Date"	means any relevant date prior to the Final Redemption Date upon which the Bonds are redeemed early in accordance with Conditions 8.2 or 12 of the Terms and Conditions;
"Encumbrance"	means any mortgage, charge, pledge, lien, preferential right or other security interest or arrangement, as specifically detailed in Condition 5 of the Terms and Conditions;
"Event of Default"	means an event of default as set out in Condition 12 of the Terms and Conditions;
"Event of Trustee Intervention"	means an event of Trustee intervention as set out in Condition 11 of the Terms and Conditions;
"Extraordinary Resolution"	means any resolution passed at a duly convened meeting of the Bondholders by a majority consisting of not less than 2/3 (two-thirds) of the persons voting thereat upon a show of hands or if a poll be demanded, by a majority consisting of not less than 2/3 (two-thirds) of the votes given on such poll;
"Final Redemption Date"	means 15 September 2016, unless all Bonds are redeemed or purchased and cancelled by the Issuer at a prior date/s as is contemplated in the Terms and Conditions;
"First Bond Issue"	means the ZAR1 000 000 000,00 (one billion Rand) 11,95% (eleven comma nine five percent) unsecured bonds due 13 April 2010 issued by COJ on 13 April 2004 and listed on BESA under stock code COJ01;
"First Redemption Date"	means 15 March 2014, unless all Bonds are redeemed or purchased and cancelled by the Issuer at a prior date/s as is contemplated in the Terms and Conditions;
"Fitch"	means Fitch Ratings or its affiliate in South Africa (currently Fitch Ratings Southern Africa (Proprietary) Limited);
"Global Certificate"	means the single certificate without interest coupons representing some or all of the Bonds issued by the Issuer and registered in the name of the Central Depository and representing those Bonds which are lodged in the Central Depository, other than those Bonds represented by Definitive Certificates;
"Government"	means the Government of the RSA;
"Guarantee Agreement"	means the guarantee agreement dated 24 June 2004 and set out in Annexure "A" to the Terms and Conditions, entered into by the Trustee and the Guarantors, acting severally but not jointly, for the benefit of Bondholders, as described in Condition 4 of the Terms and Conditions;
"Guarantor Acceleration"	means the acceleration by the Guarantors of their obligations under the Guarantee Agreement in accordance with the terms of Article 2, section 2.5 of the Guarantee Agreement;
"Guarantors"	means the IFC and the DBSA, acting severally but not jointly;
"IFC"	means the International Finance Corporation, an international organisation established by Articles of Agreement between its member countries, including the Republic of South Africa, and a member of the World Bank Group;

“Indebtedness”	means any indebtedness in respect of monies borrowed and guarantees given whether present or future, actual or contingent;
“Interest Payment Date”	means the day upon which interest due in respect of the Bonds shall be paid by the Issuer, being 15 March and 15 September in each year that the Bonds are outstanding up to and including the Final Redemption Date;
“Interest Period”	means the 6 (six) month period commencing on, and including, the day after an Interest Payment Date and ending on, and including, the next Interest Payment Date. The first Interest Period shall commence on the date of issue of the Bonds and shall end on 15 September 2004. The last Interest Period shall end on the day before Final Redemption Date;
“Interest Rate”	means a fixed rate of 11,90% (eleven comma nine zero percent) per annum;
“Issue Date”	means 30 June 2004;
“Issuer” or “COJ”	means City of Johannesburg Metropolitan Municipality, a municipality as described in section 2 of the Local Government : Municipal Systems Act, 2000, duly established in terms of Notice No. 2000, promulgated in the Provincial Gazette Extraordinary of 1 October 2000 in terms of section 12(1) read with section 14 of the Local Government : Municipal Structures Act, 1998, as amended;
“Joint Lead Managers”	means ABSA Corporate & Merchant Bank, a division of ABSA Bank Limited, Registration Number 1986/004794/06 and Barclays Bank Plc, South Africa Branch, Registration Number 1998/005292/10, an external company registered under the Banks Act, 1990, as a foreign branch of Barclays Bank Plc, incorporated in the United Kingdom;
“Last Day to Register”	means 16h00 South African time on the Business Day immediately preceding the first day during which the Register is closed in accordance with Condition 15 of the Terms and Conditions;
“Latest Balance Sheet”	means the latest published annual balance sheet of the Issuer, which has been audited by the Auditor-General and as at the date of issue of this Offering Circular means the balance sheet of the Issuer as at 30 June 2003;
“Latest Income Statement”	means the latest published annual income statement of the Issuer which has been audited by the Auditor-General and as at the date of issue of this Offering Circular means the income statement of the Issuer for the period ended 30 June 2003;
“Material Asset”	means any asset that (i) is owned by the Issuer or a UAC, (ii) has a gross book value (without deduction of any applicable depreciation reserves) on a date as of which the determination is being made of more than 3% (three percent) of the Aggregated Net Tangible Assets and (iii) has been determined in good faith by the Issuer to be materially important to the total business conducted by the Issuer and its UAC's taken as a whole;
“Material UAC”	means any UAC, in which (i) the Issuer's total interest exceeds 5% (five percent) of the Issuer's total aggregated assets (including the assets of all UAC's); or (ii) in which at least 10% (ten percent) of the Total Aggregated Debt Capital is employed;
“Moody's”	means Moody's Investors Service;
“Offering Circular”	means this offering circular, dated 30 June 2004;
“Principal Amount”	means, in relation to a Bond, the face value thereof and after the First Redemption Date, the face value of each Bond less all partial redemptions of the principal amount on the various Redemption Dates, up to the relevant date of calculation;

“Redemption Dates”	means the dates of 6 (six) equal semi-annual instalments over the last 3 (three) years over the life of the Bonds, commencing on the First Redemption Date and terminating on the Final Redemption Date, unless the Bonds are redeemed or purchased and cancelled by the Issuer at a prior date/s as is contemplated in the Terms and Conditions;
“Register”	means the register of Bondholders kept by or on behalf of the Issuer in terms of Condition 15 of the Terms and Conditions;
“RSA” or “South Africa”	means the Republic of South Africa;
“Standard & Poor’s”	means Standard & Poor’s, a division of the McGraw Hill Companies, Inc.;
“Settlement Agent”	means a Central Depository Participant approved by BESA in terms of the rules of BESA to perform electronic settlement of both funds and scrip on behalf of market participants from time to time;
“Specified Office”	means, the respective address of each of the Issuer, the Guarantors, the Trustee and the Transfer Secretary, specified at the end of the Offering Circular, or such other address as is notified by such entity (or, where applicable, a successor to such entity) to the Bondholders in accordance with Condition 22 of the Terms and Conditions, as the case may be;
“STRATE”	means STRATE Limited, Registration Number 1998/022242/06, a public company incorporated under the laws of the RSA and registered as a central securities depository under the Custody and Administration of Securities Act, 1992;
“Terms and Conditions”	means the terms and conditions incorporated in the section headed “Terms and Conditions of the Bonds” and in accordance with which the Bonds are issued;
“Total Aggregated Debt Capital”	means the total aggregated principal and accrued interest owing in terms of all the long term liabilities of the Issuer and all the UAC’s, including local registered stock, funding facilities, structured loans, DBSA, Government, other loans and capital creditors and the First Bond Issue, but excluding all loans between the Issuer and UAC’s and between UAC’s amongst themselves;
“Transfer Secretary”	means Computershare Limited, Registration Number 1958/003546/06;
“Trust Deed”	means the deed of trust entered into between the Issuer and the Trustee dated 24 June 2004;
“Trustee”	means Sonnenberg Hoffmann & Galombik Trustees (Proprietary) Limited, Registration Number 1997/013478/07, a private company incorporated under the laws of the RSA or its successor, which shall serve as the Trustee pursuant to the Trust Deed, unless the Issuer and the Guarantors elect to appoint another entity as Trustee, in which event that other entity, on execution of a deed of assignment, shall serve as Trustee in respect of the Bonds;
“UAC”	means any utility, agency or corporatised entity of the Issuer;
“US\$” or “\$”	means the lawful currency of the United States of America, being United States Dollars; and
“ZAR”	means the lawful currency of the Republic of South Africa, being South African Rand.

1 FORM AND DENOMINATION

- 1.1 The Bonds will be in registered form and will be issued in minimum denominations of ZAR1 000 000,00 (one million Rand) or integral multiples thereof. Bonds with a total Principal Amount of ZAR1 000 000 000,00 (one billion Rand) will be issued in terms of this issue. Such issue does not preclude the Issuer from issuing further bonds in the future.
- 1.2 The Bonds will initially be represented by a single Global Certificate without interest coupons which will be deposited with and registered in the name and for the account of the Central Depository before the date of issue of the Bonds. The Central Depository shall be reflected in the Register as the holder of the Bonds represented by the Global Certificate.

2 TITLE

- 2.1 Title to the Bonds will pass upon registration of transfer in the Register in accordance with Condition 14 of the Terms and Conditions. The Issuer, each of the Guarantors, the Trustee, the Transfer Secretary and any Central Depository Participant shall recognise the holder of any Bond as recorded in the Register as the absolute owner thereof (notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes and shall not be bound to enter any trust in the Register or to take notice of or to accede to the execution of any trust (express, implied or constructive) to which any Bond may be subject.
- 2.2 Beneficial Interests in Bonds represented by a Global Certificate lodged in the Central Depository may, in terms of existing law and practice, be transferred through the Central Depository by way of electronic book entry in the securities account of the Central Depository Participants. Such transfers will not be recorded in the Register and, notwithstanding any such transfer, the Central Depository will continue to be reflected in the Register as the Bondholder in respect of the Global Certificate.

3 STATUS

The Bonds constitute direct, unconditional, unsecured, partially guaranteed and unsubordinated obligations of the Issuer which will at all times rank equally in all respects amongst themselves and (save as provided for in Condition 5 of the Terms and Conditions and save for claims required to be preferred by law) will rank equally with all other present or future unsecured and unsubordinated obligations of the Issuer, including without being limited to the bonds issued pursuant to the First Bond Issue, from time to time outstanding, but, in the event of insolvency, only to the extent permitted by law. The Issuer's obligations in respect of the Bonds are, for payment of the Principal Amount and interest, partially guaranteed up to an aggregate maximum of 40% (forty percent) of the Principal Amount.

4 GUARANTEE AGREEMENT

- 4.1 The Guarantors have on a several but not joint basis (i.e. each Guarantor is liable to discharge 50% (fifty percent) of the obligations in terms of the Guarantee Agreement without recourse to the other), irrevocably guaranteed, subject to the conditions described in Article 2 of the Guarantee Agreement, to the Bondholders, the due and punctual payment by the Issuer of the Principal Amount and interest payable by the Issuer to the Bondholders in respect of the Bonds up to an aggregate maximum of 40% (forty percent) of the Principal Amount, in the manner and subject to the terms and conditions of the Guarantee Agreement.
- 4.2 The obligations of each Guarantor under the Guarantee Agreement constitute irrevocable and unsecured obligations of that Guarantor, subject to the conditions described in Article 2 of the Guarantee Agreement, and will at all times rank (subject to any obligations required to be preferred by law) equally in all respects with all other present and future unsecured obligations of that Guarantor.
- 4.3 The Trustee will act as the sole representative of the Bondholders in respect of the Bonds, in accordance with the Trust Deed, insofar as enforcement of the Guarantee Agreement is concerned.
- 4.4 Bondholders' attention is drawn to Articles 2.4 and 2.5 of the Guarantee Agreement which deal with acceleration and default respectively.
- 4.5 The Bondholders are entitled by Extraordinary Resolution:
 - 4.5.1 to instruct the Trustee to replace DBSA as Guarantor, by notice in writing to DBSA, if DBSA's local credit rating from Fitch or Standard & Poor of "AAA.za" or equivalent or from Moody's of "Aaa.za" or equivalent is downgraded by at least 2 (two) notches and to take such steps to substitute the remaining Guarantor or any new guarantor which has a suitable local credit rating, as identified by COJ and approved by the Bondholders, for DBSA, in all respects as if the substituted guarantor was originally appointed as Guarantor, in its name, place and stead; and

- 4.5.2 to instruct the Trustee to replace IFC as Guarantor, by notice in writing to IFC, if IFC's international credit rating is downgraded below the South African sovereign rating of Fitch, Standard & Poor's or Moody's (i.e. the rating of RSA as a sovereign country by any one of such rating agencies) and to take such steps to substitute the remaining Guarantor or any new guarantor which has a suitable local credit rating, as identified by COJ and approved by the Bondholders, for IFC, in all respects as if the substituted guarantor was originally appointed Guarantor, in its name, place and stead.

5 NEGATIVE PLEDGE

As long as any Bond remains outstanding, the Issuer will not create, and will not permit any UAC to create any Encumbrance other than any Permitted Encumbrance upon the whole or any part of its or their present or future assets or revenues to secure any of its present or future Relevant Borrowings without making effective provision whereby all of the Bonds shall be directly secured equally and rateably with such Relevant Borrowings and any such instrument creating such Encumbrance shall expressly provide therefor. The Issuer shall be entitled but not obliged, to form, or procure the formation of, a trust or trusts or appoint, or procure the appointment of, an agent or agents to hold any such rights of security for the benefit of such Bondholders. For purposes of this Condition 5:

"Capital Employed" means the aggregate of the following items as reflected in the Latest Balance Sheet:

- (i) all the statutory funds and accumulated funds, being the capital development fund, fixed property sales fund, insurance fund, housing and estates' development fund, endowment fund and other funds of the Issuer for the time being;
- (ii) all reserves, being maintenance reserve and revolving fund for housing development of the Issuer for the time being;
- (iii) less, the Issuer's accumulated deficit;
- (iv) all trust funds, being the Issuer's fund for inner city projects and all other funds;
- (v) all long term liabilities, being local registered stock, funding facility, structured loans, DBSA loans, other loans, government loans, capital creditors, less the short term portion transferred to current liabilities;
- (vi) all deposits, being all consumer and other deposits of the Issuer for the time being; and
- (vii) adjusted by taking into account the net debit or credit balance on the profit and loss account as at the date of any profit and loss account published subsequent to the date of the Latest Income Statement.

"Encumbered Assets" means any assets of the Issuer and all the UAC's which are the subject matter of any Secured Loan, including without being limited to zero coupon bonds and sinking funds.

"Encumbrance" means any lien, mortgage, charge, encumbrance or other security interest, provided that Encumbrance shall not include:

- (i) in the case of a Material UAC, any liens, mortgages, charges, encumbrances or other security interests in existence at the date it became a Material UAC and which was not created in anticipation of such event;
- (ii) any security interests not falling within (i) above securing an amount in the aggregate not exceeding 10% (ten percent) of the Capital Employed.

"Permitted Encumbrance" means for purposes of this condition, any Encumbrance which immediately after its creation, will result in COJ having (i) Unencumbered Assets with an aggregate book value of not less than ZAR3 750 000 000 (three billion seven hundred and fifty million Rand); and (ii) Unencumbered Assets, when combined with the assets of the UAC's, with an aggregate book value of not less than ZAR8 000 000 000 (eight billion Rand).

As at 30 June 2003, the asset profile of the Issuer was as follows:

	ZAR '000
Value of Encumbered Assets	717,031
Value of COJ's total assets*	5,005,006
Aggregated value of UAC's total assets#	5,232,402

* This amount has been adjusted for the amounts owed to COJ by UAC's.

This amount has been adjusted for amounts owed to the UAC's by COJ.

As at 30 June 2003, Encumbered Assets, expressed as a percentage of total assets

– of COJ only, amounted to	14,33%
– of COJ and all the UAC's, amounted to	7,00%

“**Relevant Borrowings**” means any Indebtedness of the Issuer and/or the UAC's in the form of, or represented by, bonds, notes, debentures or other debt securities which are unlisted or which are or are to be quoted, listed or ordinarily dealt in or traded on any stock exchange, over-the-counter or other securities market (whether or not initially distributed by way of private placement), but excluding any such indebtedness which upon the issuance thereof had a stated maturity not exceeding one year and any option or warrant in respect of any share or index.

“**Secured Loans**” means existing loans to the Issuer which have been secured by assets of the Issuer, except and to the extent prepaid, or to be prepaid, from the proceeds of the First Bond Issue. Secured loans to the Issuer as at 30 June 2003 amounted to ZAR2,2 billion (two comma two billion Rand). It is the intention of COJ to refinance a significant portion of these loans through bond issues, including the First Bond Issue and this issue.

“**Unencumbered Assets**” means any assets of the Issuer and all the UAC's which are not the subject matter of Permitted Encumbrances.

For purposes of the foregoing calculations:

- the Issuer reserves the right subject to the prior approval of the Bondholders in terms of an Extraordinary Resolution and the consent of the Guarantors, which consent shall not be unreasonably withheld or delayed, to review the continued application of the above ratios so as to take into account any change in accounting principles or policies applied in the preparation of the Issuer's financial statements over the life of the Bonds; and
- borrowings of the Issuer and the UAC's expressed in or calculated by reference to a currency other than ZAR or a combination of currencies including a currency or currencies other than ZAR shall (as regards the currency or currencies other than ZAR) be converted into ZAR by reference to the rates of exchange used for the conversion of such currencies in the Latest Balance Sheet or, if no such conversion was so required for any relevant currency, by reference to the rate of exchange or approximate rate of exchange in effect on the date of the Latest Balance Sheet.

In terms of section 47(a) of the Local Government : Municipal Finance Management Act, 2003, which will come into force on 1 July 2004, a municipality may incur debt only if the debt is denominated in Rand and is not indexed to or affected by, fluctuations in the value of the Rand against any foreign currency.

6 INTEREST

- 6.1 Subject to these Terms and Conditions, the Bonds will bear interest at the Interest Rate payable semi-annually in arrears on the Principal Amount.
- 6.2 Interest on the Bonds will accrue from and including the date of issue, 30 June 2004, to and including the day prior to the Final Redemption Date.
- 6.3 The amount of interest payable on a particular Bond in respect of each Interest Period shall be calculated by multiplying the Interest Rate with the Principal Amount of such Bond and then dividing such product by 2 (two).
- 6.4 If interest is required to be calculated for a period of less than 6 (six) months it will be calculated on the basis of the actual number of days elapsed divided by 365 (three hundred and sixty five), irrespective of the number of days in the year.
- 6.5 The interest in respect of each Interest Period shall be payable in arrears on the Interest Payment Date for that Interest Period or if that date is not a Business Day then on the next following Business Day, provided that no further interest will be payable as a result of any such delay. Such interest will be payable to the Bondholder appearing in the Register on the Last Day to Register preceding such Interest Payment Date.
- 6.6 Each Bond shall cease to bear interest from the Final Redemption Date unless, upon due presentation thereof, payment of the Principal Amount is improperly withheld or refused, in which case it will continue to bear interest at the Interest Rate or the ruling prime lending rate at which COJ's bankers lend to its customers on unsecured overdraft, as certified by any general manager of that bank from time to time, plus 2% (two percentage points) whichever is the higher, in accordance with this Condition until and including the day on which all sums due in respect of such Bond are received by or on behalf of the relevant Bondholder.

7 PAYMENTS

- 7.1 The Principal Amount and accrued interest on the Bonds shall be paid in ZAR in the RSA.
- 7.2 All monies payable on or in respect of each Bond shall be paid by electronic funds transfer, by the Settlement Agent on behalf of the Issuer, to the account of the relevant Bondholder as set forth in the Register on the Last Day to Register preceding the relevant Interest Payment Date or Redemption Date, as the case may be, or, in the case of joint registered holders of a Bond, the account of that one of them who is first named in the Register in respect of that Bond, unless there is an Event of Trustee Intervention, a Bond Acceleration or a Guarantor Acceleration, in which event Condition 7.3 will apply.
- 7.3 On the happening of an Event of Trustee Intervention, a Bond Acceleration or a Guarantor Acceleration, all monies payable by the Issuer on or in respect of each Bond, or by the Guarantors pursuant to the Guarantee Agreement, shall be paid by electronic funds transfer by the Settlement Agent, acting on behalf of and on the instructions of, the Trustee, to the account of the relevant Bondholder, as set forth in the Register on the relevant date, or, in the case of joint registered holders of a Bond, the account of that one of them who is first named in the Register in respect of that Bond, so as to discharge the obligations of the Issuer or the Guarantors, as the case may be.
- 7.4 If the Settlement Agent is prevented or restricted directly or indirectly from making any payment by electronic funds transfer at 10:00 in accordance with Conditions 7.2 or 7.3 of the Terms and Conditions (whether by reason of strike, lock-out, fire, explosion, floods, riots, war, accidents, acts of God, embargo, legislation, shortage of or breakdown in facilities, civil commotion, unrest or disturbances, cessation of labour, Government interference or control or any other cause or contingency beyond the control of the Issuer or the Settlement Agent, as the case may be), the Settlement Agent shall give notice to the Trustee of such inability not later than 3 (three) Business Days prior to the due date for such payment, unless such inability arises within the 3 (three) Business Days prior to the due date for such payment, in which event notice shall be given to the Trustee as soon as reasonably possible thereafter. Upon receipt of such notice, the Trustee on behalf of the Bondholders may request the Issuer and the Settlement Agent (by way of a written notice to the Transfer Secretary and the Issuer and the Settlement Agent) to make payment of any such amounts by way of cheque to the individual Bondholders. Such notice may include, if the Trustee so desires, a request to make such cheques available for collection during business hours by individual Bondholders at the office of the Transfer Secretary. All monies so payable by cheque shall, subject always to the Applicable Procedures, be sent by ordinary post, at the risk of each such Bondholder, to:
- 7.4.1 the address of such Bondholder as set forth in the Register; or
- 7.4.2 in the case of joint registered holders of that Bond, the registered address of that one of them who is first named in the Register in respect of that Bond; or
- 7.4.3 such other address as may be designated in writing by such Bondholder; or
- 7.4.4 if the amount in question is legally payable to anyone else, the address designated by such person for that purpose.
- 7.5 Each such cheque shall be made payable to each such Bondholder or, in the case of joint Bondholders, the first one of them named in the Register. Each such cheque shall be dated as at the relevant Interest Payment Date or relevant Redemption Date, or relevant acceleration date, as the case may be.
- 7.6 Payment by electronic funds transfer or by cheque in terms of Conditions 7.2, 7.3 or 7.4 of the Terms and Conditions shall be a complete discharge by the Issuer of its relevant payment obligations under the Bond(s) in question.
- 7.7 If several persons are entered in the Register as joint holders of a Bond, then, without affecting the provisions of Condition 7.6 of the Terms and Conditions, payment to any one of them of any monies payable on or in respect of the Bond shall be an effective and complete discharge by the Issuer of the amount so paid, notwithstanding any notice (express or otherwise) which the Issuer or the Settlement Agent, as the case may be, may have of the right, title, interest or claim of any other person to or in any Bond or interest therein.

8 REDEMPTION AND PURCHASE

8.1 Redemption on maturity

- 8.1.1 Unless previously redeemed or purchased and cancelled as specified below, each Bond will be redeemed by the Issuer in 6 (six) equal instalments each amounting to 1/6 (one sixth) of the initial Principal Amount, commencing on the First Redemption Date and terminating on the Final Redemption Date or if any of those days is not a Business Day, then on the next following Business Day.
- 8.1.2 Notwithstanding anything contained in these Terms and Conditions, no redemption payment in respect of any Bond shall be made unless the relevant Definitive Certificate(s), as the case may be, in respect of the Bond to be redeemed, have been surrendered to the Transfer Secretary at least 10 (ten) days prior to the date of payment. After each redemption payment, a new Definitive Certificate, for the Principal Amount then outstanding, will be issued to each affected Bondholder.
- 8.1.3 Eight months prior to the First Redemption Date, the Issuer will establish and at all times thereafter maintain, a segregated account in the name of COJ with a financial institution in South Africa having at least a local credit rating from Fitch or Standard & Poor's of "AA-" or equivalent, or from Moody's of "Aa3" or equivalent (or such rating from any 2 (two) of them) and permit the Trustee and the Guarantors to monitor such account.
- 8.1.4 The Issuer will, for the benefit of the Guarantors only, deposit into the segregated account established pursuant to Condition 8.1.3, on a monthly basis, commencing 7 (seven) months prior to each Redemption Date, an amount equal to 1/6 (one sixth) of the relevant instalment falling due on such Redemption Date, to be applied in paying the instalment due on such Redemption Date. Failure on the part of the Issuer to deposit any amount into the segregated account established pursuant to Condition 8.1.3, whether timeously or at all, will not, however, constitute an Event of Default and will not create any enforceable right on the part of any Bondholder against the Issuer by virtue of any such default.

8.2 Redemption for tax reasons

If the Issuer, immediately prior to the giving of the notice referred to below in this Condition 8.2, is of the reasonable opinion that:

- 8.2.1 as a result of any change in or amendment to the laws or regulations of the RSA or any political sub-division of, or any authority in, or of, the RSA having power to tax becoming effective after the date of this Offering Circular, the Issuer is or would be required to pay additional amounts as provided or referred to in Condition 9 of the Terms and Conditions; and
- 8.2.2 such requirement cannot be avoided by the Issuer taking reasonable measures available to it,
- then the Issuer may at its option having given not less than 30 (thirty) and not more than 60 (sixty) days' notice to the Trustee (which notice shall be irrevocable) redeem all Bonds, but not some only, at their Principal Amount (together with interest accrued to such Early Redemption Date) provided that no notice of redemption shall be given earlier than 90 (ninety) days before the earliest date on which the Issuer would incur the obligation to pay such additional amounts, were a payment in respect of the Bonds due and payable; provided that the Issuer shall provide to the Trustee an opinion in writing of a firm of RSA lawyers of suitable standing (such opinion to be in a form, and such firm to be a firm, to which the Trustee shall have no reasonable objection) (the "**Relevant Opinion**") to the effect that there is a substantial likelihood that the Issuer would be required to pay additional amounts in accordance with Condition 9, or under any additional or substitute undertaking given pursuant to the Trust Deed upon the next due date for payment in respect of the Bonds by reason of :
- 8.2.3 any actual or proposed change in or amendment to the laws, regulations or rulings of South Africa or any political sub-division or authority thereof or therein having power to tax; or
- 8.2.4 any actual or proposed change in the official application or interpretation of such laws, regulations or rulings; or
- 8.2.5 any action which shall have been taken by a court of competent jurisdiction of South Africa or any political sub-division or authority thereof or therein having power to tax, whether or not such action was brought with respect to the Issuer; or
- 8.2.6 any actual or proposed change in the official application or interpretation of, or any actual or proposed execution of, or amendment to, any treaty or treaties affecting taxation to which South Africa is or is to be a party.

From the date of publication of any notice of redemption pursuant to this Condition 8.2, the Issuer shall make available at its Specified Office, for inspection by any holder of Bonds to be so redeemed, (i) a certificate signed by 2 (two) authorised signatories of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the suspensive conditions to the right of the Issuer so to redeem have occurred, and (ii) a copy of the Relevant Opinion.

8.3 Procedure for redemption

Payments in respect of the redemption of Bonds shall be made in accordance with Condition 7 of the Terms and Conditions and, in relation to Bonds represented by the Global Certificate held in the Central Depository, the Applicable Procedures relating to the redemption of debt securities.

8.4 Purchases

The Issuer may at any time purchase Bonds at any price in the open market or otherwise. In the event of the Issuer purchasing Bonds, such Bonds may, at the option of the Issuer and subject to restrictions of any applicable law, be held, resold or, at the option of the Issuer, cancelled.

8.5 Cancellation

All Bonds which are redeemed in terms of this Condition 8 of the Terms and Conditions will forthwith be cancelled. All Bonds so cancelled shall be held by the Transfer Secretary and cannot be re-issued or resold. Where only a portion of the Bonds represented by a Global Certificate and/or Definitive Certificate are redeemed and cancelled, the Transfer Secretary shall procure that the Register is updated with a new Global Certificate or procure the delivery of a Definitive Certificate to such Bondholder in respect of the balance of the Bonds.

9 TAXATION

All payments (whether in respect of the Principal Amount, interest or otherwise) in respect of the Bonds will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("taxes") imposed, levied, collected, withheld or assessed by, or on behalf of, the RSA, or any political sub-division or authority or agency thereof or therein having power to tax, unless such withholding or deduction is required by law. The payment of any taxes by the Issuer as an agent or representative taxpayer for a Bondholder shall not constitute a withholding or deduction for purposes of this Condition 9. In the event of any such withholding or deduction in respect of taxes being levied or imposed on interest or principal payments on Debt Instruments (as defined below), the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Bondholders after such withholding or deduction shall equal the respective amounts of principal and interest which would have been receivable in respect of the Bonds, in the absence of the withholding or deduction except that no such additional amounts shall be payable with respect to any Bond:

- 9.1 held by or on behalf of a Bondholder, who is liable for such taxes or duties in respect of such Bond by reason of his having some connection with the Republic of South Africa other than the mere holding of such Bond or the receipt of principal or interest in respect thereof; or
- 9.2 held by or on behalf of a Bondholder who would not be liable or subject to the withholding or deduction by complying with any statutory requirement or by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or
- 9.3 where such withholding or deduction is in respect of taxes levied or imposed on interest or principal payments only by virtue of the inclusion of such payments in the Taxable Income or Taxable Gains (each as defined below) of any Bondholder; or
- 9.4 presented for payment more than 30 (thirty) days after the Relevant Date (as defined below) except to the extent that the relevant Bondholder would have been entitled to an additional amount on presenting the Definitive Certificate or instructing the Central Depository Participant to procure the update of the Global Certificate, as the case may be, for payment on such 30th (thirtieth) day; or
- 9.5 if such withholding or deduction arises through the exercise by the revenue authorities of special powers in respect of tax defaulters.

The payment of any such additional amounts by the Issuer are not guaranteed under the Guarantee Agreement.

For purposes of this Condition 9:

“**Debt Instrument**” means any “instrument” as defined in section 24J(1) of the Income Tax Act, 1962 (the “Income Tax Act”);

“**Relevant Date**” means, in respect of any payment, the date on which such payment first becomes due, except that, in relation to monies payable to the Central Depository in accordance with these Terms and Conditions, if the full amount of such monies payable has not been duly received by the Central Depository on or prior to such due date, it means the day on which the full amount of such monies has been received by the Central Depository and such monies are available for payment to the holders of Beneficial Interests in the Bonds;

“**Taxable Gain**” means any “taxable gain” as defined in paragraph 1 of Schedule 8 to the Income Tax Act; and

“**Taxable Income**” means any “taxable income” as defined in section 1 of the Income Tax Act.

Any reference in these Terms and Conditions to any amounts payable in respect of the Bonds shall be deemed also to refer to any additional amounts which may be payable under these Terms and Conditions.

10 PRESCRIPTION

The Bonds will become void unless presented for payment of the Principal Amount and accrued interest within a period of 3 (three) years of the Final Redemption Date. The Guarantee Agreement will expire in accordance with the provisions of section 3.1 of the Guarantee Agreement.

11 EVENTS OF TRUSTEE INTERVENTION

If the Trustee determines on the 20th calendar day prior to any due date for payment of interest or the Principal Amount (or part thereof), that there is a shortfall in the amount available to pay all amounts of interest and principal when payment falls due, in the relevant segregated account established for such payments, the Trustee may call on the Guarantors to pay the amount of the shortfall, up to the agreed limits in the Guarantee Agreement, in accordance with Article 2, section 2.4 of the Guarantee Agreement.

12 EVENTS OF DEFAULT

12.1 If any one or more of the following events (each an “**Event of Default**”) shall have occurred and be continuing:

- 12.1.1 failure by the Issuer to pay or procure payment by the Guarantors or any other person of any accrued interest or the Principal Amount in respect of any of the Bonds on the due date for payment and the failure to pay continues for more than 5 (five) days thereafter; or
- 12.1.2 failure by the Issuer to perform or observe any of its other obligations in respect of the Bonds or these Terms and Conditions and such failure has continued for a period of 30 (thirty) days following the service on the Issuer of a notice requiring the same to be remedied; or
- 12.1.3 the Issuer or any Material UAC defaults in the payment of the principal amount or accrued interest or any obligations in respect of Borrowed Money (as defined below) of, or assumed or guaranteed by, the Issuer or any Material UAC when and as the same shall become due and payable or when notice has been given to the Issuer or any Material UAC, as the case may be, of the default and if such default shall have continued for more than the notice period (if any) applicable thereto and the time for payment of such interest or principal has not been effectively extended or if any such obligations of, or assumed or guaranteed by, the Issuer or any Material UAC shall have become repayable before the due date thereof as a result of acceleration of maturity by reason of the occurrence of any event of default thereunder; or
- 12.1.4 the Issuer or any Material UAC is unable to pay its debts, suspends or threatens to suspend payment of all or a material part of its aggregate Indebtedness, commences negotiations or takes any other step with a view to the deferral, rescheduling or other re-adjustment of all or a material part of its aggregate Indebtedness, proposes or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or a moratorium is agreed or declared in respect of or affecting all or a material part of the aggregate Indebtedness of the Issuer or any Material UAC; or

- 12.1.5 an attachment, execution or other legal process is levied, enforced, issued or sued out on or against any Material Assets of any of the Issuer or a Material UAC and is not discharged or stayed within 30 (thirty) days; or
- 12.1.6 any security on or over any Material Asset of the Issuer or a Material UAC becomes enforceable and executable by virtue of default and any step (including the taking of possession, attachment or the appointment of a receiver, manager or similar person) is taken to enforce that security; or
- 12.1.7 if a resolution is taken by any Material UAC to voluntarily wind-up any such Material UAC (except for the purpose of a reconstruction or amalgamation); or
- 12.1.8 if the Issuer or any Material UAC or any of their assets becomes subject to any liquidation or judicial management order, whether provisional or final, or if any trustee, liquidator, curator, judicial manager or any similar officer is appointed in respect of the Issuer or any Material UAC or any of their assets; or
- 12.1.9 the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Issuer or a Material UAC or any of the securities of or issued by the Issuer or a Material UAC; or
- 12.1.10 the Issuer or any Material UAC ceases or threatens to cease to carry on the whole or a material part of its business, other than in terms of a merger, amalgamation, consolidation, reconstruction or reorganisation on terms approved by an Extraordinary Resolution; or
- 12.1.11 any action or condition, including the obtaining of any necessary consent at any time required to be taken, fulfilled or done for any of the purposes of performing or maintaining any of these Terms and Conditions is not taken, fulfilled or done, or any such consent ceases to be in full force and effect without qualification or any condition in or relating to such consent is not complied with (unless that consent or condition is no longer required or applicable); or
- 12.1.12 if for any reason the Guarantee Agreement in respect of the Bonds ceases to be in full force and effect; or
- 12.1.13 if the Guarantors accelerate their obligations under the Guarantee Agreement pursuant to section 2.5 thereof,

then the Trustee shall, subject to Condition 20.3 of the Terms and Conditions declare, if so instructed by Extraordinary Resolution of the Bondholders, by written notice to the Issuer, at its Specified Office, effective on the date of receipt thereof by the Issuer, the Bonds to be forthwith due and payable whereupon the same shall become due and payable at the Principal Amount together with accrued interest (if any) to the date of payment provided that no such action may be taken by the Trustee if the Issuer withholds or refuses to make any such payment in order to comply with any law or regulation of the RSA or to comply with any order of a court of competent jurisdiction. If the Issuer becomes aware of the occurrence of any Event of Default, the Issuer shall forthwith notify each of the Guarantors, the Trustee, the Central Depository and BESA. The Trustee shall not be required to take any steps to ascertain whether any Event of Default shall have occurred and until the Trustee has actual knowledge or has been served with express notice thereof, it shall be entitled to assume that no such Event of Default has occurred. Upon obtaining such actual knowledge or receipt of such express notice, the Trustee shall immediately convene a meeting of Bondholders for the purpose of deciding on the acceleration of the Bonds and if necessary, the acceleration of the Guarantors' obligations under the Guarantee Agreement.

- 12.2 If the Event of Default described in Condition 12.1.13 occurs, the Bondholders will be entitled, by Extraordinary Resolution, to instruct the Trustee to:
 - 12.2.1 accelerate the Bonds as provided above; or
 - 12.2.2 procure the partial redemption of the Bonds, by instructing the Settlement Agent to pay to the Bondholders the full amount to be paid by the Guarantors on the happening of the Event of Default described in Condition 12.1.13, whether such amount is then due and payable to the Bondholders or not, whereupon the Principal Amount will be reduced by the amount paid to the Bondholders over and above that amount which would in any event be due and payable to them, if any,

unless the Bondholders resolve by Extraordinary Resolution, at any time after the Event of Default in Condition 12.1.13 has occurred, but before payment, by the Guarantors to the Settlement Agent under a Guarantee Acceleration, of all outstanding amounts under the Guarantee Agreement, whether due and payable or not, to consent to the cession by the Guarantors of their respective right, title and interest in and to the Guarantee Agreement (save in respect of amounts already paid by each of them thereunder) and the delegation by the Guarantors of all their obligations pursuant to the Guarantee Agreement, to alternative guarantors approved by the Bondholders for that purpose.

- 12.3 If upon any such acceleration of the Bonds, the Issuer fails to repay the Bonds on the required date at the Principal Amount together with accrued interest (if any) to the date of payment, the Trustee may, if so instructed by Extraordinary Resolution of the Bondholders, accelerate the obligations of the Guarantors under the Guarantee Agreement and call upon the Guarantors to cover any shortfall in the amounts of principal and interest due under the Bonds, up to the agreed limits stipulated in and in accordance with the terms and conditions of the Guarantee Agreement.

For purposes of this Condition 12:

“**Borrowed Money**” means any present or future borrowed money or other arrangement with the same commercial effect as borrowed money denominated or containing a right or requirement for any payment in respect thereof to be made in any currency and amounting in aggregate to not less than 10% (ten percent) of the Total Aggregated Debt Capital.

13 DELIVERY, EXCHANGE AND REPLACEMENT OF BONDS

- 13.1 The Bonds will initially be issued in the form of the Global Certificate and will be lodged and immobilised in the Central Depository.
- 13.2 The Issuer may require that Beneficial Interests be exchanged for Definitive Certificates, in accordance with the Applicable Procedures, if any one or more of the following events (each an “**Exchange Event**”) occurs:
- 13.2.1 the Central Depository is closed for business for a continuous period of 14 (fourteen) days (other than by reason of holiday, statutory or otherwise) or announces its intention permanently to cease business or has in fact done so or is unable or unwilling to continue as a depository or clearing system, as the case may be, and a successor depository institution or clearing system, as the case may be, satisfactory to the Issuer and BESA is not available; or
- 13.2.2 the Issuer has become or will become subject to adverse tax consequences, as contemplated in Condition 8.2, which would not be suffered, were Beneficial Interests to be exchanged for Definitive Certificates.
- 13.3 If an Exchange Event occurs, the Issuer will promptly give notice of its intention to exchange Beneficial Interests for Definitive Certificates to the Transfer Secretary and the Bondholders in accordance with Condition 22 of the Terms and Conditions.
- 13.4 A person holding a Beneficial Interest in the Bonds represented by the Global Certificate may, in terms of the Applicable Procedures and through its nominated Central Depository Participant, direct a written request to the Transfer Secretary for a Definitive Certificate representing the number of Bonds to be delivered by the Transfer Secretary in exchange for such Beneficial Interest. The aggregate of the outstanding Principal Amounts of the Bonds represented by such Definitive Certificate shall be equivalent to the amount of such Beneficial Interest. The Transfer Secretary shall deliver such Definitive Certificate upon such written request no later than 14 (fourteen) days after receiving the written request from the holder of such Beneficial Interest in accordance with the Applicable Procedures, provided that, joint holders of a Beneficial Interest in any Bond shall be entitled to receive only 1 (one) Definitive Certificate in respect of that joint holding and delivery to 1 (one) of those joint holders shall be delivery to all of them.
- 13.5 Upon the receipt of a written request for delivery of a Definitive Certificate in terms of Condition 13.4 of the Terms and Conditions, the Global Certificate shall, in terms of the Applicable Procedures, be presented to the Transfer Secretary for splitting and a new Global Certificate for the balance of the Bonds still held by the Central Depository shall be delivered to the Central Depository. The old Global Certificate will be cancelled and retained by the Transfer Secretary.
- 13.6 Definitive Certificates and Global Certificates, as the case may be, shall be provided (whether by way of issue, delivery or exchange) by the Issuer without charge, save as otherwise provided in these Terms and Conditions. Separate costs and expenses relating to the provision of such Definitive Certificates and/or Global Certificates and/or the transfer of Bonds may be levied by other persons, such as a Settlement Agent, under the Applicable Procedures and such costs and expenses shall not be borne by the Issuer. The costs and expenses of delivery of Definitive Certificates by means other than ordinary post (if any) and, if the Issuer shall so require, taxes or governmental charges or insurance charges that may be imposed in relation to such mode of delivery, shall be borne by the Bondholder.
- 13.7 If any Definitive Certificate or Global Certificate is mutilated, defaced, stolen, destroyed or lost it may be replaced at the office of the Transfer Secretary on payment by the claimant of such costs and expenses as may be incurred in connection therewith and against the furnishing of such indemnity as the Issuer and/or the Transfer Secretary may reasonably require. Mutilated or defaced Definitive Certificates and Global Certificates must be surrendered before replacements will be issued.

- 13.8 Any person becoming entitled to Bonds in consequence of the death or insolvency of the relevant Bondholder may, upon producing evidence to the satisfaction of the Issuer that he holds the position in respect of which he proposes to act under this Condition or of his title, require the Issuer and the Transfer Secretary to register such person as the holder of such Bonds or, subject to the requirements of this Condition 13, to transfer such Bonds to such person.

14 TRANSFER OF BONDS

- 14.1 Beneficial Interests in the Bonds may be transferred in terms of the Applicable Procedures in the Central Depository. In order for any transfer of Bonds to be effected through the Register and for the transfer to be recognised by the Issuer, each transfer of a Bond:
- 14.1.1 must be in writing and be embodied in the usual transfer form or in such other form approved by the Transfer Secretary;
 - 14.1.2 must be signed by the relevant Bondholder and the transferee, or any authorised representative(s) of that registered Bondholder and/or transferee;
 - 14.1.3 shall only be in respect of denominations of ZAR1 000 000,00 (one million Rand) each or a multiple thereof and consequently the Issuer will, up to the First Redemption Date, not recognise any Bond with a Principal Amount of less than ZAR1 000 000,00 (one million Rand); and
 - 14.1.4 must be made by way of the delivery of the transfer form to the Transfer Secretary together with the Definitive Certificate and/or Global Certificate in question for cancellation or, if only part of the Bonds represented by a Definitive Certificate and/or Global Certificate is transferred, a new Definitive Certificate and/or Global Certificate for the balance will be delivered to the transferor and the cancelled Definitive Certificate and/or Global Certificate will be retained by the Transfer Secretary.
- 14.2 The transferor of any Bonds represented by a Definitive Certificate and/or Global Certificate shall be deemed to remain the owner thereof until the transferee is registered in the Register as the holder thereof.
- 14.3 Before any transfer is registered all relevant transfer taxes (if any) must have been paid and such evidence must be furnished as the Transfer Secretary reasonably requires as to the identity and title of the transferor and the transferee.
- 14.4 No transfer will be registered while the Register is closed.
- 14.5 If a transfer is registered the transfer form and cancelled Definitive Certificate and/or Global Certificate will be retained by the Transfer Secretary.

15 REGISTER

- 15.1 The Register shall be kept at the offices of the Transfer Secretary. The Register shall contain the name, address and bank account details of the registered Bondholders. The Register shall set out the Principal Amount of the Bonds issued to each Bondholder and shall show the date of such issue and the date upon which the Bondholder became registered as such. The Register shall show the serial numbers of Global Certificates and Definitive Certificates issued. The Register shall be open for inspection during the normal business hours of the Transfer Secretary to any Bondholder or any person authorised in writing by any Bondholder. The Transfer Secretary shall not be obliged to record any transfer while the Register is closed.
- 15.2 During the period from and including 30 June 2004 to, but excluding each Redemption Date, the Register shall be closed for the period of 10 (ten) days preceding each Interest Payment Date and each Redemption Date. Any period referred to in this paragraph may be shortened by the Issuer from time to time, upon notice to the Bondholders.
- 15.3 The Transfer Secretary shall not be bound to enter any trust into the Register or to take notice of any or to accede to any trust executed, whether express, implied or constructive, to which any Bond may be subject.
- 15.4 The Transfer Secretary shall alter the Register in respect of any change of name, address or bank account details of any Bondholder of which it is notified in accordance with these Terms and Conditions.

16 TRANSFER SECRETARY AND TRUSTEE

- 16.1 The Issuer is entitled to:
- 16.1.1 vary or terminate the appointment of the Transfer Secretary (with the prior written consent of the Guarantors); and/or

16.1.2 appoint additional or other agents,

in which event that other entity, on execution of an appropriate agreement or the relevant accession letter, as the case may be, shall serve in that capacity in respect of the Bonds, provided that there will at all times be a Transfer Secretary with a Specified Office in such place as may be required by the Applicable Procedures.

16.2 The Transfer Secretary acts solely in such capacity as the agent of the Issuer and assumes no obligation towards or relationship of agency or trust with any Bondholders.

16.3 The Trustee or its successor shall serve as the Trustee and act as the representative of the Bondholders in terms of the Trust Deed. The Issuer and the Guarantors may terminate the appointment of the Trustee and appoint another entity as Trustee, in which event that other entity, on execution of a deed of assignment, shall serve as Trustee in respect of the Bonds and the Guarantee Agreement, provided that there will at all times be a Trustee with a Specified Office in such place as may be required by the Applicable Procedures.

17 LISTING AND TRADING

An application has been made to list the Bonds on BESA (under stock code number COJ02). The application was granted on 30 June 2004 and the Bonds may be traded by and through members of BESA from 30 June 2004.

18 MEETINGS OF BONDHOLDERS

18.1 Meetings of Bondholders may be held to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Terms and Conditions of the Bonds if proposed by the Issuer. The quorum at any such meeting for passing an Extraordinary Resolution is 1 (one) or more persons holding or representing not less than 50% (fifty percent) of the Principal Amount of the Bonds for the time being outstanding, or at any adjourned such meeting not less than 1/3 (one-third) of the Principal Amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Bondholders shall be binding on all the Bondholders, whether or not they are present at the meeting.

18.2 The Issuer and/or the Guarantors and/or the Trustee may at any time convene a meeting of Bondholders upon at least 21 (twenty-one) days' prior written notice to Bondholders. Such notice shall specify the place of the meeting, which shall be in the RSA, and the date and time thereof.

18.3 The Trustee shall, upon a requisition in writing of Bondholders holding not less than 1/10 (one tenth) of the Principal Amount of the outstanding Bonds, be entitled to request the Issuer to convene a meeting of Bondholders. Should the Issuer fail to convene such a meeting within 10 (ten) days of such a request being received by the Issuer, the Trustee may convene such a meeting upon at least 21 (twenty-one) days prior written notice to the Issuer, both Guarantors and the Bondholders. Such notice shall specify the date, place and time of the meeting to be held, which place shall be in the RSA.

18.4 Every duly appointed official or representative of the Issuer and where applicable, the Guarantors or the Trustee, may attend and speak at a meeting of Bondholders but shall not be entitled to vote at a meeting other than as a Bondholder or proxy for a Bondholder.

18.5 The chairperson of the meeting shall be appointed by the Bondholders present and voting. The procedures to be followed at the meeting shall be as determined by the chairperson subject to the remaining provisions of this Condition 18.

18.6 Each Bondholder present in person or by proxy at any meeting shall have 1 (one) vote per ZAR1 000 000's (one million Rand) worth of Bonds (or the nearest rounded off multiple thereof) held by such Bondholder.

18.7 The instrument appointing a proxy shall be in writing under the hand of the appointer or of his authorised agent or if the appointer is a company or any other body corporate (including a benefit, pension, provident or any other similar fund) either signed by its duly authorised officer or agent. Such instrument shall automatically entitle a proxy to speak at a meeting.

18.8 A person appointed to act as a proxy need not be a Bondholder.

18.9 The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a certified copy of such power of attorney shall be deposited with the Issuer at its registered address not less than 24 (twenty-four) hours before the time appointed for the meeting or adjourned meeting (or in the event of a poll, before the time appointed for the taking of the poll), failing which the instrument of proxy shall not be treated as valid.

19 BENEFIT OF AGREEMENTS

- 19.1 Bondholders are entitled to the benefit of and are deemed to have notice of, the provisions of the Guarantee Agreement and the Trust Deed and the Bondholders shall be bound by all those provisions of the Guarantee Agreement and the Trust Deed which confer rights and/or impose obligations on the Bondholders.
- 19.2 By subscribing for or acquiring Bonds, each Bondholder undertakes in favour of the Guarantors and the Trustee respectively, that it shall perform all obligations imposed on the Bondholder in terms of the Guarantee Agreement and the Trust Deed and that it shall execute and attend to all deeds, documents and things and take all such action which the Guarantors, and the Trustee respectively, may reasonably require to enable the Guarantors and the Trustee to carry out, exercise or discharge the powers, rights, authorities, provisions and/or obligations contained in the Guarantee Agreement and the Trust Deed respectively.
- 19.3 Copies of the Trust Deed shall upon written request to the Issuer or the Trustee be made available free of charge to each Bondholder at the Specified Offices of the Issuer or the Trustee.

20 AMENDMENT OF THESE TERMS AND CONDITIONS

- 20.1 These Terms and Conditions set out all the rights and obligations relating to the Bonds subject to Condition 20.2 of the Terms and Conditions. No addition, variation or consensual cancellation of these Terms and Conditions shall be of any force or effect unless reduced to writing and signed by or on behalf of the Issuer, each of the Guarantors, the Trustee and (a) signed by or on behalf of Bondholders holding not less than 75% (seventy-five percent) of the Principal Amount of the Bonds outstanding from time to time, or (b) authorised by an Extraordinary Resolution of Bondholders, provided that no such amendment shall be of any force or effect unless notice of the intention to make such amendment has been given to Bondholders pursuant to Condition 22 of the Terms and Conditions.
- 20.2 The Issuer may effect, without the consent of the Bondholders and the Guarantors, any modification of the Terms and Conditions which is of a formal, minor or technical nature or is made to correct a manifest error to comply with mandatory provisions of the law of the jurisdiction in which the Issuer is constituted. Any such modification shall be binding on the Bondholders and any such modification shall be notified to the Bondholders and the Guarantors in accordance with Condition 22 of the Terms and Conditions as soon as practicable thereafter.
- 20.3 The Trustee may agree, without the consent of the Bondholders, to the waiver or authorisation or condonation, on such terms and conditions as the Trustee may think fit, of any breach or proposed breach by the Issuer of any of these Terms and Conditions which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Bondholders. The Trustee may also determine that any event which would or might otherwise constitute an Event of Default shall not do so, provided that, in the opinion of the Trustee, such event is not materially prejudicial to the interests of the Bondholders.
- 20.4 Any such amendment, waiver, authorisation, condonation or determination shall be binding on the Bondholders and the Trustee shall notify the Bondholders of such amendment, waiver, authorisation, condonation or determination as soon as practicable thereafter in accordance with Condition 22 of the Terms and Conditions. For the avoidance of doubt, the exercise by the Issuer and/or any of the Guarantors of their rights as described in Condition 16 of the Terms and Conditions shall not constitute an amendment of these Terms and Conditions.
- 20.5 Notwithstanding anything to the contrary contained in these Terms and Conditions or the Trust Deed, no amendment may be made to any of the provisions of Condition 24 of the Terms and Conditions without the prior consent of the Commissioner of the South African Revenue Service.

21 FURTHER ISSUES

The Issuer shall be at liberty from time to time, without the consent of the Bondholders to create and issue further Bonds having the same terms and conditions as and ranking equally in all respects with the Bonds so that the same shall be consolidated and form a single series with the outstanding Bonds or having different terms and conditions from the Bonds but ranking equally in all respects with the Bonds, in which event, the Guarantee Agreement will not extend to the new Bonds unless specifically agreed otherwise with the Guarantors.

22 NOTICES

- 22.1 All notices (including all demands or requests under these Terms and Conditions) to the Bondholders will be valid if (a) mailed by registered post or hand delivered to their addresses appearing in the Register or published in a leading English daily newspaper of general circulation in the RSA or mailed by registered post or hand delivered to the Specified Office of the Trustee, and (b) for so long as the Bonds are listed on BESA, published in three daily newspapers of general circulation in Johannesburg, which newspapers are respectively expected to be Business Day, The Star and The Sowetan (or their respective successors). Any such notice shall be deemed to have been given on the day of first publication or hand delivery or on the 7th (seventh) day after the day on which it is mailed, as the case may be.
- 22.2 For as long as any of the Bonds are represented by a Global Certificate, all notices to holders of Beneficial Interests in Bonds represented by the Global Certificate shall be by way of the delivery of the relevant notice to the Central Depository, the Settlement Agents, BESA and the Trustee for communication by them to such holders.
- 22.3 Notices (including all demands or requests under these Terms and Conditions) to be given by the Trustee or any Bondholder to the Issuer shall be in writing and given by delivering (either by hand delivery or posting by registered mail) the same, together with a certified copy of the relevant Global Certificate or Definitive Certificate, to the Transfer Secretary, who shall upon receipt forward a copy to the Trustee. Whilst any of the Bonds are represented by a Global Certificate, notice may be given by any holder of a Beneficial Interest in Bonds represented by a Global Certificate to the Issuer through the Trustee or the Bondholder's Settlement Agent in accordance with the Applicable Procedures and in such manner as the Issuer and the relevant Settlement Agent may approve for this purpose. Such notice shall be deemed to have been received by the Issuer, if delivered by hand, on the day of delivery, or, if sent by registered mail, 7 (seven) days after posting to the relevant Settlement Agent, for and on behalf of the Issuer.
- 22.4 Any notice to the Issuer shall be deemed to have been received by the Issuer on the 2nd (second) Business Day after being hand delivered to the Transfer Secretary or on the 7th (seventh) Business Day after the day on which it is mailed by registered post to the office of the Transfer Secretary, as the case may be.

23 GOVERNING LAW

The provisions of this Offering Circular, the Guarantee Agreement and the Trust Deed and all rights and obligations relating to the Bonds, the Guarantee Agreement and the Trust Deed shall be governed by and construed in accordance with the laws of the RSA.

24 RESTRICTION ON SALE OF BONDS

- 24.1 No Bond may be subscribed for by a Disqualified Person.
- 24.2 If the provision in Condition 24.1 is breached, any Disqualified Person who acquires or beneficially holds or owns any Bond by virtue of such breach shall not be recognised by the Issuer and any such Disqualified Person shall have no rights or entitlements of whatsoever nature under such Bond and, without limiting the generality of the foregoing, the Issuer shall not, and shall not be liable to, make any payment of any amounts under such Bonds to such Disqualified Person.

Guarantee Agreement

between

SONNENBERG HOFFMANN & GALOMBIK TRUSTEES (PTY) LTD

THE DEVELOPMENT BANK OF SOUTHERN AFRICA LTD

and

INTERNATIONAL FINANCE CORPORATION

Dated as of June 24, 2004

GUARANTEE AGREEMENT

GUARANTEE AGREEMENT (this "Guarantee Agreement"), dated June 24, 2004 between:

- (1) **SONNENBERG HOFFMANN & GALOMBIK TRUSTEES (PTY) LTD**, a company organized and existing under the laws of the Republic of South Africa, acting for and on behalf of the holders of the Guaranteed Bonds defined below (hereinafter referred to as the "Trustee", which expression shall include its successors and assigns);
- (2) **THE DEVELOPMENT BANK OF SOUTHERN AFRICA LTD**, a company organized and existing under the laws of the Republic of South Africa (hereinafter referred to as "DBSA"); and
- (3) **INTERNATIONAL FINANCE CORPORATION**, an international organization established by Articles of Agreement between its member countries, including the Republic of South Africa (hereinafter referred to as "IFC" and, together with DBSA, the "Co-guarantors").

WHEREAS:

- (A) The City of Johannesburg Metropolitan Municipality (hereinafter referred to as "COJ" or the "City") will issue ZAR1,000,000,000 unsecured partially guaranteed bonds due 2016 (the "Guaranteed Bonds") for the purpose of financing certain capital expenditure and the payment and repayment of existing borrowings.
- (B) The Co-guarantors, acting on a several but not joint basis, have agreed to guarantee to the Trustee, acting on behalf of and for the benefit of the Bondholders, certain debt service payments under the Guaranteed Bonds, subject to a limit on the guaranteed amount.
- (C) By their purchase of the Guaranteed Bonds, the Bondholders have agreed to the terms and conditions thereof and of this Guarantee Agreement.
- (D) The Trustee executes this Guarantee Agreement pursuant to the provisions of the Trust Deed and the terms and conditions of the Guaranteed Bonds for the benefit of, *inter alia*, the Bondholders.

NOW, THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

Definitions and Interpretation

Section 1.1. *Definitions*. Wherever used in this Guarantee Agreement, unless the context otherwise requires, the terms defined in the preamble shall have the meanings given to them therein, and the following terms shall have the following meanings:

- | | |
|---|--|
| "Acknowledgement" | an acknowledgement of all of the rights and benefits of each Co-guarantor under the Terms and Conditions in respect of the amount to be paid by such Co-guarantor for the benefit of the Bondholders under this Guarantee Agreement, substantially in the form of Exhibit 2 (<i>Form of Acknowledgement</i>); |
| "Applicable DBSA Guarantee Percentage" | twenty percent (20%) adjusted from time to time as follows <ol style="list-style-type: none"> (a) upon each DBSA Disbursement under this Guarantee Agreement, the Applicable DBSA Guarantee Percentage shall be reduced by an amount (the "DBSA Payout Percentage", expressed as a percentage, obtained by dividing: <ol style="list-style-type: none"> (i) the amount of such DBSA Disbursement; by (ii) the principal amount outstanding of the Guaranteed Bonds immediately before such DBSA Disbursement is made; (b) in the event that all of the conditions for a reinstatement in respect of a DBSA Disbursement, as set out in Section 2.3, have been fulfilled, the Applicable DBSA Guarantee Percentage shall be increased by an amount equal to the DBSA Payout Percentage by which the Applicable DBSA Guarantee Percentage was reduced as a result of such DBSA Disbursement, in accordance with sub-paragraph (a) of this definition; |

TERMS AND CONDITIONS OF THE GUARANTEE AGREEMENT

continued

"Applicable IFC Guarantee Percentage"	<p>an amount equal to twenty percent (20%) adjusted from time to time as follows</p> <p>(a) upon each IFC Disbursement under this Guarantee Agreement, the Applicable IFC Guarantee Percentage shall be reduced by an amount (the "IFC Payout Percentage"), expressed as a percentage, obtained by dividing:</p> <p style="padding-left: 40px;">(i) the amount of such IFC Disbursement; by</p> <p style="padding-left: 40px;">(ii) the principal amount outstanding of the Bonds immediately before such IFC Disbursement is made;</p> <p>(b) in the event that all of the conditions for a reinstatement in respect of an IFC Disbursement, as set out in Section 2.3, have been fulfilled, the Applicable IFC Guarantee Percentage shall be increased by an amount equal to the IFC Payout Percentage by which the Applicable IFC Guarantee Percentage was reduced as a result of such IFC Disbursement, in accordance with sub-paragraph (a) of this definition;</p>
"Authority"	<p>any of the following: (i) a government or governmental, administrative, fiscal, judicial, or government-owned body, department, commission, authority, tribunal, agency or entity, or (ii) any other Person, whether or not government owned and howsoever constituted or called, that exercises the functions of the central or reserve bank;</p>
"Available DBSA Guarantee Amount"	<p>at any time, the amount obtained by multiplying (a) the aggregate principal amount outstanding under the Guaranteed Bonds at such time, by (b) the Applicable DBSA Guarantee Percentage at such time;</p>
"Available IFC Guarantee Amount"	<p>at any time, the amount obtained by multiplying (a) the aggregate principal amount outstanding under the Guaranteed Bonds at such time, by (b) the Applicable IFC Guarantee Percentage at such time;</p>
"Bondholders"	<p>at any time, the holders of Guaranteed Bonds whose names are entered in the register of Bondholders maintained by the Transfer Secretary as the holders thereof;</p>
"Bond Payment Account"	<p>the City's account (subject to the provisions of the Trust Deed) with ABSA Bank Limited or such other financial institution as the City may designate from time to time by notice to the Trustee to hold amounts required to be deposited by the City for the purpose of making payments due to the Bondholders, in accordance with the provisions of the Terms and Conditions and the Trust Deed;</p>
"Bond Payment Date"	<p>any date on which the City is obliged to make a payment of interest and/or principal with respect to the Guaranteed Bonds in accordance with the Terms and Conditions;</p>
"Business Day"	<p>a day on which banks are open for business in Johannesburg South Africa and in Washington D.C., United States of America;</p>
"Conditional Release"	<p>a release substantially in the form of Exhibit 4A (<i>Form of Conditional Release</i>) issued by the Trustee to each Co-guarantor pursuant to Sections 2.5(a) or 2.5(b) (<i>Acceleration of the Guarantee</i>), notifying such Co-guarantor that it shall be released from all obligations hereunder to pay any amount of the Guaranteed Obligations in respect of the Guaranteed Bonds, effective as of the date of the Disbursement to be made by such Co-guarantor as a result of an acceleration of the Co-guarantors' obligations hereunder pursuant to Sections 2.5(a) or 2.5(b) (<i>Acceleration of the Guarantee</i>);</p>

TERMS AND CONDITIONS OF THE GUARANTEE AGREEMENT

continued

"DBSA Disbursement"	a payment made by DBSA to the Settlement Agent, either directly or by withdrawal or transfer from its Guarantee Account, as the case may be, pursuant to this Guarantee Agreement, including without limitation a payment of a DBSA Shortfall Amount or any part thereof made in accordance with the provisions of Section 2.4 (<i>Trustee Demands; Payments</i>) or the payment of the Available DBSA Guarantee Amount pursuant to Section 2.5(a) (<i>Acceleration of the Guarantee</i>);
"DBSA Shortfall Amount"	the amount required to be paid by DBSA under this Guarantee Agreement to cover a Shortfall which shall be equal to the lesser of (a) fifty percent (50%) of such Shortfall and (b) the Available DBSA Guarantee Amount at the time such Shortfall is determined;
"Disbursement"	a DBSA Disbursement or an IFC Disbursement, as the case may be;
"Effective Date"	the date of issuance of the Guaranteed Bonds;
"Event of Guarantee Acceleration"	any of the following events: <ul style="list-style-type: none"> (i) the City defaults in any principal or interest payment in respect of any loan or financing provided by any of the Co-guarantors and such default continuing for more than the grace period applicable thereto; (ii) a default in the payment of the fees payable to any of the Co-guarantors in respect of the guarantee provided by the Co-guarantors hereunder and such default continuing for thirty days; (iii) any Authority (other than the City and its dependencies), nationalizes, seizes, or otherwise expropriates all or any substantial part of the property or other assets of the City or any Material UAC, or assumes custody or control of that property or other assets or of the business or operations of the City or any Material UAC, or takes any action for the dissolution or disestablishment of the City or any Material UAC or any action that would prevent the City or any Material UAC or its respective officers from carrying on all or a substantial part of its business or operations; (iv) a decree, order or determination by a court or other competent Authority is entered against the City or any Material UAC: <ul style="list-style-type: none"> (1) adjudging or declaring it insolvent or assessing it as having serious financial problems or being in serious or persistent material breach of its obligations to provide basic services or being unable to meet its obligations or financial commitments, for the purposes of Chapter 13 of the MFMA; (2) approving as properly filed an application seeking reorganization, arrangement, adjustment or composition of, or with respect to, the City under any applicable law; (3) appointing an administrator, liquidator, trustee, judicial manager or other similar person of the City or any Material UAC or of any substantial part of its property or other assets; (4) ordering the winding up or liquidation of its affairs or requesting the implementation of a financial recovery plan pursuant to Chapter 13 of the MFMA; <p>or any application is filed seeking any of the above and is not dismissed or withdrawn within thirty (30) days;</p>

- (v) a decree or order by a court or other competent Authority is entered against the City, or the City requests or applies for a decree or order:
 - (1) ordering a stay of legal proceedings, including the execution of legal process, against the City in accordance with sections 152 and 153 of the MFMA;
 - (2) ordering the suspension of all or any part of the City's financial obligations to creditors in accordance with sections 153 and 154 of the MFMA; or
 - (3) ordering the termination of all or any part of the City's financial obligations to creditors in accordance with sections 153 and 155 of the MFMA;
 or any application is filed seeking an order for any of the above and such application is not dismissed or withdrawn within thirty (30) days;
- (vi) the City or any Material UAC is unable to pay its debts, suspends or threatens to suspend payment of all or a material part of its debt, commences negotiations or takes any other step with a view to the deferral, rescheduling or other re-adjustment of all or a material part of its debt, proposes or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or a moratorium is agreed or declared in respect of or affecting all or a material part of the debt of the City or any Material UAC;
- (vii) an intervention by the Provincial Executive or the National Executive in the conduct of the City's affairs in accordance with Chapter 13, Part 2 of the MFMA is ordered or commenced in respect of the City or the City requests such an intervention;
- (viii) an attachment, execution or other legal process is levied, enforced, issued or sued out on or against any Material Assets of any of the City or a Material UAC and is not discharged or stayed within 30 (thirty) days;
- (ix) any other event occurs which under any applicable law would have an effect analogous to any of those events listed in paragraphs (iv) through (vi) above;
- (x) any of the Guaranteed Bonds, the Trust Deed, the Agreement to Issue Guarantee dated June 24, 2004 made between the City and the Co-guarantors or the Reimbursement Agreements ceases to be in effect or becomes unlawful or declared void or is repudiated or challenged and such repudiation or challenge is not withdrawn within 30 (thirty) days of notice to the City from the Trustee or any Co-guarantor to that effect; or
- (xi) any security on or over any Material Asset of the City or a Material UAC becomes enforceable and executable by virtue of default and any step (including the taking of possession, attachment or the appointment of an administrator, liquidator, trustee, judicial manager or similar person) is taken to enforce that security;

"Final Release"

a release, substantially in the form of Exhibit 4B (*Form of Final Release*), providing for the final release of a Co-guarantor from all obligations under the Guarantee Agreement, to be signed by the Trustee;

"Guarantee Account"

the account opened by each Co-guarantor with The Standard Bank of South Africa Ltd, or such other account with a reputable financial institution in South Africa as such Co-guarantor may notify the Trustee in writing from time to time, for the purposes of making certain payments due to the Bondholders by such Co-guarantor under this Guarantee Agreement;

TERMS AND CONDITIONS OF THE GUARANTEE AGREEMENT

continued

"Guaranteed Obligations"	the obligation of payment by COJ of the interest and principal payable in respect of the Guaranteed Bonds, in accordance with the Terms and Conditions other than any such interest and principal falling due as a result of a voluntary prepayment (including, without limitation, an early redemption for tax reasons as provided for in the Terms and Conditions) of all or any part of the Guaranteed Bonds by the City and excluding, for the avoidance of doubt, any obligation of payment by COJ of fees and expenses of the holders of the Guaranteed Bonds, the Trustee or any other party;
"IFC Disbursement"	a payment made by IFC to the Settlement Agent, either directly or by withdrawal or transfer from its Guarantee Account, as the case may be, pursuant to this Guarantee Agreement, including without limitation a payment of an IFC Shortfall Amount or any part thereof made in accordance with the provisions of Section 2.4 (<i>Trustee Demands; Payments</i>) or the payment of the Available IFC Guarantee Amount pursuant to Section 2.5(a) (<i>Acceleration of the Guarantee</i>);
"IFC Shortfall Amount"	the amount required to be paid by IFC under this Guarantee Agreement to cover a Shortfall which shall be equal to the lesser of (a) fifty percent (50%) of such Shortfall and (b) the Available IFC Guarantee Amount at the time such Shortfall is determined;
"Material Asset"	has the meaning assigned thereto in the Terms and Conditions;
"Material UAC"	has the meaning assigned thereto in the Terms and Conditions;
"MFMA"	the Local Government: Municipal Finance Management Act, 2003, as amended from time to time;
"Notice of Guarantee Acceleration"	a notice issued by either: <ul style="list-style-type: none"> (i) any of the Co-guarantors, substantially in the form of Exhibit 3A (<i>Form of Notice of Guarantee Acceleration, issued by the Co-guarantors</i>), notifying the Trustee that the Co-guarantors are accelerating their respective obligations in respect of payment of the Guaranteed Bonds under this Guarantee Agreement pursuant to Section 2.5(a) (<i>Acceleration of the Guarantee</i>); or (ii) the Trustee, substantially in the form of Exhibit 3B (<i>Form of Notice of Guarantee Acceleration issued by the Trustee</i>), notifying the Co-guarantors that the Trustee is accelerating the obligations of the Co-guarantors following an acceleration of the Guaranteed Bonds in accordance with Section 2.5(b) (<i>Acceleration of the Guarantee</i>);
"Notice of Guarantee Demand"	a notice, substantially in the form of Exhibit 1 (<i>Form of Notice of Guarantee Demand</i>), issued by the Trustee to each Co-guarantor pursuant to Section 2.4 (<i>Trustee Demands; Payments</i>) with respect to a Shortfall and stipulating the DBSA Shortfall Amount or the IFC Shortfall Amount, as the case may be;
"Offering Circular"	the offering circular issued by COJ and approved by the Bond Exchange of South Africa (BESA) and the Financial Services Board for use in connection with the offer and sale of the Guaranteed Bonds, substantially (or in the case of Terms and Conditions or the information pertaining to any of the Co-guarantors or to this Guarantee Agreement, identically save to the extent that amendments have been agreed with the Co-guarantors and the Trustee) in the terms set out in the Preliminary Offering Circular;
"Person"	any natural person, corporation, company, partnership, firm, voluntary association, joint venture, trust, unincorporated organization, Authority or any other entity whether acting in an individual, fiduciary or other capacity;
"Preliminary Offering Circular"	the undated document entitled "Preliminary Offering Circular" prepared by the City in connection with the offer and sale of the Guaranteed Bonds and issued on June 15, 2004;

"Principal Payment Date"	each date on which a scheduled payment of principal under the Guaranteed Bonds falls due in accordance with the Terms and Conditions;
"Rand" or "ZAR"	the lawful currency of South Africa;
"Reimbursement Agreements"	the Reimbursement Agreements, each dated June 24, 2004, made between the City and each of the Co-guarantors;
"Settlement Agent"	the Person appointed by the City to act as settlement agent in respect of the Guaranteed Bonds and notified in writing to the Trustee and the Co-guarantors from time to time, which shall be a Central Depository Participant approved by the Bond Exchange of South Africa in terms of the rules of such exchange to perform electronic settlement of both funds and scrip on behalf of market participants and having a minimum domestic credit rating of AA- (or an equivalent thereof) from Fitch Ratings, Moody's Investors Service and Standard & Poor or any one of them;
"Shortfall"	has meaning given in Section 2.4;
"South Africa"	the Republic of South Africa;
"Terms and Conditions"	the terms and conditions of the Guaranteed Bonds as set out in the Preliminary Offering Circular and the Offering Circular;
"Transfer Secretary"	Computershare Limited, a company organized and existing under the laws of the Republic of South Africa, with Registration Number 1958/003546/06 or such other entity appointed by the City as transfer secretary from time to time; and
"Trust Deed"	the deed of trust dated June 24, 2004 made between the City and the Trustee.

Section 1.2. *Interpretation*. In this Guarantee Agreement, unless the context otherwise requires:

- (a) headings and underlinings are for convenience only and do not affect the interpretation of this Guarantee Agreement;
- (b) words importing the singular include the plural and vice versa;
- (c) an expression importing a natural person includes any company, partnership, trust, joint venture, association, corporation or other body corporate and any governmental or semi-governmental authority or agency;
- (d) a reference to a Section, paragraph, Exhibit, party or Recital, is a reference to a Section, paragraph, Exhibit, party or Recital to or of this Guarantee Agreement;
- (e) a reference to a document includes an amendment or supplement to, or replacement or novation of, that document;
- (f) a reference to a party to any document includes that party's successors and permitted assigns;
- (g) the term "including" means "including without limitation" and any list of examples following such term shall in no way restrict or limit the generality of the word or provision in respect of which such examples are provided; and
- (h) any provision within a definition used in this Agreement which confers any rights or imposes any obligations shall be given effect as a substantive provision notwithstanding that it is contained within a definition.

Section 1.3 *Business Day Adjustment*. When the day on or by which a payment is due to be made or a notice is to be given is not a Business Day, that payment shall be made or, as the case may be such notice will be given on or by the next succeeding Business Day, provided that no interest or other amount shall be payable in the event of any payment being postponed as a result of the provisions hereof.

ARTICLE II**Guarantee**

Section 2.1. *Guarantee.* Subject to the conditions described in this Article II and as otherwise provided herein, with effect from the Effective Date, each of IFC and DBSA irrevocably guarantees to the Trustee for the benefit of the Bondholders up to the Available IFC Guarantee Amount and the Available DBSA Guarantee Amount, respectively, the due and punctual payment by the City, of the Guaranteed Obligations. The parties hereby agree and acknowledge that the Guarantee Agreement is a guarantee of payment and that the respective obligations of the Co-guarantors under the Guarantee Agreement are several and not joint.

Section 2.2. *Available Guarantee Amounts.* The Trustee, on behalf of the Bondholders, acknowledges and agrees with each Co-Guarantor that, any other provision of this Guarantee Agreement to the contrary notwithstanding, such Co-guarantor's obligation to pay under the Guarantee Agreement shall not under any circumstances exceed the Available IFC Guarantee Amount or the Available DBSA Guarantee Amount, as the case may be.

Section 2.3. *Reinstatement.* (a) In the event that either Co-guarantor makes a Disbursement in respect of any Shortfall under this Guarantee Agreement in accordance with Section 2.4, then if the City repays to such Co-guarantor an amount equal to such Disbursement, together with all interest and other amounts payable in connection therewith, the Available IFC Guarantee Amount or the Available DBSA Guarantee Amount, as the case may be, shall be adjusted in accordance with the provisions set out in the definitions of Applicable IFC Guarantee Percentage and Applicable DBSA Guarantee Percentage in Section 1.1, but only if:

- (i) such payment to IFC or DBSA, as the case may be, by the City is made within ninety (90) days of such Disbursement;
- (ii) there are no amounts payable by the City to IFC or DBSA, as the case may be, in respect of payments made by IFC or DBSA under this Guarantee Agreement which are overdue and remain unpaid;
- (iii) IFC or DBSA, as the case may be, has not issued a Notice of Guarantee Acceleration on or prior to the date of such repayment to IFC or DBSA, as the case may be, by COJ;
- (iv) the Guaranteed Bonds have not been repaid in full;
- (v) this Guarantee Agreement has not been terminated in accordance with Section 3.1; and
- (vi) the City has also repaid to the other Co-guarantor an amount equal to any Disbursement made by such other Co-guarantor in connection with the same Shortfall, together with all interest and other amounts payable in connection therewith.

Section 2.4. *Trustee Demands; Payments.* (a) If the Trustee determines that (i) on the thirtieth (30th) calendar day prior to a Bond Payment Date, there is a shortfall (each, a "Shortfall") in the funds deposited by the City in the Bond Payment Account to pay all Guaranteed Obligations due and payable on such Bond Payment Date (but excluding, for the avoidance of doubt, any amounts falling due as a result of a voluntary prepayment of the Guaranteed Bonds by the City) and (ii) the City, after receipt of a request from the Trustee (with a copy to each Co-guarantor), has failed to deposit into the Bond Payment Account, on or prior to the twentieth (20th) calendar day prior to such Bond Payment Date, an amount sufficient to cover such Shortfall, the Trustee shall, as soon as possible but in any event nineteen (19) calendar days prior to such Bond Payment Date, and only to the extent that such amount is not held in the Bond Payment Account, (i) notify each Co-guarantor of such events; (ii) determine the corresponding DBSA Shortfall Amount and IFC Shortfall Amount and (iii) request IFC to pay the IFC Shortfall Amount (which shall not exceed the Available IFC Guarantee Amount) and DBSA to pay the DBSA Shortfall Amount (which shall not exceed the Available DBSA Guarantee Amount) into the Guarantee Account. The Trustee's request for payment under the Guarantee Agreement shall be effected by delivering to each Co-guarantor (with a copy to the Bondholders) a Notice of Guarantee Demand, together with an Acknowledgement executed by the Trustee and a copy of the Notice of Guarantee Demand sent to the other Co-guarantor, as well as a power of attorney or such other evidence, reasonably satisfactory to each Co-guarantor, of the authority of the representative or representatives of the Persons executing such Notice of Guarantee Demand and such Acknowledgement.

- (b) Following the receipt of a Notice of Guarantee Demand and an Acknowledgement (together with a copy of the Notice of Guarantee Demand sent to the other Co-guarantor) sent pursuant to Section 2.4(a), each Co-guarantor shall, no later than fifteen (15) calendar days prior to the Bond Payment Date, deliver to the Trustee (with a copy to the other Co-guarantor) via facsimile a notice acknowledging receipt of the Notice of Guarantee Demand and either (i) confirming its agreement with the Trustee's calculation of

TERMS AND CONDITIONS OF THE GUARANTEE AGREEMENT

continued

the Shortfall, the IFC Shortfall Amount and the DBSA Shortfall Amount or (ii) indicating that such Co-guarantor disagrees with the Trustee's calculation of the Shortfall, the IFC Shortfall Amount or the DBSA Shortfall Amount. In the event of any such disagreement, the Co-guarantors and the Trustee shall consult with each other in good faith within five (5) Business Days from date of receipt by the Trustee of the acknowledgement of receipt from the Co-guarantor(s) to calculate the relevant amounts in accordance with the provisions hereof. In the event that the Co-guarantors and the Trustee cannot agree on the amount of the Shortfall, the IFC Shortfall Amount and/or the DBSA Shortfall Amount within the consultation period, the larger of the amount proposed by the Co-guarantors and the amount proposed by the Trustee will prevail, save that nothing contained herein shall require the Co-guarantors to disburse an amount greater than the Available DBSA Guarantee Amount or the Available IFC Guarantee Amount, as the case may be, outstanding from time to time. If the Trustee agrees, following such consultation, to amend its calculation of the Shortfall, the IFC Shortfall Amount and/or the DBSA Shortfall Amount or the amounts that prevail in case of disagreement differs from such calculation, then the Trustee shall deliver a replacement Notice of Guarantee Demand and Acknowledgement to each Co-guarantor reflecting such amendment (together with a copy of the replacement Notice of Guarantee Demand sent to the other Co-guarantor) no later than 5 (five) Business Days prior to the relevant Bond Payment Date.

- (c) Following receipt by it of a Notice of Guarantee Demand and an Acknowledgement sent pursuant to Section 2.4(a) (together with a copy of the Notice of Guarantee Demand sent to the other Co-guarantor) and upon any consultation required pursuant to Section 2.4(b), each Co-guarantor shall, no later than two (2) Business Days prior to the Bond Payment Date and subject to Section 2.2 (*Guaranteed Amount*), (i) pay or cause to be paid into its Guarantee Account, in immediately available cash, the IFC Shortfall Amount, or, as the case may be, the DBSA Shortfall Amount as stipulated in the corresponding Notice of Guarantee Demand (or, if applicable, any replacement Notice of Guarantee Demand therefor) (ii) authorize and instruct the Settlement Agent (with a copy to the Trustee) to withdraw from its Guarantee Account the amount of the IFC Shortfall Amount, or, as the case may be, the DBSA Shortfall Amount for further payment of amounts of principal and interest under the Guaranteed Bonds to the Bondholders in accordance with the Terms and Conditions and the provisions of the Trust Deed. The Trustee is hereby authorized to monitor each Guarantee Account for the purposes of verifying any payments thereto and withdrawals therefrom pursuant to this Agreement and the Co-guarantors undertake to sign any documentation reasonably necessary to ensure that the Trustee is able to do so.
- (d) Each Co-guarantor's payment of any IFC Shortfall Amount, or, as the case may be, any DBSA Shortfall Amount into the Guarantee Account in accordance with the provisions of Section 2.4(c) shall be deemed to satisfy in full such Co-guarantor's obligations under this Guarantee Agreement in respect of such IFC Shortfall Amount or DBSA Shortfall Amount, provided that the Settlement Agent shall have received the relevant authorization and instructions pursuant to Section 2.4(c) and such amounts are available to, and have been collected by, the Settlement Agent for payment on the relevant Bond Payment Date as provided therein. Neither Co-guarantor shall be required to make any payment under this Guarantee Agreement unless it has received a Notice of Guarantee Demand accompanied by the corresponding Acknowledgement and other documentation required under Section 2.4(a), and neither Co-guarantor shall be liable for any cost, loss or damage incurred by the Trustee or any Bondholder or any other person if such Notice of Guarantee Demand and such Acknowledgement or other such documentation are not received by it at least nineteen (19) calendar days (subject to Section 1.3) in advance of the relevant Bond Payment Date (or, in the case of any replacement Notice of Guarantee Demand and Acknowledgement, at least 5 (five) Business Days prior to the relevant Bond Payment Date).
- (e) Unless otherwise agreed by the Trustee, neither Co-guarantor shall be entitled to withdraw any amounts paid into its Guarantee Account or to give any payment instructions to any Person in respect thereof save as provided herein between the date on which an IFC Shortfall Amount, or, as the case may be, a DBSA Shortfall Amounts falls due for payment thereto and the corresponding Bond Payment Date.

Section 2.5. *Acceleration of the Guarantee; Acceleration of the Bonds.* (a) Notwithstanding the provisions of this Article II, if an Event of Guarantee Acceleration has occurred and is continuing as certified to the Trustee in such Notice of Guarantee Acceleration, the Co-guarantors or either of them may, by giving a Notice of Guarantee Acceleration to the Trustee and the other Co-guarantor if necessary, elect to accelerate the obligations of each of the Co-guarantors under this Guarantee Agreement in which case each Co-guarantor will pay, without penalty, to the Settlement Agent for further payment to the Bondholders, on the fifteenth (15th) calendar day after delivery of the Notice of Guarantee Acceleration, an amount equal to the Available IFC Guarantee Amount or the Available DBSA Guarantee Amount, as the case may be. Any such payment to the Settlement Agent shall be deemed a Disbursement under this Guarantee Agreement by the relevant Co-guarantor. Upon receipt of a Notice of Guarantee Acceleration, the Trustee shall deliver to each of the Co-guarantors, within five (5) Business Days thereof, a Conditional Release, accompanied by an Acknowledgement, each executed by the Trustee, together with a power of attorney or such other evidence, reasonably satisfactory to such Co-guarantor, of the authority of the representatives of the Persons executing such Conditional Release and such Acknowledgement.

TERMS AND CONDITIONS OF THE GUARANTEE AGREEMENT

continued

- (b) In the event that the Guaranteed Bonds are accelerated in full pursuant to condition 12 of the Terms and Conditions or otherwise fall due for repayment in full prior to their stated maturity, the Trustee, acting in accordance with the Terms and Conditions and the provisions of the Trust Deed, may, by giving a Notice of Guarantee Acceleration to the Co-guarantors, accelerate the obligations of both Co-guarantors (but not only one of them) under this Guarantee Agreement and cause each Co-guarantor to pay, without penalty, to the Settlement Agent for further payment to the Bondholders, on behalf of the City, on the thirtieth (30th) calendar day after delivery of the Notice of Guarantee Acceleration by the Trustee, an amount equal to the Available IFC Guarantee Amount or the Available DBSA Guarantee Amount, as the case may be. As soon as practicable after delivery of a Notice of Guarantee Acceleration to the Co-guarantors, but in any event within five (5) Business Days thereof, the Trustee shall deliver to each Co-guarantor an executed Conditional Release, accompanied by an Acknowledgement, each executed by the Trustee, together with a power of attorney or such other evidence, satisfactory to such Co-guarantor, of the authority of the representative or representatives of the Persons executing such Conditional Release and such Acknowledgement.
- (c) Each of the Co-guarantors shall, fifteen (15) calendar days after delivery by it to the Trustee of a Notice of Guarantee Acceleration pursuant to Section 2.5(a) or thirty (30) calendar days after receipt by it from the Trustee of a Notice of Guarantee Acceleration pursuant to Section 2.5(b), and provided it has received the corresponding Conditional Release and Acknowledgement, pay to the Settlement Agent for further payment to the Bondholders the Available IFC Guarantee Amount or the Available DBSA Guarantee Amount, as the case may be. Any amounts to be paid by each Co-guarantor pursuant to this Section 2.5 shall be applied in accordance with the Terms and Conditions. Payment of such amounts by each of the Co-guarantors to the Settlement Agent following an acceleration of the Guarantee Agreement under Section 2.5(a) or (b) shall be deemed to satisfy in full such Co-guarantor's obligations hereunder to pay any amount of the Guaranteed Obligations and shall constitute a full and final discharge of that Co-guarantor's obligations as aforesaid. Without prejudice to the provisions of the preceding sentence, upon each Co-guarantor's payment of the Available IFC Guarantee Amount or the Available DBSA Guarantee Amount, as the case may be, to the Settlement Agent pursuant to this Section 2.5, the Trustee shall deliver to such Co-guarantor a Final Release, together with a power of attorney or such other evidence, satisfactory to such Co-guarantor, of the authority of the representative or representatives of the Persons executing such Final Release.

Section 2.6. Subrogation; Loans under Reimbursement Agreements. If either Co-guarantor makes a Disbursement under this Guarantee Agreement (including, without limitation, pursuant to Section 2.4 (*Trustee Demands; Payments*) or 2.5 (*Acceleration of the Guarantee*)), such Co-guarantor shall, to the extent of that Disbursement, be subrogated to the rights of the Bondholders. In furtherance of such subrogation, the Trustee shall, as provided in Sections 2.4 (*Trustee Demands; Payments*) and 2.5 (*Acceleration of the Guarantee*), deliver to such Co-guarantor an Acknowledgment in respect of each amount paid by it for the benefit of the Bondholders under this Guarantee Agreement.

Section 2.7. Other Guarantee Features. Notwithstanding anything in this Guarantee Agreement to the contrary, neither of the Co-guarantors shall have any obligations to any party in respect of any indebtedness of the City other than the Guaranteed Obligations in respect of the Guaranteed Bonds and then only to the extent and subject to the terms of this Guarantee Agreement.

Section 2.8. Continuing Guarantee. This Guarantee Agreement is a continuing guarantee and shall remain in full force and effect as against each Co-guarantor (a) save to the extent that the obligations of such Co-guarantor hereunder are discharged by payment in accordance with this Article II or (b) until termination as provided in Section 3.1 (*Termination*), subject only to Conditional Releases and Final Releases executed by the Trustee in favor of either or both Co-guarantors as provided herein.

Section 2.9. Nature of IFC Obligations. IFC's obligations hereunder are the obligations of IFC and are not the obligations of, or guaranteed by, the International Bank for Reconstruction and Development or any government. IFC's obligations hereunder rank *pari passu* with all other general obligations of IFC.

Section 2.10. No Set-off. Save as otherwise provided herein, all payments which each Co-guarantor is required to make under this Guarantee Agreement shall be without any set-off, counterclaim or condition.

Section 2.11. Notification of Trustee. In the event that the Co-guarantors or either of them make or receive any payment in connection with the Guaranteed Bonds (other than a payment made by any Co-guarantor from a Guarantee Account to the Settlement Agent) then, provided that the relevant payment is not in respect of fees, the Co-guarantors will inform the Trustee in writing of such payment within 2 (two) Business Days of the payment being made or received and, in the case of a payment made by a Co-guarantor pursuant to

Section 2.5, will provide to the Trustee a copy of the SWIFT confirmation pertaining to such payment or other reasonable evidence thereof. For the avoidance of doubt, the Trustee is entitled to provide the information in relation to the relevant payment to the Bondholders.

ARTICLE III

Termination Of The Guarantee; Covenants

Section 3.1. *Termination*. The obligations of each Co-guarantor under this Guarantee Agreement shall terminate without the need for further action by such Co-guarantor and such Co-guarantor shall not be liable to make any payments hereunder upon the occurrence of any of the following:

- (a) upon notice by any Co-guarantor to the Trustee given within 10 days of the issue of the Offering Circular, in the event that the Offering Circular is issued with any information pertaining to the Terms and Conditions or to this Guarantee Agreement or to any of the Co-guarantors which has not been approved by the Co-guarantors and the Trustee;
- (b) repayment in full of all principal and interest outstanding on the Guaranteed Bonds by the City;
- (c) thirty (30) days after the date of the final scheduled payment of principal and interest by the City on the Guaranteed Bonds unless any amount shall remain due and payable by such Co-guarantor under this Guarantee Agreement at such time;
- (d) the Available IFC Guarantee Amount (in the case of IFC) or the Available DBSA Guarantee Amount (in the case of DBSA) shall have been reduced to zero, and such amount shall no longer be subject to reinstatement pursuant to Section 2.3 (*Reinstatement*);
- (e) the obligations of the Co-guarantors under this Guarantee Agreement shall have been accelerated pursuant to Sections 2.5(a) or 2.5(b) (*Acceleration of the Guarantee*) and such Co-guarantor shall have paid the Available IFC Guarantee Amount (in the case of IFC) or the Available DBSA Guarantee Amount (in the case of DBSA) to the Settlement Agent in accordance with Section 2.5(c); or
- (f) the Bondholders or the Trustee acting on behalf of the Bondholders:
 - (i) terminate, renounce or cancel the rights and obligations of such Co-guarantor under this Guarantee Agreement, in accordance with condition 4.5 of the Terms and Conditions;
 - (ii) terminate, renounce or cancel their rights under the Terms and Conditions or the Trust Deed without the prior consent of the Co-guarantors; or
 - (iii) takes any action, in respect of the Terms and Conditions or the Trust Deed without the prior written consent of each of the Co-guarantors which, in the reasonable opinion of such Co-guarantor, may materially affect the obligations of such Co-guarantor under this Guarantee Agreement or the rights of such Co-guarantor under the Trust Deed, including but not limited to (1) the extension of any time for payment beyond that expressly provided in the Terms and Conditions, and (2) the agreement of any amendment, modification, addendum to, or release from, or waiver of, the provisions of the Terms and Conditions, the Guaranteed Bonds or the Trust Deed.

Section 3.2. *Affirmative Covenants*. Until this Guarantee Agreement terminates as provided in Section 3.1, if the Trustee learns of:

- (a) any Event of Guarantee Acceleration;
- (b) any failure to pay any amount due under the Guaranteed Bonds or the Trust Deed when due; or
- (c) any negotiations involving any of the City, the Trustee and the Bondholders concerning any proposed amendment, waiver, extension, restructuring or rescheduling of the Guaranteed Bonds or the Trust Deed,

then it shall promptly notify the Co-guarantors.

Section 3.3. *Negative Covenants*. Without the prior written consent of each Guarantor, the Trustee shall not enter into any amendments or waivers to or extensions, restructuring or reschedulings of any Guaranteed Bond or the Terms and Conditions.

Section 3.4. *Bondholders Meetings*. Each Co-guarantor shall have the right to instruct the Trustee to call a meeting of Bondholders in accordance with condition 18 of the Terms and Conditions. For this purpose, such Co-guarantor will give notice to the Trustee and the City, indicating the purpose of such meeting. Upon receipt of the written notification, the Trustee will be required to notify the Bondholders in accordance with the Terms and Conditions as well as the other Co-guarantor.

ARTICLE IV

Miscellaneous

Section 4.1. *Notices, Requests, Etc.* Any notice, request, notification or other communication to be given or made under this Guarantee Agreement to DBSA, to IFC, or to the Trustee shall be in writing. Such notice, request, notification or other communication shall be deemed to have been duly given or made when it shall be delivered by hand, recognized international courier or facsimile to the addressee to which it is required or permitted to be given or made at such addressee's address specified below or at such address as such addressee shall have designated by notice, request or other communication.

For the Trustee: Sonnenberg Hoffmann & Galombik Trustees (Pty) Ltd
c/o Sonnenberg Hoffmann Galombik
5th Floor, ABN Amro House
85 Maude Street
Sandown 2196
Republic of South Africa

Alternative address for communications by facsimile:
(27) (11) 669 8111

Attention: Mr S Osborne

For DBSA: The Development Bank of Southern Africa Ltd
1258 Lever Road
Headway Hill
Midrand
1685
Republic of South Africa

Alternative address for communications by facsimile:
(27) (11) 313 3656

Attention: Manager, Structured Finance

For IFC: International Finance Corporation
2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433
United States of America

Attention: Director, Municipal Fund
Facsimile: +1 (202) 974 4310

With a copy to: Director, Treasury Department
Facsimile: +1 (202) 974 4793

and (with respect to any matters relating to payments, fee calculations or similar administrative matters)

Manager, Financial Operations Unit
Facsimile: +1 (202) 974-4371

Any notice, request or communication given to any person pursuant to this Section shall be deemed to be received by that person (i) if sent by facsimile transmission, on the next Business Day in the place to which it is sent after dispatch with transmission report, (ii) if by courier, three (3) Business Days after the same has been sent, (iii) if by airmail, ten (10) Business Days after the same has been sent with postage prepaid or (iv) if by hand, on the next Business Day unless actually received by the recipient on the same Business Day, in which case, that day.

Section 4.2. Applicable Law; Arbitration. (a) This Agreement shall be governed by, and shall be construed in accordance with, the laws of South Africa.

(b) Any dispute, controversy or claim, arising out of or relating to this Guarantee Agreement, or the breach, termination or invalidity thereof, which cannot be settled amicably shall be finally and conclusively settled by arbitration under the ICC Rules Arbitration of the International Chamber of Commerce, by three (3) Arbitrator(s), appointed in accordance with such rules. The arbitral award shall be final and binding. The place of arbitration shall be Pretoria, South Africa. The arbitration and all pleadings, written statements, documents and decisions shall be in English.

The parties acknowledge and agree that the agreement to arbitrate by IFC in no way constitutes or implies a waiver by IFC of any privilege or immunity granted in the Articles of Agreement establishing IFC, international conventions and applicable law.

(c) The Trustee irrevocably waives any immunity it may have or become entitled to from any judicial proceedings, in any jurisdiction whatsoever, brought for the purpose of enforcing this Guarantee Agreement to arbitrate or any award issued pursuant thereto, or of securing the issuance of any provisional or interim remedy, including but not limited to injunction, attachment or sequestration, or of effecting execution for payment of any such award, and further waives any immunity it might otherwise have or enjoy from any order or judgment imposing any such remedy or effecting such execution.

Section 4.3. Amendments, Modifications, Etc. No amendment, modification or waiver of any provision of this Guarantee Agreement shall be effective unless such modification or waiver shall be in writing and signed by each of the parties hereto and the same shall be effective only for the period and on the conditions and for the specific instances specified therein.

Section 4.4. Successors and Assigns. This Guarantee Agreement shall bind and inure to the benefit of the respective successors of the parties hereto, provided that the rights and obligations of the Trustee and each of the Co-guarantors pursuant to this Guarantee Agreement shall not be assigned by such parties without the prior written consent of each Co-guarantor (in the case of the Trustee) or the Trustee (in the case of each Co-guarantor).

Section 4.5. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same agreement.

Section 4.6. English Language. All documents to be furnished or communications to be given or made under this Guarantee Agreement shall be in the English language.

TERMS AND CONDITIONS OF THE GUARANTEE AGREEMENT

continued

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names as of the day and year first above written.

SONNENBERG HOFFMANN & GALOMBIK TRUSTEES (PTY) LTD

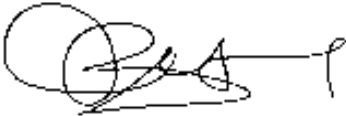


By: _____

Name: S. Osborne

Title: Authorised Representative

THE DEVELOPMENT BANK OF SOUTHERN AFRICA LTD

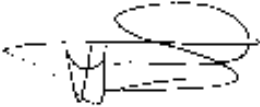


By: _____

Name: Z.J. Matlala

Title: Executive Manager

INTERNATIONAL FINANCE CORPORATION



By: _____

Name: Thierry Tanoh

Title: Associate Director

EXHIBIT 1 TO GUARANTEE AGREEMENT

FORM OF NOTICE OF GUARANTEE DEMAND

[Name and address of relevant Co-guarantor]

[Date]

Ladies and Gentlemen,

We refer to the Guarantee Agreement, dated _____, 2004 (the "Guarantee Agreement") between Sonnenberg Hoffmann & Galombik Trustees (Pty) Ltd (the "Trustee"), The Development Bank of Southern Africa Ltd ("DBSA") and International Finance Corporation ("IFC") in respect of the ZAR _____ [%] unsecured partially guaranteed bonds due [____] (the "Guaranteed Bonds") issued by the City of Johannesburg Metropolitan Municipality (hereinafter referred to as "COJ" or the "City"). Capitalized terms not defined herein have the meaning given to them in the Guarantee Agreement.

The undersigned hereby demands payment from [IFC/DBSA] of a [DBSA/IFC] Shortfall Amount of _____ Rand (ZAR _____) in respect of the Guaranteed Obligations. Such amount was determined as set forth on the attached worksheet, which also sets forth the Shortfall under the Guaranteed Bonds and the current Available [IFC/DBSA] Guarantee Amount.

[The undersigned hereby certifies that no funds are available in the Bond Payment Account or otherwise to meet the whole or any part of the Shortfall in respect of which the Shortfall Amount is being demanded hereunder] / [all funds available in the Bond Payment Account or otherwise have been taken into account in the calculation of the Shortfall and, as shown in the attached worksheet, have been applied pari passu in reduction of the Shortfall Amounts being demanded both hereunder and from the other Co-guarantor.]

The undersigned hereby represents to [IFC/DBSA] that the amount claimed hereunder shall become due on _____ under the Guarantee Agreement, and that the Bondholders will expect payment from the City on _____.

Sonnenberg Hoffmann & Galombik Trustees (Pty) Ltd

By: _____
Authorized Representative

Attachment: Worksheet
cc: City of Johannesburg Metropolitan Municipality
[name of other Co-guarantor]

1 Delete as appropriate.

EXHIBIT 2 TO GUARANTEE AGREEMENT

FORM OF ACKNOWLEDGEMENT

[Name and address of Co-guarantor]

[Date]

Ladies and Gentlemen,

Acknowledgement

1. We refer to the Guarantee Agreement, dated _____, 2004 (the "Guarantee Agreement") between Sonnenberg Hoffmann & Galombik Trustees (Pty) Ltd (the "Trustee"), The Development Bank of Southern Africa Ltd ("DBSA") and International Finance Corporation ("IFC") in respect of the ZAR _____ [%] unsecured partially guaranteed bonds due [____] (the "Guaranteed Bonds") issued by the City of Johannesburg Metropolitan Municipality (hereinafter referred to as "COJ" or the "City"). Capitalized terms not defined herein have the meaning given to them in the Guarantee Agreement.

2. In consideration for the corresponding payment to be made by [IFC/DBSA] [into its Guarantee Account and its instructions to the Settlement Agent to withdraw such payment for further payment of amounts of principal and interest under the Guaranteed Bonds to the Bondholders in accordance with the Terms and Conditions and the provisions of the Trust Deed]² [to the Settlement Agent]³ under the Guarantee Agreement, and pursuant to Section 2.6 (*Subrogation*) of the Guarantee Agreement, we hereby acknowledge the rights and benefits that will accrue to [IFC/DBSA] under the Terms and Conditions and the Trust Deed in respect of the amount which is presently demanded from [IFC/DBSA] under the Guarantee Agreement pursuant to [a notice of Guarantee Demand]⁴ [Notice of Guarantee Acceleration and the Conditional Release]⁵ that accompanies this Acknowledgement. Effective as of the date of the Disbursement to be made by [IFC/DBSA] pursuant to the Guarantee Agreement and to such [a Notice of Guarantee Demand]⁶ [Notice of Guarantee Acceleration and the Conditional Release]⁷, being the amount of _____ Rand (ZAR _____), [IFC/DBSA] shall stand subrogated to all rights and remedies of the Bondholders under the Terms and Conditions and the Trust Deed in respect of such Disbursement.

3. [IFC/DBSA] is hereby authorized to deliver written notice of this Acknowledgement to the City and any other persons who are making or are obligated to make payment with respect to such Disbursement on behalf of or in place of the City or otherwise.

5. We undertake at any time upon your request to execute and deliver such other documents and notices as may be reasonably required by [IFC/DBSA] to enforce its rights and benefits under the Terms and Conditions and the Trust Deed in respect of the amount of such Disbursement.

Sonnenberg Hoffmann & Galombik Trustees (Pty) Ltd

By: _____

Name:

Title:

2 Use for regular payments.
3 Use for accelerated payments.
4 Use for regular payments.
5 Use for acceleration payments.
6 Use for regular payments.
7 Use for acceleration payments.

EXHIBIT 3A TO GUARANTEE AGREEMENT

FORM OF NOTICE OF GUARANTEE ACCELERATION ISSUED BY CO-GUARANTOR

Sonnenberg Hoffmann & Galombik Trustees (Pty) Ltd

[Address]

[Date]

Ladies and Gentlemen,

We refer to Section 2.5(a) (*Acceleration of the Guarantee*) of the Guarantee Agreement dated _____, 2004 (the "**Guarantee Agreement**") between Sonnenberg Hoffmann & Galombik Trustees (Pty) Ltd (the "**Trustee**"), The Development Bank of Southern Africa Ltd ("**DBSA**") and International Finance Corporation ("**IFC**") in respect of the ZAR _____ [%] unsecured partially guaranteed bonds due [____] (the "**Guaranteed Bonds**") issued by the City of Johannesburg Metropolitan Municipality (hereinafter referred to as "**COJ**" or the "**City**"). Capitalized terms not defined herein have the meaning given to them in the Guarantee Agreement.

The undersigned, pursuant to Section 2.5(a) (*Acceleration of the Guarantee*) of the Guarantee Agreement, hereby notifies the Trustee that [IFC/DBSA] hereby accelerates the obligations of the Guarantors under the Guarantee Agreement and will proceed to pay to the Trustee, in accordance with Section 2.5(c) of the Guarantee Agreement, the Available [IFC/DBSA] Guarantee Amount thereunder, which amount as of the date hereof is [_____ Rand (ZAR_____)].

INTERNATIONAL FINANCE CORPORATION/THE DEVELOPMENT BANK OF SOUTHERN AFRICA LTD

By: _____
Authorized Representative

cc: City of Johannesburg Metropolitan Municipality
[Name of other Co-guarantor]

EXHIBIT 3B TO GUARANTEE AGREEMENT

FORM OF NOTICE OF GUARANTEE ACCELERATION ISSUED BY THE TRUSTEE

[Name and address of Co-guarantor]

[Date]

Ladies and Gentlemen,

We refer to Section 2.5(b) (*Acceleration of the Guarantee*) of the Guarantee Agreement dated _____, 2004 (the "**Guarantee Agreement**") between Sonnenberg Hoffmann & Galombik Trustees (Pty) Ltd (the "**Trustee**"), The Development Bank of Southern Africa Ltd ("**DBSA**") and International Finance Corporation ("**IFC**") in respect of the ZAR _____ [%] unsecured partially guaranteed bonds due [] [] (the "**Guaranteed Bonds**") issued by the City of Johannesburg Metropolitan Municipality (hereinafter referred to as "**COJ**" or the "**City**"). Capitalized terms not defined herein have the meaning given to them in the Guarantee Agreement.

The undersigned, pursuant to Section 2.5(b) (*Acceleration of the Guarantee*) of the Guarantee Agreement, hereby:

- (i) certifies that the Guaranteed Bonds have been accelerated in full pursuant to Condition 12 of the Terms and Conditions (copies of the relevant notice of acceleration of the Guaranteed Bonds is hereby enclosed); and
- (ii) notifies IFC and DBSA that the Trustee hereby accelerates the payment obligations of [IFC/DBSA] under the Guarantee Agreement in respect of the Available [IFC/DBSA] Guarantee Amount under the Guarantee Agreement, which amount as of the date hereof is [] Rand (ZAR_____).

Sonnenberg Hoffmann & Galombik Trustees (Pty) Ltd

By: _____
Authorized Representative

cc: City of Johannesburg Metropolitan Municipality
[Name of other Co-guarantor]

EXHIBIT 4A TO GUARANTEE AGREEMENT

FORM OF CONDITIONAL RELEASE

[Name and address of Co-guarantor]

[Date]

Ladies and Gentlemen,

Conditional Release

1. We refer to the Guarantee Agreement, dated _____, 2004 (the "Guarantee Agreement") between Sonnenberg Hoffmann & Galombik Trustees (Pty) Ltd (the "Trustee"), The Development Bank of Southern Africa Ltd ("DBSA") and International Finance Corporation ("IFC") in respect of the ZAR _____ [%] unsecured partially guaranteed bonds due [____] [____] [____](the "Guaranteed Bonds") issued by the City of Johannesburg Metropolitan Municipality (hereinafter referred to as "COJ" or the "City").
2. Terms not otherwise defined herein shall have the same meanings given to them in the Guarantee Agreement.
3. There has been an acceleration of the obligations of [IFC/DBSA] under the Guarantee Agreement pursuant Section 2.5 [(a)/(b)] (*Acceleration of the Guarantee*) thereof. Effective as of the date of the Disbursement to be made by [IFC/DBSA] as a result of such acceleration, but subject to receipt by the Settlement Agent of such Disbursement in full, this release shall release [IFC/DBSA] from all obligations under the Guarantee Agreement to pay any amount of the Guaranteed Obligations in respect of the Guaranteed Bonds. Immediately upon receipt by the Settlement Agent of such Disbursement, we shall execute and deliver to [IFC/DBSA] a Final Release, together with evidence, satisfactory to [IFC/DBSA], of the authority of the representative or representatives of the Persons executing such Final Release.
4. [IFC/DBSA] is hereby authorized to deliver written notice of this conditional release to the City and to any third party in order for [IFC/DBSA] to exercise its rights.
5. We undertake at any time upon your request to execute and deliver such other documents and notices as may be reasonably required by [IFC/DBSA] in connection with this conditional release.

Sonnenberg Hoffmann & Galombik Trustees (Pty) Ltd

By: _____

Name:

Title:

EXHIBIT 4B TO GUARANTEE AGREEMENT

FORM OF FINAL RELEASE

[Name and address of Co-guarantor]

[Date]

Ladies and Gentlemen,

Final Release

1. We refer to the Guarantee Agreement dated _____, 2004 (the "**Guarantee Agreement**") between Sonnenberg Hoffmann & Galombik Trustees (Pty) Ltd (the "**Trustee**"), The Development Bank of Southern Africa Ltd ("**DBSA**") and International Finance Corporation ("**IFC**") in respect of the ZAR _____ [___%] unsecured] partially guaranteed bonds due [____] (the "**Guaranteed Bonds**") issued by the City of Johannesburg Metropolitan Municipality (hereinafter referred to as "**COJ**" or the "**City**").
2. In this release, terms not otherwise defined herein shall have the same meanings given to them in the Guarantee Agreement.
3. In consideration of the corresponding payment by [IFC/DBSA] to the Settlement Agent of the Available [IFC/DBSA] Guarantee Amount under Section 2.5(c) (*Acceleration of the Guarantee*) of the Guarantee Agreement, receipt of which is hereby acknowledged, we hereby release [IFC/DBSA] from all obligations under the Guarantee Agreement to pay any amount of the Guaranteed Obligations.
4. [IFC/DBSA] is hereby authorized to deliver written notice of this release to the City and to any third party in order for [IFC/DBSA] to exercise its rights.
5. We undertake at any time upon your request to execute and deliver such other documents and notices as may be reasonably required by [IFC/DBSA] in connection with this release.

SONNENBERG HOFFMANN & GALOMBIK TRUSTEES (PTY) LTD

By: _____

Name:

Title:

USE OF PROCEEDS

The proceeds from the issue of the Bonds will be applied by the Issuer to finance Capital Expenditure of the nature referred to below, which expenditure has been budgeted for and approved by the Council of the Issuer, including payment of fees and expenses associated with the issue of the Bonds and the payment and repayment of existing borrowings.

“Capital Expenditure” means (in terms of paragraph 1 of the conditions and criteria for the raising of loans by Municipalities published by the Minister of Finance under section 10G(8)(a)(i) of the Local Government Transition Act, 1993 of the RSA, published under Government Notice R412 in Government Gazette 18764 of 27 March 1998) any payment by a municipality for the procurement of assets with a value higher than R1 000 (one thousand Rand) with a normal life expectancy of more than 1 (one) year and includes:

- (a) payment for the acquisition of goods and services for the purposes of improving, prolonging the expected working life of, and rebuilding or reconstructing an existing fixed asset;
- (b) a capital transfer to another person or body;
- (c) the granting and payment of a money loan of which the proceeds will be used by the recipient of such a loan for capital expenditure;
- (d) any other expenditures which is from time to time classified by the Department of Finance by notice in the Government Gazette as capital expenditure;
- (e) the repayment of an outstanding loan which is due for redemption or conversion, provided that the proceeds of such conversion shall be used for the financing of expenditures contemplated in paragraphs (a), (b), (c) and (d) above, but excludes a payment by the Issuer in connection with the normal maintenance of a capital asset intended to keep such asset in its original state of repair.

DESCRIPTION OF AND FINANCIAL INFORMATION ON THE GUARANTORS

DESCRIPTION OF THE DBSA

Overview

The Development Bank of Southern Africa Limited (“**DBSA**” or “**the Bank**”) was established in 1983 as a “regional” bank with South Africa and the previous homeland “governments” constituting its shareholders. Following the democratic elections of 1994, the Bank went through an institutional mandate transformation between 1994 and 1996, which was designed to streamline the Bank’s role in the restructured development finance system of the country and to align its operations with the national priorities of the new government. As a result of the transformation, the Bank’s mandate was redefined and refocused mainly on infrastructure, whilst some of its previous functions such as rural development and small enterprise development were devolved to other Development Finance Institutions (“**DFI’s**”) in South Africa.

In line with the new government’s regional priorities, the Bank’s mandate was further expanded in April 1997 when Parliament passed the Development Bank of Southern Africa Act, No 13 of 1997 (“**the DBSA Act**”), which authorized the Bank to expand its operations into the rest of the Southern African Development Community (“**SADC**”) region. As stipulated in the DBSA Act, the mandate of the Bank is the promotion of economic development and growth, human resource development, institutional capacity building, and the support of the development projects and programmes in the Southern African region. The Bank’s involvement in the SADC region is also guided by exposure limits, risk management policies and operational principles, as approved by the Board of Directors.

Operational Principles

The Bank’s philosophy to conducting its business is guided by three key principles, namely: development impact; “additionality” and sound banking practices. In respect of the “development impact”, the Bank gives priority to projects with the greatest effect in terms of the households benefiting, jobs created, small business communities. The Bank’s “additionality” principle means that its financing activities are additional to those of the state, the private sector and civil society. In line with the principle of “sound banking”, the Bank looks for investments with a potential for sound economic return and/or viability given its funding mechanisms.

Other important principles include alignment of activities to national, regional and local development policies, programmes and priorities; sensitivity to the needs of the poor and responsiveness to the demands of clients; and implementation of a best-practice policy in all activities, including social and environmental practices.

Relationship with the South African Government

The Government of the Republic of South Africa is the sole shareholder of the Bank. During the period between 1983 and 1994, the Bank’s funding was predominantly in the form of paid-up capital of R200 million; budgetary transfers or development subsidies from the South African Government of R3792 million; and accumulated surplus amounting to R3501 million as at 30 September 2000. Borrowings constituted another source of funding, but these were less than a third of the Bank’s funding requirements. Following the redefinition of the Bank’s mission and mandate in 1997, the Government demonstrated its support and commitment to the DBSA by increasing the Bank’s callable capital from R1800 million to R4800 million.

Relationship with other SADC countries

Although the Bank operates in other SADC countries, such countries are not shareholders in the Bank. Any changes to the ownership structure would be a prerogative of the South African Government. The Bank’s lending operations in SADC are not all guaranteed by the respective governments, nor does the Bank enjoy preferred creditor status as is the case with multi-laterals such as the African Development Bank and International Bank for Reconstruction and Development. The Bank operates through memoranda of understandings, and within the context of treaty and other bilateral agreements between South Africa and SADC countries.

Regulatory Environment

The DBSA is not subject to supervision by the South African Reserve Bank under the Banks Act, 1990. As already noted, the Bank was established under its own Act (the DBSA Act). However, the DBSA Act is largely based on the principles and provisions of the Companies Act, 1973. In addition, the Minister of Finance is empowered to incorporate some of the provisions of the Companies Act and the Banks Act, to the extent that such provisions are not inconsistent with those of the DBSA Act. The Bank is currently not subject to the Income Tax Act, although the Bank complies with the indirect tax legislation. The Government has however indicated that the Bank could be liable to pay taxes and dividends in the future and negotiations with Government in this regard are in progress.

The listing of the DBSA in 1998 in terms of the Reporting of Public Entities Act, 1993, required stricter and more practical reporting of the effectiveness and efficiency of the institution. This has been complied with. With effect from April 2000, this Act has been replaced by the Public Finance Management Act, which increases the reporting requirements on areas such as risk management; funding; business planning and industrial relations. The Bank is listed in terms of the Financial Markets Control Act and the Financial Services Board Act. To comply with the latter Act, the Bank has begun redesigning its systems and is improving its business performance management against the objectives set by the new legislation.

The Role of the DBSA

An instrument of growth, reconstruction and development

As a public institution, the Bank contributes to and supports projects that seek to put South Africa and the southern African region on a sustainable economic growth path, to eradicate poverty and inequity and to empower people and institutions to take charge of development in addition to financing activities of the state, the private sector and civil society. The impact is broad and includes macroeconomic policy, urban, rural and human resource development strategies, service delivery in housing, water and sanitation, electrification, education and health, and the provision of economic infrastructure.

DBSA's role in the wider Development Finance System ("DFS")

DBSA forms part of a family of five DFI's in South Africa, each focusing on a specific aspect of the development challenge. The Bank, like other DFI's, complements the private and public sectors in addressing risk which the private institutions are either unwilling or unable to accept. It also plays an active role in the DFS governing structures and maintains limited involvement in areas beyond its core business.

DBSA in Southern Africa

As the growing SADC portfolio illustrates, the Bank has a potentially significant developmental role beyond South Africa, which is driven by the South African Government's wider role in the region. The Bank's focus is primarily on the core mandate of infrastructure funding, but in the SADC region, institutional coverage of non-core areas such as small and medium sized enterprises ("**SMME's**") and agriculture is particularly limited. The Bank has therefore been mandated to deal with a number of such non-core activities in SADC. The Board continues to devote considerable effort to ensuring that the organisation's impact in the region is optimally directed.

Corporate Governance

The Bank's strategic business focus, core governance values and organizational systems are directed and controlled on behalf of the shareholder by an independent board of director (the "**Board**"). The Board is appointed by the shareholder representative and consists at any time of not fewer than ten (10) and not more than fifteen (15) members. Board members are appointed on the basis of their ability and experience in relation to socio-economic development, development finance, business, finance, banking and administration.

Currently, the Director-General of the National Treasury, Advisor to the Minister of Provincial and Local Government as well as the Economic Advisor in the Office of the President serve on the Board. The Board is non-executive and the eleven members of the Board are independent directors.

Although the Government is the sole shareholder, the Bank enjoys operational autonomy in the management of its day-to-day operations. In terms of the DBSA Act, read with the PFMA Act, the Board is accountable to the shareholder, the South African Government, for the implementation of the mandate of the Bank. The Board reports to the shareholder by way of annual and interim reports and through regular meetings between the Chairman of the Board, the Chief Executive Officer and the Minister of Finance, the latter in his capacity as the shareholder representative.

The Board of Directors meets at least six times in a calendar year. The Board appoints the Chairman with the consent of the shareholder representative. The current incumbent, Mr Jayaseelan Naidoo (who replaced Prof WL Nkuhlu), is non-executive director.

Board Committees

The Board directs and controls the operations of the Bank through a number of Board Committees set up to deal with financial and risk management and control; credit extension and employment practices – including employment equity and remuneration policies. The current committees and their functions are outlined below.

- a) **The Audit and Finance Committee** was reconstituted in November 2002 after a review of complementarities and synergies between the Audit and Finance Committees. The Audit committee had been in existence since the Bank commenced its business while the Finance committee was set up in February 2001. The Audit and Finance Committee is tasked to oversee the financial reporting, internal financial and other control systems. In addition, the committee assists the Board in providing strategic direction on the Bank's asset and liability management activities within the defined risk appetite in order to strengthen the Bank's financial position in pursuance of its development mandate.

It reviews internal and external auditing processes, evaluates risk management, financial and compliance policies and reports. It further, reviews and approves the annual budgets, annual and interim financial statements.

The Audit and Finance Committee is also responsible to the Board in terms of advice on appropriate financial policies, strategies; and investment limits and funds mobilisation strategies; the annual income, expenditure and capital budget requirements of the Bank; and procurement policies. It is a further responsibility of the Board to ensure corporate governance in the Bank in line with legislation and the recommendations of the King II report.

The Audit and Finance Committee currently consists of five non-executive directors. It meets at least four times a year. Dr D Konar, an independent director currently chairs the Audit and Finance Committee. The Committee is supported by three Management Committees, namely: the Finance and Risk Management Committee (FRMC), the Fraud Management Committee and the Asset and Liability Management Committee (ALCO).

- b) **The Credit Committee** was constituted in February 2001 to replace the Investment Committee which was established in 1997 to facilitate a quicker turnaround in the investment decision-making of the Board. The Credit Committee continues to facilitate credit extensions up to a value of R100 million and credit exposures. To perform this function the committee reviews the Bank's Credit Strategy; the Bank's Credit Risk Management Programme; credit extension to legal entities in which DBSA, or DBSA officers or directors have an interest, including policies related thereto; significant credit exposures; trends in portfolio quality and the adequacy of provision for loan losses and compliance with Board of Directors approved credit risk management policies. There are five directors on the Committee and it is chaired by Dr I Abedian, an independent director.
- c) **The knowledge Strategy Committee** was reconstituted in November 2002 to replace the erstwhile Employment Equity Committee established in 1995. The knowledge Strategy Committee carries an expanded mandate which in addition to the previous areas of focus on employment equity policy and strategy include human capital transformation, human resources development and knowledge management. The Committee will serve as a sounding board to review all relevant knowledge management position papers and reports before submission to Board.
- d) **The Remuneration Committee** was constituted in 1998 to manage the remuneration of executive management and the remuneration of the Board. It further assists the Chief Executive Officer with the appointment of executive managers and monitors their performance. It meets four times a year. The Committee consists of the chairpersons of the Board, Audit and Finance and knowledge Strategy Committees and is chaired by Mr J B Magwaza.

Directors

List of Directors	Committee
Mr J Naidoo Chairman of DBSA Board	Audit & Finance Committee Development Fund Remuneration Committee
Mr M S V Gantsho CEO of DBSA	Audit & Finance Committee Credit Committee Development Fund Knowledge Strategy Committee Remuneration Committee
Dr I Abedian	Audit & Finance Committee Credit Committee Development Fund
Ms L Abrahams	Credit committee Knowledge Strategy Committee Remuneration Committee
Prof. B de L Figaji	Knowledge Strategy Committee
Dr D Konar	Audit & Finance Committee Remuneration Committee
Mr J Magwaza	Knowledge Strategy Committee Remuneration Committee
Prof. W L Nkuhlu	
Ms H Nyasulu	Development Fund
Ms N Gasa	Development Fund
Mr I Sehoole	Audit & Finance Committee
Mr N Sowazi	Credit Committee
Mr Z Titus	
Mr M Vilakazi	Credit Committee Development Fund

SELECTED FINANCIAL INFORMATION

DEVELOPMENT BANK OF SOUTHERN AFRICA LIMITED

Balance sheet

at 31 March

	2003 R'000	2002 R'000	2001 R'000	2000 R'000	1999 R'000
Assets					
Cash and cash equivalents	1,305,768	1,375,868	1,092,146	1,300,114	1,199,075
Short-term securities	870,234	1,186,176	924,250	–	–
Other debtors	24,866	12,856	6,386	599,581	1,894,597
Investment in government bonds	3,361,162	3,253,000	3,253,000	3,253,000	3,160,000
Medipref investment	46,795	48,540	44,013	–	–
Home ownership scheme loans	17,604	14,833	11,724	–	–
Development investments	170,769	143,965	154,729	93,056	79,488
Developments loans	14,125,274	11,859,830	12,151,385	10,280,782	9,192,998
Property, plant and equipment	120,955	115,229	117,621	40,025	40,528
Derivative instruments – asset	875,721	632,454	–	–	–
Total assets	20,919,148	18,642,751	17,755,254	15,566,558	15,566,686
Equity and liabilities					
Total equity	10,231,348	8,897,881	8,328,416	7,054,966	6,668,804
Share capital	200,000	200,000	200,000	200,000	200,000
Permanent government funding	3,792,344	3,792,344	3,792,344	3,792,344	3,792,344
Grant Fund	70,000	–	80,000	–	–
Revaluation reserve on land and buildings	77,682	77,682	77,442	–	–
Future cash flow hedge	18,017	- 31,650	555,492	–	–
Accumulated surplus	6,073,305	4,859,505	3,623,139	3,062,622	2,676,460
Total liabilities	10,687,800	9,774,870	9,426,838	8,511,592	8,897,882
Short-term financing	236,550	–	1,225,771	–	291,140
Short-term securities	–	825,796	315,165	–	–
Other creditors	396,092	424,276	350,733	675,371	2,476,387
Provision for post-retirement medical benefits	66,095	79,027	–	–	–
Long-term liabilities	18,100	21,924	14,11	–	–
Medium- and long-term financing	9,940,105	8,340,900	7,520,952	7,835,964	6,128,786
Donor Contribution Fund	–	–	107	257	1,569
Derivative instruments – liability	30,858	52,947	–	–	–
Total shareholder's equity and liabilities	20,919,148	18,642,751	17,755,254	15,566,558	15,566,686

DEVELOPMENT BANK OF SOUTHERN AFRICA LIMITED

Income Statement

for the year ended 31 March

	2003 R'000	2002 R'000	2001 R'000	2000 R'000	1999 R'000
Operating income	1,345,419	979,407	798,133	570,232	783,453
Interest income	2,282,553	2,083,230	2,041,801	1,845,887	1,643,428
Interest paid	-966,962	-1,149,564	-1,151,332	-1,093,268	-789,316
Net interest income	1,315,591	933,666	890,469	752,619	854,112
Movement in specific and general provisions	38,731	8,027	-105,190	-191,936	-80,592
Debts written off	-38,491	–	–	–	–
	1,315,831	941,693	785,279	560,683	773,520
Other income	29,588	37,714	12,854	9,549	9,933
Operating expenses	-286,876	-255,024	-232,377	-181,288	-169,772
Technical assistance grants	-13,852	-9,703	-5,534	-4,743	-2,580
Staff costs	-193,813	-161,544	-160,772	-127,696	-122,580
General and administration	-72,426	-77,540	-63,481	-45,864	-40,746
Depreciation	-6,785	-6,237	-2,590	-2,985	-3,866
Surplus from operations	1,058,543	724,383	565,756	388,944	613,681
Grant to Development Fund	-80,000	-80,000	–	–	–
Surplus before revaluation adjustments	978,543	644,383	565,756	388,944	613,681
Foreign exchange loss	-73,541	-2,528	-200,703	28,725	903
Profit/(loss) on fair value adjustments to derivatives	378,798	-49,219	266,634	–	–
Surplus for the year	1,283,800	592,636	631,687	417,669	614,584

Cash flow statement

for the year ended 31 March

	2003 R'000	2002 R'000	2001 R'000	2000 R'000	1999 R'000
Net cash inflow from operating activities	1,178,562	1,422,994	231,458	64,717	1,201,457
Interest received from development loans	1,827,723	1,483,510	1,282,634	1,327,657	1,054,401
Interest received from development investments	13,524	11,085	8,819	–	–
Interest received from investments	666,189	516,519	594,500	506,343	519,572
Interest paid	-1,089,071	-1,111,410	-1,136,058	-984,413	-736,175
Cash (utilised by) generated from other operations	-239,812	523,290	-518,437	-784,870	363,659
Net cash (outflow) inflow from development activities	-2,952,014	586,932	-1,332,956	-1,279,790	-2,183,485
Development loan disbursements	-3,660,750	-1,781,447	-1,622,177	-1,700,681	-2,455,703
Development loan principal repayments	747,646	2,402,548	331,835	431,006	286,488
Development investments	-25,058	-24,466	-36,612	-3,037	-9,158
Donor Contributions funds disbursed	–	–	-468	-2,335	-2,532
Technical assistance grants paid	-13,852	-9,703	-5,543	-4,742	-2,580
Net cash outflow from investment activities	-15,232	-6,799	-10,422	-3,072	-4,616
Replacement of property, plant and equipment	-12,757	-3,999	-2,746	-3,165	-4,616
Proceeds on disposals of property, plant and equipment	296	309	–	–	–
Home ownership scheme advances to employees	-2,771	-3,109	-7,676	–	–
Investments to expand operations	–	–	–	93	–
Net cash inflow (outflow) from financing activities	1,718,584	-1,719,405	935,712	1,319,184	612,494
Donor contribution funds received	–	–	73	1,023	1,917
Increase in investments raised	–	–	–	-93,000	–
Short-term financing raised (repaid)	236,550	-1,225,771	1,225,771	-290,960	-13,984
Decrease in long-term liabilities	-1,174	-2,378	14,111	–	–
Medium- and long-term financing repaid	-730,391	-724,998	-850,354	-3,038	-3,796
Medium- and long-term financing raised	2,213,599	233,742	546,111	1,705,159	628,357
Movement in cash and cash equivalents	-70,100	283,722	-176,208	101,039	-374,150
Cash and cash equivalents at the beginning of the year	1,375,868	1,092,146	1,268,354	1,199,075	1,573,225
Cash and cash equivalents at the end of the year	1,305,768	1,375,868	1,092,146	1,300,114	1,199,075

DESCRIPTION OF THE IFC

The International Finance Corporation is an international organization, established in 1956 under its Articles of Agreement (the “**Articles of Agreement**”) to further economic growth in its developing member countries by promoting private sector development. IFC is a member of the World Bank Group, which also includes the International Bank for Reconstruction and Development (the “**World Bank**”), the International Development Association (“**IDA**”) and the Multilateral Investment Guarantee Agency (“**MIGA**”). Although IFC’s activities are closely coordinated with and complement the overall development objectives of the other World Bank Group institutions, IFC is a legal entity separate and distinct from the World Bank, IDA and MIGA and operates pursuant to its own Articles of Agreement. While it shares some services with the World Bank, IFC has its own management and staff. IFC’s principal office is located at 2121 Pennsylvania Avenue, N.W., Washington, D.C. 20433.

IFC’s share capital is provided by its member countries. It raises most of the funds for its investment activities through the issuance of notes, bonds and other debt securities in the international capital markets. Generally, IFC charges market-based rates for its loans and seeks market returns on its equity investments. Unlike most other multilateral institutions, IFC does not accept host government guarantees of its loans.

IFC and its senior unsecured debt have been rated AAA by Standard & Poor’s and Aaa by Moody’s Investors Service within 12 months preceeding the date of this Offering Circular.

Membership

IFC was organized in 1956 with an original membership of 56 countries, which has since grown to 175 member countries at June 30, 2003. Membership in IFC is open only to members of the World Bank at such times and in accordance with such terms and conditions as the Corporation shall prescribe.

Administration

IFC’s administration is comprised of the Board of Governors, the Board of Directors, the President, the Executive Vice President, other officers and staff.

All of the powers of IFC are vested in the Board of Governors which is composed of a Governor (and an Alternate Governor) appointed by each member country of IFC. Each member country has 250 votes plus one additional vote for each share of stock held by that member. Except as otherwise expressly provided in the Articles of Agreement, all matters before IFC are decided by a majority of the votes cast. The Board of Governors holds regular annual meetings, but has delegated to the Board of Directors authority to exercise all of the powers of IFC except those reserved to the Governors under the Articles of Agreement.

The following is a list, as of June 30, 2003, showing the ten largest members of IFC, the voting power of each such member and the amount of capital subscribed and paid in by each such member to IFC’s capital stock.

Member	Voting Power	Capital (in millions of US dollars)
United States	23.70%	U.S.\$569.38
Japan	5.88	141.17
Germany	5.37	128.91
France	5.04	121.02
United Kingdom	5.04	121.02
Canada	3.39	81.34
India	3.39	81.34
Italy	3.39	81.34
Russian Federation	3.39	81.34
Netherlands	2.35	56.13
All other members	39.06	897.19
	100.00%	U.S.\$2,360.18

The Board of Directors is responsible for the conduct of the general operations of IFC. It is composed of each Executive Director of the World Bank who has been either (i) appointed by a member of the World Bank which is also a member of IFC, or (ii) elected in an election in which the votes of at least one member of the World Bank which is also a member of IFC shall have counted toward his or her election. Each Director is entitled to cast the number of votes which the member by which he or she was appointed, or the member (or members) that voted for his or her election, is entitled to cast. The Board of Directors presently consists of 24 Directors. Five Directors are appointed by individual members and the remaining 19 are elected by the Governors representing the other members. The President of the World Bank is *ex officio* Chairman of the Board of Directors of IFC.

The President is the chief of the operating staff of IFC and is appointed by the Board of Directors. Under the direction and control of the Board of Directors, the President is responsible for the organization, appointment and dismissal of the officers and staff. The authority to conduct the ordinary business of IFC is vested in the Executive Vice President.

The following is a list of the principal officers of IFC at July 1, 2003:

President	James D. Wolfensohn
Executive Vice President	Peter L. Woicke
Vice President, Human Resources and Administration	Dorothy H. Berry
Vice President, Operations	Assaad J. Jabre
Vice President, Portfolio and Risk Management	Farida Khambata
Vice President, Private Sector Development and	
IFC Chief Economist	Michael U. Klein
Vice President, Finance	Nina B. Shapiro
Vice President, Legal	Carol F. Lee
General Counsel and Director	Jennifer A. Sullivan

IFC is a legal entity separate and distinct from the World Bank. The funds of IFC are kept separate and apart from those of the World Bank and obligations of IFC are not obligations of, or guaranteed by, the World Bank.

The Articles Of Agreement

The Articles of Agreement constitute IFC's governing charter. They prescribe IFC's purpose, capital structure and organization, authorize the operations in which it may engage, prescribe limitations on the carrying on of those operations and establish the status, privileges and immunities of IFC in its member countries. The Articles of Agreement also contain provisions with respect to the admission of additional members, the increase of the authorized capital stock of IFC, the terms and conditions under which IFC may invest its funds, the distribution of the net income of IFC to its members, the withdrawal and suspension of members and the suspension of operations of IFC.

Copies of the full text of the Articles of Agreement are available for inspection and distribution at IFC's head office in Washington, D.C.

Legal Status, Immunities and Privileges

The Articles of Agreement contain provisions which accord to IFC legal status and certain immunities and privileges in the territories of each of its members, including those summarized below.

IFC has full juridical personality with capacity to make contracts, to acquire and dispose of property and to sue and be sued. Actions may be brought against IFC only in a court of competent jurisdiction in the territories of a member in which IFC has an office, has appointed an agent to accept service of process, or has issued or guaranteed securities, but no action may be brought against IFC by a member or persons acting for or deriving claims from a member.

The Governors, Directors, Alternates and the officers and employees of IFC are immune from legal process for acts performed by them in their official capacities.

The archives of IFC are inviolable and the property and assets of IFC are immune from seizure, attachment or execution prior to delivery of final judgment against IFC. The property and assets of IFC are also immune from search, requisition, confiscation, expropriation or any other form of seizure by executive or legislative action.

IFC, its assets, property, income and its operations and transactions authorized by the Articles of Agreement, are immune from all taxation and customs duties imposed by a member country. IFC is also immune from liability for the collection or payment of any tax or duty.

Under the Articles of Agreement, securities issued or guaranteed by IFC and the interest or dividends thereon are not subject to any tax (a) which discriminates against such securities solely because they are issued or guaranteed by IFC or (b) if the sole jurisdictional basis for the tax is the place or currency in which such securities are issued, made payable or paid, or the location of any office or place of business maintained by IFC.

IFC in its discretion may waive any of the privileges and immunities conferred under the Articles of Agreement upon such conditions as it may determine.

Capitalization

IFC's capitalization as of June 30, 2003 and June 30, 2002 was as follows:

	June 30, 2003	June 30, 2002
	(in millions of US dollars)	
Borrowings		
Borrowings from market	\$17,181	\$16,412
Sources		
Borrowings from IBRD	134	169
Capital and retained earnings		
Paid-in capital	2,360	2,360
Retained earnings	4,425	3,938
Other	4	6
Total capitalization	<u>\$24,104</u>	<u>\$22,885</u>

As of June 30, 2003, IFC's net worth (presented as Total Capital in IFC's balance sheet) amounted to \$6.8 billion, up from the June 30, 2002 level of \$6.3 billion. As of March 31, 2004, IFC's net worth (presented as Total Capital in IFC's balance sheet) amounted to \$7.7 billion.

As of June 30, 2003 and 2002, IFC's authorized capital was \$2.45 billion, of which \$2.36 billion was subscribed at June 30, 2001, unchanged from June 30, 2002. Over 99% of this was paid in (\$2.36 billion at June 30, 2003 and June 30, 2002). IFC has agreed to defer the payment dates for certain member countries. Pursuant to these arrangements, \$2 million of subscribed shares remain unpaid at June 30, 2003, unchanged from June 30, 2002.

Investments And Operations

IFC promotes and facilitates the establishment, improvement and expansion of private sector enterprises by making investments where sufficient private capital is not otherwise available on reasonable terms. IFC seeks to bring together domestic and foreign private capital and experienced management and thereby create conditions conducive to the flow of private capital, domestic and foreign, into productive investments in its developing member countries. In this way, IFC plays a catalytic role in mobilizing additional project funding from other investors and lenders, either through co-financing (including debt, equity and quasi-equity investments) or through loan syndications, underwritings and guarantees.

In addition to project finance and resource mobilization, IFC offers financial and technical advisory services to private businesses in developing member countries. It also advises member governments on private sector development matters.

IFC is prohibited from accepting host government guarantees of repayment on its investments and therefore incurs the commercial and sovereign risk on its investments. IFC's operations and activities are principally subject to business risk, credit risk, financial risk and operational risk. Active management of these risks is an essential part of IFC's operations and a key determinant of its ability to maintain a stable capital and earnings base. To this end, it has adopted several key financial and exposure policies and a number of prudential policies.

The Corporation applies stringent tests of enterprise soundness, project viability, and developmental impact in determining the eligibility of projects for its investments.

IFC's total reserves against losses on loans and equity investments at June 30, 2003 were 21.9% (25.8% at June 30, 2002) of the disbursed portfolio. IFC maintains its loss reserves and revenue recognition policies in accordance with US GAAP. IFC does not recognize income on loans where collectibility is in doubt or payments of interest or principal are past due more than 60 days unless management anticipates that collection of interest is expected in the near future.

SELECTED FINANCIAL INFORMATION

The balance sheet and income statement data presented below have been derived from financial statements audited by Deloitte Touche Tohmatsu (International Firm), independent accountants ("DTT"). Certain amounts have been reclassified so as to conform with the current year presentation. The information set forth below should be read in conjunction with the Financial Statements and Notes thereto as well as other financial information included elsewhere herein. Except as otherwise indicated, all amounts are expressed in millions of US dollars.

	As of and for the years ended June 30					
	2003	2002	2001	2000	1999	
Net income highlights:						
Interest Income	795	1,040	1,505	1,328	1,154	
Of which:						
Interest and financial fees from loan investments	477	547	732	694	607	
Income from time deposits and securities	318	493	773	634	547	
Charges on borrowings	(226)	(438)	(961)	(812)	(670)	
Net gains and losses on trading activities	157	31	87	(38)	(15)	
Income from equity investments	195	428	222	262	265	
Of which:						
Capital Gains	52	288	91	132	166	
Dividends and profit participations	143	140	131	130	99	
Provisions for losses on loans, equity investments and guarantees	(98)	(657)	(402)	(215)	(333)	
Net noninterest expense	(295)	(243)	(210)	(145)	(152)	
Operating income	528	161	241	380	249	
Other unrealised gains and losses on financial instruments	(41)	54	11	-	-	
Cumulative effect of change in accounting principles	-	-	93	-	-	
Net income	487	215	345	380	249	
Balance sheet highlights¹:						
Total assets	31,543	27,739	26,170	38,719	33,456	
Liquid assets, net of associated derivatives	12,952	14,532	13,258	12,204	10,075	
Loan and equity investments	12,002	10,734	10,909	10,940	10,039	
Reserve against losses on loans and equity investments	(2,625)	(2,771)	(2,213)	(1,973)	(1,825)	
Borrowings withdrawn and outstanding	17,315	16,581	15,457	14,919	12,429	
Total capital	6,789	6,304	6,095	5,733	5,344	
Subscribed	2,362	2,362	2,374	2,372	2,374	
Paid-in	2,360	2,360	2,360	2,358	2,350	
Payment on account of pending subscriptions	-	-	-	2	2	
Retained earnings	4,425	3,938	3,723	3,378	2,998	
Other comprehensive income	4	6	12	(5)	(6)	
Key financial ratios²:						
Return on average assets ³	(%)	1,8	0,6	0,6	1,1	0,8
Return on average net worth ⁴	(%)	8,2	2,7	4,1	6,9	4,8
Cash and liquid investments as a percentage of next three years' estimated net cash requirements	(%)	107	109	101	103	106
Debt to equity ratio ⁵		2,6 : 1	2,8 : 1	2,6 : 1	2,6 : 1	2,3 : 1
Capital adequacy ratio ⁶	(%)	45	49	48	48	48
Total reserve against losses to total disbursed portfolio ⁷	(%)	21,9	25,8	20,3	18,0	18,2
Memorandum						
Guarantees signed	1,080	794	589	259	256	
Guarantees outstanding	314	223	78	95	105	

1 In respect of loans, borrowings and derivative assets and liabilities, the balance sheet and related disclosures as of June 30, 2003, June 30, 2002, and June 30, 2001, are not comparable with the balance sheet and related disclosures as of June 30, 2000, and prior periods due to effects of implementing SFAS No. 133. See Notes A, L and M to the Corporation's FY03 financial statements for more details.

2 Key financial ratios are calculated excluding the effects of SFAS No. 133.

3 Return on average assets is defined as operating income for the fiscal year as a percentage of the average total assets at the end of such fiscal year and the previous fiscal year.

4 Return on average net worth is defined as operating income for the fiscal year as a percentage of the average total net worth (excluding payment on account of pending subscriptions) at the end of such fiscal year and the previous fiscal year.

5 Debt to equity ratio is defined as the ratio of outstanding borrowings plus outstanding guarantees to subscribed capital plus retained earnings at the end of the fiscal year.

6 Capital adequacy ratio is defined as the ratio of capital (including paid-in capital, retained earnings and general loss reserve) to risk-weighted assets, both on- and off-balance sheet.

7 Total reserves to total disbursed portfolio is defined as reserve against losses on loan and equity investments as a percentage of the total disbursed loan and equity portfolio at the end of the fiscal year.

DESCRIPTION OF COJ

INTRODUCTION

The city of Johannesburg (also referred to as “Johannesburg” or the “city”) was founded in 1886 with the discovery of gold on the Witwatersrand. The city is located within the Gauteng province. It is adjacent to the Tshwane and Ekurhuleni metropolitan areas as will appear from the diagram below and includes, *inter alia*, the Johannesburg CBD, Randburg, Soweto, Lenasia, Alexandra and Sandton. The city is home to more than 7% of South Africa’s population, and about 38% of Gauteng’s population.



In its 118-year existence, the city has rapidly moved from being at the epicentre of the gold mining industry to the country’s premier business location. It is situated in the centre of South Africa’s commercial and industrial heartland of Gauteng and is the nation’s main centre for finance, business services and information and communications technology. It is the hub of the country’s road, rail and air infrastructure, with strategic facilities such as City Deep container terminal and Johannesburg International Airport.

The key statistics for Johannesburg as provided in the Census 2001 report compiled by Statistics South Africa are as follows:

- The population of Johannesburg is 3,2 million
- There are 1 006 930 households in Johannesburg
- Black Africans account for 70% of the population of Johannesburg, followed by Whites at 19%, Coloureds at 7% and Asians at 4%
- 86 % of households have a flush or chemical toilet on the premises
- 91 % of households have refuse removed by the municipality at least once a week
- 86 % of households have access to running water
- 85 % of households use electricity as the main source of energy
- 21 % of Johannesburg's residents stay in informal dwellings
- 42% of the population is under the age of 24 years old
- 6% of the population is over 60 years old
- 37% of the city residents are unemployed
- 91% of the unemployed are black
- Women comprise 43% of the working population
- 19% of the economically active adults work in wholesale and retail sectors, 18% work in financial, real estate and business services, 17% in community, social and personal services and 12% are in manufacturing.

The COJ is a metropolitan municipality charged with overall responsibility to govern the local government affairs of the communities living in Johannesburg. COJ is governed by a council of elected representatives who have delegated day to day administration of the city to the appointed officials. Details of COJ are provided in the ensuing sections.

ORGANISATIONAL STRUCTURE

The organisational structure of COJ is set out on page 59. The key utilities, agencies and corporatised entities reflected in this organogram are discussed under "Activities of COJ".

EXECUTIVE CONTROL

COJ is run by its first-ever Executive Mayor – previously the mayor was a largely ceremonial position. Clr Amos Masondo was elected by the municipal council as the Executive Mayor in terms of Section 55(1) of the Local Government : Municipal Structures Act, 1998. The Executive Mayor takes overall strategic and political responsibility for COJ, and is advised by a 10-person Mayoral Committee. Each member of the Mayoral Committee is responsible for a portfolio. The current members of the Mayoral Committee are as follows:

Mayoral Committee

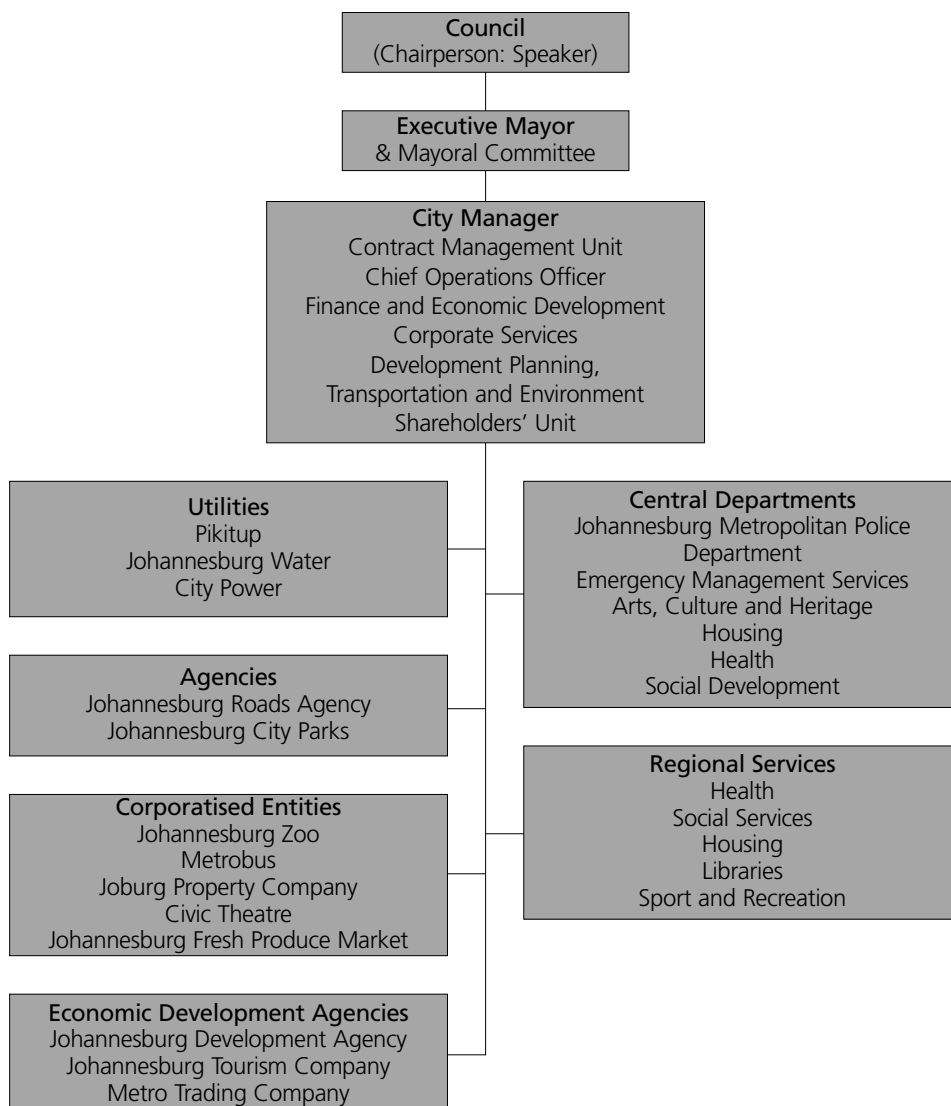
Designation/Portfolio	Name
Executive Mayor	Clr Amos Masondo
Community development, roads and parks	Clr Christine Walters
Housing	Clr Strike Ralegoma
Finance, strategy and economic development	Clr Parks Tau
Public safety	Clr Sizakele Nkosi
Health	Clr Prema Naidoo
Municipal enterprises	Clr Nkele Ntingane
Municipal services entities	Clr Brian Hlongwa
Inner City	Clr Sol Cowan
Municipal administration	Clr Thomas Phakathi
Development planning and environment	Clr Mally Mokoena

City Manager and his Team

The City Manager, Pascal Moloji, is the accounting officer of the municipality and is responsible and accountable for all income, expenditure, assets and the discharge of all liabilities of the municipality as well as the proper and diligent compliance with applicable legislation. The City Manager and his senior management team as indicated below, were appointed in terms of five-year performance contracts. They provide the link between the political and administrative arms of the city's government.

Designation/Portfolio	Name
City manager	Pascal Moloji
Chief operations officer	Sibongile Mazibuko
Finance and economic development	Roland Hunter
Development planning, transportation and environment	Amanda Nair
Corporate services	Reuben Denge
Contract management unit	Prem Govender
Shareholders unit	Nolene Morris

The structure of administration and services is illustrated in the following diagram:



COJ was established in December 2000 after the local government elections. It was the result of a merger of the Greater Johannesburg Metropolitan Council and its substructures namely the Northern, Eastern, Western and Southern Metropolitan Local Councils, as well as Midrand and Modderfontein.

The first and complete financial reporting period for the newly established municipality therefore extended from 1 July 2001 to 30 June 2002. The Local Government : Municipal Structures Act, 1998 provides the framework for the unicity model of metropolitan governance that was first introduced in COJ after the December 2000 local government elections. COJ also adopted the executive mayoral system to enable visionary and sound leadership.

The financial and institutional challenges that faced the Greater Johannesburg Metropolitan Council and its substructures between 1995 and 1998 led to the development of the iGoli 2002 plan. iGoli 2002 was essentially a three-year strategic plan with its emphasis on the structural transformation of COJ. A central component of the plan was to change the orientation of municipal service delivery by creating operationally independent entities working within the framework of council policy. The entities were corporatised and converted into autonomous but COJ-owned Utilities, Agencies and Corporatised entities (UACs).

The core administration is further divided into three types of departments. The first grouping comprises central distribution functions that deliver services directly to consumers, such as development planning, finance, metropolitan police and emergency management services. The second grouping of functions provides internal support services such as corporate services. The third group comprises functions based on the concept of the separation between policy, monitoring and evaluation on the one hand and operations on the other. These include the contract management unit and shareholders' unit (to oversee the UAC's), health, housing and social development, which incorporates social services, libraries as well as sport and recreation.

BUSINESS ENVIRONMENT

Johannesburg is the largest single metropolitan contributor to the gross domestic product (GDP). National average growth in GDP has been 1,8% over the last ten years and Johannesburg has marginally outpaced that growth with an average 2.9% growth per annum over the last decade.

Although only 7,1% of the country's population lives in Johannesburg, the city's contributions make up almost 16% of the national economy and 40% of Gauteng's economy. The City's gross geographic product (GGP) is R163,3 billion (for 2002 at current prices). The average annual income per household is R31 048. This is, on average, 57% higher than the income per household for South Africa as a whole, and 9% higher than the GGP per capita for Gauteng.

The City's economy is dominated by four sectors, namely, financial and business services, retail and wholesale trade, community and social services and the manufacturing sector.

Johannesburg provides 12% of national employment – approximately 840 000 jobs in at least 92 000 formal sector business enterprises. Fifty-three percent of the city's economically active population is formally employed, while 10,2% is employed in the informal sector. Another 6,8% are domestic workers. The city has a high unemployment rate, currently standing at 37%. The number of unemployed persons is still on the increase, mostly due to the high rate of migration of young adults to the city.

The city's economy grew by an average of 4,2% per annum between 1999 and 2002. This compares favourably with the provincial growth rate of 3,3% and the national growth rate of 2,5% over the same period (Source: Global Insight). However, growth at the rate of 4,2% is only slightly higher than the rate of population growth which averaged 4,1% per annum between 1996 and 2001 (Source: Census 2001).

STRATEGY: JOBURG 2030

Since the December 2000 local government elections, COJ recognised the need for a radically new platform and a fresh and innovative long-term strategy to set Johannesburg on an economically sustainable and equitable growth path. As a result it facilitated the design and launch of the Joburg 2030 plan in 2002.

The Joburg 2030 plan is a 30-year plan and is the cornerstone of COJ's strategy to achieve a better quality of life for all, measured in terms of a rise in income *per capita* and improvements in the Human Development Index, which is a composite index based on life expectancy, income and literacy. It is a multi-pronged strategy aimed at creating an environment conducive to economic growth, enhancing prospects for corporate profitability, investment and job creation, improving information and networking systems and structures and launching catalytic projects to accelerate growth.

A number of flagship projects to achieve COJ's economic development objectives are incorporated into the Joburg 2030 implementation plan. These are in the following areas:

- Safety and security;
- Skills;
- Economic regeneration;
- Sectoral development;
- Small, medium and micro-sized enterprises ("SMME's") support; and
- Investment facilitation and trade promotion.

ACTIVITIES OF COJ

The following are the key services provided by COJ and its agencies:

Housing

The housing department, in conjunction with COJ's administrative regions, acts as the primary agent for the delivery of housing opportunities, which includes housing units that could be rented or bought, serviced land (where people are able to build their own dwellings), and housing schemes.

The department's aim is to facilitate the provision of habitable environments, with adequate infrastructure, through the delivery of affordable and safe housing opportunities. Further to this aim it seeks to provide social services to encourage the establishment of sustainable communities.

Health

The primary health care system forms the foundation of COJ's health service. Although the emphasis is on equitable health services there is a particular focus on the needs of the poor. The following aims are envisaged with the provision of services:

- Accessibility
- Provision of quality care
- Treatment provided in a supportive environment
- Comprehensive, while cost effective.

Safety and security

The Johannesburg Metropolitan Police Department ("JMPD") was established in March 2001 under the South African Police Service Amendment Act, 1998. The statutory functions of JMPD are road traffic policing, enforcement of municipal by-laws and regulations and the prevention of crime. Since the JMPD are precluded from conducting criminal investigations, a person arrested by the JMPD is handed over to the South Africa Police Services for further judicial action. The establishment of the JMPD has consolidated the resources available to COJ to combat crime.

Water

Johannesburg Water ("JW") was established in January 2001 as a municipal entity to provide water and sanitation services to COJ. JW purchases water in bulk from Rand Water and reticulates it to the residents and businesses of Johannesburg through a network of over 9 500 kms of distribution pipes and over 100 reservoirs and water towers. JW collects all wastewater through a 9 000 km network of sewers and then treats the water at one of six treatment plants before discharging it back into the river system. JW also undertakes the commercial function of metering, billing and collection for top commercial customers. COJ's revenue department deals with other customers.

Electricity

The core business of City Power is purchasing, distributing and selling electricity to customers. City Power is currently contracted by COJ to provide and distribute electricity services, excluding Eskom supply areas, such as Soweto. The company is also responsible for the construction and repair of network connections, street lighting and for a customer information service.

Roads

The Johannesburg Roads Agency ("JRA") is a self-contained company owned by COJ. It was established in January 2001 and is responsible for the design, maintenance, repair and development of Johannesburg's road network and stormwater infrastructure. JRA is also responsible for traffic signals and road markings.

Waste management

Pikitup's function is to provide a wide range of waste management services, which can be divided into two broad categories, namely domestic and commercial services. Domestic services include round-collected refuse, bulk services, special waste, landfill sites, garden sites,

lane flushing, street cleaning, community education and participation. Commercial services include round collection refuse, bulk services, dailies (wet waste), operation of landfills, health risk waste collection, incinerator operation, composting, safe disposal and recycling.

Parks and cemeteries

Johannesburg City Parks ("City Parks"), an agency of the City, maintains 6 144 hectares of developed parks; 4 443 hectares of undeveloped parks; 984 hectares of nature reserves; 2 578 hectares of street verges; 73 hectares of water surfaces; and approximately 1,2 million street trees.

City Parks is also responsible for maintaining COJ's 27 cemeteries and 2 crematoria.

City Parks focuses specifically on greening the south of the City and as a result more than 17 000 trees were planted in the last 2 years.

KEY DELIVERY AREAS

The following scorecard has been developed by COJ in order to enhance COJ's performance in terms of service delivery, management and governance. It is a key strategic management tool that identifies COJ's annual priorities, establishes indicators to measure performance; and functions as a reporting framework to measure delivery against objectives.

The key delivery areas from a customer perspective are listed in the table below.

Key delivery area	Focus areas
To enhance customer service	Increase the rating of customer satisfaction achieved in the annual customer satisfaction survey
To provide basic services to all residents within the metropolitan area with below basic levels of services	Increase % households with access to basic level of water (current level 94%) Increase % households with access to basic level of sanitation (current level 83%) Maintain % households with access to basic level of electricity (excluding Eskom areas) at current level of 100%
To ensure sustainability of service delivery	Reduce % unscheduled electricity interruptions from current level of 40% to 20% Increase % of waste recycled as a proportion of waste collected from current level of 5% to 7%
To improve crime management and prevention	Decrease response times along arterial routes to incidences reported from 15 to 12 minutes Enhance the perception of Johannesburg CBD as a safe area Decrease the incidences of hijackings of vehicles and trucks in the Johannesburg and Soweto areas
To enhance emergency and disaster management	Reduce response times to basic life support ambulance calls
To effectively address the challenge of HIV/AIDS	Increase % of facilities offering syndromic sexually transmitted infections (STI) management from the current level of 40% to 100% Increase number of programmes for target groups implemented Maintain % of clinics offering voluntary counselling and testing at current level of 100%
To improve access to comprehensive primary health-care services within the city	Increase % of fixed facilities per region offering agreed upon package of primary health care services
To ensure sustainable urban development and management	Increase number of new housing opportunities created citywide from current level of 40 000 to 65 000 Increase number of new parks and open spaces established in targeted areas Increase amount of gravel roads tarred
To grow tourism and improve the city's image	Increase number of meetings, incentives, conferences and exhibitions attracted Increase number of tourism information centres established Complete implementation of tourism marketing strategies initiated
To promote SMMEs	Increase number of new Open for Business (OFB) service centres Increase % of tenders awarded to SMMEs/PDIs Completion of Informal Trading Development Programme
To ensure inner city regeneration	Reduction in crimes in the inner city in respect of priority crimes (armed robbery, assault, burglary and burglary on business premises)

The key focus areas in terms of the finance and economic development scorecard of the Issuer, are to:

- ensure effective revenue management
- prepare realistic and strategic budgets
- ensure effective control of expenditure
- ensure effective treasury management
- implement the Joburg 2030 strategy
- grow tourism and improve the city's image
- promote SMMEs
- enhance customer service
- promote equity and skills development

Audit Opinion

The City has a long history of audit disclaimers. As reported in the annual report of the Issuer for the year ended 30 June 2003, the City is determined to ensure that it obtains a clean audit report from the Auditor-General. Currently the target for the Clean Audit Report is the financial year ending on 30 June 2005. The City has a wide-ranging project to ensure that the target is achieved. Operation Clean Audit Report focuses on:

- building a strong financial control environment;
- creating a comprehensive asset register;
- confirming the completeness of revenue; and
- funding the unfunded liabilities.

Considerable progress has been made on these points during the financial year ended 30 June 2003. Although the Auditor-General again disclaimed the financial statements for the core administration for the year ended 30 June 2003, the progress made is evident from a comparison between the latest and previous Auditor-General reports. It should be noted that the audit opinion in respect of UAC's can be grouped into three categories, namely unqualified audit opinions, qualified audit opinions and disclaimers of audit opinions. Five companies received unqualified reports, five companies received qualified audit reports, while the financial statements of City Power and Johannesburg Water were disclaimed, due to certain qualifications. A summary of the report of the Auditor-General to the Council on the financial statements of the City of Johannesburg Metropolitan Municipality (core administration) for the year ended 30 June 2003 is contained in Appendix C to the annual financial statements of the Issuer for that year. Appendix D of the annual report summarises the audit opinions on the financial statements of the UAC's for the year ended 30 June 2003.

CORPORATE GOVERNANCE AND REGULATORY FRAMEWORK

Governance

The Local Government Transition Act, 1993 ("LGTA"), was promulgated to pave the way for local government legislation that has been passed since 1998 and for legislation that is still to come. The Local Government : Municipal Structures Act, 1998 ("the Structures Act") and the Local Government : Municipal Systems Act, 2000 ("the Systems Act") have to a large extent replaced the content of the LGTA. Section 10G of the LGTA, which regulates municipal finance, is still in force by virtue of section 11(c) of the Structures Act. It will remain in effect until such time as the Local Government : Municipal Finance Management Act, 2003 becomes law.

Section 10G(8)(a)(i) of the LGTA provides that a municipality may obtain money and raise loans for capital expenditure and any resolution to do so shall require a majority of the members of the Council, provided that the Minister of Finance may by notice in the Government Gazette determine reasonable conditions and criteria with regard to the raising of loans by municipalities and such conditions and criteria may include the limiting or disallowance of such loans. Section 10G(8)(c) provides that any money borrowed by a municipality in accordance with that subsection and the interest thereon shall be the financial obligation of the municipality concerned and shall be chargeable to and payable from the revenues and assets of that municipality.

In terms of conditions and criteria laid down by the Minister of Finance with regard to the raising of loans by municipalities in terms of section 10G(8)(a)(i) of the LGTA, a municipality may only raise loans for the purpose of financing capital expenditure (defined in the paragraph "Use of Proceeds" on page 40 of this circular) which has been budgeted for and approved by the Council in terms of a resolution to be passed by it, specifying in respect of such loan, the specific items mentioned in paragraphs (1)(a) to (g) of such conditions and criteria.

The Local Government : Municipal Finance Management Act, 2003 will come into force on 1 July 2004. Its objective is to secure sound and sustainable management of the financial affairs of local government institutions by establishing norms and standards for:

- ensuring transparency, accountability and appropriate lines of responsibility in the financial affairs of municipalities; and
- the management of revenues, expenditures, assets and liabilities (including the raising of finance).

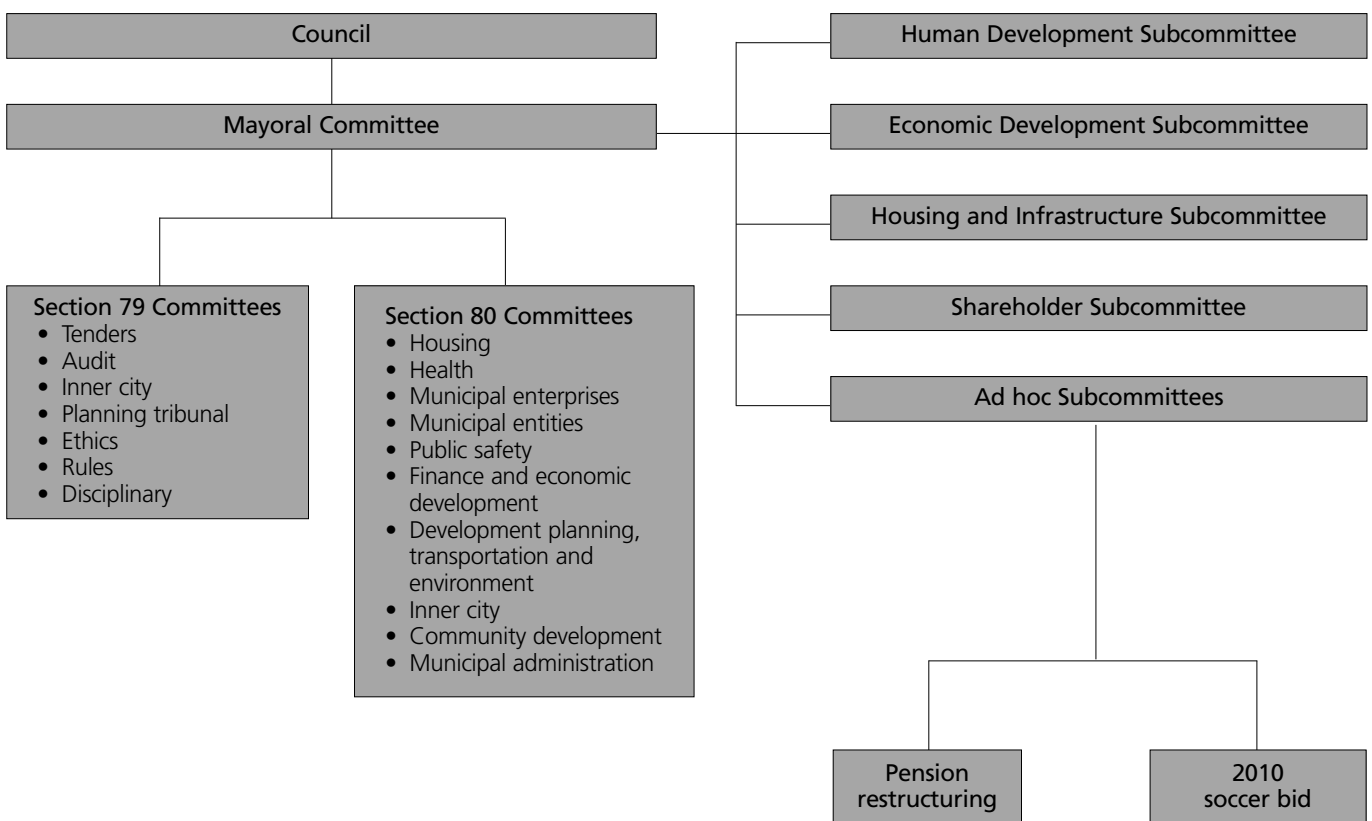
The Act has been passed in order to ensure that the highest standard of financial governance is maintained by municipalities.

Since the December 2000 local government elections, COJ has been governed by a Metropolitan Council consisting of 217 elected councillors. One hundred and eight of these councillors were elected in terms of proportional representation and 109 are ward representatives. The main parties represented on the Council are the African National Congress (60%), Democratic Alliance (27%), Inkatha Freedom Party (4%) and the New National Party (4%).

The scope of the Council's activities includes many different functions such as health care, electricity, water and sanitation, roads, housing, planning, and economic development. Each member of the Mayoral Committee chairs a committee (called a Section 80 committee), which deals with one group of municipal functions. These committees have an in-depth understanding of the functions they are responsible for, and they closely attend to issues related to those functions.

The centre of political decision-making in the Council is the Mayoral Committee, which is chaired by the Executive Mayor. The Executive Mayor is responsible for identifying and prioritising the needs of the municipality, and for developing strategies and programmes to meet these needs. The Executive Mayor sets goals for the administration and also monitors the progress towards achieving them. The Executive Mayor must ensure that COJ's finances are well managed and that COJ is accountable to its citizens.

The structures of political governance are illustrated in the diagram below.



Section 79 and 80 committees have also been established pursuant to the Structures Act to ensure that the City is accountable and manages its business in an open and fair way.

COJ has further established 109 ward committees to bring government as close as possible to the people. Ward committees are chaired by the elected ward councillor and are made up of representatives from the local area. These committees allow residents to have a say in planning and budgeting processes, and to raise issues of concern in their area. Ward committees thus provide for two-way communication between COJ administration and local residents.

In March 2002, COJ approved a policy on public participation. The policy requires municipal officials and councillors to conduct their work in an open, transparent, honest, fair and accountable way. Further promoting transparent government, COJ opened almost all meetings of Council and its committees to the public.

The Executive Mayor promotes accountable and participative government in a number of ways. He reports annually on the involvement of communities and community organisations in the affairs of the municipality.

The Mayoral Committee regularly meets with community representatives and special interest groups. The Executive Mayor makes particular effort to visit different areas in the city, looking at conditions on the ground, and meeting community groups.

Another step that COJ has taken to enhance public participation is the establishment of the Johannesburg Stakeholders' Forum ("JSF"). The JSF is an annual meeting where senior politicians and municipal officials discuss COJ governance with representatives from ward committees, civic bodies, labour organisations, education bodies, residents' and ratepayers' associations, government departments, non-governmental organisations (NGOs), community based organisations (CBOs), religious bodies, and the media. The Executive Mayor goes on monthly road shows, attends local meetings and leads the Integrated Development Plan (IDP) consultation process.

A number of other channels are open for public participation. A petitions management system ensures that any petition submitted to COJ receives serious attention. Officials are obliged to report back to individuals or organisations regarding their petitions.

An outreach programme has been developed which ensures that the public is consulted about COJ's Integrated Development Plan, its budget, tariff proposals, and other matters concerning COJ governance.

Johannesburg's political structures are widely regarded as innovative and effective, allowing for strong and accountable political leadership. COJ has proven its commitment to public participation. It has established mechanisms that allow residents, businesses and community organisations to participate in the affairs of the city. Provision has been made to build the capacity of political leaders and civil society representatives for good governance.

Regulatory framework

Section 151 of the Constitution of the Republic of South Africa Act, 1996 ("the Constitution") makes provision for the establishment of municipalities for the whole of the territory of the RSA. It provides that the executive and legislative authority of a municipality be vested in its Municipal Council. A municipality has the right to govern, on its own initiative, the local government affairs of its community, subject to national and provincial legislation as provided for in the Constitution. The national or the provincial government may not, however, compromise or impede a municipality's ability or right to exercise its powers or perform its functions.

The Constitution imposes a duty on a municipality to strive within its financial and administrative capacity to achieve the following objects:

- to provide democratic and accountable government for local communities;
- to ensure the provision of services to communities in a sustainable manner;
- to promote social and economic development;
- to promote a safe and healthy environment; and
- to encourage the involvement of communities and community organisations in the matters of local government.

Section 230A(1) of the Constitution, authorises a municipality to *inter alia* raise loans for capital or current expenditure in accordance with reasonable conditions determined by national legislation, but provides that loans for current expenditure may be raised when necessary for bridging purposes during the fiscal year and must be repaid within 12 months. In terms of section 230A(1)(b) of the Constitution, a Municipal Council may, in accordance with national legislation, bind itself and a future council in the exercise of its legislative and executive authority to secure loans or investments for the municipality.

The legal environment governing the operation of local governments is in a state of transition and local governments in the RSA are awaiting the promulgation of the Local Government : Municipal Finance Management Act, 2003, which was assented to by the President of the RSA on 13 February 2004 and which will come into force on 1 July 2004.

REVIEW OF OPERATIONS

Listed below are some of the highlights achieved by COJ during its most recent financial year ended 30 June 2003:

Housing

- 6 delivery programmes were implemented. These are land identification and project feasibility studies, Mayibuye and essential services, the People's Housing Process, formal/turnkey (RDP) housing, institutional/social housing and hostel development programmes.
- 7 693 RDP units were completed, which exceeded the target of 5 000.

Health

- 11% increase in the utilisation of primary health care facilities of COJ.
- 100% of clinics were able to offer HIV/AIDS programmes, which exceeded the target of 90%.

Safety and security

- Participated in the development of the City Safety Strategy, which is developed in partnership with all agencies that are involved in the fight against crime.

Johannesburg Water

- Infrastructure projects valued at R241 million (152 projects) were implemented.

City Power

- R343 million, representing 100% of the allocated capital, was invested in the capital programme and all the projects were finalised in time.
- Ensured electrification of 700 homes in the Matholesville area and 4 000 homes in the Vlakfontein Extension 1-3 areas.

Roads

- The JRA implemented 45 capital projects. Approximately 65 km of gravel roads were upgraded to a full service tar standard with stormwater drainage facilities.
- Road construction included major projects such as the K43 that is a new north/south metropolitan route and a major transportation corridor serving the Greater Soweto area.

Pikitup

- Was involved in major events to ensure an effective waste removal service and a clean environment during major events. These events include World Environment Day, the funeral of Walter Sisulu, Africa Day, the World Summit on Sustainable Development, the Cricket World Cup, as well as several public holiday celebrations.
- Received an award from COJ for "Best Company in relation to Customer Response" at COJ's inaugural awards ceremony on 22 August 2003 for regions and utilities, agencies and corporatised entities.

Parks and cemeteries

- 9 new parks were developed and 16 upgraded in historically disadvantaged areas.

FIRST BOND ISSUE

COJ successfully placed ZAR 1 000 000 000,00 (one billion Rand) 11,95% (eleven comma nine five percent) unsecured Bonds due 13 April 2010 on 13 April 2004. This issue was 50% (fifty percent) oversubscribed and is officially listed on BESA under stock code COJ01.

RISK FACTORS

The key risk factors facing COJ are outlined below:

Health

The HIV/AIDS pandemic is one of the most serious health challenges in South Africa. In addition to this, poorer communities suffer a heavy burden of disease and health problems due to the socio-economic reality of their dire circumstances. Some of the most prominent of these problems are tuberculosis (TB), respiratory illnesses, burns and reproductive health issues.

The fight against the HIV/AIDS pandemic is also one of the Executive Mayor's Six Mayoral Priorities. The City has established an HIV/AIDS Council and also put in place a workplace HIV/AIDS programme for COJ employees. This indicates great commitment to address the pandemic as extensively as possible. In the light of this priority COJ, working in close cooperation with the Gauteng Health Department and non-governmental organisations (NGOs), has developed and implemented a comprehensive prevention, community mobilisation and work programme.

COJ is committed to ensuring accessible, affordable and quality health care for all residents, particularly the poor. Through the provision of a more efficient and effective health care service as well as recent advances in the fight against HIV/AIDS, a reduction in the infection rate is expected.

Public safety

COJ confronts considerable challenges relating to crime, disorder, life-threatening emergencies and potential disasters. Serious and violent crimes persist, the enforcement of by-laws is sometimes inconsistent, and the emergency response time may be tardy.

Public safety has been accorded a high priority by the Executive Mayor of COJ. Resources have been made available and commitment has been strengthened to improve public safety. COJ has made a major contribution to improving public safety in Johannesburg. This contribution included establishment of JMPD, visible policing, instalment of surveillance cameras, enhanced law enforcement, improved emergency service and disaster mitigation. The measures that COJ has put in place to address crime and disasters dovetail with the national security strategy. A municipal court will be established during 2004 to ensure that those who break by-laws are rapidly brought to court.

COJ is now in the process of drawing up a City Safety Strategy. The aim of this strategy is to address crime in a comprehensive manner in Johannesburg, *inter alia* by ensuring better co-ordination between the JMPD and the South African Police Service ("SAPS") as well as other state agencies. The SAPS is participating actively in developing this strategy, which is expected to be published by third quarter 2004.

At the same time consideration is being given to the expansion of close-circuit television and other forms of electronic policing.

Unemployment

The city has a high unemployment rate, currently being 37%.

The number of jobs in the city has been expanding in recent years. However, the expansion in job opportunities has not kept pace with the number of job seekers. This is partly due to demographic trends, which saw an increase in the absolute number of young people entering the job market. Perhaps more importantly however, this is due to the unusually high population growth (4.1% per year between 1996 and 2001) and particularly the number of economically active young adults migrating to the city from other parts of the country and continent.

As a result of these factors the number of people who reported to the Census 2001 that they were employed grew from 954 605 in 1996 to 1 085 546. However, over the same period, the number of people who stated that they were unemployed grew from 392 777 to 647 039.

COJ is addressing unemployment through the Joburg 2030 process, and especially by supporting labour intensive sectors such as call centres and the creative industries.

Spatial structure and social inequality

The existing spatial form and geography of the city has been identified as a major impediment to economic efficiency and productivity. The inefficiencies and problems with the current urban form and geography manifest themselves in four important ways.

Firstly, the expansion of bulk infrastructure to outlying areas with low usage rates and low densification patterns undermines the commercial viability of the utility companies providing services and places enormous financial strain on the resources of COJ.

Secondly, unplanned and ad hoc densification has led to inefficiencies due to a lack of appropriate infrastructure.

Thirdly, substantial existing infrastructure is under-utilised as is obvious in the Johannesburg CBD.

Fourthly, and equally importantly, urban sprawl and poor transportation systems make travel times long and expensive between places of residence and places of work, particularly for the poor.

It remains a challenge for COJ to address these problems so as to eliminate the marginalisation of the poor communities, make a positive impact on property values and ensure the even spread of economic activity and opportunities throughout the city.

Globalisation

The threat in globalisation is from transnational corporations, multilateral institutions and governments of advanced industrialised countries that are driving the process on a unilateral basis. The result is that globalisation has been highly uneven in terms of its impact. In particular, the gulf between developed and developing countries has widened. Moreover, even though world trade has grown phenomenally, poverty in developing countries has worsened. Globalisation has also brought about major uncertainties in the international financial system leading to disruptive impacts on national currencies.

COJ's treasury policies are consistent with those of the national government. The policies aim to create adequate stability in the financial system to enable it to withstand currency shocks. The strengthening Rand is evidence that these policies have been effective.

Urbanisation

South Africa's population is rapidly urbanising and it is estimated that between 70% and 75% of the population will live in urban areas by the year 2020. The city of Johannesburg is highly urbanised, with an urbanisation rate of 97%. Over the next decade, the city is expected to grow by about 4.1% per annum from its present level of 3,2 million people. This growth is expected to occur largely as a result of immigration, particularly from the rest of Africa as opportunities for economic growth and jobs improve in the city.

Rapid urbanisation can exacerbate the challenges of poverty, homelessness and marginalisation unless the city develops the urban economy and addresses the structural flaws which add to the life costs for the urban poor – particularly the cost in time and travel distance to and from work, purchasing goods, or gaining access to social and recreational facilities.

Urbanisation is not expected to create any serious instability and as such is regarded as a minor concern by COJ.

Culture of non payment of services

The culture of not paying for services is a legacy that was created during the times of the old political dispensation. The situation has improved in the post-apartheid era. Payment levels have been at 87% over the last 5 years. Prosecuting those that fail to pay has been a challenge for COJ. The necessary steps have and continue to be taken to prosecute effectively and improve payment levels. Due to the continued focus and improved management of payment levels, COJ believes that the potential credit risk to investors due to non-payment for services by residents is minimal. This view is supported by the fact that COJ has never defaulted on any debt repayment obligation in its history.

Installation of Regional Electricity Distribution Stations (REDS)

The RED's are agencies that are proposed by Government in terms of a draft Bill to take over the electricity distribution functions from municipalities. The policy adopted by cabinet envisages that municipalities should not suffer financially from this change, and that municipalities will have shareholding in the RED's in proportion to assets contributed. National government has also indicated its willingness to consider compensating municipalities for profits that will be lost through the implementation of RED's.

Ageing infrastructure

COJ faces many challenges to developing an efficient, safe, and reliable transport system. There are service delivery backlogs concerning roads in the townships and informal settlements. Historically, investment in maintaining road infrastructure in many parts of the City has been inadequate, resulting in the current maintenance backlog. Dealing with this backlog is a high priority as the future cost of replacement or maintenance increases substantially the longer such work is deferred.

The Johannesburg Roads Agency has made a major effort to access funding to address infrastructure and maintenance backlogs in the City's roads. In addition to funding allocated by COJ, the Johannesburg Roads Agency has successfully sourced funding for capital projects from national and provincial programmes.

COJ's maintenance and upgrading programmes have resulted in more reliable infrastructure.

Water losses

Major water losses are incurred through commercial losses in metered areas and physical, commercial and on-property losses in areas that are not metered (most "deemed consumption" areas).

Unaccounted-for-water (UFW) represented 35% of bulk purchases in 2002/03 compared to 37% in 2001/2. It is important to note that this UFW ratio is largely made up of the losses incurred by the "deemed consumption" billing process in the formal low-income areas.

The City is implementing Operation Gcin'amanzi, which is a multifaceted programme designed to address water supply, water demand, water conservation, water wastage, education, communication, ownership of consumption and non-payment for services. This programme is already producing positive results.

Cable theft

Cable theft remains a big risk. City Power has finalised a strategy to address cable theft at a strategic level and the implementation plans are currently being reviewed. In the interim various quick-win measures have been implemented. A central security centre, that is operated 24 hours a day, has been established.

City Power chairs the regional committee of the Non Ferrous Theft Combating Committee (NFTCC) which aims to reduce cable theft. A provincial task force, under the guidance of the organised crime unit of the SAPS, was also established in August 2003. Plans are in the pipeline to engage community policing forums to assist communities with relevant information.

Initiatives to educate and capacitate the judicial system are in progress. In this regard a specialist witness has already been nominated by the regional NFTCC to testify on behalf of the industry. This has led to the courts developing a better understanding of the social and economic impact of conductor theft and jail sentences of up to 7 years have subsequently been imposed. This comprehensive program is designed to eliminate the occurrences of cable theft and the resulting costs to COJ.

The billing system

COJ's billing system has shown certain inaccuracies, resulting in incorrect billings to customers. The inaccuracies have not as yet resulted in under recoveries in income. The risk lies with collecting the incorrect amounts from customers. This may lead to a refusal by customers to pay and instability. The system is currently under review and the Mayor has pledged to deploy resources to resolve the billing problems.

Regional Services Council ("RSC") levies

The National Treasury has confirmed that it is currently conducting a review of the fiscal framework for local government, particularly with respect to RSC levies. The intention of the review is to seek ways of increasing the fiscal capacity of municipalities. There is at this stage no decision to terminate RSC levies. If such a decision is arrived at in future, the levies would be replaced by an appropriate alternative revenue source. It would be contrary to the whole approach of at least protecting, if not improving, the fiscal capacity of local government, were this not to be done. The senior official overseeing the review is the Deputy Director General : Provincial & Local Government at the National Treasury.

Succession Planning

The City, in line with its objective of creating a culture of optimum performance, has systematically placed its senior employees on fixed term performance contracts. Although this has gone a long way to locating accountability across the organisation, certain risks do exist. The City recognises these risks to be:

- Potential loss of intellectual capital when fixed term contracts expire;
- Loss of a substantial portion of the senior management team at all reporting levels within a short period;
- Legal risks associated with the “roll over” of fixed term contracts and the perception of contracts being indefinite rather than fixed term.

In order to mitigate these risks, the City has developed an approach to succession planning in respect of its top four reporting levels. It is set out in a Fixed Term Contract Succession Planning Strategy document, which outlines practical steps to ensure that the loss of intellectual capital is mitigated over time: These include:

- The development of a database of all managers / employees who are on fixed term contracts;
- Review of fixed term contract positions (using the database), eighteen months prior to the expiry of the individual contracts;
- Identification and grooming of potential successors in each department;
- Through the City’s performance management process, individual development plans are employed on an annual basis. This enables high potential employees to be identified, coached and mentored. In this way, a second layer of leadership is fostered within the City; and
- The City launched an Executive Management Development Programme in 2003, to ensure regular interaction between managers within the City, thereby developing technical skills and more generic management skills.

In order to mitigate the City’s greatest risk of losing key members of its executive team at the same time, the following mechanisms are in the process of being consolidated:

- Targeted development of managers outside the first two reporting levels to ensure that a “second layer of management” exists; and
- Participation of current managers in multiple decision making structures in order to ensure continuity and knowledge of decisions and the general organisational context.

FINANCIAL INFORMATION

References to page numbers are to the page numbers as they appear in the annual financial statements of the City of Johannesburg Metropolitan Municipality as at and for the year ended 30 June 2003.

OVERVIEW

The financial statements of COJ for the year ended 30 June 2003 have been prepared to conform to standards laid down by the Institute of Municipal Finance Officers in its Code of Practice and Report on Published Annual Financial Statements. The financial statements of the UACs have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice. Due to the different bases of financial statement preparation, no consolidated financial information has been prepared in respect of COJ and its UACs for the year ended 30 June 2003.

The financial statements of Johannesburg Water (Pty) Limited and Pikitup Johannesburg (Pty) Limited have not been approved by the directors of these entities and consequently no audit opinion has been expressed for the year ended 30 June 2003.

Johannesburg Water (Pty) Limited and Pikitup (Pty) Limited experienced a deterioration in their financial position during the period subsequent to 30 June 2003. The existence of these companies as going concerns is dependent on the continued support by way of subsidies from their sole shareholder, COJ.

Subsequent to finalisation of the 30 June 2003 financial statements of the Issuer, certain contingent liabilities arose which related to the year ended 30 June 2003. These include an alleged claim for damages and compensation, resulting from the construction of a road over a third party's properties, amounting to R2m and an alleged R7m claim for damages relating to the proclamation of a low cost housing area. Proceedings have also been instituted in two labour related matters, the outcome of which is uncertain. COJ are managing these labour related matters as part of their ongoing process of restructuring their retirement funding arrangements.

A conditional incentive for the installation of prepaid meters for communities who do not have meter systems has been approved by the COJ Council. This incentive will see debt of approximately R878 million being written off over a period of 3 years. The write off of this arrear debt is conditional on customers making continued payments over the 3 year period.

A matter is currently before the Constitutional Court regarding the liabilities of landlords who wish to dispose of their properties for debts outstanding in respect of these properties.

No subsequent events review was concluded in respect of Johannesburg Civic Theatre (Pty) Limited.

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ACCOUNTING POLICIES

The information below has been extracted from the audited financial statements of COJ as at and for the period ended 30 June 2003.

1 BASIS OF PRESENTATION

- 1.1 These financial statements have been prepared to conform to the standards laid down by the Institute of Municipal Finance Officers in its Code of Practice (1992) and Report on Published Annual Financial Statements (Second edition – January 1996).
- 1.2 The financial statements are prepared on the historical cost basis, adjusted for fixed assets as more fully detailed in Accounting Policy note 2.

The accounting policies are consistent with those applied in the previous year except if otherwise indicated.

- 1.3 The financial statements are prepared on the accrual basis:
 - Income is accrued when measurable and available to finance operations. Certain direct income is accrued when received, such as traffic fines and certain licences.
 - Expenditure is accrued in the year it is incurred.

2 FIXED ASSETS

2.1 Fixed assets are stated:

- at historical cost;
- at valuation (based on the market price at date of acquisition), where assets have been acquired by grant or donation; while they are in existence and fit for use, except in the case of bulk assets which are written off at the end of their estimated life as determined by the Executive Director : Finance.

2.2 Depreciation

The balance shown against the heading "Loans Redeemed and Other Capital Receipts" in the notes to the balance sheet is tantamount to a provision for depreciation. However, certain structural differences do exist. By way of this "Provision" assets are written down over their estimated useful life. Apart from advances from the various council funds, assets may also be acquired through:

- Appropriations from income, where the full cost of the asset forms an immediate and direct charge against the operating income, and therefore it is unnecessary to make any further provision for depreciation.
- Grants or donations, where the amount representing the value of such grant or donation is immediately credited to the "Loans Redeemed and Other Capital Receipts" account.

- 2.3 All net proceeds from the sale of fixed property are credited to the Fixed Property Sales Fund. Net proceeds from the sale of all other assets are credited to the Capital Development Fund.

- 2.4 Fixed assets are financed from different sources, including external loans, operating income and internal funds. These loans and advances are repaid within the estimated lives of the assets acquired from such loans or funds. Interest is charged to the service concerned at the ruling interest rate applicable at the time that the advance is made.

3 INVENTORY

Inventory is reflected in the Balance Sheet on the first-in first-out basis.

4 STATUTORY FUNDS/ACCUMULATED FUNDS

4.1 Capital Development Fund

The Capital Development Fund Ordinance No. 9 of 1978 requires a minimum contribution of 1% of the defined income of a local authority for the immediately preceding financial year. Advances are made to borrowing accounts at an interest rate of 10% per annum and are repayable over the estimated life of the asset.

Contributions for the year to 30 June 2003 amounted to R48,7 million (2002 – R74,3 million).

4.2 Fixed Property Sales Fund

The capital of this fund consists of the net proceeds received from the disposal of fixed property. Advances are made to borrowing accounts at the Consolidated Loans Fund interest rate and are repayable over 30 years.

4.3 a) Insurance Fund

With effect from 1 October 2000 insurance cover was based on a conventional and contingency basis.

The Contingency Policy represented a "self-insured" method but externally managed to optimise other benefits such as additional capacity, bonus declarations and risk management support.

b) Risk Financing and Insurance

The City of Johannesburg Metropolitan Municipality and its Municipal Business Enterprises (MBE's) had embarked on a program of progressive financing of own loss and damage to its assets, business interruption as well as liability claims from the public. The risk-financing program is constantly measured against best practice and economic viability and has at its core, the limitation of pay-away insurance premiums, business continuity and sustained service delivery. The cyclical nature of cost of insurance has also affected the City's cost of risk-financing and the cost of insurance requires the City to utilise its own resources in an aggressive effort to contain the overall cost of risk.

The current risk-financing program is protected by conventional insurance placed in sustainable local and overseas insurance markets. The security of the insurers and re-insurers is continuously assessed.

Cost of risk-financing is affected by the varying success of management of risks, exposures, loss and damage and the effective and efficient prevention and control of loss and damage. The King Report on Corporate Governance for SA 2002 (King II) is recognised by the City and MBE's and significant process to comply with the requirements of King II is underway.

4.4 Housing and Estate Development Fund

This fund was established in 1982 to augment the reduced State finances available for housing development. The capital of the fund consisted of external loans (since redeemed) together with a small portion being from operating income. Interest is charged to borrowing accounts at 10% per annum with the capital sum being repaid over thirty years.

4.5 Endowment Fund

This fund consists of obligatory contributions made by township and property developers and is used for specific developments in the township concerned or for general town planning improvements. Advances from this fund are not repayable and carry no interest charge.

5 RETIREMENT BENEFITS

The employees of all the Councils, as well as the Council as employer, contribute to various Municipal Pension Funds, which provide retirement benefits to such employees.

The Municipal Pension Funds are governed by sets of rules, which are registered, subject to the Pension Fund Act 24 of 1956, by the Registrar of Pension Funds. Benefits are paid by the various Funds in accordance with their rules.

Full actuarial valuations are performed in terms of the rules of the respective Funds.

6 SURPLUSES AND DEFICITS

Any surpluses or deficits are transferred to the Rate Account.

7 TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

The cost of internal support services is transferred to the different services in accordance with the IMFO Report on Accounting for Support Service (June 1990).

8 LEASED ASSETS

All leases other than financial leases are treated as operating leases and the relevant rentals are charged to the operating account in a systematic manner related to the period of use of the assets concerned.

9 INVESTMENTS

Investments are shown at the lower of cost or market value if a permanent decline in value occurred, and are invested in terms of the requirements of the Local Government Transition Act, Second Amendment Act, and No. 97 of 1996.

10 DEFERRED CHARGES

The balance outstanding of the costs incurred in raising loans on the capital market is recovered from operating income over the periods of the various loans involved.

11 LEAVE PROVISION

Provision is made annually in the Operating Budget to contribute to the provision for accumulated leave.

12 BAD DEBTS PROVISION (WORKING CAPITAL RESERVE)

A provision has been created to take cognisance of the impact on cash flow of the non-payments by consumer debtors.

13 INCOME RECOGNITION

13.1 Assessment Rates

Uniform assessment rates are levied throughout the City based on valuation rolls prepared on uniform principles. In the case of Midrand and the part of Modderfontein that was incorporated in the City of Johannesburg from December 2000, the Council continued to levy the assessment rates as determined by the former Councils until 30 June 2001. During 2001/2002 residential rebates of 58% were granted to ordinary domestic properties in the City of Johannesburg area and rebates of 40% were granted to ordinary domestic properties in the Midrand and Lethabong areas. Rates are based on site values only.

13.2 Refuse Removal Tariffs

These tariffs are charged on a stepped-tariff structure for domestic use while commercial containers are charged based on the nature and frequency of the service and are based on categories of stand size.

13.3 Regional Services Levies

These levies are determined on a self-assessment basis in terms of the applicable legislation. Although various controls are in place, including the services of a contracted-in tax inspectorate, there is ultimately no readily available basis on which it can be determined whether all levies owing to the Council are in fact collected.

14 CONSOLIDATED LOANS FUND

The capital resources of the Consolidated Loans Fund consist of both external and internal loans. Advances are made to borrowing accounts at an interest rate equal to the cost of servicing the Fund's capital and are repaid over the useful life of the assets acquired.

BALANCE SHEET

at 30 June 2003

	Note	30 June 2003 R'000	30 June 2002 R'000
CAPITAL EMPLOYED			
Funds and Reserves		4 686 700	4 246 006
Statutory Funds/Accumulated Funds	1	4 417 569	3 935 113
Reserves	2	269 131	310 893
Accumulated Deficit	3	(3 864 978)	(3 943 748)
		821 722	302 258
Trust Funds	4	3 333	3 880
Long-term Liabilities	5	3 336 798	3 325 150
Deposits	6	254 752	218 079
		4 416 605	3 849 367
EMPLOYMENT OF CAPITAL			
Fixed Assets	7	2 718 444	2 712 799
Investments	8	1 558 715	1 464 769
Long-term Debtors	9	3 647 346	3 008 422
Deferred Charges	10	–	121
		7 924 505	7 186 111
Net Current Liabilities		(3 507 900)	(3 336 744)
CURRENT ASSETS			
Inventory	11	22 031	20 985
Debtors	12	1 565 285	709 986
Short-term portion of long-term debtors	9	197 539	1 086 194
Cash and bank	22	152 993	26 092
CURRENT LIABILITIES			
		(5 445 748)	(5 180 001)
Creditors	13 (a)	3 373 966	3 467 704
Short-term portion of long-term liabilities	5	347 526	123 627
Provisions	13 (b)	1 724 256	1 588 670
		4 416 605	3 849 367

INCOME STATEMENT

for the year ended 30 June 2003

	Note	Actual for the year ended 30 June 2003 R'000	Budget for the year ended 30 June 2003 R'000	Actual for the year ended 30 June 2002 R'000	Budget for the year ended 30 June 2002 R'000
INCOME					
Income from tariffs and service charges					
Assessment Rates	14	2 286 835	2 196 000	2 081 681	1 959 400
Refuse Removal Fees		271 295	220 000	302 046	299 889
		2 558 130	2 416 000	2 383 727	2 259 289
Government and Provincial grants and subsidies		217 397	236 446	165 943	165 065
Regional Services Levies		1 277 479	1 050 000	1 046 694	985 000
Other Income		598 083	430 834	592 184	469 324
		4 651 089	4 133 280	4 188 548	3 878 678
EXPENDITURE					
Salaries and Allowances		1 298 445	1 274 667	1 154 033	1 154 516
General Expenses		1 346 477	1 303 619	1 144 026	1 177 043
Repairs and Maintenance		44 968	45 850	48 843	60 076
Capital Charges	17	565 633	539 346	467 184	534 475
Contributions to Fixed Assets		24 717	16 135	24 109	33 343
Contributions		136 008	176 029	97 521	97 522
Contributions to Capital Development Fund		38 817	37 700	33 350	33 447
Contributions to Working Capital Reserves		128 137	128 137	127 472	127 451
Gross Expenditure		3 583 202	3 521 483	3 096 538	3 217 873
Less: Amounts charged out		121 915	176 445	148 686	165 747
Net Expenditure before Transfers to UAC's		3 461 287	3 345 038	2 947 852	3 052 126
Net Transferred to Utilities, Agencies and Corporatised Services		1 143 383	788 242	1 157 507	826 552
Net Expenditure		4 604 670	4 133 280	4 105 359	3 878 678
Surplus for the year ended 30 June		46 419		83 189	
Extraordinary item		(587 482)		-	
Appropriations for the year	18	619 833		(2 575 210)	
Net surplus/(deficit) for the year ended 30 June		78 770		(2 492 021)	
Accumulated deficit at beginning of the year		(3 943 748)		(1 451 727)	
ACCUMULATED DEFICIT AT END OF THE YEAR		(3 864 978)		(3 943 748)	

CASH FLOW STATEMENT

for the year ended 30 June 2003

	Note	June 2003 R'000	June 2002 R'000
Cash (loss)/Retained from Operating Activities		(300 481)	737 775
Cash Generated by Operations	19	160 623	(1 973 434)
Investment Income		650 829	637 080
Changes in Working Capital	20	(528 094)	2 630 814
Cash Generated by Operating Activities		283 358	1 294 460
Interest Paid		(583 839)	(556 685)
Cash Utilised in Investing Activities		(99 188)	(842 650)
Replacement of and Addition to Capital Assets		(357 865)	(1 465 918)
Write-off of work-in-progress		–	1 517
Proceeds on disposal of fixed assets		258 677	621 751
Net Cash Flow		(399 669)	(104 875)
<i>Cash effects of Financing Activities</i>			
Increase in long-term loans	21	235 547	158 787
Increase in Investments		(93 946)	(103 595)
Cash contributions toward investment in Capital Assets		384 969	51 285
Increase in cash	22	(126 901)	(1 602)
<i>Net cash utilised</i>		399 669	104 875

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2003

	June 2003 R'000	June 2002 R'000
1. STATUTORY FUNDS/ACCUMULATED FUNDS (Refer to Appendix A) Page 14(i)		
Capital Development Fund	2 622 862	2 343 905
Fixed Property Sales Fund	1 392 170	1 224 733
Insurance Fund	13 086	8 240
Housing and Estate Development Fund	197 801	180 279
Endowment Fund	169 747	156 727
Other	21 903	21 229
	4 417 569	3 935 113
2. RESERVES (Refer to Appendix A) Page 14(i)		
Maintenance Reserve	59 902	62 079
Revolving Fund for Housing Development	209 229	245 952
Infrastructural Development	–	2 316
Other	–	546
	269 131	310 893
3. ACCUMULATED DEFICIT		
The accumulated deficit amounts to:	(3 864 978)	(3 943 748)
(Refer to note 18 for further details)	(3 864 978)	(3 943 748)
4. TRUST FUNDS (Refer to Appendix A) Page 14(i)		
Inner City Projects	2 871	2 611
Other	462	1 269
	3 333	3 880

	June 2003 R'000	June 2002 R'000
5. LONG-TERM LIABILITIES		
Local registered stock	712 643	738 662
Funding facility	80 334	88 112
Structured Loans	1 553 445	1 167 723
Development Bank of S A	1 336 212	1 350 551
Other	1 690	–
	3 684 324	3 345 048
Government loans		
– Charitable and welfare organisations	–	16 973
– Other	–	18 151
	3 684 324	3 380 172
Capital creditors	–	68 605
	3 684 324	3 448 777
Less: Short-term portion transferred to current liabilities	(347 526)	(123 627)
Local registered stock	10 001	26 418
Funding facility	8 809	–
Structured loans	280 247	53 371
Development Bank of S A	48 469	43 838
	3 336 798	3 325 150

(Refer to Appendix B for more detail on long-term liabilities)

LOCAL REGISTERED STOCK UNREDEEMED AT 30 JUNE 2003

Stock to the value of R712,6 million (2002 – R738,7 million) has been issued. Coupon interest rates vary between 9.33% and 18.40% per annum and outstanding redemption periods between 1 and 11 years.

FUNDING FACILITY

The funding facility, which was obtained by the former City Council of Johannesburg, bears a variable rate of interest and will be fully redeemed in 2009. Local Registered Stock amounting to R120 million (2002 – R120 million) has been issued to the lender at a rate of 17.25% per annum for a period of 15 years. The proceeds of the stock issued have in turn been deposited as security with the lender on matching terms and conditions.

STRUCTURED LOANS

A number of structured loans, totalling R1,553 billion (2002 – R1,168 billion) have been raised with the following Financial Institutions:

Standard Corporate Merchant Bank (SCMB)

Two loans, one from SCMB-Minerallink for R67,2 million and the other from SCMB-Mercklink for R56 million, which commenced on 31 October 1995, were refinanced with a new loan from SCMB totalling R40,7 million on 30 June 2003. The loan will mature on 14 March 2005. Interest and capital is repaid in March of each year. The outstanding balance on the previous loans at 30 June 2003 amounted to R53,5 million.

A loan to the value of R100 million was transacted on 30 September 2002. The loan was for a period of 8 months and matured on 30 June 2003. The loan was replaced with a new loan to the value of R100 million on 30 June 2003. The loan will mature on 31 December 2004.

5. LONG-TERM LIABILITIES *continued***Absa Bank**

Loan 6 for R52,9 million, Loan 7 for R20,2 million and Loan 8 for R161,9 million were granted on 15 December 1995 for a period of 10 years. Deposits are made every six months in order to repay the capital on Loan 6 by the maturity date of 15 December 2005. Interest and capital are paid bi-annually on loans 7 and 8. Interest accrues on loan 6. There is also a swap agreement in place between the variable and fixed rates on these loans. The balance outstanding at 30 June 2003 is R240,9 million (2002 – R241,2 million).

A loan to the value of R175 million, supported by a loan guarantee from USAID was granted by ABSA on 10 November 2000 for a period of 10 years, to fund specific capital projects. A variable interest rate linked to prime rate is used. Capital, interest and guarantee fees are payable every six months in arrear/s. The outstanding balance at 30 June 2003 is R145,7 million (2002 – R156,9 million).

A loan to the value of R150 million was taken over from the Midrand Town Council. The original loan was granted by ABSA on the 27th November 1996 for a period of 15 years. Interest is paid bi-annually as well as a portion of the capital amounting to R4,7 million. A sinking deposit was made with Standard Bank in order to repay the capital balance of R50 million on the maturity date of 26 November 2011. There is a swap agreement in place between a variable and fixed rate on this loan. The balance outstanding at 30 June 2003 is R54,1 million (2002 – R150 million).

A loan to the value of R150 million was granted by ABSA on 20 December 2002 for a period of 10 years. A sinking deposit was made in order to repay the capital on the maturity date of 20 December 2012. Interest is payable every six months in arrear/s. The outstanding balance at 30 June 2003 is R150 million.

Nedcor Group

A loan to the value of R100 million was granted on 25 September 1998 and was transacted on 30 September 1998. The loan is for a period of 10 years and matures on 30 September 2008. The outstanding balance at 30 June 2003 is R100 million (2002 – R100 million).

The conditions of the loan agreement require that a monthly security of R400 000 be paid into a sinking fund, which will be repayable at the end of the maturity date. At 30 June 2003, the sinking fund together with interest amounted to R30,1 million (2002 – R22,6 million). Interest on the loan is paid monthly.

Rand Merchant Bank (RMB)

Two fixed rate (13.80% nacs) amortising loans of R100 million and R95 million were advanced by Rand Merchant Bank on 23 December 1999. Interest is capitalised monthly and repaid every six months. The capital of R195 million is due on 30 November 2014. The outstanding balance at 30 June 2003 is R209,3 million (2002 – R203,6 million).

To reduce the liquidity exposure on 30 November 2014, it was necessary to purchase two 15 year RMB zero coupon bonds with a nominal value of R100 million and R95 million respectively. The total settlement value of these transactions on 30 June 2003 amounted to R30,1 million (R15,4 million + R14,7 million) [2002 – R25,5 million (R13,1 million + R12,4 million)].

A fixed rate loan of R248 million was granted on 11 December 2000 by RMB for a period of 12 years. The outstanding balance at 30 June 2003 is R351,2 million (2002 – R305,1 million). An initial deposit of R38,4 million was paid and six monthly deposits are required in order to offset the capital and interest due on 31 December 2012. The total settlement value of these transactions on 30 June 2003 amounted to R153,3 million (2002 – R103 million).

A deposit of R35 million was ceded to RMB as a security/collateral for the amortising loans. The deposit bears interest at a fixed rate of 13.80% (nacs). The interest and capital of the deposit is being repaid by RMB bi-annually until 30 November 2014.

Collateral has been provided by way of a cession of rates payable on certain properties specified by RMB.

First National Bank Ltd

A loan to the value of R120 million was transacted on 30 June 2003. The loan is for a period of 6 months. The loan will mature on 31 December 2004.

5. LONG-TERM LIABILITIES *continued*
Ekurhuleni

A loan to the value of R41,1 million was taken over from the former Kyalami Metropolitan Council on 1 July 2001, for assets transferred to the City of Johannesburg. Interest is paid bi-annually to Ekurhuleni. A sinking deposit was also transferred from Ekurhuleni to repay the full capital balance on the maturity date of 30 June 2011. The balance outstanding at 30 June 2003 is R41,1 million (2002 – R41,1 million).

Development Bank of SA (DBSA)

The total amount owing to the DBSA is R1 336,2 million (2002 – R1 350,6 million) and was raised to finance capital expenditure. The major portion of this loan is owing in respect of a loan of R619,6 million that was negotiated at an effective interest rate of 10.54% per annum for a period of 14 years, maturing on 31 December 2011. Interest is paid bi-annually. R85 million of the original loan has been invested in a sinking fund and matures on 15 September 2016. The total settlement value of this transaction on 30 June 2003 amounted to R182,0 million (2002 – R158,8 million). The Southern Basin Sewer System, a project inherited from the former Central Witwatersrand Regional Services Council has an outstanding balance of R276,20 million (2002 – R291,8 million). The Supplementary Capital Expenditure Programme has an outstanding balance of R168,1 million (2002 – R148,2 million).

Government loans

These loans were advanced by the Government for housing and infrastructural projects.

	June 2003 R'000	June 2002 R'000
6. DEPOSITS		
Consumer deposits	206 303	165 663
Other deposits	48 449	52 416
	254 752	218 079

Consumer deposits in respect of the sale of water and electricity are levied by the Council and is generally required to cover the cost of two months' consumption for metered supply at the time that the deposit is made. Since the Council is not a deposit-taking organisation in terms of the Banking Act, interest may not be paid on such deposits. These amounts represent deposits received before the creation of UAC's. Deposits in respect of service accounts opened by the UAC's are held by the UAC's.

7. FIXED ASSETS

Fixed assets at the beginning of the year	7 162 641	6 377 616
Add: Capital expenditure during the year	357 865	1 465 918
Less: Assets written-off, transferred or disposed of during the year	180 998	680 893
Total fixed assets	7 339 508	7 162 641
Less: Loans redeemed and other capital receipts	4 621 064	4 449 842
Net fixed assets	2 718 444	2 712 799

(Refer to Appendix C)

	June 2003 R'000	June 2002 R'000
8. INVESTMENTS		
Listed		
Other municipal stock (Market Value)	186	5 252
	186	5 252
Unlisted		
Short-term deposits	273 594	380 360
Call deposits	269 179	55 246
Long-term deposits	870 454	890 620
Other	8	821
Investments in UAC's	145 294	132 470
	1 558 529	1 459 517
Total investments	1 558 715	1 464 769

Average rate of return on investments is 9.54%

Circular No. 5 of 1999 issued by the Provincial Government Development Planning and Local Government, requires local authorities to invest funds, which are not immediately required, with prescribed institutions and the period should be such that it will not be necessary to borrow funds against the investment at a higher rate to meet commitments. The investment should be made with a view to effecting maximum security at competitive interest rates.

No investments have been written-off during the year.

The Roads Accident Fund holds a fixed deposit certificate to the value of R1,420 million (2002 – R1,275 million) as security in respect of exemptions granted under the Motor Vehicle Insurance Act, 1972.

Fixed deposit certificates to the value of R6,897 million (2002 – R14,945 million), stock with a nominal value of R209 805 (2002 – R7,948 million) as well as a guarantee to the value of R15 million (2002 – Rnil) is held by the Compensation Commissioner as security in respect of exemptions granted under the Compensation of Occupational Injuries and Diseases Act 130 of 1993.

9. LONG-TERM DEBTORS

U.A.C. – Share-holders loans

City Power	624 793	681 267
Johannesburg Water	649 923	668 379
Pikitup	10 000	10 000
City Parks	6 622	6 622
Johannesburg Roads	2 630	2 263
Johannesburg Fresh Produce Market	60 000	68 773
Johannesburg Development Agency	56 000	32 260
Johannesburg Zoo	5 983	2 505
Metro Bus	2 000	–
Metro Trading Company	671	–
	1 418 622	1 472 069

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2003

continued

	June 2003 R'000	June 2002 R'000
9. LONG-TERM DEBTORS <i>continued</i>		
U.A.C. – Conduit and additional loans		
City Power	923 459	947 722
Johannesburg Water	1 219 973	1 216 445
Pikitup	72 083	65 930
Metrobus	–	72 387
Johannesburg Fresh Produce Market	59 377	53 773
	2 274 892	2 356 257
The abovementioned loans are repayable over 10 years at interest rates of either 15% or 17.5% compounded monthly.		
Other:		
Housing Debtors	41 098	124 232
Advances to charitable institutions		
Sale of land		
eJoburg Pension Fund	–	21 033
Civic Theatre Association		
Superfleet	80 000	80 000
Other	30 273	41 025
	3 844 885	4 094 616
Less: Short-term portion transferred to current assets	197 539	1 086 194
	3 647 346	3 008 422
10. DEFERRED CHARGES		
Cost of raising loans	–	121
11. INVENTORY		
Inventory consists of consumable stores, raw materials, finished goods and livestock	22 031	20 985
	22 031	20 985
12. DEBTORS		
Consumer Debtors:	2 759 380	1 278 193
	2 759 380	1 278 193
UAC Debtors	1 012 462	–
Sundry Debtors	794 454	2 436 319
	4 566 296	3 714 512
Less: Provision for bad debts	3 001 011	3 004 526
	1 565 285	709 986

	June 2003 R'000	June 2002 R'000
13 (a) CREDITORS		
Sundry Creditors	2 519 118	1 620 654
Grant received from the Department of Finance	37 625	27 504
Cash Loan Accounts (UAC's)	817 223	1 819 546
Total Creditors	3 373 966	3 467 704
13 (b) PROVISIONS		
Provision: Leave pay	129 051	5 526
Provision: Employee benefits	1 595 205	1 583 144
Total Provisions	1 724 256	1 588 670
<p>Provision for employee benefits include an amount of R1,560 billion (2002 – R1,5 billion) being an estimate of previously unfunded liabilities as computed by a firm of actuaries. The estimate is in respect of the employees of core administration and utilities, agencies and corporatised entities up to 31 December 2000.</p>		
14. ASSESSMENT RATES		
<p>The current rate in the Rand is 10,03c (2002/3 – 8,88c; 2002 – 8,31c). Rebates of 58% are granted to ordinary residential properties, cluster-houses and townhouses registered under the Sectional Titles, Act 95 of 1986. Flats qualify for a 40% rebate. Further remissions of 40% are granted to aged persons in need of assistance (subject to compliance with specified conditions).</p> <p>A remission of 100% of rates levied applies to Council owned old age schemes. Special remissions are granted to certain residential inner-city properties in the Johannesburg CBD, as well as certain mixed use inner-city properties with a high residential component. Finally, grants-in-aid are given to certain organisations previously exempt from rating, as listed in Section 32A(1) of the Local Authorities Rating Ordinance 1977. The abovementioned is however, not applicable to Midrand and the part of Modderfontein where rates were levied as determined by the previous Councils.</p>		
15. COUNCILLORS' REMUNERATIONS		
Councillors' allowances	39 143	32 973
	39 143	32 973
16. AUDITORS' REMUNERATION		
Audit fees	4 535	6 059
	4 535	6 059
17. FINANCE TRANSACTIONS		
(i) Total external interest earned and paid:		
Interest earned	650 829	637 080
Interest paid	583 839	556 685
(ii) Capital charges debited to operating account:		
Interest	384 967	313 811
Redemption	180 666	148 231
	565 633	462 042

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2003

continued

	June 2003 R'000	June 2002 R'000
18. APPROPRIATIONS		
Appropriation account		
Accumulated (deficit) at the beginning of the year	(3 943 748)	(1 451 727)
Operating surplus for the year	46 419	83 189
Extraordinary item	(587 482)	–
Appropriation for the year (refer note 25)	619 833	(2 575 210)
Adjustments:		
Prior year adjustments	(48 402)	84 383
Unfunded liabilities	(82 703)	(1 500 000)
Write-off of balance sheet items	766 425	(1 371 524)
Receiver of Revenue: VAT (charges)/recoveries	(8 536)	4 111
Sundry	(6 951)	207 820
Accumulated deficit at end of year	(3 864 978)	(3 943 748)
19. CASH GENERATED BY OPERATIONS		
Surplus for the year	46 419	83 189
Extraordinary items	(587 482)	
Adjustments in respect of prior years' adjustments	619 833	(2 575 210)
Additional contributions made to provisions/		
Appropriations against income:		
Fixed assets	24 717	24 109
Capital charges:		
Interest paid:		
– to Internal Funds	286 800	314 926
– on External Loans	583 839	556 685
Redemption of advances (Depreciation)	(198 920)	435 117
Deferred charges written-off	121	50
Investment income (operating account)	(650 829)	(637 080)
Non-operating income:		
Net income from Insurance Fund		
Non-operating expenditure:		
(Contributions)/withdrawals against Accumulated Funds and Reserves	(2 692)	(260 287)
Surplus on Internal Funds	38 817	85 067
	160 623	(1 973 434)
20. CHANGES IN WORKING CAPITAL		
(Increase)/decrease in inventory	(1 046)	23 374
(Increase)/decrease in debtors, long-term debtors	(605 568)	(128 778)
(Increase)/decrease in creditors, consumer deposits	78 520	2 736 218
	(528 094)	2 630 814
21. INCREASE IN LONG-TERM LOANS (EXTERNAL)		
Loans raised and other Credit Movements	619 488	108 934
Transfers into the City	–	281 865
Less: Loans repaid	(383 941)	(232 012)
	235 547	158 787

	June 2003 R'000	June 2002 R'000
22. INCREASE IN CASH ON HAND		
Cash balance at the beginning of the year	26 092	24 490
Less: Cash balance at the end of the year	152 993	26 092
	(126 901)	(1 602)

23. RETIREMENT BENEFITS (EXTERNAL)

The employees as well as the council as an employer, contribute to Municipal Pension and Provident Funds, which provide retirement benefits to such employees.

The larger funds include the Johannesburg Municipal Pension Fund (JMPPF), the City of Johannesburg Pension Fund (CJPF), the Joint Municipal Pension and Provident Fund and commercially run funds for former Greater Soweto employees.

The City has also established the eJoburg Pension Fund as part of its initiative to ensure that the retirement funding arrangements of all employees in the City of Johannesburg and entities be provided for.

24. CONTINGENT LIABILITIES AND CONTRACTUAL OBLIGATIONS

24.1 Unresolved claims and litigation

- a) Five plaintiffs have brought action against the Council arising from major road and other construction works at the Empire Interchange around the suburbs of Braamfontein, Milpark, Cottesloe, Melville, Parktown West, Emmarentia and Richmond where they allegedly suffered damages as a result of the Council having closed the road temporarily in terms of Section 76 of the Local Government Ordinance 1939 (TVI) instead of permanent closure in terms of Section 67. The claims total R7,1 million plus interest at 15.5%. The case appears dormant at this stage.
- b) A claim has been instituted against the Council by Unique Finance and Wesbank in respect of goods supplied and subsequently returned by the Council amounting to R7,2 million. The Council is defending the matter on the grounds that the underlying transactions were fraudulent. There now are three plaintiffs involved:
 - i) African Bank
 - ii) First National Bank, and
 - iii) Unique Finance

The matter is still in the pleading stage. The claim has been increased to about R13,5 million plus interest at 15.5% a tempore morae.
- c) A claim for compensation resulting from an expropriation was received from Clever Investments and may settle for an amount of R120 000. This claim has not been finalised yet. One of the outstanding issues is a subsequent claim for interest. The Council is not in agreement to pay the interest as the summons do not make provision for a claim for interest. Once this aspect has been sorted out, the matter could be finalised.
- d) Based on an actuarial valuation the estimated contingent liabilities amount to R1,120 billion. The amount is contingent on:
 - i) The outcome of litigation (actual and threatened) with regard to the enforcement of claims to certain employee benefits.
 - ii) Improvement in the quality and completeness of employee data and on valuation reports due for the Johannesburg Metropolitan Pension Fund and the City of Johannesburg Pension Fund.
 - iii) The possible rationalisation of employee benefits to a standard basis or bases.
- e) A claim for R3,6 million for alleged unpaid services rendered to the Council in respect of the Call Centre, was instituted against the Council.

24. CONTINGENT LIABILITIES AND CONTRACTUAL OBLIGATIONS

24.1 Unresolved claims and litigation *continued*

- f) A claim for R28 million by ESKOM in respect of RSC levies. A part of the claim has been prescribed, and the claim should be settled for far less.
- g) An application for an order against Council to relocate services, which if successful, could amount to ± R4 million.
- h) Claim for services rendered in the amount of R1,5 million. The matter will be set down for trial.
- i) On 28 September 1995, a combined summons was served on the Council for damages suffered by certain parties in the amount of R10 435 705.00 in respect of alleged loss of profits suffered by the claimants during and after the construction of a fly-over bridge and diversion of Grayston Drive, Sandton. The Council's Legal Department appointed an attorney to defend this matter on behalf of the Council.
- j) A claim for R507 211.81 for alleged monies owing in respect of various rental agreements from various different departments. Plaintiff's attorneys committed suicide during 2000. No movement on file. Unlikely to proceed, but this claim is insured.
- k) A contractual claim against us for R630 674.40. Defending. Set down for trial 27 August 1999, postponed by plaintiff. No further action by plaintiff. Will probably not proceed, but still listed on uninsured possible liability.
- l) The Council was sued for alleged advertising rights on buses for R504 945.00. We are defending. Plaintiff has not pursued this matter for some time. Unlikely to proceed but still indicated as uninsured possible liability.
- m) Summons for payment of the amounts of R241 943.83 and R129 525.00 allegedly due and payable by the Council resulting from a grass-cutting contract. The trial commenced on 14 March 2002 but was postponed to enable the plaintiff to amend its particulars of claim. Plaintiff tendered and paid the Council's wasted costs in the amount of R18 000.00. Plaintiff is in the process of issuing a new summons with new particulars of claim, but will in all probability have a problem with prescription.
- n) In the Enterprise Risk Management Limited (arbitration) matter the Council is faced with a claim for R40 million in respect of Treasury services rendered by the claimant for the period August 1999 to 31 January 2002. The Council is opposing this and counter-claiming for a sum of R30 million. The merits of the matter have not as yet been heard and legal costs could amount to R5 million.
- o) In the Fucuza Waste Services (Pty) Ltd matter the Council is being taken on appeal in respect of a review application in which it was successful. Should the appellant succeed the Council would have to appoint the appellant as a contractor at a cost of R6 million and legal costs could amount to approximately R1 million.
- p) In the B.I.S. Inspections cc and Pugubuye matter the award of a tender by the Council is being taken on review although the matter could be academic as the tender has already expired. However, the Council could have costs awarded against it in the approximate sum of R500 000.00.
- q) There are a number of possible legal liability claims totalling + R14,3 million which are ongoing and which are covered by Insurance.

24.2 Housing loan guarantees

Housing loan guarantees with various financial institutions amount to R60 960 (2002- R55 279). These guarantees only come into effect if an employee of the Council defaults on their bond payments, in which case the Council pays the financial institution the guaranteed amount and then institutes measures to recover the amount from the employee.

25. ADJUSTMENTS ON APPROPRIATION ACCOUNT

i) Prior year adjustments

These represent various income and expenditure items received in the current year relating to previous years. They also include correction of various fundamental errors.

ii) Unfunded liabilities

Represent additional provision required in respect of various unfunded liabilities following the completion of an actuarial valuation exercise.

iii) Write-off of balance sheet items

When the City of Johannesburg was established in 2000 the financial books of accounts of the former five metropolitan local councils were audited and the closing balances were carried forward. During the process of closing the books of June 2001 as well as June 2002 certain of the balances on the balance sheet could not be substantiated by documentary proof.

Unsupported balances of R1 371 million were transferred to the appropriation account. Provided that in the event of any further information becoming available in future, amounts substantiated by such information will be transferred back to the relevant accounts and crediting the appropriation account. Following further work done on these balances, a net amount of R766,4 million has been written back against the appropriation account.

iv) Receiver of Revenue: VAT (charges)/recoveries

These are net penalties and interest levied on previous years' VAT assessments net of recoveries.

v) Sundry

Included in sundry adjustments to the appropriation account are:

- Adjustments to the stock account.
- Adjustments to payroll expenses.

26. EXTRAORDINARY ITEMS

This refers to a grant payable to Johannesburg Water to correct baseline assumptions in the original sale of the business agreement, which may be used by the entity to pay its interest obligations amounting to R587 482. However, Johannesburg Water has disclosed the transaction between the two financial years as follows:

- R234 892 for the current year.
- R352 590 for the previous year.

	June 2003 R'000	June 2002 R'000
27. CAPITAL COMMITMENTS		
Contractual capital commitments	112 465	51 170

STATUTORY FUNDS/ACCUMULATED FUNDS, RESERVES AND TRUST FUNDS

	Balance at June 2002 R'000	Contributions R'000	Interest on investments R'000	Other income R'000	Expenditure/ transfers R'000	Balance at June 2003 R'000
STATUTORY FUNDS/ ACCUMULATED FUNDS						
Capital Development Fund	2 343 905	38 817	157 148	84 249	(1 257)	2 622 862
Fixed Property Sales Fund	1 224 733		95 633	174 428	(102 624)	1 392 170
Insurance Fund	8 240			4 846		13 086
Housing and Estate Development Fund	180 279		16 163	1 359		197 801
Endowment Fund	156 727		13 020			169 747
Other	21 229		674			21 903
	3 935 113	38 817	282 638	264 882	(103 881)	4 417 569
RESERVES						
Maintenance Reserve	62 079		2 779	(5 000)	44	59 902
Revolving Fund for Housing Development	245 952		1 123	(37 846)		209 229
Infrastructural Development	2 316				(2 316)	–
Other	546				(546)	–
	310 893		3 902	(42 846)	(2 818)	269 131
TRUST FUNDS						
Kaiser Family Foundation	462					462
Greater Soweto Peoples Fund	716				(716)	–
Republic of China	88				(88)	–
Inner City Projects	2 611		260			2 871
Other	3				(3)	–
	3 880		260		(807)	3 333

Refer to notes 1, 2 and 4 (Page 13(i))

EXTERNAL LOANS

				Balance at		Redeemed or	Balance at
				30 June 2002	Income	Written-off	30 June 2003
				R'000	R'000	R'000	R'000
LOCAL REGISTERED STOCK							
Issued		Loan No.	Redeemable				
16.250%	1987	26	2002	10 000		10 000	–
16.300%	1987	28	2002	8 000		8 000	–
14.700%	1993	30	2005	20 000			20 000
9.330%	1980	100	2002	7 940		7 940	–
14.650%	1993	120	2008	25 000			25 000
14.700%	1993	121	2013	30 000			30 000
17.250%	1994	123	2009	120 000			120 000
15.750%	1995	003	2004	75 000			75 000
15.550%	1996	007	2005	50 000			50 000
15.550%	1996	008	2005	50 000			50 000
16.070%	1997	009	2006	200 000			200 000
15.640%	1984	13	2004	9 000			9 000
14.100%	1993	17	2008	11 000			11 000
18.400%	1998	1	2011	11 500			11 500
12.500%	1986	894	2006	1 443			1 443
12.000%	1992	901	2004	15 000			15 000
14.000%	1998	009	2003	10 000			10 000
16.170%	1997	015	2011	30 000			30 000
16.850%	1997	016	2011	30 000			30 000
16.650%	1997	017	2011	24 300			24 300
13.250%	1977	677	2002	60		60	–
13.250%	1977	683	2002	19		19	–
9.700%	1977	743	2003	400			400
				738 662		26 019	712 643
FUNDING FACILITY				88 112		7 778	80 334
STRUCTURED LOANS				1 167 723	586 741	201 019	1 553 445
DEVELOPMENT BANK OF S A				1 350 551	30 927	45 266	1 336 212
OTHER – Springfield properties				–	1 820	130	1 690
Government Loans (Charitable and Welfare Institutions)				16 973		16 973	–
Government Loans (Other)				16 767		16 767	–
Government Charitable				1 384		1 384	–
				35 124		35 124	–
Capital Creditors				68 605		68 605	–
				3 448 777	619 488	383 941	3 684 324
INTERNAL ADVANCES TO BORROWING SERVICES							
Consolidated Loans Fund				919 795	362 146	153 094	1 128 847
Capital Development Fund				857 945		94 319	763 626
Housing and Estate Development Fund				18 654		5 653	13 001
Fixed Property Sales Fund				268 402		13 453	254 949
				2 064 796	362 146	266 519	2 160 423

Refer to note 5 (Page 13 (ii) to 13 (iv))

FIXED ASSETS

DEPARTMENTS	Balance at 30 June 2002 R'000	Actual Expenditure 2003 R'000	Written-off, transferred, redeemed, or disposed of R'000	Balance at 30 June 2003 R'000
City Manager	395 845	12 413	24 731	432 989
Executive Mayor	72	106		178
Contract Management	3 766 882	113	(177 932)	3 589 063
Corporate Finance	372 507	14 267	446	387 220
Corporate Services	265 811	3 654	(42 026)	227 439
Community Development	1 662 944	219 172	–	1 882 116
Development Planning Transportation and Environmental Management	302 198	44 653	–	346 851
Emergency Management Services	82 984	9 171	17 765	109 920
Metro Police Department	113 252	33 168	(7 330)	139 090
Heritage	92 683	3 362	15	96 060
Regions	107 463	17 786	3 333	128 582
TOTAL FIXED ASSETS	7 162 641	357 865	(180 998)	7 339 508
LESS: CAPITAL REDEEMED AND OTHER CAPITAL RECEIPTS	4 449 842	186 048	(14 826)	4 621 064
NET FIXED ASSETS	2 712 799	171 817	(166 172)	2 718 444

ANALYSIS OF FIXED ASSETS

	Total R'000	Land R'000	Buildings R'000	Roads & Stormwater R'000	Other infrastructure R'000	Other Assets R'000
	7 339 508	286 319	2 203 416	3 074 111	1 142 961	632 701
TOTAL FIXED ASSETS	7 339 508	286 319	2 203 416	3 074 111	1 142 961	632 701

Refer to note 7 (Page 13 (vi))

REPORT OF THE INDEPENDENT AUDITORS OF COJ

The following is the text of the report of the Auditor General to the City of Johannesburg Metropolitan Municipality in relation to the audited financial statements of the City of Johannesburg Metropolitan Municipality for the year ended 30 June 2003. References to page numbers are to the page numbers as they appear in the annual financial statements of the City of Johannesburg Metropolitan Municipality as at and for the year ended 30 June 2003.

REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL ON THE FINANCIAL STATEMENTS OF THE CITY OF JOHANNESBURG METROPOLITAN MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2003

1 AUDIT ASSIGNMENT

The financial statements set out on pages 156 to 183 for the year ended 30 June 2003, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995) and section 10G 2(d)(ii) of the Local Government Transition Act, 1993 (Act No. 209 of 1993). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the municipal manager. My responsibility is to express an opinion on these financial statements, based on the audit.

2 NATURE AND SCOPE

Except for the paragraphs relating to the disclaimer, the audit was conducted in accordance with Statements of South African Auditing Standards. These standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters. I believe that the audit provides a reasonable basis for my opinion.

3 QUALIFICATION

3.1 Unreconciled Accounting Records

- (i) Creditors reconciliations. The creditors balance as reflected in the creditors listing, amounted to R28,4 million at year-end. Individual reconciliations between the creditors listing and the creditor statements were not performed in all instances.
- (ii) Unallocated receipts. The total amount of R105,5 million (2002 : R448,4 million) relating to unallocated receipts and payments received in advance as per the debtors' listing, was not cleared at 30 June 2003.
- (iii) Reconciliation of the debtors control account. Reconciliations between the debtors' sub-ledger and the control account were not performed on a monthly basis. The reconciliation performed at year-end indicated that the debtors' sub-ledger exceeded the general ledger with an unexplained amount of R21,0 million.
- (iv) Reconciliation of the sundry debtors control accounts

Reconciliations between the sundry debtors' list-sub-ledger and the various control accounts were not performed on a monthly basis. The reconciliation performed at year-end indicated that the sundry debtors' general ledger exceeded the sub-ledger with an unexplained amount of R15,1 million.

The net effect of the differences noted in paragraphs 3.1(iii) and in 3.1(iv) above amounted to R5,9 million. Subsequently this difference was adjusted against the appropriation account. Although management approved these amounts, mayoral committee and council approval was still outstanding.

- (v) Housing debtors. The reconciliation of the housing debtors' database with the general ledger of the municipality was not performed. The balance as reflected in the general ledger exceeded the listing as per the housing debtors' database by an amount of R8,5 million (2002 : R23,0 million). Subsequently this difference was written off against the provision for doubtful debts. Although management approved these amounts, mayoral committee and council approval was still outstanding. Due to a lack of supporting information, it was not possible to verify the housing debtors' balance of R336,6 million (2002 : R309,8 million), nor was it possible to perform alternative audit procedures.

In addition, the housing debtors' age analysis was R37,7 million less than the debtors listing amount of R336,6 million.

- (iv) Staff debtors. Balances on various staff loans were not reflected in the records of the municipality. Audit was therefore unable to determine the total unrecovered amount in the general ledger.

3.2 Fixed Assets

As reported in the previous year, the fixed asset records held by the municipality in one or the other form had as a whole, been incomplete. In specific instances where they were complete, they were not adequately detailed to allow identification of the physical assets. It was therefore not possible to verify that all the assets of which values were recorded in the balance sheet, were indeed in existence as at 30 June 2003 and that the municipality owned them. Attention is drawn to the following matters of concern relating to the valuation, completeness, existence and accuracy of fixed assets:

- (i) fixed asset registers were incomplete in respect of asset descriptions and locations;
- (ii) no unique asset numbers were allocated to moveable assets;
- (iii) poor controls over the movement of assets existed;
- (iv) the physical verification of assets were hampered by the re-allocation of assets to municipal enterprises and regions;
- (v) title deeds could not be traced to the fixed asset registers and vice-versa;
- (vi) the net fixed assets exceeded the internal advances outstanding by an amount of R558,0 million (2002 : R544,0 million) at year-end. This imbalance arose at the time when the utilities, agencies and corporations (UACs) were established and the reconciliation had not yet been performed;
- (vii) as reported in the previous audit report the Johannesburg Athletic Stadium was capitalised at R194,5 million. The carrying amount of this asset appeared to be excessive as the highest offer for the stadium was R37 million. Furthermore, no evidence was presented to indicate that the municipality has title of the stadium.

It was therefore not possible to verify the valuation, completeness, accuracy and existence of fixed assets.

3.3 Completeness of Revenue

It was not possible to verify the completeness of assessment rates revenue of R2 286,8 million (2002 : R2 081,7 million), refuse removal fees of R264,6 million (2002 : R302,0 million) as well as the consumer debtors of R2 759,4 million (2002 : R1 278,2 million) as a result of the following:

- (i) *Billing for assessment rates and refuse services*
A review of the debtors' billing system indicated that it was not possible to determine whether all areas were billed for assessment rates, as well as domestic refuse services. Furthermore no reconciliation was performed between the rates raised in the billing system and the rates due based on the ratable land value in the valuation roll. It could also not be determined whether the deposits charged on the service accounts of debtors were correctly calculated or whether deposits have been charged on all accounts. It was consequently not possible to verify the completeness and accuracy of deposits amounting to R240,7 million.
- (ii) *Operation of the billing system*
As reported in previous years, the municipality continued to rely on the software suppliers and consultants for the operation of the billing system. Authorisation and monitoring controls to ensure that only valid adjustments were made to the debtors account on the billing system, were not implemented. The municipality, Johannesburg Water, City Power and Pikitup Waste Management shared the billing system. Due to incorrect tariff codes, combined with the manual integration of the billing system to the general ledger, it could not be determined whether amounts billed and receipted were indeed accurately allocated to income and debtors.
- (iii) *Licensing*
As a result of the poor control environment at the municipality as well as the deficiencies in the National Traffic Information System (NATIS) previously reported on, no conclusion could be reached in respect of the completeness of licence fees received amounting to 106,2 million.

(iv) *Emergency services*

As previously reported, the control centres failed to timeously submit emergency ambulance accounts to the finance department for billing purposes, resulting in unnecessary delays in the billing process and possible loss of revenue. No conclusion could therefore be reached in respect of the completeness of emergency fees amounting to R5,4 million.

3.4 Provision for Bad Debts

The provision for bad debts at year-end amounted to R3 001,0 million (2002 : R3 004,5 million) and was not supported by detailed calculations. Furthermore, no adequate policy on doubtful debts provisioning exists for the various debtor categories. Attention is also drawn to paragraphs 3.1 (ii) – (vi) and 3.3 which further impacts on our ability to assess the adequacy of the amount provided for bad debts.

3.5 Amounts Owing Between the Municipality and its Utilities, Agencies and Corporate Entities

As previously reported, final take-on balances for certain utilities, agencies and corporations (UACs) were not supported by signed sale of business agreements and service delivery agreements approved by Council. At 30 June 2003, certain balances outstanding between the municipality and its UACs were not adjusted. Consequently, balances of R24,5 million (debit) and R2,8 million (credit) still required adjustment.

3.6 Amounts owing between the Municipality and Ekurhuleni Metropolitan Municipality

Take-on balances from the former Midrand and Modderfontein local councils, which relate to the Ekurhuleni Metropolitan Municipality, were still reflected in the municipality's books. The balances at year-end consisted of debit balances amounting to R79,2 million and credit balances amounting to R30,1 million. A final Ekurhuleni council resolution has not been passed to confirm these amounts.

3.7 Charges against the Appropriation Account without Council approval

Clean-up adjustments

In the previous report it was reported that blanket approval for write-offs amounting to R1 179,0 million without detailed investigations to validate the recoverability of balances took place. The appropriation account balance included a net credit amount of R766,4 million. This net credit amount related to reversals of adjustments made in the previous year as well as adjustments that could not be substantiated during the current financial year. Although management approved these amounts, mayoral committee and council approval was still outstanding.

3.8 Johannesburg Athletic Stadium long-term debtor

Legal costs amounting to R17,0 million incurred in respect of the stadium was raised as a long-term debtor. No evidence was presented to indicate that this amount was recoverable. Subsequently, this amount was written off against the appropriation account. Although management approved these amounts, mayoral committee and council approval was still outstanding.

3.9 Lack of supporting documentation

(i) *Unsubstantiated amounts*

Various instances were found where supporting documents, information and explanations necessary for the satisfactory completion of the audit could not be presented. A summary of amounts selected for audit, but not substantiated, is as follows:

<i>Journal entries:</i>	<i>R 63,2 million</i>
Rental revenue	R 7,6 million
Regional Service Council Levies	R 3,0 million
Housing short term debtors	R 21,6 million
Appropriation account	R 31,0 million
<i>Sundry revenue:</i>	<i>R 5,4 million</i>
Housing sundry revenue	R 0,1 million
Health subsidy	R 5,1 million
Metro police grant received	R 0,2 million
<i>Debtors:</i>	<i>R 97,5 million</i>
Housing debtors adjustments	R 28,0 million
Housing consumer deposits	R 2,8 million
Licensing	R 66,7 million
<i>Treasury loans</i>	<i>R 13,3 million</i>
Total	<u>R 179,4 million</u>

Subsequently R137,5 million of the above total has been adjusted. Although management approved these amounts, mayoral committee and council approval was still outstanding.

(ii) *Employee information*

Various instances were found where employee files and leave forms could not be provided for audit purposes.

3.10 Retirement Benefits Funding

It was not possible to obtain the actuarial valuations for the various retirement funds to which the staff of the municipality and its utilities, agencies and corporations, contributed. Consequently, the extent of any deficit or surplus relating to these funds could not be ascertained. This uncertainty was further increased as a result of the significant losses incurred by one of the funds. The possible liability relating to staff that transferred to the utilities, agencies and corporations remains the responsibility of the municipality up to 1 January 2001 in terms of the sale of business agreements.

3.11 Bank Reconciliations

The reconciliations relating to the cash collection bank accounts indicated a net amount of R4,5 million of reconciling items which were not cleared at year-end. Reconciliations between the bank statement (balance of Rnil) and the general ledger (debit balances of R1,26 million) for the Licensing and Traffic bank accounts were not performed during the year under review. No separate general ledger accounts existed for Regional Service Council contractors, bank charges and returned to drawer cheque bank accounts. Although these bank accounts have a Rnil balance at year-end, they should still be reconciled for control purposes.

3.12 Interest on Regional Service Council (RSC) Levies

Interest on RSC levies amounting to R154,8 million was not disclosed separately, and was included in the RSC levies income line. Consequently, VAT was incorrectly charged on the interest portion included under RSC levies.

4 DISCLAIMER OF AUDIT OPINION

Because of the significance of the matters referred to in paragraph 3, I do not express an opinion on the financial statements.

5 EMPHASIS OF MATTER

Without further qualifying the audit opinion expressed above, attention is drawn to the following matters:

5.1 Matters affecting the financial statements

5.1.1 *Continuing service delivery standards and performance*

The credit control initiatives of the municipality were noted. However, shortfalls in monthly collections continued as the recoverability was in the region of 80-90 percent of the total billings. Although the income statement reflected a surplus of R78,8 million (2002 : deficit of R2 492,0 million) for the year ended 30 June 2003, cognisance should be taken of the contingent liabilities of R1 120,0 million as per note 24 (d) to the financial statements. The ability of the municipality and its enterprises to continue delivering services would depend on their ability to continue realising surplus of income over expenditure and also to raise and service funds from external parties.

5.1.2 *Unfunded employee benefits*

Included in the amount provided for employee benefits is an unfunded amount of R1 560 million (2002: R1 500 million) determined through an actuarial valuation. The unfunded liability relating to staff who transferred to the utilities, agencies and corporations remains the responsibility of the municipality in terms of the sale of business agreements.

5.1.3 *Long-term debtor*

During the previous financial year a long-term debtor amounting to R80 million was raised in respect of the sale of the municipality's vehicles transferred to the service provider on conclusion of a contract with them. The municipality did not have full supporting documentation to demonstrate how this debt was managed in order to ensure recoverability by its due date.

5.1.4 *Extraordinary grant*

Due to the challenges relating to the supply of water as a basic service, the municipality provided an interest grant of R587,5 million to Johannesburg Water. At the date of this report, mayoral committee and council approval were outstanding.

5.1.5 *Annual financial statement disclosure*

Upon review of the annual financial statements it was noted that the municipality did not comply in various aspects of disclosure in terms of the Institute of Municipal Finance Officers (IMFO) guidelines. The following serve as examples where insufficient disclosure was evident :

- Capital commitments;
- Capital expenditure and financing;
- Details of councillors' remuneration;
- Valuation information relating to assessment rates; and
- Post-balance sheet events.

5.2 Matters not affecting the financial statements

The overall control environment contained weaknesses as presented below.

5.2.1 *Disaster recovery and business continuity planning*

The municipality did not have a formal business continuity plan to address business issues in the event of a disaster. A committee has however been established to compile a business continuity plan. A disaster recovery plan existed for the three major critical systems which was tested during the financial year. Testing will be performed annually with areas of improvement being addressed as they arise.

5.2.2 *Service contracts*

During the preceding three years, the municipality and its former councils entered into various contracts as part of its initiative to improve on its capacity to deliver services. These contracts included, inter alia; debt collection, meter readings, cash collection, treasury function, laser speed and traffic control, fixed red light cameras, fine collection and law enforcement, outsourced fleet, IT systems implementation and many other consulting contracts. While the audit procedures indicated that valid invoices/fee notes supported the payments made to the service providers, I was unable to ascertain whether in all instances value was received. This will be reported on by performance audit as refer to in paragraph 7.

5.2.3 *Overall Information Technology (IT) control environment*

A review of the municipality's Risk Assurance Services' reports indicated that the control environment continued to be weak as in the previous year. Some of the more significant findings include the following:

- Poor password management and certain configuration settings exposed one of the databases to vulnerabilities that could be exploited to manipulate information.
- A number of shortcomings and weaknesses were identified relating to electronic mail security, access to the mail servers and the uploading of anti-virus software on desktop computers.
- Internal penetration testing highlighted that a combination of weak password controls and multiple vulnerabilities in various configuration settings were responsible for the compromise of a number of servers and workstations which stored sensitive data.
- The Information Security Controls Document for the municipality described various security controls that were not fully implemented on some of the production servers.
- A high level review of the sundry debtors' system identified certain significant control weaknesses.
- A number of weaknesses and shortcomings were identified relating to the Change Management Policy and Procedures, the End User Computing Process and the IT Acquisition Policy and Procedures.
- An IT Standard, Policy and Procedures document (SPP) was in place for the municipality which was supported by an IT Security Control guideline document. Although the content of the SPP was adequate, the policy was not approved by the council. The last review of the IT Security Control guideline was performed on 30 May 2001 and this needs to be updated.
- Shortcomings were identified relating to IT problems and incident management. The results of the review reflected inadequately defined Problem Resolution Timeframes per the service level agreement. The review also highlighted the re-occurrence of resolved problems.
- A high level review of the human resource data migration to a new software version indicated that reliance could not be placed on the accuracy of the master data that was in the new system.
- Significant control weaknesses in certain process activities were identified relating to logical access controls in the Venus expenditure environment. Although certain mitigating controls were in place, significant improvements are required to adequately safeguard the municipality against any material exposure.

As at year-end certain of the above-mentioned shortcomings have already been addressed by the municipality. These corrective measures will be reviewed during the 2003/04 audit.

5.2.4 *Computer system access controls*

During our audit it was identified that access controls were not functioning effectively during the financial year as senior finance personnel have access to financial information of regions and core functions. Senior finance personnel could therefore pass entries or adjustments in the general ledger of another region or core function. This resulted in accounting entries being made without, in some instances, advising the region or core function concerned and supplying them with the relevant supporting documentation.

Cashiers' passwords were, in some instances, set up on all cash collection machines. This resulted in a cashier being able to log into several computers simultaneously.

5.2.5 *General ledger reconciliations*

General ledger reconciliations were not always performed on a monthly basis. In the absence of performing monthly reconciliations, errors or differences could not be detected timeously for follow-up and correction.

5.2.6 *Risk Assurance Services' reports*

The Risk Assurance Services department issued reports on RSC levies, revenue (billing) and cash management that highlighted significant control weaknesses.

5.2.7 *Reporting Requirements*

It should be mentioned that this report is in respect of the annual financial statements of the City of Johannesburg Metropolitan Municipality and its 11 regions and excludes any representation or audit opinion in respect of the wholly owned Utilities, Agencies and Corporatised entities.

The audits of these institutions have been carried out separately by various audit firms appointed in terms of the Companies Act. A consolidated audit opinion for the City of Johannesburg Metropolitan Municipality in its entirety can only be expressed once the financial position of the 12 Utilities, Agencies and Corporatised entities have been consolidated into the financial statements of the Municipality.

The consolidation process could not be carried out in the current financial year as the financial statements of the municipality were prepared in terms of the guidelines of the Institute of Municipal Finance Officers while the statements of the Utilities, Agencies and Corporatised entities were prepared in terms of South African Generally Accepted Accounting Practice principles.

The municipality is going to adopt Generally Accepted Municipal Accounting Practices (GAMAP) with effect from the 2003/04 financial year and will then prepare group annual financial statements.

6 ENVIRONMENTAL AUDITING

The municipality has requested this Office to perform an overall analysis of the environmental risks prevalent at the municipality, which will form the basis for an environmental audit to be conducted in the 2003/04 financial year. The environmental audit will mainly consist of identifying the key crosscutting risk areas and what laws, policies and systems are in place to manage the environmental risks. A separate report in this respect will be issued to the municipality if deemed necessary.

7 PERFORMANCE AUDITING

A performance audit covering specific pay-roll related issues as well as the effective utilisation of suppliers at the municipality was conducted during the current financial year. A separate audit report to this effect will be issued by this Office's Performance Audit Component.

8 AUDIT ON PERFORMANCE OF THE MUNICIPALITY

An audit on the municipality's performance according to section 46(1) of the Local Government Municipal Systems Act, 2000 (Act No 32 of 2000) is in the process of being conducted and a report to this effect will be issued in due course.

9 APPRECIATION

The assistance rendered by the staff of the municipality during the audit is sincerely appreciated.

S A FAKIE

Auditor-general

Johannesburg 2003

FINANCIAL INFORMATION ON UAC'S

INCOME STATEMENTS

for the period ended 30 June 2003

	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
	Jhb Dev	Metro	Jhb Roads	Civic	Jhb	City	Jhb	Metro-		City	Jhb	Piki
	Agency	TC	Agency	Theatre	Propcom	Parks	Zoo	bus	JFPM	Power	Water	Tup
Income												
Revenue		3,318		6,338			5,681	58,794	99,947	2,648,268	2,036,883	
Cost of sales										1,642,752	1,069,972	
Gross profit	-	3,318	-	6,338	-	-	5,681	58,794	99,947	1,005,516	966,911	-
Subsidies and Other income	7,368	5,285	328,736	20,739	20,585	271,781	23,863	158,428	427	64,119	293,369	547,782
	7,368	8,603	328,736	27,077	20,585	271,781	29,544	217,222	100,374	1,069,635	1,260,280	547,782
Interest received	11,684	1,379	10,360	1,804	85	3,520	289	25	7,949	106,940	8,853	-
Total income	19,052	9,982	339,096	28,881	20,670	275,301	29,833	217,247	108,323	1,176,575	1,269,133	547,782
Expenditure												
Salaries and personnel expenditure		2,896		10,748	9,106		14,881	94,918	22,292	352,263	286,476	238,947
Administrative overheads		3,113	334,874	1,212	1,390	270,875	3,063	86,464	12,193			
Marketing expenditure				1,307			697					
Operational expenditure	18,609	4,669		12,664	9,832		12,398	(11,021)	24,637	392,750	785,752	285,785
Depreciation and amortisation	220		2,554	1,967	310	4,418	770	37,731	11,975	110,333	153,818	14,004
Impairment loss		82,519										
Total operating expenditure	18,829	93,197	337,428	27,898	20,638	275,293	31,809	208,092	71,097	855,346	1,226,046	538,736
Operating income	223	(83,215)	1,668	983	32	8	(1,976)	9,155	37,226	321,229	43,087	9,046
Interest paid							71	45,719	18,423	237,811	247,238	8,526
To Council									16,210	237,811	247,238	
Other							71	45,719	2,213			8,526
Net profit before tax	223	(83,215)	1,668	983	32	8	(2,047)	(36,564)	18,803	83,418	(204,151)	520
Taxation	261	-	633	(422)	46	-	-	4,088	6,024	19,141	(10,112)	(5,055)
Net surplus (deficit) for the year	(38)	(83,215)	1,035	1,405	(14)	8	(2,047)	(40,652)	12,779	64,277	(194,039)	5,575
Prior year adj						7,572						
Retained income at the beginning of the year	(144)	(2,193)	5,324	8,973	(808)	7,638	2,962	82	(600)	(21,071)	(33,074)	(3,602)
Extraordinary item												
Transfers from NDR				985			(2,370)					
Retained income / (deficit) at year end	(182)	(85,408)	6,359	11,363	(822)	15,218	(1,455)	(40,570)	12,179	43,206	(227,113)	1,973

BALANCE SHEETS

at 30 June 2003

	R'000 Jhb Dev Agency	R'000 Metro TC	R'000 Jhb Roads Agency	R'000 Civic Theatre	R'000 Jhb Propcom	R'000 City Parks	R'000 Jhb Zoo	R'000 Metro- bus	R'000 JFPM	R'000 City Power	R'000 Jhb Water	R'000 Piki Tup
Assets												
Non-current assets	57,508	65,011	14,935	8,990	1,485	13,542	8,544	315,768	137,029	1,549,448	1,577,341	127,988
Property, plant and equipment	1,508	65,011	14,935	8,990	1,147	13,542	8,544	315,007	94,900	1,258,275	1,528,182	122,698
Loans Redeemed and capital receipts												
Work in progress												
Investments	56,000											
Long-term debtors												
Deferred charges												
Intangible assets					65			761	41,216	291,173	49,159	
Furniture and fixtures												
Motor vehicles												
Office equipment												
Deferred tax asset					273				913			5,290
Current assets	105,866	10,653	170,332	9,591	2,401	85,587	1,452	41,938	55,070	954,020	1,556,784	107,442
Inventory			561	31				8,261		30,564	19,371	1,627
Accounts receivable	1,138	1,258	75,650	1,564	824	39,124	1,451	5,527	13,678	489,788	652,259	105,815
Amounts due by associate company										36,807		
Amounts due by shareholder					828			28,125			885,154	
Receiver of Revenue – VAT		570										
Cash balances	104,728	8,825	94,121	7,996	749	46,463	1	25	41,392	396,861		
Total assets	163,374	75,664	185,267	18,581	3,886	99,129	9,996	357,706	192,099	2,503,468	3,134,125	235,430
Equity and liabilities												
Capital and reserves	16,100	(16,505)	6,360	13,533	(821)	15,218	(1,455)	478	32,179	155,672	(227,111)	38,866
Share capital			1		1					112,466	1	1
Share premium	16,282	68,903						41,048	20,000			
Distributable reserves												
Non-distributable reserves				2,170								
Deposits												
Grants												36,892
Trf from/(to) reval reserve												
Retained income / (deficit)	(182)	(85,408)	6,359	11,363	(822)	15,218	(1,455)	(40,570)	12,179	43,206	(227,112)	1,973
Non-current liability	56,000	86,085	9,595	–	–	17,259	1	265,252	102,393	1,524,165	1,939,287	82,083
Shareholder's loan	56,000	2,000	2,630			17,259	1		102,000			10,000
Loan from shareholder												
Conduit Mirror Loan			6,965							708,038	1,113,743	72,083
Subordinated shareholder loan										624,793	649,923	
Deferred income										191,334	175,621	
Long term liability		84,085						265,252	393			
Deferred tax				930						174,836		
Current liabilities	91,274	6,084	169,312	4,118	4,707	66,652	11,450	91,976	57,527	648,795	1,421,949	114,481
Accounts payable	8,067	6,084	92,605	3,303	4,014	50,425	3,410	55,881	32,464	463,952	401,382	89,258
Project funds – Development companies	37,531											
Project funds – Other	45,415											
Provisions				815	693	16,227	934			81,428	12,816	16,974
Amounts due to shareholder			31,655					12,486	11,377		892,481	
Current portion of shareholder loan									6,000		75,066	
Current portion of LTL								20,238	3,213	103,032		
Current tax liabilities	261		2,957						4,473	383	40,204	
Deferred income												
Bank overdraft			42,095				7,106	3,371				8,249
Total equity and liabilities	163,374	75,664	185,267	18,581	3,886	99,129	9,996	357,706	192,099	2,503,468	3,134,125	235,430

CASH FLOW STATEMENTS

for the year ended 30 June 2003

	R'000 Jhb Dev Agency	R'000 Metro TC	R'000 Jhb Roads Agency	R'000 Civic Theatre	R'000 Jhb Propcom	R'000 City Parks	R'000 Jhb Zoo	R'000 Metro- bus	R'000 JFPM	R'000 City Power	R'000 Jhb Water	R'000 Piki Tup
Cash Retained/(Utilised) from												
Operating Activities	8 080	11 895	(33 894)	1 596	678	12 696	(2 534)	24 223	3 848	436 914	12 138	(21 501)
Cash Generated by Operations	(3 604)	10 517	(44 254)	(208)	593	12 696	(2 752)	69 916	9 457	661 106	250 522	28 444
Investment Income										85 152		
Interest Received	11 684	1 379	10 360	1 804	85		289	25	7 949			
Changes in Working Capital												(41 419)
Cash Generated by												
Operating Activities	8 080	11 895	(33 894)	1 596	678	12 696	(2 463)	69 941	17 406	746 258	250 522	(12 975)
Interest Paid							(71)	(45 718)	(8 665)	(248 344)	(238 384)	(8 526)
Taxation Paid									(4 893)	(61 000)		
Cash Utilised in Investing Activities	(31 259)	(29 621)	(8 609)	(3 168)	(763)	(12 076)	(6 483)	(4 570)	(11 877)	(417 130)	(233 237)	(18 974)
Replacement of and												
Addition to Capital Assets	(1 259)	(29 621)	(9 384)	(3 207)	(746)	(12 076)	(6 483)	(1 852)	(11 877)	(369 070)	(311 297)	(19 028)
Write off of Work in Progress												
Assets Revaluation Transfer			624									
Net Grants Received to											77 451	
Fund Capital Expenditure												
Proceeds on disposal of fixed assets			151	39						24 597	609	54
Increase in Investments	(30 000)											
Acquisition of Intangible Assets					(17)			(2 718)				
Acquisition of business										(72 657)		
Net cash flow	(23 179)	(17 725)	(42 503)	(1 572)	(85)	620	(9 017)	19 653	(8 029)	19 784	(221 099)	(40 475)
Cash effects of Financing Activities	(1 951)	25 259	(22 368)	-	-	11 003	7 106	(17 199)	(9 213)	(50 082)	221 088	45 398
Net Increase in Deferred Income										75 204		
Net(Decrease)/Increase in										(66 448)		
Conduit Minor Loans												
Net (Decrease)/Increase in												
Loan from Shareholder	23 740					11 003				(58 838)	221 088	18 014
Net Repayment of Interest												
Bearing Borrowings			(29 700)					(14 400)	(3 213)			
Increase/(Decrease) in long term loans		25 259	7 332						(6 000)			27 384
Increase/(Decrease) in Investments								(2 799)				
Movement in Member Current account							7 106					
Proceeds from Issue of Share Capital												
Increase in Share Premium	12 792											
(Decrease)Increase in												
Project Funds-Develop Coys												
Increase in Project Funds – Other	(58 312)											
Cash contributions toward												
investment in	19 829											
Capital Assets												
(Increase)/decrease in cash	(25 130)	7 534	(64 871)	(1 572)	(85)	11 623	(1 911)	2 454	(17 242)	(30 298)	(11)	4 923
Net cash utilised	(25 130)	7 534	(64 871)	(1 572)	(85)	11 623	(1 911)	2 454	(17 242)	(30 298)	(11)	4 923
Cash and Cash equivalents												
at beginning of year	129 857	1 291	116 897	9 568	834	34 840	3 006	(5 798)	58 633	427 159	11	(13 170)
Cash and Cash Equivalents												
at end of year	104 727	8 825	52 026	7 996	749	46 463	1 095	(3 344)	41 391	396 861	-	(8 247)

REPORTS OF THE INDEPENDENT AUDITORS OF THE UAC'S

The following is the text of the report of the independent auditors of City Power Johannesburg (Proprietary) Limited in relation to the audited financial statements of City Power Johannesburg (Proprietary) Limited for the year ended 30 June 2003. References to page numbers are to the page numbers as they appear in the annual financial statements of City Power Johannesburg (Proprietary) Limited as at and for the year ended 30 June 2003.

TO THE MEMBER OF THE CITY POWER JOHANNESBURG (PROPRIETARY) LIMITED

We have audited the annual financial statements of the City Power Johannesburg (Pty) Ltd set out on pages 10 to 30 for the year ended 30 June 2003. These financial statements are the responsibility of the company's services. Our responsibility is to express an opinion on these financial statements based on our audit.

SCOPE

Except as discussed in the following paragraph, we conducted our audit in accordance with Statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

QUALIFICATION

As indicated in the directors' report, the company is dependant on the City of Johannesburg for raising a substantial portion of the company's revenue and the resultant cash collections. The billing system and control procedures at the City of Johannesburg have significant weaknesses in respect of authorisation, monitoring controls and the manual integration to the general ledger. As a result of these weaknesses, the auditors have disclaimed an opinion on the annual financial statements of the City of Johannesburg for the year ended 30 June 2003. Accordingly, we were unable to satisfy ourselves as to the completeness of revenue and the existence and accuracy of accounts receivable administered by the City of Johannesburg.

DISCLAIMER OF AUDIT OPINION

Because of the significance of the matter discussed in the preceding paragraph, we do not express an opinion on the annual financial statements.

KPMG Inc.

Registered Accountants and Auditors

Chartered Accountants (SA)

2 December 2003

The following is the text of the report of the independent auditors of the Johannesburg Metropolitan Bus Services (Proprietary) Limited in relation to the audited financial statements of the Johannesburg Metropolitan Bus Services (Proprietary) Limited for the year ended 30 June 2003. References to page numbers are to the page numbers as they appear in the annual financial statements of Johannesburg Metropolitan Bus Services (Proprietary) Limited as at and for the year ended 30 June 2003.

TO THE MEMBER OF THE JOHANNESBURG METROPOLITAN BUS SERVICES (PROPRIETARY) LIMITED

We have audited the annual financial statements of the Johannesburg Metropolitan Bus Services (Pty) Ltd set out on pages 10 to 35 for the year ended 30 June 2003. These financial statements are the responsibility of the company's services. Our responsibility is to express an opinion on these financial statements based on our audit.

SCOPE

We conducted our audit in accordance with South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

QUALIFICATION

A provision for the full liability of the company's portion of post retirement medical and other employee related benefits has not been made in these financial statements. The liability for these benefits up to the date of acquisition of the business by the company from the City of Johannesburg, has been assumed by the City. The liability since the date of acquisition is that of the company. No actuarial valuation has been undertaken to ascertain the extent of the above liabilities. (Note 23 and 24)

QUALIFIED AUDIT OPINION

In our opinion, except for the effect if any of the item noted above, these financial statements fairly represent, in all material respects, the financial position of the company at 30 June 2003 and the results of its operations, changes in equity and cash flows for the year then ended in accordance with Statements of Generally Accepted Accounting Practice in South Africa and in the manner required by the South African Companies Act.

EMPHASIS OF MATTERS

Without qualifying our opinion above, we draw attention to the following:

- The existence of the company as a going concern is dependent on the continued support of revenues by way of subsidies from its sole shareholder, the City of Johannesburg (Note 22).
- Freehold land and building to the value of R12 290 000,00 purchased from the City of Johannesburg in terms of the sale of business agreement dated 15 November 2001 have not as yet been transferred into the name of the company (Note 2).

PricewaterhouseCoopers Inc.

Chartered Accountants (SA)

Registered Accountants and Auditors

Johannesburg

23 September 2003

The following is the text of the report of the independent auditors of the Johannesburg Civic Theatre (Proprietary) Limited in relation to the audited financial statements of the Johannesburg Civic Theatre (Proprietary) Limited for the year ended 30 June 2003. References to page numbers are to the page numbers as they appear in the annual financial statements of the Johannesburg Civic Theatre (Proprietary) Limited as at and for the year ended 30 June 2003.

TO THE SHAREHOLDER OF THE JOHANNESBURG CIVIC THEATRE (PROPRIETARY) LIMITED

We have audited the annual financial statements of The Johannesburg Civic Theatre (Proprietary) Limited set out on pages 4 to 14 for the year ended 30 June 2003. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

SCOPE

We conducted our audit in accordance with Statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

AUDIT OPINION

In our opinion, the financial statements fairly represent, in all material respects, the financial position of the company at 30 June 2003 and the results of its operations and cash flows for the year ended in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act in South Africa.

SUPPLEMENTARY INFORMATION

The supplement schedules set out on page 15 to 16 do not form part of the annual financial statements and are presented as additional information. We have not audited these schedules and accordingly we do not express an opinion on them.

Sizwe Ntsaluba VSP Inc.

Chartered Accountants (SA)

Registered Accountants and Auditors

Johannesburg

23 September 2003

The following is the text of the report of the independent auditors of the Joburg Property Company (Proprietary) Limited in relation to the audited financial statements of the Joburg Property Company (Proprietary) Limited for the year ended 30 June 2003. References to page numbers are to the page numbers as they appear in the annual financial statements of Joburg Property Company (Proprietary) Limited as at and for the year ended 30 June 2003.

TO THE MEMBERS OF THE CITY OF JOBURG PROPERTY COMPANY (PROPRIETARY) LIMITED

We have audited the annual financial statements of the City of Joburg (Property) Company (Proprietary) Limited set out on pages 12 to 27 for the year ended 30 June 2003. These annual financial statements are the responsibility of the company's directors. Our responsibility is to express a opinion of these annual financial statements based on our audit.

SCOPE

We conducted our audit in accordance with Statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

AUDIT OPINION

In our opinion, these financial statements fairly represent, in all material respects, the financial position of the company at 30 June 2003 and the results of its operations and cash flows for the year then ended in accordance with Statements of Generally Accepted Accounting Practice in South Africa and in the manner required by the South African Companies Act.

EMPHASIS OF MATTER

We also draw attention to the following:

Going concern

- The existence of the company as a going concern is dependent on the continued support of revenues by way of management fees from its sole shareholder, the City of Johannesburg (Note 20).

Registration as estate agent

- The nature of the business of the company requires it to register as an estate agent in order to comply with the rules and regulations of the Estate Agency Affairs Act, 1976 (Act No. 112 of 1976). In terms of this Act, all the directors needs to be registered with the Estate Agents Board and the company is required to obtain appropriate fidelity cover. In order for the directors to qualify for registration, they need to comply with certain requirements of the Estate Agency Affairs Act, 1976. To date, none of the directors have been registered with the Estate Agents Board and the company does not have any fidelity cover.

PricewaterhouseCoopers Inc.

Chartered Accountants (SA)

Registered Accountants and Auditors

Johannesburg

19 September 2003

The following is the text of the report of the independent auditors of the Johannesburg Zoo in relation to the audited financial statements of the Johannesburg Zoo for the year ended 30 June 2003. References to page numbers are to the page numbers as they appear in the annual financial statements of the Johannesburg Zoo as at and for the year ended 30 June 2003.

TO THE MEMBERS OF THE JOHANNESBURG ZOO

We have audited the annual financial statements of the Johannesburg Zoo set out on pages 12 to 27 for the year ended 30 June 2003. These annual financial statements are the responsibility of the company's directors. Our responsibility is to express a opinion of these annual financial statements based on our audit.

SCOPE

We conducted our audit in accordance with Statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

QUALIFICATION

As stated in Note 8 to the financial statements, trade creditors were understated by R2 370 168 in prior periods. Due to the ineffective system of internal control present at the Johannesburg Zoo in prior periods, the value of creditors was not determinable. Upon the improvement of the control environment, the understatement was determined, however the composition of the amount is not ascertainable and consequently, the validity of this expenditure could not be determined.

The company operates a defined benefit retirement plan for the benefit of all employees. The City of Johannesburg Metropolitan Council has performed no actuarial valuation as at 1 January 2001 and the company has performed no actuarial valuation as at 30 June 2003. We are therefore unable to determine the extent of the company's obligations in respect of this defined benefit retirement plan, as required by AC 116 Employee Benefits.

QUALIFIED AUDIT OPINION

In our opinion, except for the effect on the financial statements of the matters referred to in the preceding paragraph, the financial statements fairly represent, in all material respects, the financial position of the company at 30 June 2003 and the results of its operations and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act in South Africa.

EMPHASIS OF MATTER

Without further qualifying our opinion, we draw your attention to the following matters:

- The ability of The Johannesburg Zoo to continue as a going concern is dependent upon further funding from the Johannesburg City Council.
- Assets are considered to be fairly valued, with the exception of the animals that are reflected at R1. The value of these animals is extremely difficult to determine and consequently the total animal value has not been reflected in the balance sheet.
- The Johannesburg Zoo is a Section 32 company and is in the process of applying to be classified as a Public Benefit Organisation and hence no taxation has been provided for. In the event that this application is unsuccessful, further adjusting entries may be probable.

SUPPLEMENTARY INFORMATION

The supplementary schedules set out on pages 19 and 20 do not form part of the annual financial statements and are presented as additional information. We have not audited these schedules and accordingly we do not express an opinion on them.

Sizwe Ntsaluba VSP

Chartered Accountants (SA)

Registered Accountants and Auditors

Woodmead

12 November 2003

The following is the text of the report of the independent auditors of the Johannesburg Roads Agency (Proprietary) Limited in relation to the audited financial statements of the Johannesburg Roads Agency (Proprietary) Limited for the year ended 30 June 2003. References to page numbers are to the page numbers as they appear in the annual financial statements of the Johannesburg Roads Agency (Proprietary) Limited as at and for the year ended 30 June 2003.

TO THE MEMBER OF JOHANNESBURG ROADS AGENCY (PROPRIETARY) LIMITED

We have audited the annual financial statements of Johannesburg Roads Agency (Proprietary) Limited set out on pages 5 to 28 for the year ended 30 June 2003. These annual financial statements are the responsibility of the company's directors. Our responsibility is to express a opinion of these annual financial statements based on our audit.

SCOPE

We conducted our audit in accordance with Statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

AUDIT OPINION

In our opinion, these financial statements fairly present, in all material respects, the financial position of the company at 30 June 2003 and the results of its operations and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Companies Act in South Africa.

EMPHASIS OF MATTER

Going concern

The financial statements have been prepared on the basis of accounting practices 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 and commitments will occur in the ordinary course of business. The ability of the company to continue as a going concern depends on the ability of the company to continue profitable operations, and the continued support of the City of Johannesburg.

SUPPLEMENTARY INFORMATION

The supplementary information set out on pages 29 to 31 do not form part of the annual financial statements and are presented as additional information. We have not audited these schedules and accordingly do not express an opinion on them.

KPMG Inc.

Registered Accountants and Auditors

Chartered Accountants (SA)

Pretoria

14 October 2003

The following is the text of the report of the independent auditors of Johannesburg City Parks in relation to the audited financial statements of Johannesburg City Parks for the year ended 30 June 2003. References to page numbers are to the page numbers as they appear in the annual financial statements of Johannesburg City Parks as at and for the year ended 30 June 2003.

TO THE MEMBER OF JOHANNESBURG CITY PARKS

We have audited the annual financial statements of the Johannesburg City Parks set out on pages 10 to 28 for the year ended 30 June 2003. These annual financial statements are the responsibility of the company's directors. Our responsibility is to express a opinion of these annual financial statements based on our audit.

SCOPE

We conducted our audit in accordance with Statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

QUALIFICATION

The company operates a defined benefit retirement plan for the benefit of all employees. The City of Johannesburg Metropolitan Council has performed no actuarial valuation as at 1 January 2001 and the company has performed no actuarial valuation as at 30 June 2003. We are therefore unable to determine the extent of the company's obligations in respect of this liability at year-end. Consequently, we have been unable to obtain all the disclosure requirements in respect of this defined benefit retirement plan, as required by AC 116 which deals with Employee Benefits.

QUALIFIED AUDIT OPINION

In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, the financial statements fairly represent, in all material respects, the financial position of the company at 30 June 2003 and the results of its operations and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner require by the Companies Act in South Africa.

Sizwe Ntsaluba VSP

Chartered Accountants (SA)

Registered Accountants and Auditors

Woodmead

27 October 2003

The following is the text of the report of the independent auditors of Johannesburg Development Agency (Proprietary) Limited in relation to the audited financial statements of Johannesburg Development Agency (Proprietary) Limited for the year ended 30 June 2003. References to page numbers are to the page numbers as they appear in the annual financial statements of Johannesburg Development Agency (Proprietary) Limited as at and for the year ended 30 June 2003.

TO THE MEMBERS OF JOHANNESBURG DEVELOPMENT AGENCY (PROPRIETARY) LIMITED

We have audited the annual financial statements of the Johannesburg Development Agency (Proprietary) Limited set out on pages 4 to 12 for the year ended 30 June 2003. These annual financial statements are the responsibility of the company's directors. Our responsibility is to express a opinion of these annual financial statements based on our audit.

SCOPE

We conducted our audit in accordance with Statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

AUDIT OPINION

In our opinion the financial statements fairly present, in all material respects the financial position of the company at 30 June 2003 and the results of cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Companies Act in South Africa.

GOBODO Incorporated

Chartered Accountants (SA)

Registered Accountants and Auditors

Johannesburg

23 September 2003

The following is the text of the report of the independent auditors of Metropolitan Trading Company (Proprietary) Limited in relation to the audited financial statements of Metropolitan Trading Company (Proprietary) Limited for the year ended 30 June 2003. References to page numbers are to the page numbers as they appear in the annual financial statements of Metropolitan Trading Company (Proprietary) Limited as at and for the year ended 30 June 2003.

TO THE MEMBERS OF METROPOLITAN TRADING COMPANY (PROPRIETARY) LIMITED

We have audited the annual financial statements of Metropolitan Trading Company (Proprietary) Limited set out on pages 11 to 23 for the year ended 28 February 2003. These annual financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion of these annual financial statements based on our audit.

SCOPE

We conducted our audit in accordance with Statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

AUDIT OPINION

In our opinion, the financial statements fairly represent in all material respects, the financial position of the company at 28 February 2003 and the results of the operations and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act in South Africa.

KPMG Inc.

Registered Accountants and Auditors

Chartered Accountants (SA)

Pretoria

22 August 2003

The following is the text of the report of the independent auditors of the Johannesburg Fresh Produce Market (Proprietary) Limited in relation to the audited financial statements of the Johannesburg Fresh Produce Market (Proprietary) Limited for the year ended 30 June 2003. References to page numbers are to the page numbers as they appear in the annual financial statements of Johannesburg Fresh Produce Market (Proprietary) Limited as at and for the year ended 30 June 2003.

TO THE MEMBER OF THE JOHANNESBURG FRESH PRODUCE MARKET (PROPRIETARY) LIMITED

We have audited the annual financial statements of the Johannesburg Fresh Produce Market (Pty) Ltd set out on pages 10 to 35 for the year ended 30 June 2003. These financial statements are the responsibility of the company's services. Our responsibility is to express an opinion on these financial statements based on our audit.

SCOPE

We conducted our audit in accordance with South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

QUALIFICATION

Post retirement benefits

The provision for the full liability of the company's portion for post retirement medical and other employee related benefits (including shortfalls, if any, arising from pension funds) have not been made in these financial statements. The liability for those benefits up to the date of acquisition of the business by the company from the City of Johannesburg has been assumed by the City of Johannesburg. The liability since the date of acquisition is that of the company's. No actuarial valuation has been undertaken to ascertain the extent of the above liabilities (Notes 20 and 21). The company is dependent on the City of Johannesburg performing this valuation up to the date of acquisition.

Qualified audit opinion

In our opinion, except for the effects, if any, of the item noted above, these financial statements fairly represent in all material respects, the financial position of the company at 30 June 2003 and the results of its operations, changes inequity and cash flows for the year then ended in accordance with Statements of Generally Accepted Accounting Practice in South Africa and in the manner required by the South African Companies Act.

EMPHASIS OF MATTER

We also draw attention to the following:

Freehold land and buildings

- Freehold land and buildings to the value of R77,582,957 purchased from the City of Johannesburg in terms of the sale of business agreement dated 3 July 2000 and subsequent amendments dated 23 May 2003, is in the process of being transferred into the name of the company (Note 2).

PricewaterhouseCoopers Inc.

Chartered Accountants (SA)

Registered Accountants and Auditors

Johannesburg

23 September 2003

SOUTH AFRICAN TAXATION

The information contained below is intended to be a general guide to the relevant tax laws of the RSA as at the date of this Offering Circular and is not intended as comprehensive advice and does not purport to describe all of the considerations that may be relevant to a prospective purchaser of the Bonds. Prospective purchasers of the Bonds should consult their own professional advisors in regard to the purchase of Bonds and the tax implications thereof. Accordingly, the Issuer and its advisors make no representation and give no warranty or undertaking, express or implied, and accept no responsibility for the accuracy or completeness of the information contained in this section.

All capitalised terms in this Section, "**South African Taxation**" are defined in the Terms and Conditions unless separately defined herein.

For purposes of this Section, a "**Resident**" means a person who or which is a "resident" as defined in the Income Tax Act, 1962, as amended ("Income Tax Act") and "**Taxes**" means any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by, or on behalf of, the RSA, whether in terms of the Income Tax Act or in terms of any other legislation.

INTEREST

Persons liable for tax in South Africa

The South African income tax system has in the past primarily been a source-based system. With effect from years of assessment commencing on or after 1 January 2001, however, Residents are, subject to certain exemptions, taxed on their worldwide income. Any interest in respect of the Bonds will be liable to Taxes imposed or assessed by the South African Revenue Services ("**SARS**") if such interest is received by or accrues to any person who is a Resident irrespective of his domicile. In addition, a person other than a Resident is taxed on income from a source within or deemed to be within South Africa unless that person is exempt from tax in South Africa as set out above.

Natural Persons who are resident in South Africa

A natural person who was not at any time during the year of assessment in question ordinarily resident in South Africa will nonetheless, in the absence of a double taxation agreement between South Africa and the foreign jurisdiction in question, be a Resident for tax purposes if such person was physically present in South Africa for at least 91 (ninety one) days in that year and was, during the 3 (three) preceding years, present in South Africa for at least 91 (ninety one) days in each year and for 549 (five hundred and forty nine) days in aggregate during such 3 (three) preceding years.

Persons other than natural persons who are residents in South Africa

A person other than a natural person is a Resident if it is incorporated, established or formed in South Africa or has its place of effective management in South Africa (as defined in the Income Tax Act).

With respect to a Controlled Foreign Company, a proportionate amount of the net income of the Controlled Foreign Company will also be included in the income of such Residents subject to certain exclusions.

Non-Residents

Non-Residents of South Africa presently enjoy the benefit of an exemption from South African tax on their interest income, unless one of the disqualifications set out in "Persons who will be exempt from tax in South Africa" below applies.

Persons who will be exempt from tax in South Africa

Any person who is not a Resident will be exempt from any Taxes imposed by SARS on any interest paid or accrued in respect of the Bonds. (A person who is a resident of the Common Monetary Area (as defined in section 11 of the Income Tax Act) is deemed to be a Resident for the purposes of this exemption). However, this exemption will **not** apply where:

- (i) the person, who is a natural person, was a Resident at any time and has during the relevant year of assessment carried on business in South Africa; or
- (ii) any person who is a natural person and who was not physically absent from South Africa for a period or periods of at least 183 (one hundred and eighty three) days in aggregate during the year of assessment in question; or
- (iii) the interest is received by or accrues to any person which is a non-resident company and that interest is effectively connected with the business carried on by that company in South Africa.

A natural person not ordinarily resident in the country, is not considered to be a Resident where that person is physically absent from South Africa for a continuous period of 330 (three hundred and thirty) days. Such person is deemed not to have been a Resident from the day on which such person ceases to be physically present in South Africa.

NATURE OF THE DISCOUNT ON ORIGINAL ISSUE OF THE BONDS

Insofar as the Bonds are issued at a discount (by having regard to the difference between the subscription price and the face value thereof), the discount will be treated as interest for tax purposes, and the discount amount will be deemed to accrue to the Bondholder on a yield to maturity basis until the current Bondholder disposes of the Bond or until maturity of the Bond, whichever occurs first. Interest is taxed on the basis of the yield to maturity unless an election has been made to treat the Bonds held as trading stock on a mark-to-market basis.

CAPITAL GAINS

Tax on capital gains was introduced in South Africa with effect from 1 October 2001. Tax on capital gains applies to any capital gains earned on the disposal or deemed disposal of an asset by Residents, as well as to any capital gain resulting from the disposal or deemed disposal of certain assets of non-residents which are situated in South Africa (such as immovable property and assets of a permanent establishment, (such as a branch or agency) of that non-resident in South Africa). In the case of natural persons, 25% (twenty five percent) of the taxable capital gain will be taxed at the applicable marginal rate (the effective rate will range from 0% (zero percent) to 10% (ten percent)). In the case of companies, 50% (fifty percent) of the taxable capital gain will be liable to tax at the corporate flat rate of 30% (thirty percent), and hence the effective rate will amount to 15% (fifteen percent).

STAMP DUTY AND UNCERTIFICATED SECURITIES TAX

In terms of the Stamp Duties Act, 1968, no stamp duty is payable on the issue or transfer of Bonds qualifying as "interest-bearing debentures" if such Bonds are listed on any stock exchange licensed in terms of the Stock Exchanges Control Act, 1985 or listed on any financial exchange (including BESA) licensed in terms of the Financial Markets Control Act, 1989. In terms of the Uncertificated Securities Tax Act, 1998, no uncertificated securities tax is payable on the issue or transfer of Beneficial Interests in Bonds listed on any stock exchange licensed in terms of the Stock Exchanges Control Act, 1985, or listed on any financial exchange (including BESA) licensed in terms of the Financial Markets Control Act, 1989.

SUBSCRIPTION AND SALE OF THE BONDS

SUBSCRIPTION AGREEMENT

Barclays has, pursuant to a subscription agreement entered into with COJ effective from 30 June 2004 (the “**Subscription Agreement**”) agreed to subscribe for or procure subscriptions for the Bonds at an issue price equal to the face value of each Bond. Barclays is entitled to terminate the Subscription Agreement in certain circumstances prior to the issue of the Bonds. The Issuer has agreed to indemnify Barclays against certain liabilities in connection with the offer of and subscription for the Bonds.

In accordance with the terms of the Subscription Agreement, the Bonds will be delivered to the subscribers on 30 June 2004 (the “**Settlement Date**”) through the BESA and STRATE settlement system. The Joint Lead Managers may however, as agents only, on behalf of the Issuer conclude transactions with subscribers for the subscription of the Bonds before the Settlement Date. Such transactions will be for settlement on the Settlement Date and will be subject to the condition that the Subscription Agreement is not terminated before the time on which such transactions are to be settled on the Settlement Date. If the Subscription Agreement is terminated before that time, all transactions in the relevant Bonds shall also terminate and no party thereto shall have any claim against any other party as a result of such termination.

REPUBLIC OF SOUTH AFRICA

The Arrangers have represented and agreed not to solicit any offers for subscription or to offer for sale any Bonds, as agent and on behalf of the Issuer, in contravention of any law and/or regulation of the RSA. Bonds will not be offered for subscription to any single addressee for an amount of less than ZAR1 000 000,00 (one million Rand).

UNITED STATES

The Bonds have not been and will not be registered under the United States Securities Act, 1933 (the “**Securities Act**”) and may not be offered or sold within the United States of America or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Arrangers have represented and agreed that they will not offer, sell or deliver Bonds within the United States of America or to, or for the account or benefit of, U.S. persons.

UNITED KINGDOM

The Arrangers have represented and agreed that:

- (1) in relation to Bonds which have a maturity of one year or more and which are not to be admitted to the Official List, they have not offered or sold and, prior to the expiry of a period of six months from the date of issue of any such Bonds, will not offer or sell any such Bonds to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the United Kingdom’s Public Offers of Securities Regulations, 1995;
- (2) they have only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act, 2000 of the United Kingdom (the “**FSMA**”)) received by them in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (3) they have complied and will comply with all applicable provisions of the FSMA, with respect to anything done by them in relation to the Bonds in, from or otherwise involving the United Kingdom.

GENERAL

Each Arranger has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it subscribes, or procures the subscription of Bonds, offers or sells Bonds as agent on behalf of the Issuer or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer or sale by it, as agent on behalf of the Issuer, of Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales and neither the Issuer nor any Arranger shall have responsibility therefor. Neither the Issuer nor any of the Arrangers represents that Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder or assumes any responsibility for facilitating such sale.

SETTLEMENT, CLEARING AND TRANSFER OF BONDS

Words used in this section headed "Settlement, Clearing and Transfer of Bonds" shall have the same meaning as defined in the Terms and Conditions, except to the extent that they are separately defined in this section or this is clearly inappropriate from the context.

The Bonds will initially be issued in the form of a single Global Certificate which will be lodged in the Central Depository, which forms part of the settlement system of BESA, a licensed financial exchange in terms of the Financial Markets Control Act, 1989. The Central Depository will be the sole Bondholder in respect of the Global Certificate.

The Central Depository holds Bonds subject to the Custody and Administration of Securities Act, 1992 of the RSA and the rules of the Central Depository.

While the Bonds are held in the Central Depository under the Global Certificate, the Central Depository will be reflected as the Bondholder in the Register maintained by the Transfer Secretary. Accordingly, in terms of the Terms and Conditions of the Bonds, all amounts to be paid and all rights to be exercised in respect of the Bonds held in the Central Depository, will be paid to and may be exercised only by the Central Depository, for the holders of Beneficial Interests in the Bonds held by the Central Depository under the Global Certificate.

The Central Depository maintains accounts only for the Central Depository Participants. The Central Depository Participants are also approved settlement agents for BESA. As at the date of this Offering Circular, the Settlement Agents are the South African Reserve Bank, ABSA Bank Limited, FirstRand Bank Limited, Nedbank Limited and The Standard Bank of South Africa Limited. The Central Depository Participants are in turn required to maintain securities accounts for their clients. The clients of Central Depository Participants may include the holders of Beneficial Interests in the Bonds or their custodians. The clients of Central Depository Participants, as the holders of the Beneficial Interests in the Bonds or as custodians for such holders, may exercise their rights in respect of the Bonds held by them in the Central Depository only through the Central Depository Participants. Euroclear Bank S.A./N.V., as operator of the Euroclear System and Clearstream Banking, *société anonyme* may hold Bonds through their Central Depository Participant which is currently The Standard Bank of South Africa Limited.

Transfers of Beneficial Interests in Bonds in the Central Depository to and from clients of Central Depository Participants, who are also Settlement Agents, occur by electronic book entry in the securities accounts of the clients with Settlement Agents. Transfers among Central Depository Participants of Bonds held in the Central Depository occur through electronic book entry in the Central Depository Participant's central security accounts with the Central Depository in accordance with the Applicable Procedures.

The standard settlement period of BESA will be such period as described by the operating procedures of BESA from time to time.

Beneficial Interests in Bonds evidenced by the Global Certificate will be exchangeable for a Definitive Certificate in accordance with the Terms and Conditions. Transfer of Bonds represented by a Definitive Certificate may be made only in accordance with the Terms and Conditions and may be subject to the Applicable Procedures.

Payments of interest and principal in respect of Bonds represented by the Global Certificate will be made in accordance with Condition 7 of the Terms and Conditions to the Central Depository, or such other registered holder of the Global Certificate as shown in the Register and the Issuer will be discharged by proper payment to the registered holder of the Global Certificate in respect of each amount so paid. Each of the persons shown in the records of the Central Depository and the Central Depository Participants as the holders of Beneficial Interests in the Bonds, as the case may be, shall look solely to the Central Depository or the relevant Central Depository Participant, as the case may be, for such person's share of such payment so made by the Issuer to the registered holder of such Global Certificate.

Payments of interest and principal in respect of Bonds represented by Definitive Certificates will be made to the Bondholders in accordance with Condition 7 of the Terms and Conditions.

GENERAL INFORMATION

Words used in this section headed "General Information" shall bear the same meanings as defined in the Terms and Conditions, except to the extent that they are separately defined in this section or this is clearly inappropriate from the context.

AUTHORISATION

All consents, approvals, authorisations or other orders of all regulatory authorities required by the Issuer under the laws of the RSA have been given for the issue of the Bonds by the Issuer. The issue of the Bonds is authorised by resolutions of the Council of the Issuer passed on 29 January 2004 and 23 June 2004.

All consents, approvals, authorisations or other orders of all regulatory authorities required by the Guarantors under the laws and regulations governing their establishment and operations have been given for each of the Guarantors to undertake or perform its obligations under the Guarantee Agreement.

LISTING AND TRADING

BESA has approved the listing of the Bonds as from 30 June 2004. The Bonds will be traded on BESA as from the date of the listing of the Bonds and will be traded under stock code COJ02.

CLEARING SYSTEMS

The Bonds will be cleared and settled in accordance with the rules of BESA and the Central Depository, or their respective successors. STRATE is appointed by BESA to match, clear and facilitate the settlement of transactions concluded on BESA. The Bonds may be accepted for clearance through any additional clearing house as may be agreed between the Issuer and the Arrangers.

MATERIAL ADVERSE CHANGE

Save as disclosed under the heading "Overview" in the section on Financial Information on page 71, and under the heading "Contingent Liabilities and Contractual Obligations" on pages 86 and 87, there has been no material adverse change in the financial or trading position of the Issuer since the date of its latest published audited financial statements.

LITIGATION

Save as disclosed under the heading "Overview" in the section on Financial Information on page 71, the Issuer is not engaged (whether as defendant or otherwise) in any legal, arbitration, administration or other proceedings, the results of which might have or have had a material effect on the financial position or the operations of the Issuer, nor is the Issuer aware of any such proceedings being threatened or pending.

AUDITORS

The auditors of the Issuer are the Auditor-General. The financial statements of the Issuer for the year ended 30 June 2003 were audited in terms of section 188 of the Constitution of the Republic of South Africa Act, 1996, read with sections 3 and 5 of the Auditor-General Act, 1995, and section 10G2(d)(ii) of the Local Government Transition Act, 1993, and were audited in accordance with South African Auditing Standards ("SAAS") by the auditors.

The Auditor-General has confirmed in writing that the Bonds issued in accordance with this Offering Circular will comply in all respects with the provisions of the commercial paper regulations published in Government Notice number 2172 of 14 December 1994 and promulgated pursuant to the Banks Act, 1990 (the "Commercial Paper Regulations").

COMMERCIAL PAPER OUTSTANDING

The total nominal value of all bonds, notes and other debt instruments already issued by the Issuer plus the Bonds referred to in this Offering Circular amounts to R5 591 145 080,00 (five billion five hundred and ninety-one million one hundred and forty-five thousand and eighty Rand). As at the date hereof, to the best of the Issuer's knowledge and belief, the Issuer will not issue any additional commercial paper during its current financial year, ending on 30 June 2004.

It is the intention of the Issuer to ensure that COJ maintains a 7-10% (seven to ten percent) interest expense: operating expenditure ratio throughout the period of the Bond from the Issue Date until the Redemption Date. The current interest expense: operating expenditure ratio is below 7% (before the Bond Issue) and that ratio is not expected to increase to above 7% (after the Bond Issue).

GOING CONCERN

The Issuer is a going concern and the Issuer can in all circumstances be reasonably expected to meet all its commitments as and when they fall due. Going concern issues relating to the UAC's are disclosed under the heading "Overview" in the section on Financial Information on page 71.

ULTIMATE BORROWER

The Issuer and UAC's are the ultimate borrowers in terms of the Commercial Paper Regulations.

NON-SOUTH AFRICAN RESIDENT BONDHOLDERS AND EMIGRANTS FROM THE COMMON MONETARY AREA

The following guidelines are not a comprehensive statement of the South African Exchange Control Regulations, 1961 (the "Regulations"), are not intended as advice and do not purport to describe all of the considerations that may be relevant to a prospective purchaser of Bonds. Prospective purchasers of Bonds that are non-South African residents or emigrants from the Common Monetary Area are urged to seek further professional advice in regard to the purchase of Bonds and to the extent necessary, obtain Exchange Control approval for the subscription or purchase of Bonds.

The Regulations affecting non-residents of the Common Monetary Area are as follows:

Blocked Rand

Blocked Rand may be used for the purchase of Bonds. Any amounts payable by the Issuer in respect of Bonds purchased with Blocked Rand may not, in terms of the Regulations, be remitted out of South Africa or paid into any non-South African resident bank account.

For the purposes of this clause, "Blocked Rand" means any funds which may not be remitted out of South Africa or be paid into a non-South African resident's bank account. The legislation relating to Blocked Rand is the Regulations issued pursuant to the Currency and Exchanges Act, 1933.

Emigrants from the Common Monetary Area

The securities accounts maintained for emigrants by Central Depository Participants in respect of Bonds in global form, and any Definitive Certificates issued to emigrants will be endorsed "non-resident" and shall be deposited with the nominated authorised dealer in foreign exchange controlling such emigrant's blocked assets.

Any monies due in respect of Bonds to an emigrant Bondholder will be sent to the nominated authorised dealer in foreign exchange controlling such blocked assets to be dealt with in terms of the Regulations. The amounts are not freely transferable from the Common Monetary Area and may only be dealt with in terms of the Regulations.

All Non-residents of the Common Monetary Area

Any Definitive Certificates issued to Bondholders who are not resident in the Common Monetary Area will be endorsed "non-resident". In the event that non-residents hold Bonds through the Central Depository and its relevant Central Depository Participants, the securities account of such Bondholder will be designated "non-resident".

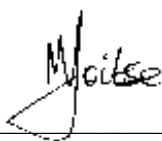
It will be incumbent on any such non-resident to instruct the non-resident's nominated authorised dealer in foreign exchange as to how any funds due to such non-resident in respect of Bonds are to be dealt with.

For purposes of this paragraph, the Common Monetary Area includes the Republic of South Africa, the Kingdoms of Swaziland and Lesotho, and Namibia.

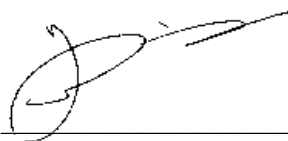
Signed on behalf of the City of Johannesburg Metropolitan Municipality by the City Manager, the Acting Executive Director : Finance and Economic Development, the City Treasurer and the Director Legal Services, on 30 June 2004.



P Moloi
(City Manager)



M M Moitse
(Acting Executive Director :
Finance and Economic
Development)



J Ngobeni
(City Treasurer)



K Brits
(Director : Legal Services)

ISSUER

City of Johannesburg Metropolitan Municipality

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City of Johannesburg Metropolitan Municipality

Johannesburg, June 2004

Design and production by Xavier Corporate Services