

CITY OF JOHANNESBURG

ANNUAL REPORT PRESENTATION
FOR THE YEAR ENDED 30 JUNE 2006



- **City prospects and political governance**
- **City Strategy and Programmes**
- **Overview of the City of Johannesburg**
- **Key Financial Milestones for 2006**
- **Financial Results**
- **Funding**
- **Q & A**

CITY OF JOHANNESBURG

CITY PROSPECTS AND POLITICAL GOVERNANCE

Councillor Parks Tau
Acting Executive Mayor and MMC: Finance and
Economic Development



CITY OF JOHANNESBURG

STRATEGY AND VISION

Mr. Mavela Dlamini: City Manager



CITY OF JOHANNESBURG

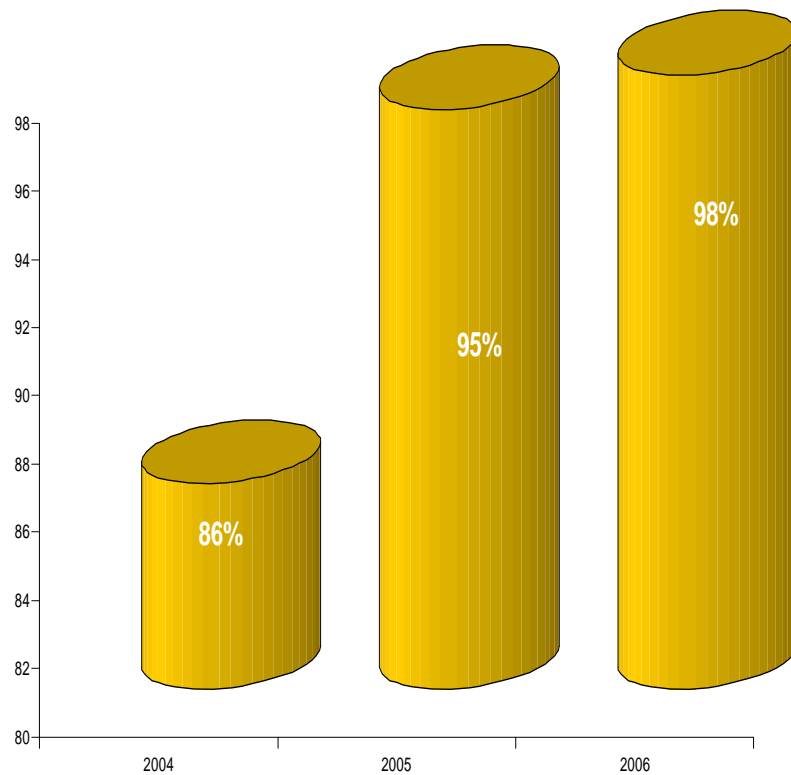
FINANCIAL RESULTS PRESENTATION
FOR YEAR ENDED 30 JUNE 2006

Mankodi Moitse: Executive Director Finance and
Group Chief Financial Officer



Key Financial Milestones for 2006

Capital Expenditure Spend %



- No Disclaimer for the first time since inception of the Metropolitan. AG was able to express an opinion on the completeness and accuracy of the Financials.

- This is the first year the City has prepared its financial statements in compliance with GRAP, GAMAP and SA GAAP.

- Revenue growth of 6% from R13.5 billion in 2005 to R14.4 billion in 2006

- Largest operational and capital budget in history, R21 billion

Capital Expenditure spend of 98.5% compared with 95% in 2005

Key Financial Milestones for 2006

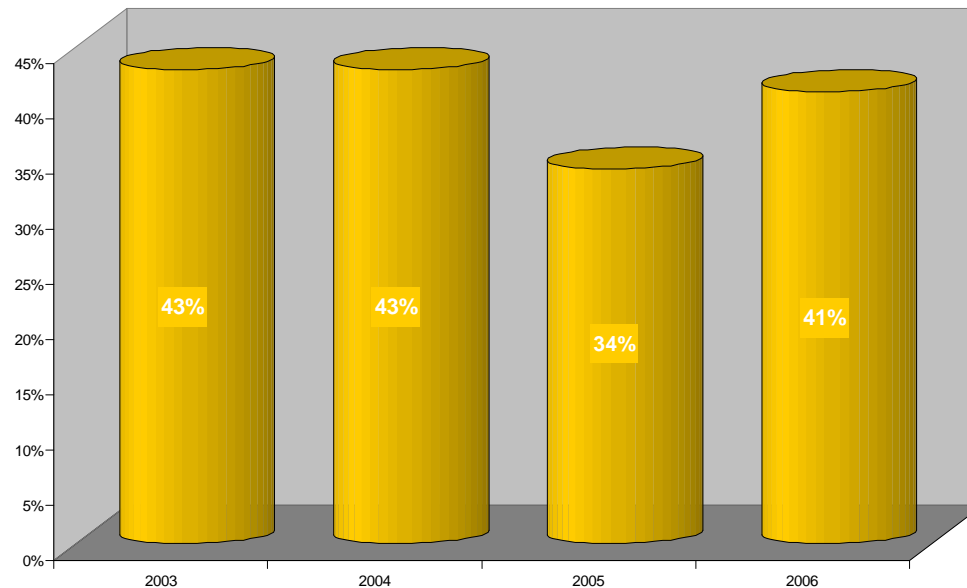
- The percentage of arrear debtors to total income decreased from 7.9% to 7.2%. An improvement in collections from the previous year
- The City's overall collection rate for the year is 94.8% from 94.4% in 2005
- The City also recorded an accounting surplus of R876m due to:
 - Additional RSC Levies of R120 million
 - Savings in contracted services amounting to R169m
 - R63m written back of the leave accrual
 - Recognition of grant income from municipal owned entities to GAMAP amounting to R129m

Key Financial Ratios

	2006	2005	2004	2003
Salaries to opex	26%	26%	27%	29%
Interest to opex	6%	5%	5%	5%
Interest coverage	1.46x	1.54x	1.11x	0.69x
Debt to revenue	41%	34%	43%	43%
Current ratio	1.05	0.88	0.67	0.39
Total Assets	R23,3bn	R19,4bn	R13,2bn	R10.6bn
Total revenue growth is 6.82% which is approximately 2.49% over budget				

Debt to Revenue

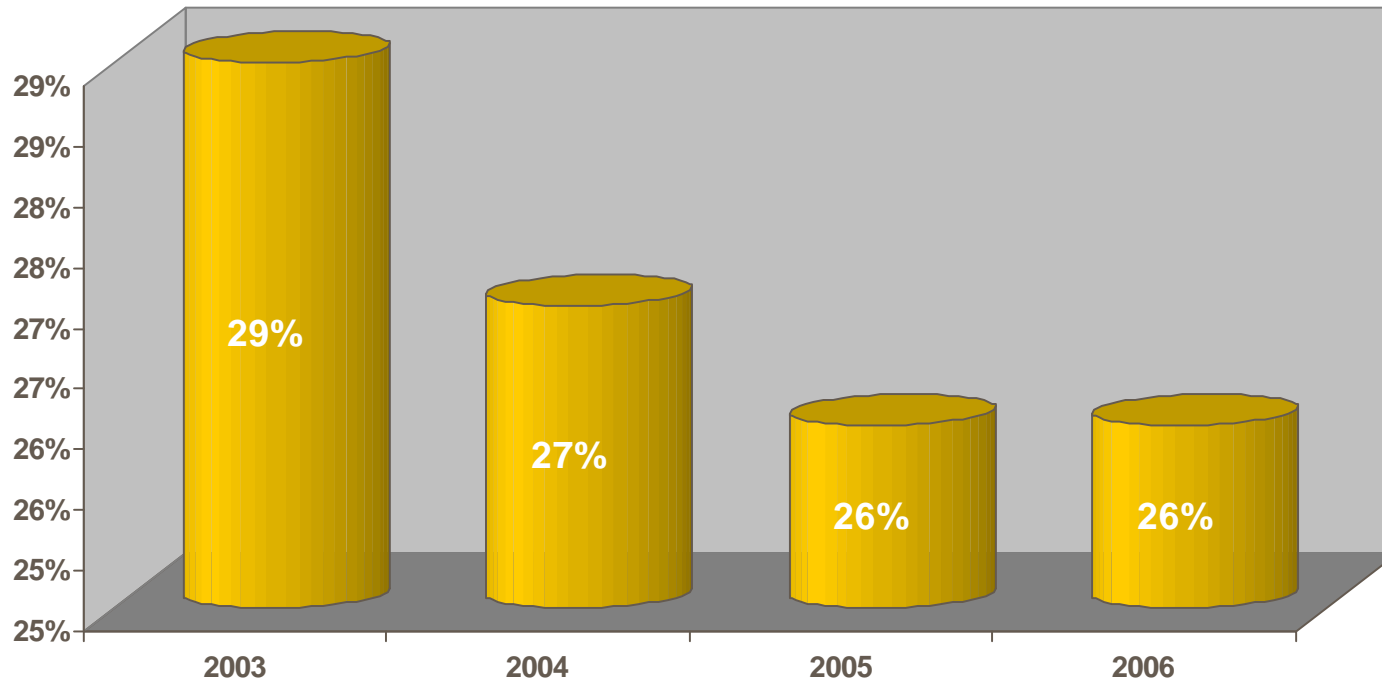
Debt to Revenue %



- The City is continually monitoring its debt to revenue ratio to ensure affordability and maintain and improve credit rating.
- There was a slight increase in the debt to revenue ratio from 34% to 41% due to COJ04 (nominal value R1.2bn)

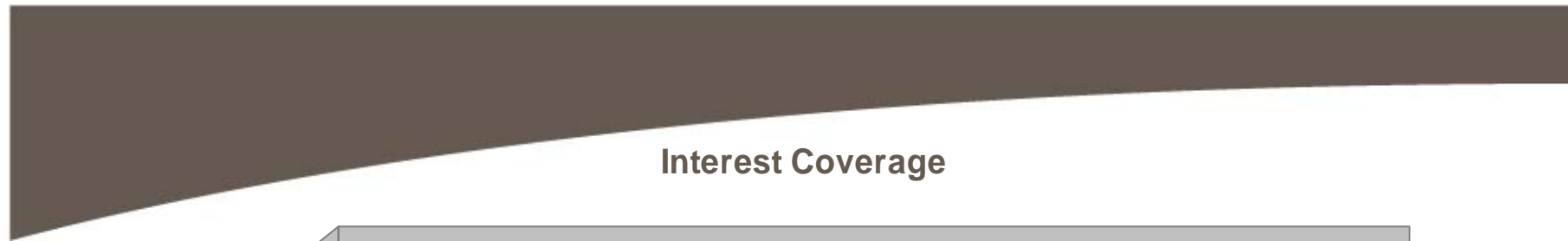
Salaries to Opex

Salaries to Opex %

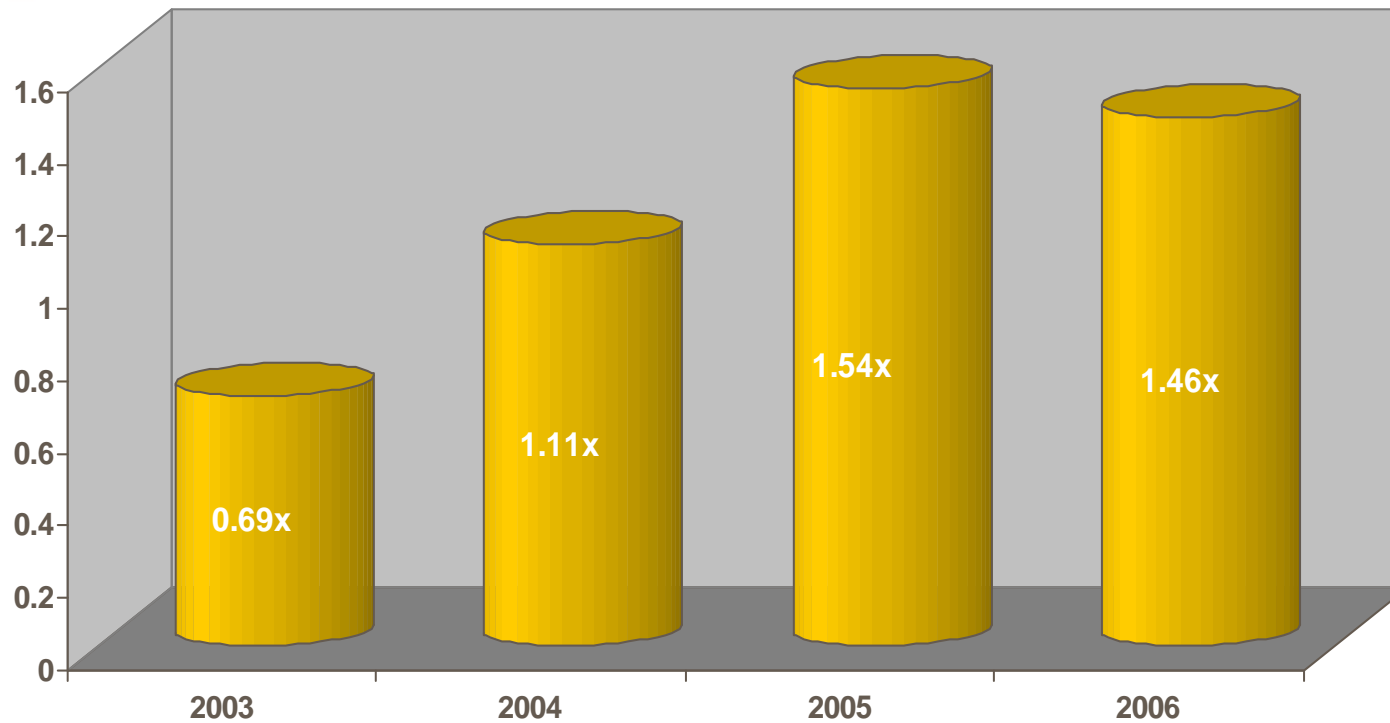


Salary costs remain within the set framework of 26%, consistently well within the 30% range for the past 4 years

Interest Coverage



Interest Coverage



During June 2006, bond COJ04 was launched decreasing the interest coverage ratio to 1.46. This is

Audit Opinion – 2005/06

- **City working towards a cleaner audit report.**
- **Addressing issues raised by AG**
 - **Data purification**
 - **Fixed asset register**
 - **Complying with changes reporting standards and legislation.**
- **Received a qualification as apposed to a disclaimer from AG in 2006.**

Financial Year	2005/2006	2004/2005
ME		
City Power	Qualification	Disclaimer
Jobura Water	Clean	Disclaimer
Jobura Roads Agency	Clean	Clean
Civic Theatre	Clean	Clean
Jobura Trading Company	Qualification	Qualification
Jobura Tourism	Clean	Clean
City Parks	Clean	Clean
Pikitup	Qualification	Disclaimer
Jobura Development Agency	Qualification	Clean
Fresh produce Market	Disclaimer	Qualification
Metro Bus	Qualification	Qualification
Jobura Property Company	Clean	Clean
Civic Theatre	Qualification	Clean
Roodepoort Civic Theatre	Clean	Clean
Metro Trading Company	Qualification	Qualification
Jobura Zoo	Clean	Clean
Joshco	Qualification	Disclaimer

Highlights for 2005-2006

- **Programme Domestic Medium Term Note**
 - Second bond issue, COJ04
 - 4.6 times oversubscribed, 120 basis points above R203
- **Programme Motheo**
 - The City implementation SAPR/3 from on 1 March 2007
 - The goal is to replace existing administrative and financial functions on the COJ Venus system
- **Application of Indigent Debtor Policy**
 - Registration process continued
 - Debtor write-offs made with incentive of writing off arrears
- **Council approval to restructure debtors book**

Key Financial Features

•Revenue increased by 6% due to higher collection ratios

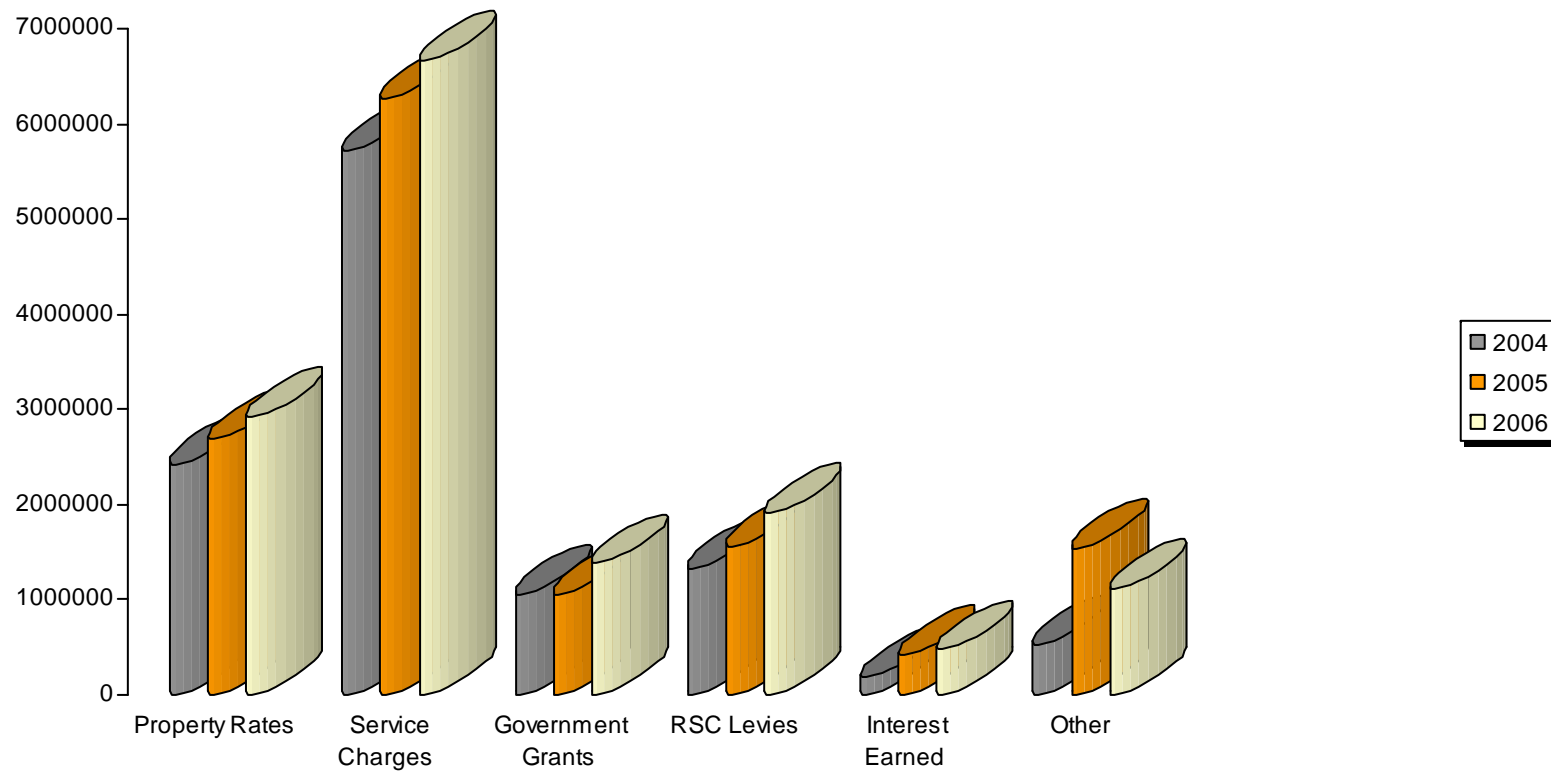
•Services charges continue to be the largest contributor to revenue of 46%

•The City only receives 10% of its revenue from government grants to subsidise poor households.

SOURCES OF REVENUE R'000	2006 R'000	Growth %	% Total Revenue	2005 R'000
Property Rates	2 918 647	8	20	2 684 309
Service Charges	6 666 438	6	46	6 275 055
Government Grants	1 370 865	23	10	1 049 989
RSC Levies	1 905 493	19	13	1 550 966
Other	1 100 630	(40)	8	1 535 930
Interest Earned	465 175	12	3	409 719
TOTAL	14 427 248	6	100%	13 505 968

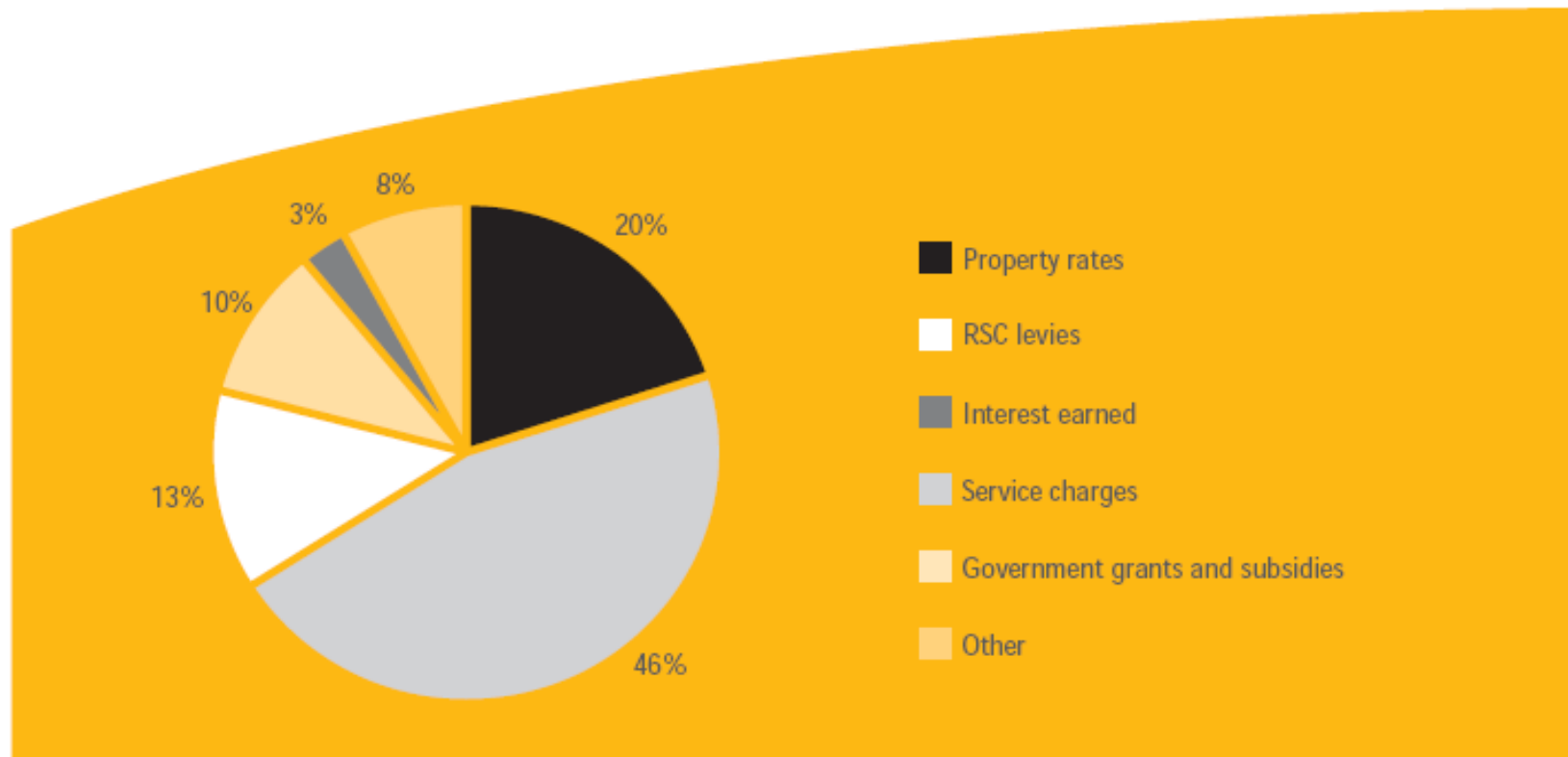
Revenue

Sources of Revenue



Revenue Streams

2. BREAKDOWN OF MAJOR REVENUE STREAMS

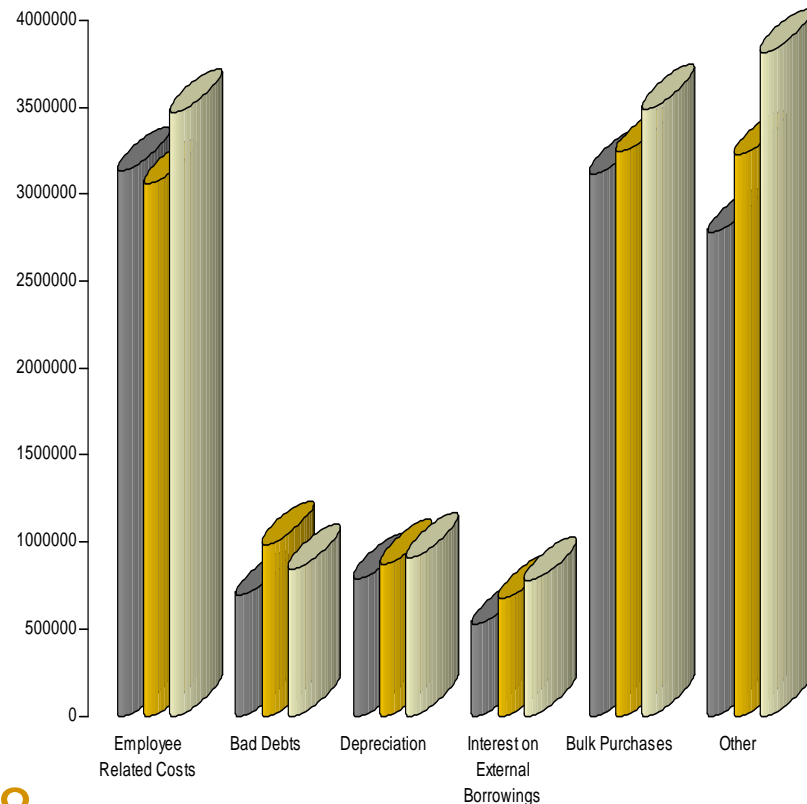


Operating Results

- Standards applicable to CoJ
 - GRAP
 - GAMAP
- Where no statement was available in the above standards SA GAAP Standards became applicable for the first time in 2006.
- Fair value adjustments effected iro:
 - Investments
 - Debtors
 - Creditors
 - Swaps

	2006	2005
Operating Income	14,427,248	13,505,968
Less operating Expenditure	13,298,602	12,047,616
Operating Surplus (deficit)	1,128,646	1,458,352
Fair Value Adjustment	(93,849)	(46,430)
Taxation	(158,484)	(75,275)
Net Income	876,313	1,336,647

Operational Expenditure



- A general 7% increase in employee salaries and provision for the settlement of pension funds are contributors to the increase in general expenditure

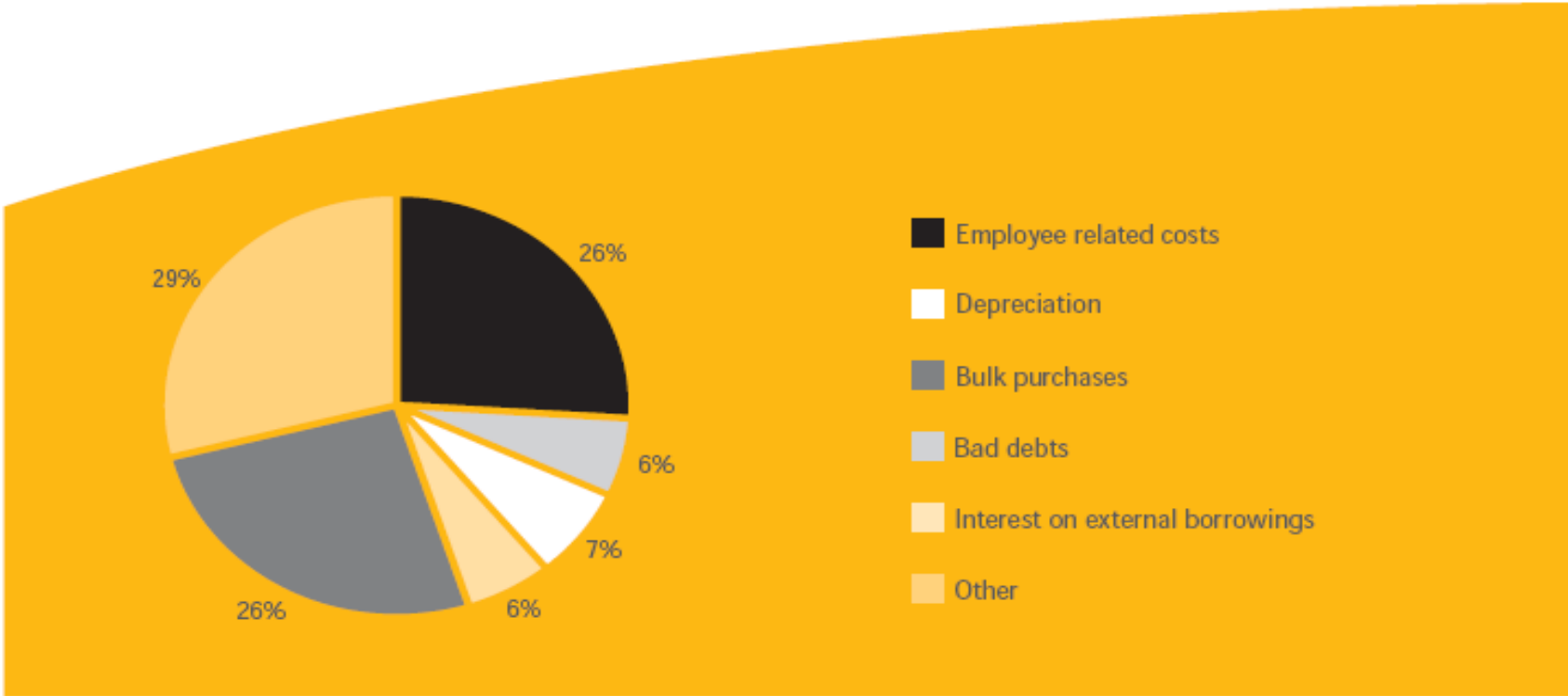
- Bulk purchases are include electricity and water purchases

- Interest on external borrowing continues to increase due to the City's public borrowing programme and DMTN 5 year programme.

- A general reduction in bad debts due to revenue collection initiatives

Breakdown of Operational Expenditure

3. BREAKDOWN OF MAIN CATEGORIES OF EXPENDITURE

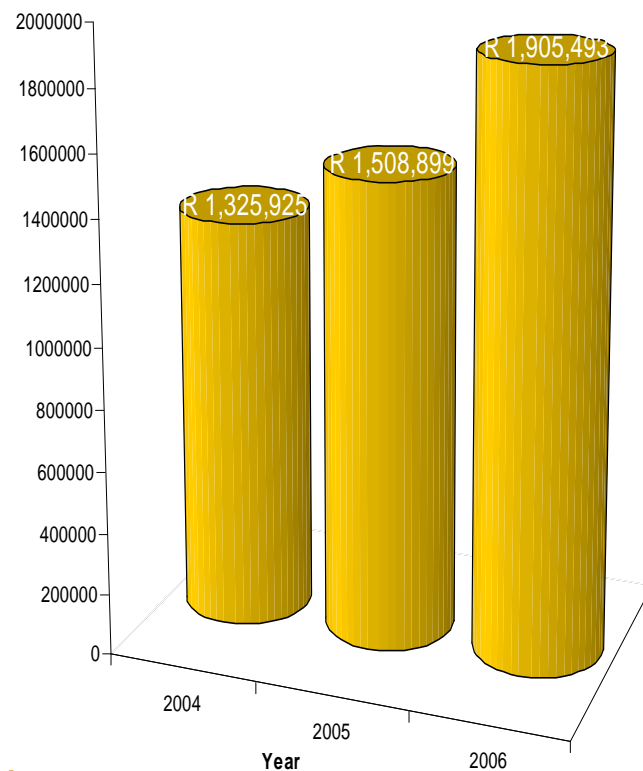


Operational Expenditure

EXPENSES	2006 R'000	Growth %	%	2005 R'000
Employee Related Costs	3 467 390	13	26	3 057 727
Bad Debts	844 645	-14	6	980 420
Depreciation	909 050	4	7	872 163
Interest on External Borrowings	775 344	16	6	671 268
Bulk Purchases	3 490 303	8	26	3 242 530
Other	3 811 871	18	29	3 223 508
TOTAL	13 298 602	10	100%	12 047 616

RSC Levies

RSC Levies



- RSC have increased by an average of 11% of revenue over the past 3 years

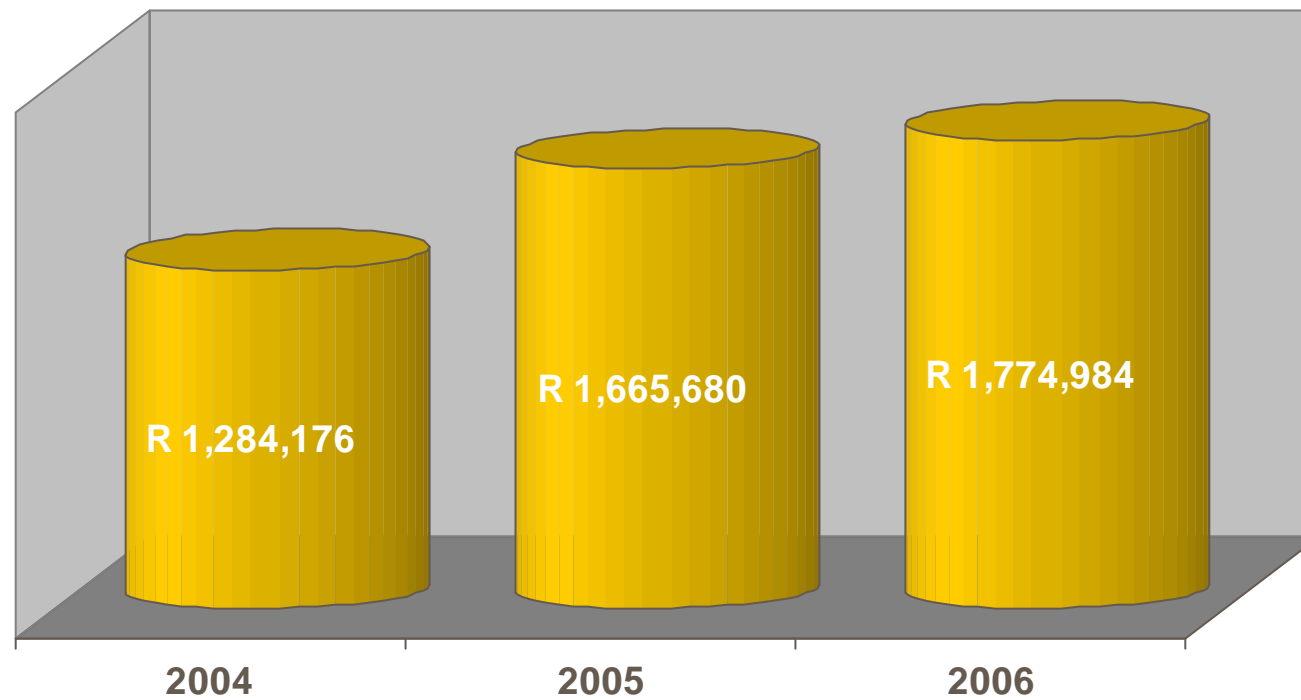
- National grant replaced levy as of 1 July 2006

- Agreed on three-year allocation of
 - 1st yr R1.6bn
 - 2nd yr R1.8bn
 - 3rd yr R2.0bn

- Currently in discussions National Treasury for an replacement

Cash and Call Deposits

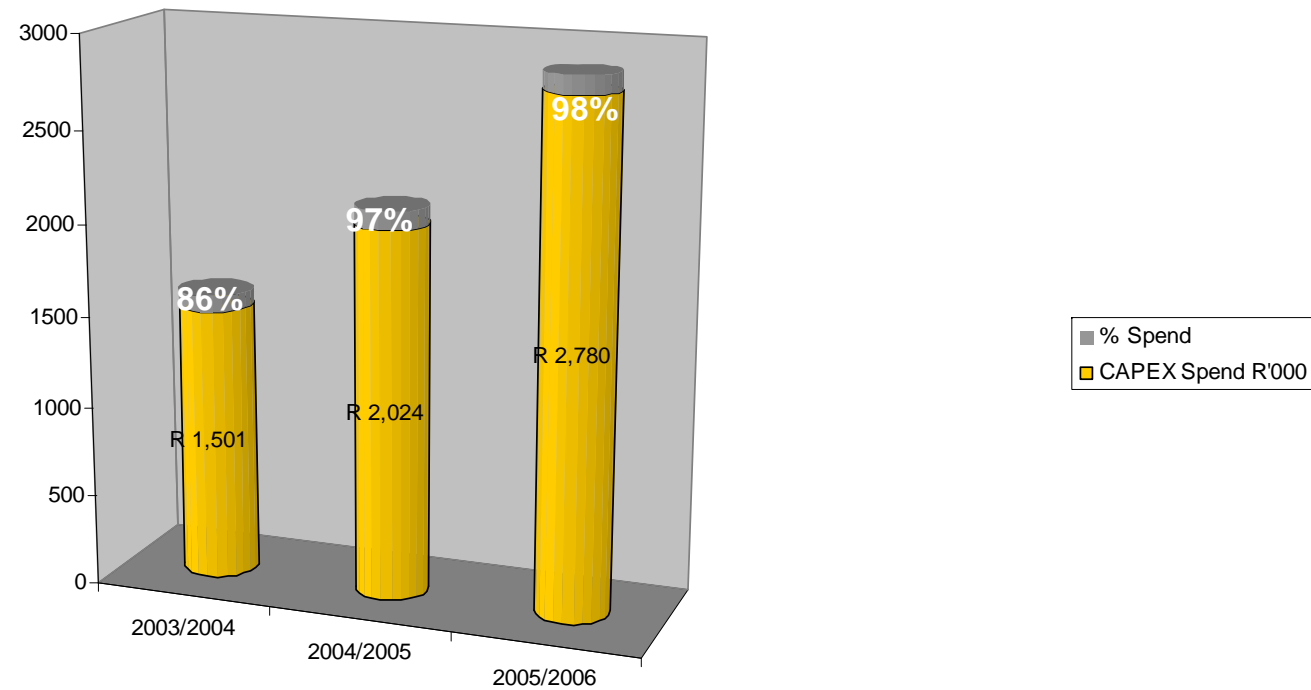
Cash and Call Deposits R'000



In line with the City's revenue growth, cash and call deposits have increased by 6.6%

Capex Spend

Capital Expenditure Spend R'000

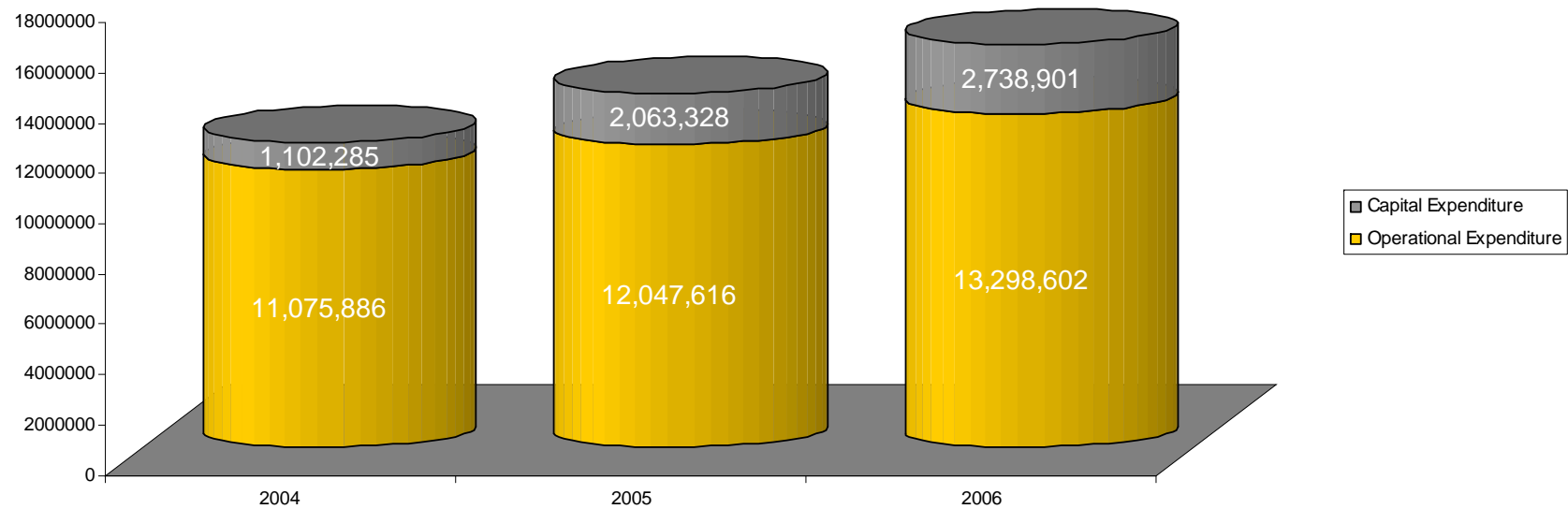


- Capital expenditure was R3.2bn and Operating expenditure was R17.4bn

23 • Capex spend was 98%

Operation and Capital Budget

Operational and Capital Expenditure R'000



In this financial year, CAPEX spend has increased to 17% of total expenditure

CITY OF JOHANNESBURG

FUNDING PROGRAMME

Jason Ngobeni: Group Treasurer



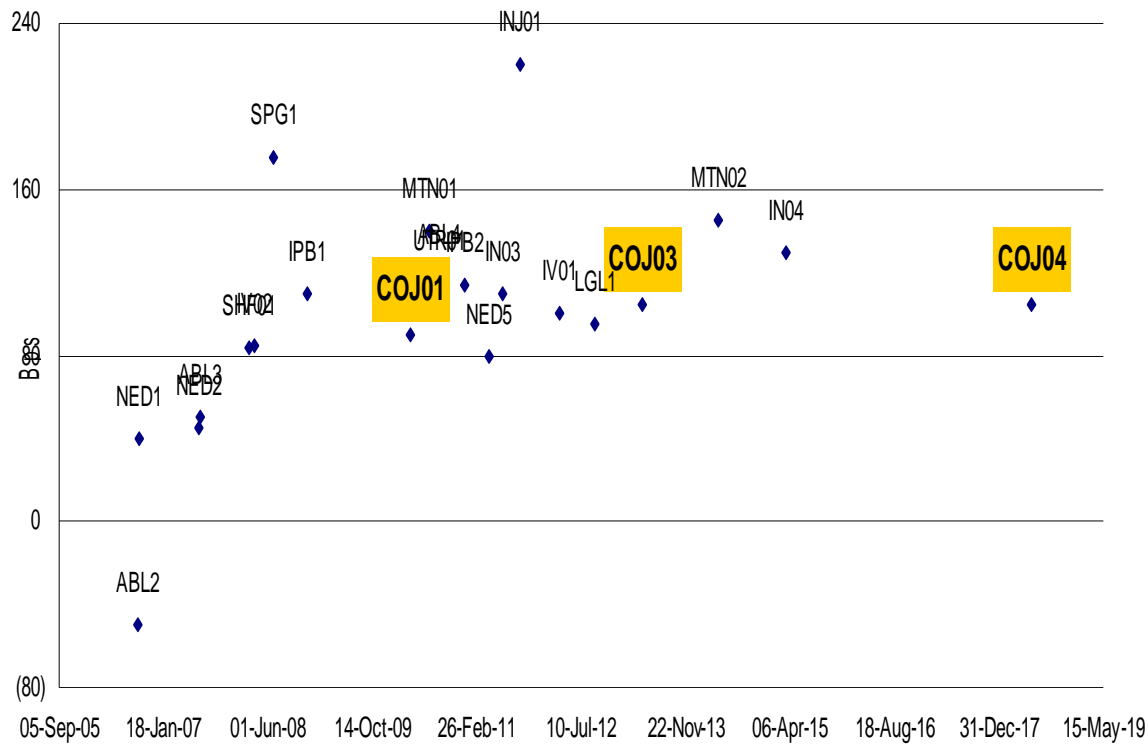
Experience in the Bond Market

The City of Joburg has 4 bonds totalling R3.9 billion namely:

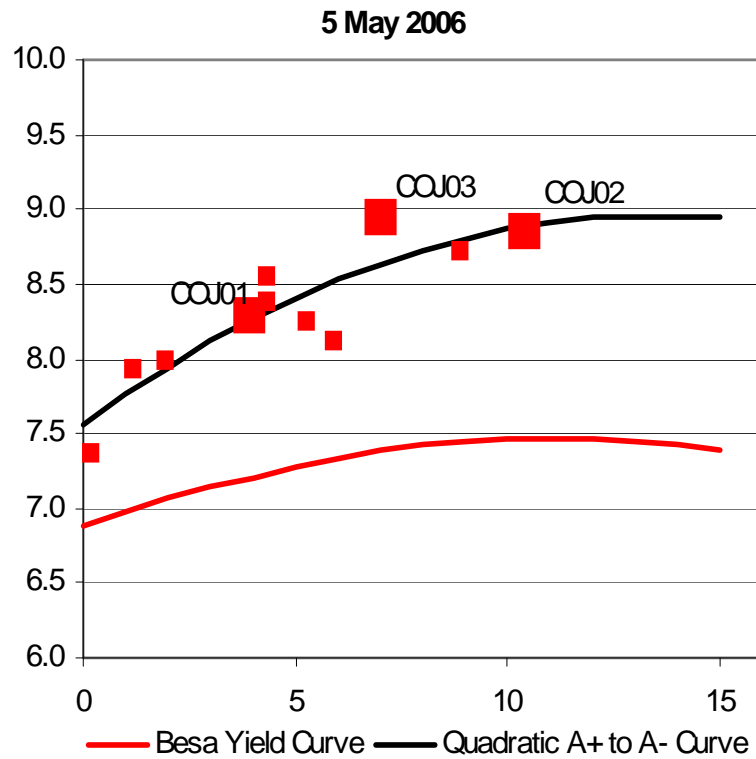
Bond Name	Nominal Amount	Clearing Spread (bps)	MTM	Benchmark	Tenure	Coupon %
COJ01	R1 Billion	230	90	R153	6 years	11.95
COJ02	R1 billion	164	120	R157	12 Years	11.90
COJ03	R700 million	154	110	R157	8 Years	11.95
COJ04	R1.2 billion	120	105	R203	12 Years	9.00

Source: BESA 30 June 2006

COJ Bonds Performance



- **City's bond spreads continue to compress against government comparisons.**
- **Compression compare with other similar rated and similar maturity bonds.**



- COJ02's spread compression is not as wide due to its difficulty in pricing (multiple redemption) and it is tightly held and not traded.

Restructuring of Debtors book

Rational Behind Transaction/Challenges

- A decision to restructure the debtors' book that is over 90 days outstanding in a monetising transaction that will slow down the growth of the non-performing debtors' book was approved by Council in 2006
- This exclude indigents and certain geographical areas that are classified as poor where the residents cannot afford to pay for serviced rendered by the COJ.
- A wholly owned Municipal entity will be formed where the debtors outstanding for 90 days and over will be housed.
- A funded collection agency will recover the debtors in conjunction with revenue department and credit control.
- The debtors include households, commercial, industrial and government. The service types are water, refuse, electricity, rates, Regional Service Levies and housing rentals.



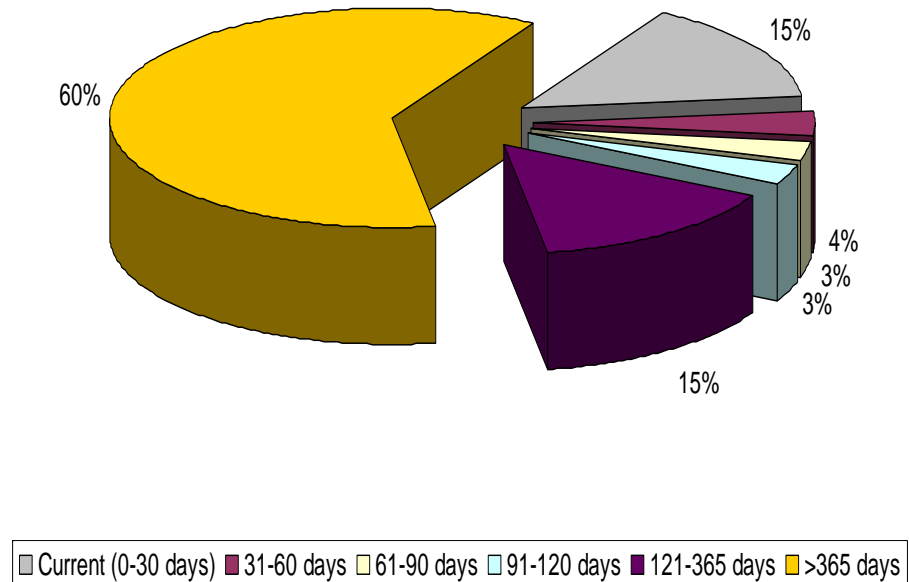
The transaction will:

- inject a substantial amount of cash flow in to the City.
- Reduce the bad debt provision
- Have a positive impact on City's credit rating as collections and revenue will improve.
- Deal with delinquent account and create a culture of "payment" for the residents of Joburg.
- Reduce outstanding debtors growth.
- Turn of non-performing asset into a "Cash Cow"

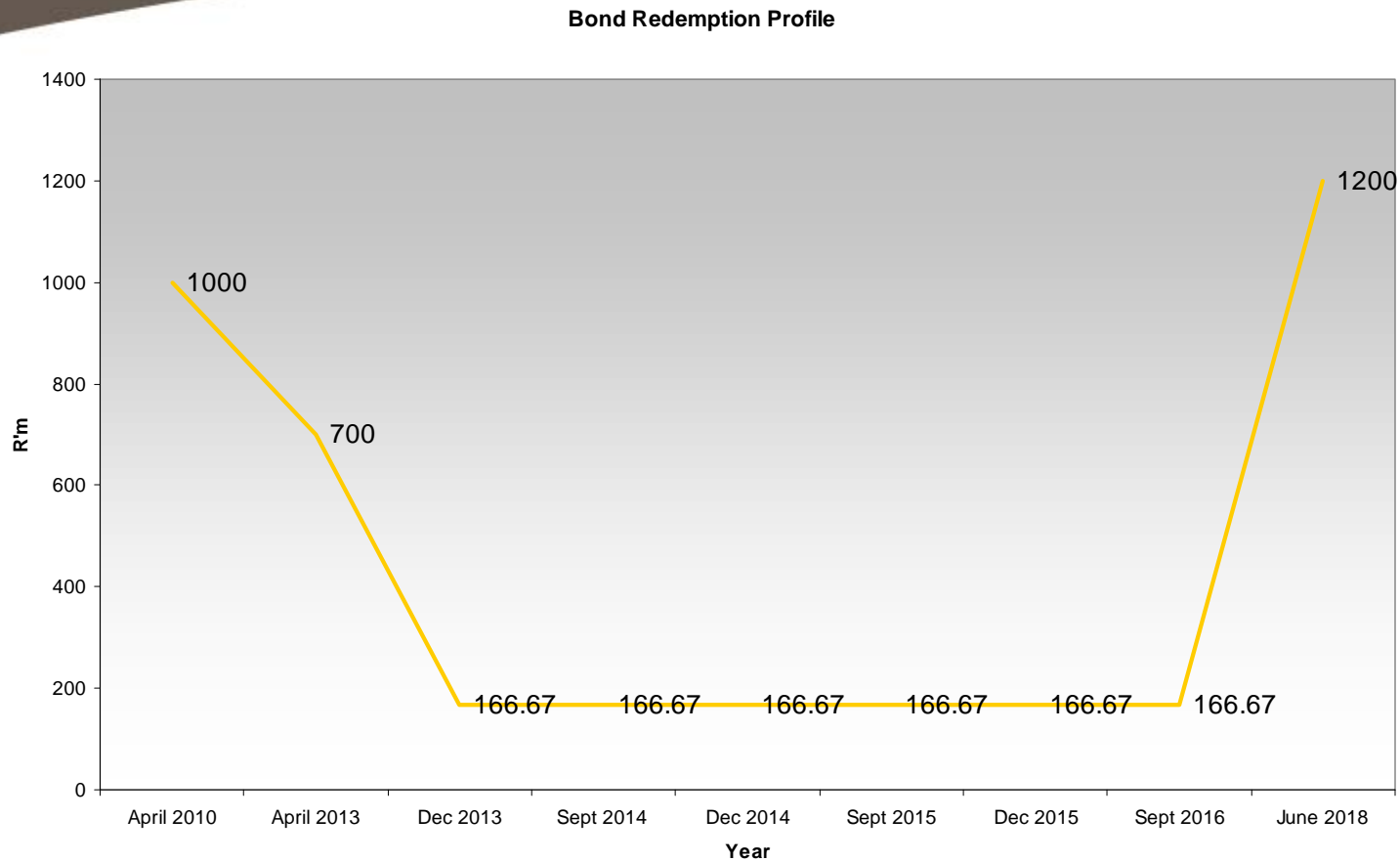
Profile of Outstanding Debtors

- Total days outstanding was 302 days in 2006, an improvement from 320 days in 2005.
- Bad debts written off was R736m in 2006
- As of 30 June 2005 the CoJ's gross debtors book was R8, 970m and a bad debt provision approximately 79% or R7, 097m. An analysis of the book shows that R 7,151m or 80% was outstanding for over 90 days
- As of 30 June 2006 gross debtors was R,9446m a provision of bad debt of 77% and 79% of account are 90days and over

Profile of Debtors



Debt Redemption Profile



31

The City has appointed Regiments to manage the asset and liability side of the City's bonds
The City makes quarterly contributions towards the sinking fund.

Historical Credit Rating

Rating	Fitch Ratings			CA Rating			Rating Action
	Current Rating	Previous Rating	Rating Action	Current Rating	Rating Action	Previous Rating	
National Ratings							
Short-term	F1 (zaf)	F2 (zaf)	April 2005	ZaA1	April 2005	ZaA1	May 2006
Long-term	A (zaf)	A - (zaf)	May 2006	ZaA+		ZaA	
Outlook	Positive	-	-	Stable		Stable	
Partial guaranteed Bonds	AA (zaf)	AA - (zaf)	May 2006				

Historical Credit Rating cont.

- CA ratings upgraded the City of Joburg in May 2006 from zaA to zaA+ due to:
 - The City of Joburg's diversified local economy
 - Strong operating performance
 - Improvement in the City's billing systems that allow for complete revenue and strong improvement in collections
 - The City of Joburg's strong cash and near cash balances
 - The City of Joburg's debt burden remained moderate during 2005 with a debt to income ratio of 40%

- In May 2006, Fitchratings upgraded the City of Joburg's long-term rating from A-(zaf) to A(zaf) this was due to:
 - A strong economic performance, the City has 5% annual growth rate outperforming the National average of 4%
 - Improving operations, reflecting in above 90% collection rates and improving water and electricity losses.
 - Strengthening budgetary performance.
 - A solid liquidity position, cash and equivalents averaged ZAR1.6bn.
 - A stable 45% debt- to-operating revenue ratio.

What the City is doing to improve its rating

What the City is doing to improve its credit rating:

- **Political and Management stability**
 - All senior appointments were filled
 - There was a continuation of the political structure
- **Continually monitoring the debt to revenue ratio to ensure liquidity and solvency**
- **Reviewing and improving collection ratios.**
- **Finding alternative off-balance funding such as PPPs**

Funding Programme

- **Launching the first municipal retail bond in RSA in June 2007.**
- **Rational:**
 - **Diversify investor base**
 - **Diversify funding source**
 - **Support National Treasury in their effort to increase saving in the retail sector**
- **Funding requirements to increase as the City will embark on several projects for the Gautrain and 2010.**
- **Consistently looking for alternative sources of finance such PPPs**
- **Currently adjudicating asset backed finance tender for the City and its MEs.**

CITY OF JOHANNESBURG

CLOSING AND THANK YOU

Councillor Parks Tau
MMC: Finance and Economic Development





QUESTIONS AND ANSWERS