



a world class African city



City Power Johannesburg (Pty) Ltd

Registration No: 2000/030051/07

(In terms of Section 21 of the Companies Act

Municipal Finance Management Act, 2003 and Section 46 of the Municipal Systems Act, 2000)

Annexure A

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

The Auditor-General: Gauteng
Issued August 31, 2010

City Power Johannesburg (Proprietary) Limited

(Registration number 2000/030051/07)

Trading as City Power

Annual Financial Statements for the year ended June 30, 2010

General Information

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

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

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ABBREVIATIONS

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

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2. STATEMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

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

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

3. INVENTORIES

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

4. LOANS TO/FROM SHAREHOLDERS

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

Conduit Mirror loan

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

Capex loans

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

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

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

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

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

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

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4. LOANS TO/FROM SHAREHOLDERS (continued)

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

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

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

Shareholder's loans

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

Credit quality of loans to shareholders.

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

Credit quality of loans to shareholders

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

Loans to shareholders impaired

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

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

Conduit mirror loans

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

Capex loans

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

Sweeping account

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

Subordinate loans movement for the year

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

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|---|------------------|------------------|
| 4. LOANS TO/FROM SHAREHOLDERS (continued) | (624,793) | (624,793) |
| 5. TRADE AND OTHER RECEIVABLES | | |
| Prepayments made in advance | - | 554 |
| Other deposits | 68 | 68 |
| Sundry debtor | 6,487 | 4,596 |
| Rental income from straight lining of leases | - | 167 |
| Related party debtors | 224,868 | 102,664 |
| | 231,423 | 108,049 |
| 6. RETIREMENT BENEFITS | | |
| 6.1 Defined benefit plan | | |
| Post-retirement liability | | |
| Post-Retirement Medical Aid Plan | (12,835) | (12,214) |
| Post-Retirement gratuity plan | (59,299) | (56,224) |
| | (72,134) | (68,438) |
| 6.1.1 Post retirement medical aid plan | | |
| <p>City Power Johannesburg (Proprietary) Limited has obligations to subsidize medical aid contributions in respect of certain qualifying staff and pensioners and their surviving spouses. Only pensioners and employees who were aged 50 or older and were members of LA Health and Munimed are included.</p> <p>The above liability is unfunded. However, The City of Johannesburg Metropolitan Municipality has undertaken to cover such portion of the liability for the staff of City Power Johannesburg (Proprietary) Limited who are entitled to benefits that relates to their service with the City of Johannesburg Metropolitan Municipality since the company was established.</p> | | |
| Movements for the year | | |
| Opening balance | (12,214) | (2,939) |
| Interest paid | (1,026) | (265) |
| Net actuarial gains or (losses) | 332 | (9,261) |
| Past service cost | (45) | (45) |
| Benefits paid | 118 | 296 |
| | (12,835) | (12,214) |
| Net expenses recognised in the Statement of financial performance | | |
| Past service cost | (45) | (45) |
| Interest cost | (1,026) | (265) |
| Net actuarial gains or (losses) | 332 | (9,261) |
| Balance at end of year | (739) | (9,571) |
| Key assumptions used | | |
| <p>Assumptions used on last valuation on June 30, 2010.</p> | | |
| Discount rates used | 9.00 % | 8.40 % |
| Expected rate of return on assets | 9.00 % | 8.40 % |

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6. RETIREMENT BENEFITS (continued)

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

6.1.2 Post retirement gratuity plan

City Power Johannesburg (Proprietary) Limited provides gratuities on retirement or prior death in respect of certain qualifying employees who have service with the City of Johannesburg Metropolitan Municipality or City Power Johannesburg (Proprietary) Limited when they were not members of one of the retirement funds and who meet certain service requirements in terms of the City of Johannesburg Metropolitan Municipality's conditions of employment. The gratuity amount is based on 1 month's salary per year of non-retirement funding service.

The above liability is unfunded. However, the City of Johannesburg Metropolitan Municipality has undertaken to cover such portion of the liability for the staff of City Power Johannesburg (Proprietary) Limited who are entitled to benefits that relates to their service with the City of Johannesburg Metropolitan Municipality since the company was established.

The plan is a post-retirement gratuity benefit plan.

Movements for the year

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

Net expenses recognised in the Statement of financial performance

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

Key assumptions used

Assumptions used on last valuation on June 30, 2010.

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

6.2 Defined contribution plan

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

7. CONSUMER DEBTORS

Gross balances

| | | |
|-------------------|------------------|------------------|
| Electricity | 2,561,161 | 1,785,948 |
| Unearned Interest | 9,497 | 6,977 |
| | 2,570,658 | 1,792,925 |

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|--|--------------------|------------------|
| 7. CONSUMER DEBTORS (continued) | | |
| Less: Provision for debt impairment | | |
| Electricity | (1,361,850) | (930,988) |
| Net balance | | |
| Electricity | 1,199,311 | 854,960 |
| Other (specify) | 9,497 | 6,977 |
| | 1,208,808 | 861,937 |
| Electricity | | |
| Current (0 - 30 days) | 617,056 | 311,431 |
| 31 - 60 days | 62,370 | 42,287 |
| 61 - 90 days | 32,688 | 30,042 |
| 91 - 120 days | 48,536 | 32,378 |
| 121 - 365 days | 151,912 | 148,064 |
| > 365 days | 286,749 | 290,758 |
| | 1,199,311 | 854,960 |
| Fair value adjustments | | |
| Current (0 - 30 days) | 9,497 | 6,977 |
| Reconciliation of debt impairment provision | | |
| Balance at beginning of the year | (930,988) | (1,087,014) |
| Contributions to provision | (426,879) | (282,869) |
| Debt impairment written off against provision | - | 438,895 |
| Bad debts recovered | (3,983) | - |
| | (1,361,850) | (930,988) |

8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

| | | |
|--------------|----|----|
| Cash on hand | 20 | 21 |
|--------------|----|----|

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

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

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

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9. PROPERTY, PLANT AND EQUIPMENT

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

Reconciliation of property, plant and equipment - 2010

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

Reconciliation of property, plant and equipment - 2009

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

Borrowing costs capitalized

| | | |
|---------------------|--------|--------|
| Plant and machinery | 19,722 | 19,477 |
|---------------------|--------|--------|

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

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

10. INTANGIBLE ASSETS

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

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10. INTANGIBLE ASSETS (continued)

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

Reconciliation of intangible assets - 2010

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

Reconciliation of intangible assets - 2009

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

11. FINANCIAL ASSETS BY CATEGORY

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

2010

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

2009

| | | |
|-----------------------------|-----------------------|---------|
| | Loans and receivables | Total |
| Loans to shareholders | 685,178 | 685,178 |
| Trade and other receivables | 969,986 | 969,986 |
| Cash and cash equivalent | 21 | 21 |

| | |
|------------------|------------------|
| 1,655,185 | 1,655,185 |
|------------------|------------------|

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| Figures in Rand thousand | 2010 | 2009 |
|---|------------------|------------------|
| 12. DEFERRED TAX | | |
| Deferred tax asset / (liability) | | |
| At beginning of the year | - | - |
| Taxable temporary difference | (728,597) | (517,937) |
| Utilized assessed loss in the current year | 605,843 | 517,890 |
| Income received in advance | - | 47 |
| Other movements | 5,547 | - |
| | (117,207) | - |
| Deferred Tax Summary | | |
| Deferred tax assets | - | - |
| Deferred tax liability | (117,207) | - |
| | (117,207) | - |
| 13. FINANCE LEASE OBLIGATION | | |
| Minimum lease payments due | | |
| - within one year | - | 772 |
| - in second to fifth year inclusive | - | - |
| - later than five years | - | - |
| Present value of minimum lease payments | - | 772 |
| Present value of minimum lease payments due | | |
| - within one year | - | - |
| - in second to fifth year inclusive | - | 772 |
| - later than five years | - | - |
| | - | 772 |
| Non-current liabilities | - | - |
| Current liabilities | - | 772 |
| | - | 772 |
| It is the municipal entity's policy to lease certain property, motor vehicles and equipment under finance leases. | | |
| 14. TRADE AND OTHER PAYABLES | | |
| Trade payables | 1,167,211 | 1,067,477 |
| Retentions | - | 1,968 |
| Dsm levy | - | 2 |
| Related party creditor | 293,233 | 107,908 |
| Unearned interest on trade payables | 4,454 | 5,952 |
| | 1,464,898 | 1,183,307 |
| 15. VAT PAYABLE | | |
| Value added tax | 354,375 | 232,109 |

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Figures in Rand thousand

| | 2010 | 2009 | | |
|---|--------------------|-----------|-----------------------------|--------------------|
| 16. PROVISIONS | | | | |
| Reconciliation of provisions - 2010 | | | | |
| | Opening Balance | Additions | Utilized during the year | Closing Balance |
| Bonus Provision | 36,261 | 38,439 | (34,327) | 40,373 |
| Reconciliation of provisions - 2009 | | | | |
| | Opening Balance | Additions | Utilized during the year | Closing Balance |
| Bonus Provisions | 22,000 | 50,522 | (36,261) | 36,261 |
| 17. CONSUMER DEPOSITS | | | | |
| Non Current portion of Consumer deposits | | | | |
| Rates | | | 188,221 | 172,121 |
| 18. SHARE CAPITAL AND SHARE PREMIUM | | | | |
| Authorized | | | | |
| 10,000 Ordinary shares of R1 each | | | 10 | 10 |
| Reconciliation of number of shares issued: | | | | |
| Reported as at beginning of year | | | - | - |
| Issue of shares – ordinary shares | | | - | - |
| Reported as at end of year | | | - | - |
| Issued | | | | |
| Share premium | | | 112,466 | 112,466 |
| Issued share capital consists of 1 issued share of R1 nominal value | | | | |
| 19. SERVICE CHARGES | | | | |
| Sale of electricity | | | 7,453,301 | 5,558,105 |
| New service connections | | | 25,781 | 34,419 |
| Fair valuing of revenue | | | (41,908) | (47,801) |
| | | | 7,437,174 | 5,544,723 |
| 20. OTHER INCOME | | | | |
| Sundry income | | | 954 | 488 |
| Street pole adds | | | 3,749 | 3,187 |
| Disposal of obsolete materials | | | 8,829 | 4,725 |
| Cut off fees | | | 41,819 | 40,076 |
| Moving fees | | | 924 | 1,033 |
| Meter testing fees | | | 26 | 11 |
| Meter reading fees | | | - | 6,286 |
| Dsm levy | | | 229,557 | 205,456 |
| Fair valuing other income | | | (1,621) | (1,847) |
| | | | 284,237 | 259,415 |

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Figures in Rand thousand

2010

2009

21. GENERAL EXPENSES

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

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| 22. EMPLOYEE RELATED COSTS | | |
| Employee related costs : Salaries and wages | 364,137 | 300,887 |
| Employee related costs : Pension contributions | 1,714 | 1,470 |
| Employee related costs : Gratuities | 403 | 446 |
| Employee related costs : Medical aid contributions | 695 | 936 |
| Actuarial losses | 1,638 | 1,836 |
| Overtime payments | 70,708 | 54,935 |
| Bonus | 38,439 | 50,676 |
| Travel, motor car, accommodation, subsistence and other allowances | - | 10 |
| UIF | 2,527 | 2,449 |
| WCA | 3,071 | 2,222 |
| Leave pay provision charge | 18,154 | 7,768 |
| Leave pay | 3,313 | 2,964 |
| Pension cost | 6 58,940 | 51,706 |
| Long-service awards | 4,081 | 3,238 |
| 13th Cheque's | 10,077 | 9,630 |
| Acting allowances | 18,434 | 17,703 |
| Car allowance | 27,661 | 26,221 |
| Termination benefits | 2,037 | 1,776 |
| Less: Employee costs capitalised to PPE | (99) | (7) |
| | 625,930 | 536,866 |
| 23. ADMINISTRATIVE EXPENDITURE | | |
| Administration and management fees - related party | 25,998 | 28,410 |
| 24. DEBT IMPAIRMENT | | |
| Contributions to bad-debt provision | 426,879 | 282,869 |
| 25. INTEREST REVENUE | | |
| Interest earned - Bank | 39,515 | 34,982 |
| Interest earned - outstanding debtors | 38,614 | 45,001 |
| Unearned Interest - Fair valuing income | 50,437 | 62,047 |
| | 128,566 | 142,030 |
| 26. DEPRECIATION AND AMORTISATION | | |
| Property, plant and equipment | 196,286 | 116,221 |
| 27. FINANCE COSTS | | |
| Group companies | 387,907 | 378,687 |
| Capitalised | (19,722) | (19,477) |
| IAS 39 Interest | 25,529 | 24,860 |
| | 393,714 | 384,070 |

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|--|------------------|------------------|
| 28. TAXATION | | |
| Major components of the tax expense | | |
| Current | | |
| Local income tax - current period | - | - |
| Deferred | | |
| Originating and reversing temporary differences | 117,207 | - |
| Reconciliation of the tax expense | | |
| Reconciliation between applicable tax rate and average effective tax rate. | | |
| Applicable tax rate | 28.00 % | - % |
| Non-deductible expenditure | 28.50 % | - % |
| Other | (46.02)% | - % |
| | 10.48 % | - % |
| The income tax rate of 28% in 2009 was reduced to 28% in 2010. | | |
| 29. AUDITORS' REMUNERATION | | |
| Fees | 1,449 | 2,418 |
| Adjustment for previous year | - | 307 |
| | 1,449 | 2,725 |
| 30. BULK PURCHASES | | |
| Electricity | 4,416,241 | 3,752,533 |
| Included in the bulk purchases is a unaccounted distribution loss of R107 544:(2009: R153 576) | | |
| 31. CASH GENERATED FROM OPERATIONS | | |
| Surplus | 1,037,745 | 432,018 |
| Adjustments for: | | |
| Depreciation and amortisation | 196,286 | 116,221 |
| Interest income | (127,272) | (142,030) |
| Finance costs | 393,714 | 384,070 |
| Movements in retirement benefit assets and liabilities | 3,696 | 11,510 |
| Movements in provisions | 4,112 | 14,261 |
| Annual charge for deferred tax | 117,207 | - |
| Profit on disposal on property, plant and equipment | 8,368 | 22,415 |
| Changes in working capital: | | |
| Inventories | 10,635 | (53,181) |
| Trade and other receivables | (713,882) | 42,832 |
| Consumer debtors | (313,565) | (55,550) |
| Trade and other payables | 281,590 | 427,629 |
| VAT | 122,266 | 26,039 |
| | 1,020,900 | 1,226,234 |

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32. COMMITMENTS

Commitments in respect of capital expenditure:

Authorised and not yet contracted for

| | | |
|---------------------------------|-----------|---------|
| • Property, plant and equipment | 1,069,509 | 682,418 |
|---------------------------------|-----------|---------|

Authorised and contracted for

| | | |
|--|---------|---------|
| • Property, plant and equipment | 12,091 | 63,224 |
| • Guarantees issued to CDC Globeleq in terms of power purchasing agreement by the City of Johannesburg Metropolitan Municipality on behalf of the company. | 252,850 | 252,850 |

264,941 316,074

This expenditure will be financed from:

| | | |
|----------------|-----------|---------|
| External Loans | 1,334,450 | 998,492 |
|----------------|-----------|---------|

Operating leases - as lessee

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

Minimum lease payments due

| | | |
|-------------------------------------|-----------|-----------|
| - within one year | 409,576 | 404,542 |
| - in second to fifth year inclusive | 1,440,000 | 1,489,576 |
| - later than five years | 1,800,000 | 2,160,000 |

3,649,576 4,054,118

33. CONTINGENCIES

Contingent Liabilities

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

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34. RELATED PARTIES

Relationships

Ultimate controlling entity

Controlling entity

Other members of the group

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

Related party balances

Amounts included in Loans,

Trade and other receivables regarding related parties

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

Amounts included in Loans,

Trade and other payables regarding related parties

| | | |
|--|----------------|----------------|
| City of Johannesburg Metropolitan Municipality | 207,803 | 11,148 |
| Pikitup Johannesburg (Pty) Ltd | - | 36 |
| Johannesburg Water (Pty) Ltd | 107 | 132 |
| Johannesburg City Parks | 4,916 | 8,965 |
| Johannesburg Roads Agency (Pty) Ltd | 2,419 | 3,683 |
| Kelvin Power (Pty) Ltd | 77,990 | 83,944 |
| | 293,235 | 107,908 |

Related party transactions

Sales to related parties

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|--|---------------|---------------|
| 34. RELATED PARTIES (continued) | | |
| City of Johannesburg Metropolitan Municipality | - | 5,057 |
| Johannesburg Metropolitan Bus Services (Pty) Ltd | 1,355 | 1,014 |
| Pikitup Johannesburg (Pty) Ltd | 1,465 | 1,399 |
| Johannesburg Water (Pty) Ltd | 54,629 | 49,799 |
| Johannesburg Zoo | 1,308 | 1,095 |
| Metropolitan Trading Company (Pty) Ltd | 2,932 | - |
| Johannesburg Civic Theatre (Pty) Ltd | 2,966 | 2,501 |
| Johannesburg City Parks | 2,863 | 976 |
| Johannesburg Development Agency (Pty) Ltd | 343 | 294 |
| Johannesburg Roads Agency (Pty) Ltd | 8,047 | - |
| The Johannesburg Fresh Produce Market (Pty) Ltd | 11,490 | 9,501 |
| | 87,398 | 71,636 |
| Purchases from related parties | | |
| City of Johannesburg Metropolitan Municipality | - | 57,032 |
| Pikitup Johannesburg (Pty) Ltd | - | 113 |
| Johannesburg Water (Pty) Ltd | - | 1,071 |
| Johannesburg City Parks | 28,432 | 22,560 |
| Johannesburg Roads Agency (Pty) Ltd | - | 5,686 |
| | 28,432 | 86,462 |

35. DIRECTORS' EMOLUMENTS

Refer annexure A

36. CHANGE IN ACCOUNTING POLICY

Borrowing costs

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

Revenue from non-exchange transactions

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

37. RISK MANAGEMENT

Financial risk management

The company has an integrated risk management framework. The company's approach to risk management is based on risk governance structures, risk management policies, risk identification, measurement and reporting. Three types of risks are reported as part of the risk profile, namely, operational, strategic and business continuity risks. Operational risks are events, hazards, variances or opportunities which could influence the achievement of City Power's compliance and operational objectives. For City Power, a strategic risk is a significant unexpected or unpredictable change or outcome beyond what was factored into the organisation's strategy and business model which could have an impact on the group's performance. Business continuity risks are those events, hazards, variances and opportunities which could influence the continuity of City Power. One of the risks for City Power, identified both under the operational and strategic risk categories, is the financial sustainability of City Power. The financial risks, as defined by IFRS 7, and the management thereof, form part of this key risk area. The types of financial risks which are considered to form the major part of the risk profile of City Power are liquidity risk, interest rate risk, credit risk, and price risk.

The Board of Directors (the Board) has delegated the management of enterprise-wide risk to the Audit Committee which operates through various sub-committees. One of the committee's objectives is to ensure that City Power is not

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37. RISK MANAGEMENT (continued)

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

Interest rate risk

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

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

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

Fair value interest rate risk

Credit risk

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

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

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

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

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

Price risk

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

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37. RISK MANAGEMENT (continued)

Distribution Losses

The electricity energy losses can be classified into Technical and non-Technical losses, during 2009/10 financial year City Power non-technical losses decreased from 4.328% to 1.33%.

The non-technical losses are attributable mainly to the following:

Theft and bypass of meters

Illegal decalibration of meters

Damaged meters and faulty Voltage and Current transformers

Billing errors

Customers without meters

As part of City Power's strategy to continuously reduce the impact of non-technical losses, the following interventions have been implemented and are being reviewed and improved on an annual basis:

Installation of Automatic Meter Management Systems, for both Large and Small Power users i.e. Automated Metering technologies

Continuous replacement of faulty conventional and pre-paid meters

Automation of process to acquire new customers and change of meters (through the implementation of automated workflow and escalation system)

Utilization of anonymous "Hot line" to report theft, vandalism and tampering

Random and targeted audits are performed, followed by removal of illegal connections and normalization supply.

38. GOING CONCERN

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

The ability of the municipal entity to continue as a going concern is dependent on a number of factors. The most significant

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

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|--------------------------|------|------|

39. IRREGULAR EXPENDITURE

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

Legal debt collection services, Mdlulwa Nkuhlu Inc, Twala Attorneys and Conveyancers and Nozuko Attorneys, for the extension of period by additional eight months. The supply and installation of power line modern AMR meters, Rubbyttad x-factor AMR (Pty) Ltd to the value of R18,283,595.00.

Labour contracts for the installation and maintenance of Medium and Low Voltage electrical network, by various labour contractors for the extension of period by additional two months.

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

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

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

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