Planning by	Reviewed	Performed by	Final review

CLIENT DETAILS

Client name: City Power Johannesburg (Proprietary) Limited
Year end: June 30, 2010

FILE DETAILS

Ver No: 2010.10.01
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Last update: 32

Balance Check	Parent	
	2010	2009
Statement of financial position balances		
Cash flow statement balances		
Net Surplus per the Statement of financial performance does not agree with the Diff NETINC account	-	4
Opening Accumulated Surplus (deficit) equals prior year's closing balance		

PRINT DETAILS

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Date printed 2010/08/28 15:48

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

a world class African city

City Power
Johannesburg

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 Mr G Badela Ms DLT Dondur Adv K-DCO Garlipp Mr BM Hawksworth Ms J Kumbirai Prof T Marwala Mr JJH Mateya Dr Y Ndema Mr SM Zimu - Executive
REGISTERED OFFICE	40 Heronmere Road Reuven Johannesburg Gauteng 2016
BUSINESS ADDRESS	40 Heronmere Road Reuven Johannesburg Gauteng 2016
POSTAL ADDRESS	PO Box 38766 Booysens Gauteng 2016
PARENT	The City of Johannesburg Metropolitan Municipality
BANKERS	ABSA Bank Limited
AUDITORS	The Auditor-General: Gauteng
SECRETARY	M Smith
COMPANY REGISTRATION NUMBER	2000/030051/07
ATTORNEYS	Whalley Van Der Lith Incorporated SR Mabuza Attorneys Moloto Stofile Incorporated Mokhatla Attorneys

Index

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

ABBREVIATIONS

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

Director's Responsibilities and Approval

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

The annual financial statements have been prepared in South Africa with Standards of Generally Recognized Accounting Practice (GRAP).

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

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

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

The directors have reviewed the entity’s cash flow forecast for the year to June 30, 2011 and, in the light of this review and the current financial position, they are satisfied that the entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

The Board of Directors is primarily responsible for the financial affairs of the company.

The external auditor is responsible for independently reviewing and reporting on the company's annual financial statements.

The annual financial statements set out on pages 4 to 46, which have been prepared on the going concern basis, were approved by the Board of Directors on August 31, 2010

Ms KPM Simelane – Chairperson	**Mr Silas Zimu - Managing Director**

Directors' Report

The directors have pleasure in submitting to the shareholders their report together with the audit financial their report for the year ended June 30, 2010.

1. INCORPORATION

The company was incorporated on November 30, 2000 and obtained its certificate to commence business on January 1, 2001

2. REVIEW OF ACTIVITIES

Main business and operations

The company is a Municipal Owned Entity. The principal activity of the company is the distribution of electricity to industries, businesses and households in Johannesburg. The company operates principally in Johannesburg, South Africa.

During the year there were no major changes in the activities of the business. No fruitless and wasteful expenditure was brought to the attention of the Board.

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

Net surplus of the entity was R 466,954 (2009: surplus R 214,366), after taxation of R Nil (2009: R Nil).There is no tax payable as the company has an assessed tax losses

3. 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.

4. SUBSEQUENT EVENTS

The Directors are not aware of any matter or circumstance arising since the end of the financial year, not otherwise dealt with within the financial statements that would affect the operations or results of the company significantly. The Managing Director has subsequently resigned with effect from 01 August 2010, and has a three months notice period with the last working day being 31 October 2010. The company is in consultation with the Shareholder on suitable replacement.

5. DIRECTORS' INTEREST IN CONTRACTS

The Directors of the company did not have any interest in contracts entered by the company during the current financial year.

6. ACCOUNTING POLICIES

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

7. SHARE CAPITAL

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

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

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

8. BORROWING LIMITATIONS

In terms of the sale of business agreement, City Power Johannesburg (Proprietary) Limited does not have the authority to borrow funds on its own behalf. All external funding is managed under the auspices of the City of Johannesburg Metropolitan Municipality Asset and Liability Committee and Treasury Department.

Directors' Report

9. NON-CURRENT ASSETS

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

10. DIVIDENDS

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

11. DIRECTORS

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

Name	Nationality
Ms KPM Simelane - Chairperson	South African
Mr G Badela	South African
Ms DLT Dondur	South African
Adv K-DCO Garlipp	South African
Mr BM Hawksworth	South African
Ms J Kumbirai	South African
Prof T Marwala	South African
Mr JJH Mateya	South African
Dr Y Ndema	South African
Mr SM Zimu - Executive	South African

12. SECRETARY

The company secretary is M Smith.

Business address	40 Heronmere Road Reuven Johannesburg Gauteng 2016
Postal address	PO Box 38766 Booysens Gauteng 2016

13. CORPORATE GOVERNANCE

13.1 General

The Board retains full control over the company, its plans and strategy acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the company.

The company confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa. The accounting officer discusses the responsibilities of management in this respect, at Board meetings and monitors the company's compliance with the code on a quarterly basis.

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

13.2 Board of directors

The Board:
- retains full control over the company, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both

Directors' Report

internally and externally by the company;
- is of a unitary structure comprising:
  - - Nine non-Executive Directors, all of whom are independent directors as defined in the Code; and
  - -One Executive Director.

13.3 Chairman and Managing Director

The Chairperson is a non-executive and independent Director.

The roles of Chairperson and Managing Director are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion.

13.4 Remuneration

The remuneration of the Managing Director, who is the only Executive Director of the company, is determined by the Board of Directors and is disclosed in annexure A.

13.5 Board of Directors meetings

The Board has met on 8 separate occasions during the financial year. The Board schedules to meet at least 4 times per annum.

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

Name	Board Meeting	Audit committee meeting	HR & Remuneration	Pricing and Regulatory	Board Oversight
Total number of meetings held	**8**	**12**	**6**	**3**	**4**
Ms KPM Simelane - Chairperson	7		6		4
Mr G Badela	7		6		4
Ms DLT Dondur	7	11	4		
Adv K-DCO Garlipp	8	7			4
Mr BM Hawksworth	6	8			
Ms J Kumbirai	6		4	3	
Prpf T Marwala	7			3	4
Mr JJH Mateya	7		6	3	
Dr Y Ndema	8			3	4
Mr SM Zimu - Executive	6	10	4	1	2

Independent Audit committee members

Ms LJ Fosu	3
Mr W Hattingh	12
Mr H Moolla	10
Mr MH Molokomme (Resigned 31/07/09)	1

13.6 Audit committee

The chairperson of the audit committee is Ms DLT Dondur, who is a non-executive director. The committee met 12 times during the 2010 financial year to review matters necessary to fulfill its role. As at the end of the financial year the Audit Committee comprises 3 independent members and 2 non-executive directors.

In terms of Section 166 of the Municipal Finance Management Act, City of Johannesburg, as a parent municipality, must appoint members of the Audit Committee. Notwithstanding that non-executive directors appointed by the parent municipality constituted the municipal entities' Audit Committees, National Treasury policy requires that parent municipalities should appoint further members of the company's audit committees who are not directors of the municipal entity onto the audit committee. The audit committee has fulfilled its responsibilities as provided for in section 166 of the Municipal Finance Management Act.

Directors' Report

Internal audit

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

14. PARENT

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

15. BANKERS

ABSA Bank

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

16. AUDITORS

The Auditor-General: Gauteng will continue in office for the next financial period.

Certificate by Company Secretary

In terms Section 268 G(d) of the Municipal Finance Management Act, Act 56 of 2003, and the Companies Act of South Africa, Act 61 of 1973, as amended, I certify that the company has lodged with the Registrar all such returns as required by the Companies Act and that all such returns are true, correct and up to date.

M Smith

Company Secretary of City Power Johannesburg (Proprietary) Limited
August 30, 2010

Statement of Financial Position

Figures in Rand thousand	Note(s)	2010	2009
ASSETS			
Current Assets			
Inventories	3	72,060	81,405
Loans to shareholders	4	1,242,378	685,178
Trade and other receivables	5	237,507	108,049
Consumer debtors	8	714,350	861,937
Cash and cash equivalents	9	20	21
		2,266,315	**1,736,590**
Non-Current Assets			
Property, plant and equipment	10	5,800,226	5,167,298
Intangible assets	11	181,868	197,321
		5,982,094	**5,364,619**
Total Assets		**8,248,409**	**7,101,209**
LIABILITIES			
Current Liabilities			
Loans from shareholders	4	441,552	385,873
Finance lease obligation	13	992	772
Trade and other payables	14	1,489,264	1,183,305
VAT payable	15	247,869	232,109
Provisions	17	40,373	36,261
		2,220,050	**1,838,320**
Non-Current Liabilities			
Loans from shareholders	4	2,757,656	2,783,505
Finance lease obligation	13	1,740	-
Retirement benefit obligation	6	72,134	68,438
Deferred income	16	1,454,365	1,151,536
Consumer deposits	18	188,221	172,121
		4,474,116	**4,175,600**
Total Liabilities		**6,694,166**	**6,013,920**
Net Assets		**1,554,243**	**1,087,289**
NET ASSETS			
Share capital	19	112,466	112,466
Accumulated surplus		1,441,777	974,823
Total Net Assets		**1,554,243**	**1,087,289**

Statement of Financial Performance

Figures in Rand thousand	Note(s)	2010	2009
Revenue			
Service charges	22	7,125,665	5,592,524
Fair value adjustments		(38,888)	(47,801)
Fees earned		39,807	22,045
Rental income		1,784	1,438
Recoveries		721	641
Canteen revenue		3,640	4,177
Other income	23	281,658	259,415
Government grants		29,636	22,732
Interest received - investment	28	75,829	79,983
Other interest	28	54,437	62,047
Total Revenue		**7,574,289**	**5,997,201**
Expenditure			
Personnel	25	(626,413)	(536,866)
Administration	26	(25,998)	(28,410)
Depreciation and amortisation	29	(172,820)	(116,221)
Finance costs	30	(422,113)	(403,547)
Bad debts	27	(426,714)	(282,869)
Repairs and maintenance		(234,687)	(188,181)
Bulk purchases		(4,776,241)	(3,752,533)
General Expenses	24	(422,349)	(474,208)
Total Expenditure		**(7,107,335)**	**(5,782,835)**
Taxation		-	-
Surplus for the year		**466,954**	**214,366**

Statement of Changes in Net Assets

Figures in Rand thousand

	Note(s)	Share capital	Accumulated	Total equity surplus
Balance at July 01, 2008		**112,466**	**760,457**	**872,923**
Changes in net assets				214,366
Surplus for the year		-	214,366	
Total changes		-	214,366	214,366
Balance at July 01, 2009		**112,466**	**974,823**	**1,087,289**
Changes in net assets				
Surplus for the year		-	466,954	466,954
Total changes		-	466,954	466,954
Balance at June 30, 2010		**112,466**	**1,441,777**	**1,554,243**

Cash Flow Statement

Figures in Rand thousand	Note(s)	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Sale of goods and services		6,449,718	5,454,871
Interest income		130,266	142,030
		6,579,984	5,596,901
Payments			
Suppliers		(5,415,467)	(4,251,052)
Finance costs		(422,113)	(403,547)
		(5,837,580)	(4,654,599)
Net cash flows from operating activities	32	**742,404**	**942,302**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	10	(802,021)	(1,048,065)
Proceeds from sale of property, plant and equipment	10	11,726	22,415
Purchase of other intangible assets	11	-	(44,028)
Net cash flows from investing activities		**(790,295)**	**(1,069,678)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Movement in consumer deposits		16,100	17,481
Proceeds from shareholders loan		427,270	446,532
Repayment of shareholders loan		(397,440)	(335,482)
Finance lease payments		1,960	(1,150)
Net cash flows from financing activities		**47,890**	**127,381**
Net increase/(decrease) in cash and cash equivalents		**(1)**	**5**
Cash and cash equivalents at the beginning of the year		21	16
Cash and cash equivalents at the end of the year	9	**20**	**21**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board in accordance with the Municipal Finance Management Act (Act 56 of 2003).These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

GRAP 1 Presentation of Financial Statements

GRAP 2 Cash Flow Statements

GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors

GRAP 4 The Effects of changes in Foreign Exchange Rates

GRAP 5 Borrowing costs

GRAP 6 Consolidation and Separate Financial Statements

GRAP 7 Investment in Associates

GRAP 11 Construction Contracts

These accounting policies are consistent with the previous period, except for the changes set out in note First-time adoption of International Financial Reporting Standards.

1.1 Significant judgments and sources of estimation uncertainty

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

Trade receivables / Held to maturity investments and/or loans and receivables

The company assesses its trade receivables / held to maturity investments and/or loans and receivables for impairment at each statement of financial position date. In determining whether an impairment loss should be recorded in the statement of financial performance, the company makes judgments as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

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

Impairment testing

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

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

Management used the fair value less cost to sell to determine the recoverable amount of intangible assets with an

Accounting Policies

1.1 Significant judgments and sources of estimation uncertainty (continued)

Indefinite useful life and identifying assets that may have been impaired.

Provisions

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

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

A provision is recognised when:

- the company has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 6.

Effective interest rate

The company used the City of Johannesburg Metropolitan Municipality borrowing rate as a point of departure and basis for discounting financial instruments.

1.2 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, is also included in the cost of property, plant and equipment.

Cost model

Property, plant and equipment held for use in the supply of goods or services or for administrative purposes and stated in the Statement of Financial Position at cost less accumulated depreciation and any impairment losses.

Accounting Policies

1.2 Property, plant and equipment (continued)

Depreciation commences when the assets are ready for their intended use.

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

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

Item	**Average useful life**
Buildings	40 - 50 years
Plant and machinery	
• Transformers	55 years
• Transmission cables	61 - 85 years
• Mini-substations	55 years
• Medium voltage equipment	40 years
• Low voltage equipment	40 years
Furniture and fixtures	6 - 20 years
IT equipment	3 - 9 years

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

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

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

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

Assets which the company holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

1.3 Intangible assets

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

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

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Accounting Policies

1.3 Intangible assets (continued)

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

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

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

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

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

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

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

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.4 Financial instruments

Classification

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

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

Initial recognition and measurement

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

Accounting Policies

1.4 Financial instruments (continued)

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

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

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

Subsequent measurement

Fair value determination

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

Impairment of financial assets

At each end of the reporting period the company assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

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

Impairment losses are recognised in surplus or deficit.

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

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

Financial instruments designated as at fair value through surplus or deficit

[Explain the nature of financial instruments designated as at fair value through surplus or deficit, the criteria for making the designation as well as how the requirements of IAS 39 for such designation were met].

Loans to (from) group companies

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

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

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

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

Accounting Policies

1.4 Financial instruments (continued)

Loans to / (from) group companies are classified as loans and receivables.

Trade and other receivables

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

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

Trade and other receivables are classified as loans and receivables.

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Impairment losses are recognised in the Statement of Financial Performance.

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

Trade and other payables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

1.5 Tax

Current tax assets and liabilities

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

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

Deferred tax assets and liabilities

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

Accounting Policies

1.5 Tax (continued)

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

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

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

Tax expenses

Income tax represents the sum of the current tax and deferred tax.

1.6 Leases

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

Finance leases - lessee

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

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

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

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

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

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

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

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

1.7 Inventories

Accounting Policies

1.7 Inventories (continued)

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

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

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

1.8 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

Identification

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

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

Irrespective of whether there is any indication of impairment, the company also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

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

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

Basis for estimates of future cash flows

In measuring value in use the company:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Cash-generating units

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

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

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

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

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying

1.8 Impairment of cash-generating assets (continued)

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

Reversal of impairment loss

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

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

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

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

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

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

Redesignation

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

1.9 Impairment of non-cash-generating assets

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

Accounting Policies

1.9 Impairment of non-cash-generating assets (continued)

commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

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

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

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

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

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

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

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

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

1.10 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

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

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

Defined benefit plans

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

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

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

Accounting Policies

1.10 Employee benefits (continued)

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

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

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

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

1.11 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

Accounting Policies

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

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

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

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

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the company;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

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

1.13 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.14 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:
- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:
- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

Accounting Policies

1.14 Borrowing costs (continued)

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.8 and 1.9. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

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

Extended periods is periods that exceeds X months.

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

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

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

1.15 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.16 Fruitless and wasteful expenditure

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

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

1.17 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Accounting Policies

1.17 Irregular expenditure (continued)

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.18 Conditional grants and receipts

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

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009

2. STATEMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice on a basis consistent with the prior year, at the date of authorisation of these annual financial statements, the following Standards and Interpretations where 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

Management do not have sufficient records relating to interest capitalised on plant and equipment to enable retrospective expensing of borrowing cost. For this reason the change in accounting policy is applied prospectively.

3. INVENTORIES

	2010	2009
Consumable stores	74,489	85,949
	74,489	85,949
Inventories (write-downs)	(2,429)	(4,544)
	72,060	**81,405**

4. LOANS TO/FROM SHAREHOLDERS

	2010	2009
City of Johannesburg Metropolitan Municipality - Conduit Mirror loans Terms and conditions	(128,738)	(41,279)
City of Johannesburg Metropolitan Municipality - Capex Loans Terms and conditions	(2,445,677)	(2,503,306)
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.

Figures in Rand thousand

4. LOANS TO/FROM SHAREHOLDERS (continued)

Capex loan granted in 2006. The original loan is unsecured and the loan is repayable in equal quarterly installments over the 10 year loan term. The loan bears interest at 10.20% which is compounded monthly.
Capex loan granted in 2007. The original loan is unsecured and the loan is repayable in equal quarterly installments over the 10 year loan term. The loan bears interest at 9.00% which is compounded monthly.

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

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

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.

	2010	2009
Current assets	1,242,378	685,178
Non-current liabilities	(2,757,656)	(2,783,505)
Current liabilities	(441,552)	(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 ageing of these loans is as follows:

Conduit mirror loans

	2010	2009
Loans outstanding at the end of year	(128,738)	(232,673)
Less amount payable within 12 months	123,521	103,935
Long term portion of loans	**(5,217)**	**(128,738)**

Capex loans

	2010	2009
Loans outstanding at the end of year	(2,445,677)	(2,311,911)
Other	318,031	281,938
	(2,127,646)	**(2,029,973)**

Sweeping account

	2010	2009
Loans at beginning of the year	685,178	754,459
Movement during the year	557,200	(69,281)
	1,242,378	**685,178**

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009

4. LOANS TO/FROM SHAREHOLDERS (continued)

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

5. TRADE AND OTHER RECEIVABLES

Trade debtors	85	(485)
Prepayments made in advance	-	554
Other deposits	68	68
Sundry debtor	12,486	5,081
Rental income from straight lining of leases	-	167
Related party debtors	224,868	102,664
	237,507	**108,049**

6. RETIREMENT BENEFITS

6.1Defined benefit plan

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

6.1.1Post retirement medical aid plan

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

Movements for the year

Opening balance	(12,214)	(2,939)
Interest paid	(1,026)	(265)
Net actuarial loss or (gains)	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 losses or (gains)	332	(9,261)
Balance at end of year	**(739)**	**(9,571)**

Figures in Rand thousand	2010	2009

6. RETIREMENT BENEFITS (continued)

Key assumptions used

Assumptions used based on the last valuation as at June 30, 2010.

Discount rates used	9.00 %	8.40 %
Expected rate of return on assets	9.00 %	8.40 %
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)	(8,411)
Net actuarial losses or (gains)	1,405	5,176
	(60,266)	**(57,224)**

Net expenses recognised in the Statement of financial performance

Interest cost	4,447	(8,411)
Net actuarial lossess or (gains)	(1,405)	6,176
Total included in employee benefits expense	**3,042**	**(2,235)**

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. The following employee contributions have been made to the defined contribution plans.

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009

6. RETIREMENT BENEFITS (continued)

The following employee contributions have been made to the multi-employer plans.

7. Prepayments

There were no prepayments for the year under review

8. CONSUMER

DEBTORS Gross

balances		
Electricity	2,076,035	1,792,925
Less: Provision for debt impairment		
Electricity	(1,361,685)	(930,988)
Net balance		
Electricity	714,350	861,937
Electricity		
Current (0 - 30 days)	154,112	318,408
31 - 60 days	52,193	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	274,909	290,758
	714,350	**861,937**
Reconciliation of debt impairment provision		
Balance at beginning of the year	(930,988)	(1,087,014)
Contributions to provision	(426,714)	(282,869)
Debt impairment written off against provision	-	438,895
Reversal of provision	(3,983)	-
	(1,361,685)	**(930,988)**

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

Cash on hand	20	21

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

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

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

Notes to the Annual Financial Statements

10. 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	280,404	(152,102)	128,302	280,398	(134,297)	146,101
Leasehold property	3,184	(531)	2,653	3,890	(2,962)	928
Plant and machinery	5,834,579	(589,012)	5,245,567	4,815,100	(469,772)	4,345,328
Furniture and fixtures	39,859	(19,406)	20,453	39,703	(17,097)	22,606
IT equipment	53,862	(24,551)	29,311	45,550	(20,956)	24,594
Capital work in progress	370,395	-	370,395	624,197	-	624,197
Total	6,585,827	(785,602)	5,800,225	5,812,382	(645,084)	5,167,298

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Disposals	Transfers	Other changes movements	Depreciatio n	Closing balance
Land	3,544						3,544
Buildings	146,101			6		(17,805)	128,302
Leasehold property	928	3,184	(928)			(530)	2,654
Plant and machinery	4,345,328	7,989	(10,802)	1,036,175	1,283	(134,407)	5,245,565
Furniture and fixtures	22,606	156				(2,308)	20,454
IT equipment	24,594	1,917		6,394	693	(4,287)	29,311
Capital work in progress	624,197	788,774		(1,042,576)			370,396
	5,167,298	**802,021**	**(11,730)**	**0**	**1,976**	**(159,338)**	**5,800,226**

The following leased assets are included in Property, Plant and Equipment listed above

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 entity.

11. INTANGIBLE ASSETS

	2010			2009		
	Cost / Valuation	Accumulated amortization	Carrying value	Cost / Valuation	Accumulated amortization	Carrying value
Additional capacity rights	118,045	(13,196)	104,849	119,521	(10,547)	108,974
Computer software	114,976	(37,957)	77,019	114,976	(26,629)	88,347
Total	**233,021**	**(51,153)**	**181,868**	**234,497**	**(37,176)**	**197,321**

Reconciliation of intangible assets - 2010

	Opening balance	Amortisation	Total
Additional capacity rights	108,974	(4,125)	104,849
Computer software	88,347	(11,328)	77,019
	197,321	(15,453)	181,868

Figures in Rand thousand

Reconciliation of intangible assets - 2009

11. INTANGIBLE ASSETS (continued)

	Opening balance	Additions	Transfers	Other changes, movements	Amortisation	Total
Additional capacity rights	71,569	39,372	-	-	(1,967)	108,974
Computer software	28,288	-	61,608	4,651	(6,200)	88,347
	99,857	**39,372**	**61,608**	**4,651**	**(8,167)**	**197,321**

12. FINANCIAL ASSETS BY CATEGORY

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

2010

	Loans and receivables	Fair value through surplus or deficit - held for trading	Total
Loans to shareholders	1,242,378	-	1,242,378
Trade and other receivables	951,857	685,178	1,637,035
Cash and cash equivalents	20	-	20
	2,194,255	**685,178**	**2,879,433**

2009

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

13. FINANCE LEASE OBLIGATION

	2010	2009
Minimum lease payments due		
- within one year	1,278	772
- in second to fifth year inclusive	1,917	-
	3,195	772
less: future finance charges	(463)	-
Present value of minimum lease payments	**2,732**	**772**
Present value of minimum lease payments due		
- within one year	992	-
- in second to fifth year inclusive	1,740	772
	2,732	**772**
Non-current liabilities	1,740	-
Current liabilities	992	772
	2,732	**772**

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

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009

14. TRADE AND OTHER PAYABLES

Trade payables	1,203,050	1,079,378
Retentions	-	1,968
Dsm levy	-	2
Related party creditor	293,235	107,909
Adjustment for fair value at amortised cost	(7,021)	(5,952)
	1,489,264	**1,183,305**

15. VAT PAYABLE

Tax refunds payables	247,869	232,109

16. DEFERRED INCOME

Deferred income consists of the following:
- Engineering Services Contribution - When new buildings are erected in and around Johannesburg the infrastructure demands, in the area where the building is erected, increase. As a result of this the entity erecting the building is required to make a payment to fund the improvement in the infrastructure. The deferred income arising from the engineering services contribution relates to City Power (Proprietary) Limited's portion of the funding for the improvement of the infrastructure. The deferred income is released into income as the infrastructure, to which the engineering services contribution pertains, is improved.
- Deferred Income Grants, Alexandra Renewal Grants, CIMP Grants, Adopt-A-Light Liability and Deferred Income Grants DME pertain to community upliftment projects udertaken by City Power Johannesburg (Proprietary) Limited. These projects include improving the infrastructure in disadvantaged communities and also job creation in disadvantaged communities. The deferred income relating to these grants are released into income over the estimated useful lives of the infrastructure assets erected in the disadvantaged communities.
- Service Connections Deferred pertain to new connection fees received. The deferred income is released over the estimated useful lives of the new service connections.

Unspent conditional grants and receipts comprises of:

Deferred Income		
Provincial grants:Capital projects	367,005	272,958
Municipal system improvement grant	300,748	261,183
Public contributions: Service connections	535,753	377,476
Public contributions	250,859	239,919
	1,454,365	**1,151,536**

Movement during the year

Balance at the beginning of the year	1,151,536	953,361
Additions during the year	329,628	219,510
Income recognition during the year	(26,799)	(21,335)
	1,454,365	**1,151,536**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the company has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009

17. PROVISIONS

Reconciliation of provisions - 2010

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

Reconciliation of provisions - 2009

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

18. CONSUMER DEPOSITS

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

19. SHARE CAPITAL

	2010	2009
Authorised		
10,000 Ordinary shares of R1 each	10,000	10,000
Issued		
Share premium	112,466	112,466

10 Ordinary shares are in issue as at 30 June 2010

20. REVENUE

	2010	2009
Service charges	7,125,665	5,592,524
Fair value adjustments	(38,888)	(47,801)
	7,086,777	**5,544,723**

	2010	2009
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	7,125,665	5,592,524

	2010	2009
The amount included in revenue arising from non-exchange transactions is as follows:		
Fair value adjustments	(38,888)	(47,801)

21. COST OF SALES

	2010	2009
Rendering of services		
Cost of services	4,776,241	3,752,533
		-

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009

22. SERVICE CHARGES

Service charges	6,688	(907)
Sale of electricity	7,093,196	5,559,012
Other service charges	25,781	34,419
	7,125,665	**5,592,524**

23. OTHER INCOME

Fair valuing other income	(1,621)	(1,847)
Sundry income	954	488
Street pole adds	3,749	3,187
Disposal of obsolete materials	8,829	4,725
Cut off fees	41,617	40,076
Moving fees	923	1,033
Meter testing	26	11
Meter reading	-	6,286
Profit and disposal of assets	21,296	-
Dsm levy	205,885	205,456
	281,658	**259,415**

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009

24. GENERAL EXPENSES

	2010	2009
Advertising	15,487	9,156
Assessment rates & municipal charges	10,547	7,383
Auditors remuneration	2,610	2,725
Bank charges	532	634
Cleaning	3,733	276
Commission paid	24,801	22,519
Consulting and professional fees	43,240	24,853
Donations	441	1,088
Entertainment	2,471	4,126
Fair value adjustments	-	5,148
Insurance	33,045	40,038
Conferences and seminars	1,890	3,932
Lease rentals on operating lease	53,714	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	889	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
Utilities - 2	20,417	23,510
Tree pruning	28,154	14,749
Billing and meter reading charges	7,627	8,369
Profit on disposal of assets	-	22,416
Cut off fees	35,764	46,826
Materials	6,490	23,123
Settlement costs	(656)	1,017
Post retirement expenses	24,826	25,817
Hostel charges	31	45
Fair valuing expenses	(3,475)	-
	422,349	**474,208**

25. EMPLOYEE COSTS

	Note	2010	2009
Employee related costs : Salaries and wages		364,138	300,887
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		18,636	7,768
Cell phone allowance		3,313	2,964
Pension costs	6	60,654	53,176

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009
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)
	626,413	**536,866**

26. ADMINISTRATIVE EXPENDITURE

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

27. DEBT IMPAIRMENT

Contributions to bad-debt provision	426,714	282,869

28. INVESTMENT REVENUE

Interest revenue		
Interest earned - external investments	38,509	34,982
Interest earned - outstanding debtors	37,320	45,001
Other interest	54,437	62,047
	130,266	**142,030**

29. DEPRECIATION AND AMORTISATION

Property, plant and equipment	172,820	116,221

30. FINANCE COSTS

Group companies	387,907	378,687
Other interest paid	34,206	24,860
	422,113	**403,547**

31. AUDITORS' REMUNERATION

Fees	2,610	2,418
Adjustment for previous year	-	307
	2,610	**2,725**

32. CASH GENERATED FROM OPERATIONS

Surplus **Adjustments for:**	466,954	214,366
Depreciation and amortisation		
	172,820	116,221
Movements in retirement benefit assets and liabilities	3,696	11,510
Movements in provisions	4,112	14,261
Changes in working capital:		
Inventories	9,345	(53,181)
Trade and other receivables	(686,658)	42,832
Consumer debtors	147,587	(55,550)
Trade and other payables	305,959	427,629

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009

32. CASH GENERATED FROM OPERATIONS (continued)

VAT	15,760	26,039
Deferred income	302,829	198,175
	742,404	**942,302**

33. COMMITMENTS

Commitments in respect of capital expenditure:

Authorised and not yet contracted for		
• Property, plant and equipment	1,069,490	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	542,000	998,492
Capital Replacement Reserve	258,000	-
Government Grants	281,581	-
Internal cash	252,850	-
	1,334,431	**998,492**

Operating leases - as lessee (Fleet)

Operating leases – as lessee (Expense)

Minimum lease payments due		
- within one year	49,576	44,542
- in second to fifth year inclusive	-	49,576
	49,576	**188,236**

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.

Operating leases – as lessor (income)

34. 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.

Litigation has been brought against the company by a third party Argent Industrial Investment. A customer in the debtors book of City Power was refunded an amount of R357k. Argent Industrial Investment is disputing the correctness of the refund which according to City Power was paid to the registered customer namely Excalibur Vehicle.

Four employees has lodged legal action against the company for alleged unfair dismissal. The outcome could result in a reinstatement of the four employees or damages as a result of dismissal. The legal cost incurred to date amounts to R32k. The amount of the claim is as yet unknown.

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009

35. RELATED PARTIES

Relationships	
Ultimate controlling entity	The City of Johannesburg Metropolitan Municipality
Controlling entity	The City of Johannesburg Metropolitan Municipality
Other members of the group	City Housing Company (Pty) Ltd
	City of Johannesburg Property Company (Pty) Ltd
	City of Johanneburg 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
	CDC Globeleq trading as Kelvin Pty Ltd

Related party balances

	2010	2009
Amounts included in Loans, Trade and other receivables regarding related parties		
City of Johannesburg Metropolitan Municipality	216,558	94,808
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	232
The Johannesburg Zoo	5	5

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009

35. RELATED PARTIES (continued)

Metropolitan Trading Company (Pty) Ltd	(116)	-
Johannesburg City Parks	1,259	674
Johannesburg Development Agency (Pty) Ltd	35	3,117
Johannesburg Roads Agency (Pty) Ltd	4,529	3,395
The Johannesburg Fresh Produce Market (Pty) Ltd	2,035	-
	224,868	**102,373**

Amounts included in Loans,
Trade and other payables regarding related parties

City of Johannesburg Metropolitan Municipality	207,803	12,602
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	**109,362**

Related party transactions

Sales to related parties

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**

36. DIRECTORS' EMOLUMENTS

Refer annexure A

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

37. RISK MANAGEMENT (continued)

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 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.

Liquidity risk

Liquidity risk is the risk that City Power will not have sufficient financial resources to meet its obligations when they fall due, or will have to do so at excessive cost. This risk can arise from mismatches in the timing of cash flows from revenue and capital and operational outflows. Funding risk arises when the necessary liquidity to fund illiquid asset positions, such as building new electricity capacity, cannot be obtained at the expected terms and when required. The company's risk to liquidity is a result of the funds available to cover future commitments. The company manages liquidity risk through an ongoing review of future commitments and credit facilities.
Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored. The company's funding is managed by the City of Johannesburg Metropolitan Municipality. The City borrows money in the open market through the issue of bonds as and when required.
Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, company treasury maintains flexibility in funding by maintaining availability under committed credit lines.
The table below analyses the company’s financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the Statement of Financial Position balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

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 and loss 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

Figures in Rand thousand

37. RISK MANAGEMENT (continued)

(deposits and guarantees) held and payment history.

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

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

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

Price risk

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

Increase in accounted for losses of purchased electricity

The electricity energy losses can be classified into Technical and non-Technical losses, during 2008/9 financial year City Power non-technical losses increased from 3.5% to 4.09%.
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 interventionshave 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 company 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

Notes to the Annual Financial Statements

Figures in Rand thousand	2010	2009

38. GOING CONCERN (continued)

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.

39. DEVIATION FROM SUPPLY CHAIN MANAGEMENT REGULATIONS

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

Legal debt collection services, Mdlulwa Nkuhlu Inc, Twala Attorneys and Conveyancers and Nozuko Attorneys, for the extension of period by additional eight months, with no increase in value.

The supply and installation of power line modem AMR meters, Rubbytad x-factor AMR (Pty) Ltd to the value of R18,283,595.00.

Labour contracts for the installation and maintenance of Medium and Low Voltage electrical network, by various labour contractors for the extension of period by additional two months with no increase in value.

Provision of physical security on electricity network and protection of ad hoc sites , Protea Coin Security (Pty) Ltd to the value of 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 with no increase in value.

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.

	Eliminated Balances (000's)	Original Budget (000's)	Revised Budget (000's)	Variance (000's)	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue						
Property rates	-	3,890,315	3,946,315	(3,946,315)	(101.4)	Property Rates are over budget by R19 million (1%) and revenue foregone amounts to R440, 6 million with a nett negative variance of R421, 6 million. With the implementation of the new valuation roll and after taking into account the valuation objections the City has experienced a drop in the revenue baseline. • Penalties Imposed have exceeded budget by R42,9 million (83%) as a result of an increase in penalties being charged to the accounts of defaulting debtors.
Service charges	9,852,446	9,554,475	10,106,234	(253,788)	(2.7)	Service Charges (Electricity, Water and Refuse) is over budget by R77,5 million (0.8%) and is mostly related to Johannesburg Water that have performed better than budget.
Rental facilities and equipment	-	115,053	123,199	(123,199)	(107.1)	This category of revenue is over budget by R31,9 million (26%) and is mainly related to an adjustment by the Housing Department relating to a correction of the balances by raising the outstanding interest on arrear accounts as instructed by the Auditor-General.
Interest earned - external investments	645,217	323,090	288,574	356,643	110.4	Interest earned is over budget by R303, 3 million (105%) mainly as a result of interest earned on the sinking fund for the redemption of bonds that was not provided in the budget as well as premium earnings on COJ05 bond.
Interest earned - outstanding debtors	160,924	34,600	39,403	121,521	351.2	Revenue derived from this category is over budget by R6, 4 million (16%), as a result of interest being charged to the accounts of defaulting debtors.
Fines	390,508	461,396	461,576	(71,068)	(15.4)	This category of revenue mostly relates to the income derived from traffic fines and is under budget as a result of fines that were declared invalid following the implementation of the Administrative Adjudication of the Road Traffic Ordinance system. The City of Johannesburg was utilised as a pilot site for the implementation by the Department of Transport and the E-Natis system was not ready for the implementation. Further matters that influenced the decline in traffic fine income is a change of behaviour by road users and the current economic climate.
Income from agency services	-	351,896	380,131	(380,131)	(108.0)	This category of revenue mostly relates to the income derived from commission earned by collecting vehicle licence renewal fees on behalf of the Provincial Government and is over budget by R45, 2 million (12%) as a result of an increase in the turnover.
Government grants	6,740,016	5,531,620	6,684,633	55,383	1.0	Grants and Subsidies Received Operating :This category of revenue reflects an under performance compared to budget of R63 million (2%) mainly as a result of outstanding subsidies to be received from the Gauteng Provincial Government for the construction of top structures by the Housing Department. Grants and Subsidies Received Capital: This category of revenue reflects an under performance compared to budget of R1, 8 billion (63%) due to the implementation of the accounting policy on recognition of revenue.
	17,789,111	20,262,445	22,030,065	(4,240,954)	(20.9)	
Other income						
Other income	1,041,375	631,910	772,865	268,510	42.5	Interests Expense is over budget due to interests paid on short term facilities and a DBSA loan was issued at a higher interest rate than anticipated together with the COJ 04 bond that was issued at a discount.
	1,041,375	631,910	772,865	268,510	42.5	
Total Revenue	18,830,486	20,894,355	22,802,930	(3,972,444)	(19.0)	
Expenses						
Employee related costs	(5,269,672)	(5,181,944)	(5,056,295)	(213,377)	4.1	The year to date staff related costs are over budget by R149 million (3%) and is mostly related to the excess expenditure incurred by the Johannesburg Metropolitan Police Department on salary adjustments agreed upon between the Council and Union representatives following industrial action.Further to the above has the Emergency Management Service Department appointed more staff in preparation for the 2010 Soccer World Cup than had been provided for in the budget that resulted in excess expenditure.
Remuneration of councillors	-	(60,241)	(67,078)	67,078	(111.3)	

	Eliminated Balances	Original Budget	Revised Budget	Variance		Explanation of Significant Variances greater than 10% versus Budget
Bad debts	(1,478,271)	(940,675)	(1,038,376)	(439,895)	46.8	The over expenditure resulted from a recalculation in terms of the policy of the Council based on the corrected outstanding debtors balance reting to housing department and also as a result of a decrease in the collection levels over the last six months in respect of property rates.
Depreciation	(733,607)	(1,258,154)	(1,112,986)	379,379	(30.2)	Depreciation is over budget due to the capitilisation of completed projects previously categorized as works in progress.
Repairs and maintenance	(422,947)	(332,711)	(462,683)	39,736	(11.9)	
Finance costs	(1,249,801)	(1,043,060)	(1,130,830)	(118,971)	11.4	Interests Expense is over budget due to interests paid on short term facilities and a DBSA loan was issued at a higher interest rate than anticipated together with the COJ 04 bond that was issued at a discount.
Bulk purchases	(5,428,750)	(4,808,134)	(5,443,423)	14,673	(0.3)	
Contracted Services	(1,931,110)	(2,160,721)	(2,429,808)	498,698	(23.1)	
Grants and subsidies paid	-	(406,045)	(415,255)	415,255	(102.3)	
General expenses	(2,975,841)	(2,643,406)	(2,585,445)	(390,396)	14.8	
Impairments	-	95,064	92,888	(92,888)	(97.7)	
Surplus on disposal of property, plant, plant and equipment	(31,512)	36,813	36,630	(68,142)	(185.1)	
	(19,521,511)	(18,703,214)	(19,612,661)	91,150	(0.5)	
Operating profit	(691,025)	2,191,141	3,190,269	(3,881,294)	(177.1)	
Other revenue and costs						
Net surplus/ (deficit) for the year	(691,025)	2,191,141	3,190,269	(3,881,294)	(177.1)	
Taxation						
Deferred tax	29,382	(49,131)	(47,736)	77,118	(157.0)	
	29,382	(49,131)	(47,736)	77,118	(157.0)	
Profit /(Loss) for the year	(661,643)	2,142,010	3,142,533	(3,804,176)	(177.6)	