Planning by	Reviewed	Performed by	Final review

CLIENT DETAILS

Client name: City Power Johannesburg (SOC) Limited
Year end: Thursday, June 30, 2016

PRINT DETAILS

City Power Johannesburg (SOC) Limited
Financial statements
for the year ended June 30, 2016

The Auditor General of South Africa

General Information

COUNTRY OF INCORPORATION AND DOMICILE	South Africa
NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES	The principal activity of the entity is the distribution of electricity to industries, businesses and households in Johannesburg within it's area of supply
DIRECTORS	Ms MMT Ramano Ms S Makotoko Mr NE Galawe
REGISTERED OFFICE	40 Heronmere Road Reuven Johannesburg Gauteng 2016
BUSINESS ADDRESS	40 Heronmere Road Reuven Johannesburg Gauteng 2016
POSTAL ADDRESS	PO Box 38766 Booysens Johannesburg Gauteng 2016
CONTROLLING ENTITY	The City of Johannesburg Metropolitan Municipality
BANKERS	ABSA Limited Standard Bank Limited
AUDITORS	The Auditor General of South Africa
SECRETARY	Mr MJ Smith
COMPANY REGISTRATION NUMBER	2000/030051/30
ATTORNEYS	Hewu Attorneys Mabunda Hlapolosa Attorneys Nozuko Nxusani Inc Edward Nathan Sonnenberg Padi Attorneys Whalley & van der Lith Inc Tshiqi Attorneys

General Information

PREPARER	The financial statements were internally compiled by: Logan Pillay

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The reports and statements set out below comprise the 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
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
NPC	Non Profit Company
SOC	State Owned Company

Directors' Responsibilities and Approval

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

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

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

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

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

The directors have reviewed the entity's cash flow forecast for the year to June 30, 2017 and, in the light of this review and the current financial position, they are satisfied that the entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

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

The financial statements set out on pages 5 to 60, which have been prepared on the going concern basis, were approved by the board of directors on August 31, 2016.

Mr F Chikane- Chairperson

Directors' Report

The directors have pleasure in submitting their report, including the unaudited annual financial statements for the year ended June 30, 2016.

1. INCORPORATION

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

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

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

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

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

2. REVIEW OF ACTIVITIES

Main business and operations

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

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

Net surplus of the entity was R 546,233 (2015: R 424,452), after taxation of R 218,832 (2015: R229,382).

3. GOING CONCERN

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

4. SUBSEQUENT EVENTS

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

5. DIRECTORS' PERSONAL FINANCIAL INTEREST

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

6. ACCOUNTING POLICIES

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

Directors' Report

7. SHARE CAPITAL AND SHARE PREMIUM

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

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

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

8. BORROWING LIMITATIONS

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

9. NON-CURRENT ASSETS

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

10. DIVIDENDS

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

11. DIRECTORS

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

Name	Nationality	Changes
Mr SG Xulu - Executive	South African	
Ms MMT Ramano	South African	
Mr D Naidu	South African	
	South African	
	South African	
	South African	
	South African	
Mr DR Mokhobo	South African	
	South African	
	South African	
Ms S Makotoko	South African	
	South African	

12. SECRETARY

The entity secretary is Mr MJ Smith.

Business address

40 Heronmere Road
Reuven
Johannesburg
Gauteng
2016

Postal address

PO Box 38766
Booysens
Gauteng
2016

Directors' Report

13. CORPORATE GOVERNANCE

13.1 General

The entity confirms and acknowledges its responsibility to total compliance with King lll Report on Corporate Governance for South Africa. The directors (executive director) discuss the responsibilities of management in this respect, at board meetings and monitors the entity's compliance with the code during the year .

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

13.2 Board of directors

The board:

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

Chairperson and chief executive

The chairperson is a non-executive and independent director.

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

13.3 Remuneration

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

Directors' Report

13.4 Board of directors meetings

The board has met on 10 separate occasions during the financial year. The board schedules to meet a minimum of four times per annum.

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

Name	Board meeting	Risk, Assurance & Compliance committee meeting	Quartely Review committee meeting	Social & Ethics committee meeting	HR & Remunaration committee meeting	Audit committee meeting	AGM & Workshops
Total meetings	10	5	4	4	5	6	2
Rev F Chikane-Chairperson	9		4	4			2
Mr NE Galawe	5		2	1			1
Mr Q Green	10	5	4	4	4	6	2
Mr NSA Hlubi	8	2	2			4	
Mr V Lukhele	8	4		3	5		2
Ms S Makotoko	8	4			3		2
Ms NP Mohlala	10		4	4	5		1
Mr DR Mokhobo	7		2			4	1
Mr D Naidu	10	5	4				2
Mr TI Sithole	9	4			5	5	2
Mr SG Xulu	8	4	3	3	3	2	2
Ms L Mabhena-Olagunju						1	1
Mr W Hattingh						6	1
Ms ML Shongwe						3	1

Directors' Report

13.5 Audit committee

The Audit committee consists of 3 non-executive directors and 3 independent members.The committee met 6 times during the 2015/2016 financial year to review matters necessary to fulfill its role.

In terms of Section 166 of the Municipal Finance Management Act no 56 of 2003 (MFMA), the City of Johannesburg Metropolitan Municipality, as a parent municipality, must appoint members of the audit committee. Notwithstanding that non-executive directors appointed by the parent municipality constituted the entity's audit committee, National Treasury policy requires that parent municipalities should appoint further members of the entity's audit committees who are not directors of the entity onto the audit committee. Ms L Fosu retired as an Independent audit committee member on the 13 July 2015 and was replaced by Ms L Mabhena-Olagunju. The independent members are:

- Ms L Mabhena-Olagunju
- Mr W Hattingh
- Ms ML Shongwe

The audit committee has fulfilled its responsibilities as provided for in section 166 of the Municipal Finance Management Act.

INTERNAL AUDIT

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

14. CONTROLLING ENTITY

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

15. BANKERS

ABSA Limited and Standard Bank Limited.

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

16. AUDITORS

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

Company Secretary's Certification

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

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

Mr MJ Smith
Company Secretary
Wednesday, August 31, 2016

Statement of Financial Position as at June 30, 2016

Figures in Rand thousand	Note(s)	2016	2015 Restated*
Assets			
Current Assets			
Inventories	3	62,770	142,209
Loans to shareholder	4	1,699,824	1,331,603
Trade and other receivables from exchange transactions	5	581,896	885,994
Consumer receivables	6	2,404,139	1,867,309
Cash and cash equivalents	7	4,126	525,599
		4,752,755	**4,752,714**
Non-Current Assets			
Property, plant and equipment	8	12,685,229	11,455,567
Intangible assets	9	325,386	289,710
		13,010,615	**11,745,277**
Total Assets		**17,763,370**	**16,497,991**
Liabilities			
Current Liabilities			
Loans from shareholder	4	438,502	419,062
Finance lease obligation	10	9,850	5,724
Trade and other payables from exchange transactions	11	3,953,958	3,670,192
VAT payable	12	67,458	144,447
Provisions	13	66,961	53,343
Bank overdraft	7	637	2,301
		4,537,366	**4,295,069**
Non-Current Liabilities			
Loans from shareholders	4	2,840,442	2,697,165
Finance lease obligation	10	38,403	19,170
Employee benefit obligation	14	10,021	12,818
Deferred income	15	36,260	6,426
Deferred tax	16	1,920,308	1,701,476
Consumer deposits	17	470,508	402,038
		5,315,942	**4,839,093**
Total Liabilities		**9,853,308**	**9,134,162**
Net Assets		**7,910,062**	**7,363,829**
Net Assets			
Share capital and share premium	18	112,466	112,466
Accumulated surplus		7,797,596	7,251,363
Total Net Assets		**7,910,062**	**7,363,829**

* See Note

Statement of Financial Performance

Figures in Rand thousand	Note(s)	2016	2015 Restated*
Revenue			
Service charges	21	14,248,922	13,105,242
Fees earned		12,438	26,888
Rental income		247	260
Other income	23	158,605	78,124
Government grants		108,583	185,821
Interest income		145,877	144,051
Total revenue		**14,674,672**	**13,540,386**
Expenditure			
Employee related costs	25	(923,822)	(879,170)
Administration	26	(84,738)	(77,459)
Depreciation and amortisation	29	(404,783)	(332,130)
Finance costs	30	(355,673)	(317,159)
Lease rentals on operating lease		(563,397)	(498,867)
Debt Impairment	27	(387,706)	(604,740)
Repairs and maintenance		(709,143)	(540,289)
Bulk purchases	33	(9,779,048)	(8,933,188)
General expenses	24	(701,297)	(703,550)
Total expenditure		**(13,909,607)**	**(12,886,552)**
Operating surplus		**765,065**	**653,834**
Surplus before taxation		**765,065**	**653,834**
Taxation	31	218,832	229,382
Surplus for the year		**546,233**	**424,452**

* See Note

Statement of Changes in Net Assets

Figures in Rand thousand	Note(s)	Share capital & Premium	Accumulated surplus	Total equity
Opening balance as previously reported		112,466	6,974,700	7,087,166
Adjustments				
Prior year adjustments		-	(147,789)	(147,789)
Balance at July 01, 2014 as restated		**112,466**	**6,826,911**	**6,939,377**
Changes in net assets				
Surplus for the year		-	424,452	424,452
Total changes		-	424,452	424,452
Balance at July 01, 2015		**112,466**	**7,251,363**	**7,363,829**
Changes in net assets				
Surplus for the year		-	546,233	546,233
Total changes		-	546,233	546,233
Balance at June 30, 2016		**112,466**	**7,797,596**	**7,910,062**

* See Note

Cash Flow Statement

Figures in Rand thousand	Note(s)	2016	2015 Restated*
Cash flows from operating activities			
Receipts			
Cash receipts from charges for goods and services		15,198,106	13,526,916
		-	-
Cash receipts from other income		47,984	102,098
Cash receipts from grants		168,836	237,003
		15,414,926	13,866,017
Payments			
Cash payment to employees		(923,822)	(879,170)
Cash payment to suppliers for goods and services		(12,988,881)	(11,582,201)
		-	-
		(13,912,703)	(12,461,371)
Net cash flows from operating activities	34	**1,502,223**	**1,404,646**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(1,675,204)	(2,195,250)
Movement in sweeping		(368,221)	909,590
Interest received		145,877	144,051
Interest paid		(355,673)	(317,159)
Net cash flows from investing activities		**(2,253,221)**	**(1,458,768)**
Cash flows from financing activities			
Net movement in borrowings		162,719	447,443
Cash receipts from consumer deposits		68,470	129,947
Net cash flows from financing activities		**231,189**	**577,390**
Net increase/(decrease) in cash and cash equivalents		**(519,809)**	**523,268**
Cash and cash equivalents at the beginning of the year		523,298	30
Cash and cash equivalents at the end of the year	7	**3,489**	**523,298**

* See Note

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand thousand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	16,107,947	(16,107,947)	-	14,248,922	**14,248,922**	
Fees earned	23,278	(23,278)	-	12,438	**12,438**	
Rental income	364	(364)	-	247	**247**	
Other income - (rollup)	93,846	(93,846)	-	158,605	**158,605**	
Other income 3	178,857	(178,857)	-	108,583	**108,583**	
Interest received - investment	26,400	(26,400)	-	145,877	**145,877**	
Total revenue from exchange transactions	**16,430,692**	**(16,430,692)**	**-**	**14,674,672**	**14,674,672**	
Expenditure						
Personnel	(908,375)	908,375	-	(923,822)	**(923,822)**	
Administration	(88,242)	88,242	-	(84,738)	**(84,738)**	
Depreciation and amortisation	(387,552)	387,552	-	(404,783)	**(404,783)**	
Finance costs	(234,069)	234,069	-	(355,673)	**(355,673)**	
Lease rentals on operating lease	(405,725)	405,725	-	(563,397)	**(563,397)**	
Bad debts written off	(500,622)	500,622	-	(387,706)	**(387,706)**	
Repairs and maintenance	(794,928)	794,928	-	(709,143)	**(709,143)**	
Bulk purchases	(10,239,298)	10,239,298	-	(9,779,048)	**(9,779,048)**	
General Expenses	(1,285,571)	1,285,571	-	(701,297)	**(701,297)**	
Total expenditure	**(14,844,382)**	**14,844,382**	**-**	**(13,909,607)**	**(13,909,607)**	
Surplus before taxation	**1,586,310**	**(1,586,310)**	**-**	**765,065**	**765,065**	
Taxation	470,666	(470,666)	-	218,832	**218,832**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**1,115,644**	**(1,115,644)**	**-**	**546,233**	**546,233**	

Reconciliation

Appropriation Statement

Figures in Rand thousand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget

2016

Accounting Policies

1. Presentation of annual financial statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

1.1 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the entity. All figures are rounded to the nearest thousand rand.

1.2 Significant judgements and sources of estimation uncertainty

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

Valuation of loans and receivables

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

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

Impairment testing of non-financial assets

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

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

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

Provisions

Provisions are raised based on management determined estimates based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

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

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

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

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

Effective interest rate

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

Taxation

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

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

1.3 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.

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

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

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

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

1.3 Property, plant and equipment (continued)

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

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

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

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

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

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

Item	Depreciation method	Average useful life
Land	Straight line	Infinite
Buildings	Straight line	40 - 60 years
Leasehold property	Straight line	6 years
Plant and machinery	Straight line	
• Transformers		55 years
• Transmission cables		61 - 85 Years
• Mini-substation		55 years
Furniture and fixtures	Straight line	6 - 20 years
Motor vehicles	Straight line	3 - 5 years
IT equipment	Straight line	3 -9 years

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

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

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

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

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.

1.4 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. 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, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Accounting Policies

1.4 Intangible assets (continued)

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.

The entity assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

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

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.

Internally generated goodwill is not recognised as an intangible asset.

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.

1.5 Financial instruments

Classification

The entity classifies financial assets and financial liabilities into the following categories:
- Financial assets at amortised cost
- Financial liabilities measured at amortised cost

1.5 Financial instruments (continued)

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

Initial recognition and measurement

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

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 amortised cost, 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.

The entity recognises financial assets using trade date accounting.

Subsequent measurement

Financial asset at amortised costs are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

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

Impairment of financial assets

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

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

Impairment losses are recognised in surplus or deficit.

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

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.

1.5 Financial instruments (continued)

Cash and cash equivalents

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

Gains and losses

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

Derecognition

Financial assets

The entity derecognises a financial asset only when:

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

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

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

Financial liabilities

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

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

1.6 Research and development expenditure

Expenditure on research is recognised as an expense when it is incurred.

An asset arising from development 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.

Accounting Policies

1.7 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 or deficit nor taxable profit (tax loss).

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

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

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

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

1.8 Leases

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

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

Finance leases - lessee

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

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

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

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

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

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

1.8 Leases (continued)

Operating leases - lessee

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

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

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

1.9 Inventories

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

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

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 that the entity incurs to acquire the asset on the reporting date.

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

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

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

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

1.10 Budget information

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

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

The approved budget covers the fiscal period from 7/1/2015 to 6/30/2016.

Accounting Policies

1.11 Related parties

The entity operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

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

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

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

1.12 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The entity will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The entity will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.13 Capital Commitments

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

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

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

1.14 Related parties

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

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

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

Accounting Policies

1.15 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

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 managed with the 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 entity; or
(b) the number of production or similar units expected to be obtained from the asset by the entity.

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

Identification

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

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

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

Value in use

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

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

Discount rate

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

Recognition and measurement (individual asset)

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

Accounting Policies

1.15 Impairment of cash-generating assets (continued)

An impairment loss is recognised immediately in surplus or deficit.

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

Cash-generating units

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

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

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

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

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

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

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

Reversal of impairment loss

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

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

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

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

Accounting Policies

1.15 Impairment of cash-generating assets (continued)

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 occurs when there is clear evidence that such a redesignation is appropriate.

1.16 Employee benefits

Short-term employee benefits

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

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

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

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

Post-employment benefits: Defined contribution plans

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

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

Post-employment benefits: Defined benefit plans

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

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

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

1.16 Employee benefits (continued)

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

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

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

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

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

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

Other post retirement obligations

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

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

1.17 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 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.

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

Provisions are not recognised for future operating deficits.

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

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

Accounting Policies

1.18 Revenue from exchange transactions

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

Measurement

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

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- 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 more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

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

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

Revenue estimation

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

Interest

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

1.19 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an entity, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

Control of an asset arise when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipal entity either receives value from another municipal entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipal entity.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably.

1.20 Prior year errors

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

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

1.21 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.

1.21 Unauthorised expenditure (continued)

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.

1.22 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.

1.23 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA:

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

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

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

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

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

1.24 Value added tax

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

1.25 Going concern

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

1.26 Income Tax

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

Accounting Policies

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

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

1.28 Bulk Purchases

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

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

1.29 Share Capital

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

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

Figures in Rand thousand 2016 2015

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after July 01, 2016 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	April 01, 2017	The impact of the amendment is not material.
• GRAP 20: Related parties	April 01, 2017	The impact of the amendment is not material.
• GRAP 32: Service Concession Arrangements: Grantor	April 01, 2016	The impact of the amendment is not material.
• GRAP 108: Statutory Receivables	April 01, 2016	
• GRAP 109: Accounting by Principals and Agents	April 01, 2017	The impact of the amendment is not material.

3. Inventories

	2016	2015
Consumable stores	83,552	172,933
	83,552	172,933
Inventory (write-downs)	(20,782)	(30,724)
	62,770	**142,209**

Inventory pledged as security

No inventories were pledged as security during the year.

4. Loans to / (from) shareholder

	2016	2015
City of Johannesburg Metropolitan Municipality - Capex loans	(2,654,151)	(2,491,434)
Sweeping account	1,699,824	1,331,603
City of Johannesburg Metropolitan Municipality - Shareholder loans	(624,793)	(624,793)
	(1,579,120)	**(1,784,624)**

Capex loans

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. The loan was fully repaid at the end of reporting period.

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

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

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

Capex loan granted in 2011. The original loan is unsecured and the loan is repayable in equal quarterly installments over the 10 year loan term. The loan bears interest at 10.9% which is compounded monthly.

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

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

Capex loan granted in 2012. The original loan is unsecured and the loan is repayable in equal quarterly installments over the 10 year loan term. The loan bears interest at 10.9% which is compounded monthly.

Capex loan granted in 2013.The original loan is unsecured and the loan is repayable in equal quarterly installments over the 10 year loan term. The loan bears interest at 10.9% which is compounded monthly.

Capex loan granted in 2014.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 9.65% which is compounded monthly.

Capex loan granted in 2015.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 10.18% which is compounded monthly.

Capex loan granted in 2016.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 9.88% which is compounded monthly

Shareholder's loans
The loans are unsecured and interest applicable is between 14.5% and 17.5% per annum. The shareholder has agreed to subordinate as much of its loan account as necessary as would enable the claims of other payables to be paid in full.

	2016	2015
Current assets	1,699,824	1,331,603
Non-current liabilities	(2,840,442)	(2,697,165)
Current liabilities	(438,502)	(419,062)
	(1,579,120)	**(1,784,624)**

Sweeping account

	2016	2015
Loans at beginning of the year	1,331,603	2,241,193
Movement during the year	368,221	(909,590)
	1,699,824	**1,331,603**

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

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

Capex Loans

Loans at beginning of the year	(2,072,372)	(1,613,138)
Loans raised	(644,119)	(890,965)
Repayments	62,340	12,669
Less amount payable within 12 months	438,502	419,062
	(2,215,649)	**(2,072,372)**

Shareholder loans movement for the year

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

Non-current liabilities		
Capex loans	(2,215,649)	(2,072,372)
Shareholder's loans	(624,793)	(624,793)
	(2,840,442)	**(2,697,165)**

Current liabilities

Loans outstanding at the beginning of the year	(419,062)	(430,853)
Transfer from long term loans	(438,502)	(419,062)
Less amounts paid during the year	419,062	430,853
	(438,502)	**(419,062)**

5. Trade and other receivables from exchange transactions

Prepayments	96,498	-
Deposits	68	68
Sundry receivables	75,416	116,237
Related party receivables	409,914	769,689
	581,896	**885,994**

Figures in Rand thousand	2016	2015

6. Consumer receivables

	2016	2015
Gross balances		
Electricity	3,089,041	2,427,784

The increase in consumer receivables comparative to the prior year is due to the lower than expected collection levels from customers.

	2016	2015
Less: Allowance for impairment		
Electricity	(684,902)	(560,475)
Net balance		
Electricity	2,404,139	1,867,309

	2016	2015
Electricity		
Current (0 - 30 days)	2,105,327	1,570,652
31 - 60 days	200,402	194,718
61 - 90 days	22,591	19,803
91 - 120 days	29,787	11,793
121 - 365 days	26,646	45,671
> 365 days	19,386	24,672
	2,404,139	**1,867,309**

	2016	2015
Reconciliation of allowance for impairment		
Balance at beginning of the year	(560,475)	(3,325,903)
Contributions to allowance	(441,984)	(689,403)
Debt impairment written off against allowance	317,557	3,467,257
Reversal of allowance	-	(12,426)
	(684,902)	**(560,475)**

Credit quality of consumer receivables

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

Trade receivables

Consumer receivables past due but not impaired

As at June 30, 2016, R 298,812 (2015: R 296,658) were past due but not impaired.

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

	2016	2015
1 month past due	200,402	194,718
2 months past due	22,591	19,803
3 months past due and older	75,819	82,137

Consumer receivables impaired

As of June 30, 2016, consumer debtors of R684,902 (2015: R 560,475) were impaired and provided for.

	2016	2015
3 to 6 months	433,542	164,414
Over 6 months	251,360	396,061

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	30	30
Cash at bank	4,096	525,569
Bank overdraft	(637)	(2,301)
	3,489	**523,298**

Current assets	4,126	525,599
Current liabilities	(637)	(2,301)
	3,489	**523,298**

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

The municipal entity has a sweeping arrangement with the City of Johannesburg Metropolitan Municipality whereby all cash is swept on a daily basis to the City of Johannesburg Metropolitan Municipality's bank account. Some of the entity's ABSA bank accounts were not swept during the finacial period which resulted in balances at the end of the reporting period. Petty cash is reflected as cash on hand. The cash owed to the entity by the City of Johannesburg Metropolitan Municipality is reflected as an amount due from the shareholder.

Bank balances consist of the following:

405439473 - ABSA Main cheque	-	54,883
4054636689 - ABSA Sundry revenue account	-	3,008
4055151238 - ABSA Electricity deposits	559	97,737
4055418357 - ABSA Prepaid account	3,536	369,940
4054394744 - ABSA Bank charges	(637)	(2,301)
	3,458	**523,267**

The entity has the following bank accounts:

4055151157 ABSA Third party payments

4055151238 ABSA Electricity deposits

4054799051 ABSA On site collections

4054799564 ABSA Unpaid collections

4054394728 ABSA Direct deposits

4054394760 ABSA Unpaid cheques

4055418357 ABSA Prepaid account

4054636689 ABSA Sundry revenue account

4054394744 ABSA Bank charges

4054394752 ABSA Salaries

Figures in Rand thousand 2016 2015

Notes to the Financial Statements

7. Cash and cash equivalents (continued)

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

8. Property, plant and equipment

	2016			2015		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	27,887	-	27,887	27,859	-	27,859
Buildings	588,930	(171,527)	417,403	481,682	(165,551)	316,131
Finance leased assets	65,250	(17,345)	47,905	35,412	(10,903)	24,509
Plant and machinery	12,716,817	(2,086,347)	10,630,470	11,144,158	(1,755,556)	9,388,602
Furniture and fixtures	28,653	(18,886)	9,767	26,961	(17,173)	9,788
Motor vehicles	510	(193)	317	1,336	(1,336)	-
IT equipment	97,129	(70,607)	26,522	93,054	(58,270)	34,784
Capital work in progress	1,524,958	-	1,524,958	1,653,894	-	1,653,894
Total	**15,050,134**	**(2,364,905)**	**12,685,229**	**13,464,356**	**(2,008,789)**	**11,455,567**

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	27,859	-	-	28	-	27,887
Buildings	316,131	-	-	107,249	(5,977)	417,403
Leasehold property	24,509	30,035	-	-	(6,639)	47,905
Plant and machinery	9,388,602	15,124	(5,041)	1,564,976	(333,191)	10,630,470
Furniture and fixtures	9,788	1,708	(6)	-	(1,723)	9,767
Motor vehicles	-	-	-	-	317	317
IT equipment	34,784	2,883	(34)	1,565	(12,676)	26,522
Capital work in progress	1,653,894	1,625,453	-	(1,754,389)	-	1,524,958
	11,455,567	**1,675,203**	**(5,081)**	**(80,571)**	**(359,889)**	**12,685,229**

Reconciliation of property, plant and equipment - 2015

Figures in Rand thousand

8. Property, plant and equipment (continued)

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	10,888	-	-	16,971	-	27,859
Buildings	209,020	887	-	110,240	(4,016)	316,131
Leasehold property	19,655	13,547	-	-	(8,693)	24,509
Plant and machinery	7,557,538	24,968	(321)	2,100,883	(294,466)	9,388,602
Furniture and fixtures	9,029	3,321	(42)	-	(2,520)	9,788
Motor vehicles	1,329	-	-	-	(1,329)	-
IT equipment	8,748	8,798	(71)	21,584	(4,275)	34,784
Capital work in progress	1,861,103	2,143,729	-	(2,350,938)	-	1,653,894
	9,677,310	**2,195,250**	**(434)**	**(101,260)**	**(315,299)**	**11,455,567**

Pledged as security

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

Borrowing costs capitalised

No interest was capitalised during the year.

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

9. Intangible assets

	2016			2015		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Additional capacity rights	235,867	(55,635)	180,232	235,867	(49,150)	186,717
Computer software	230,651	(85,497)	145,154	159,301	(56,308)	102,993
Total	**466,518**	**(141,132)**	**325,386**	**395,168**	**(105,458)**	**289,710**

Reconciliation of intangible assets - 2016

	Opening balance	Transfers	Amortisation	Total
Additional capacity rights	186,717	-	(6,485)	180,232
Computer software	102,993	80,571	(38,410)	145,154
	289,710	**80,571**	**(44,895)**	**325,386**

Reconciliation of intangible assets - 2015

	Opening balance	Disposals	Transfers	Amortisation	Total
Additional capacity rights	192,450	-	-	(5,733)	186,717
Computer software	13,908	(1,078)	101,260	(11,097)	102,993
	206,358	**(1,078)**	**101,260**	**(16,830)**	**289,710**

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

10. Finance lease obligation

Minimum gross lease payments due		
- within one year	15,616	7,891
- in second to fifth year inclusive	48,312	24,464
	63,928	32,355
less: future finance charges	(15,675)	(7,460)
Present value of minimum lease payments	**48,253**	**24,895**
Present value of minimum lease payments due		
- within one year	9,850	5,724
- in second to fifth year inclusive	38,403	19,170
	48,253	**24,894**
Non-current liabilities	38,403	19,170
Current liabilities	9,850	5,724
	48,253	**24,894**

The finance lease obligation relates to motor vehicles leases from City of Johannesburg.

The average lease term period was 6 years and the effective borrowing rate was 10% (2015: 10%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

11. Trade and other payables from exchange transactions

Trade payables	2,625,558	2,249,080
Accrual service bonus	6,422	6,635
Deposits received	25,966	16,685
Accrual for leave pay	70,080	82,724
Consumer debtors with credit balances	639,796	624,721
Related party creditor	586,136	690,347
	3,953,958	**3,670,192**

12. VAT payable

Value added tax	67,458	144,447

All VAT returns were submitted timeously during the current financial year in terms of the Value Added Tax Act.

Vat refunds totalling R163 053 395 has not yet been received from Sars. The company has been submitting vat returns on a payments basis. The completion of the vat returns are based on an approval received in 2002 from Sars. An audit was conducted by Sars for the returns submitted in August and September 2012 that gave rise to a query on the vat status of entity. Proof of approval for submission of vat returns was lodged with Sars. The legal department of Sars has confirmed that the entity can continue to complete vat returns on a payments basis subject to the entity reapplying for registration on a payments basis. The re application is in progress.The refund to the entity is not in doubt.

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

13. Provisions

Reconciliation of provisions - 2016

	Opening balance	Additions	Utilised during the year	Total
Bonus provision	53,343	63,374	(49,756)	66,961

Reconciliation of provisions - 2015

	Opening balance	Additions	Utilised during the year	Total
Bonus provisions	49,335	53,920	(49,912)	53,343

The bonus provision relates the performance bonuses that the entity expects the pay to qualifying employees. The amount is based on the performance of the financial year under review which is still to be determined. The provision is management's best estimate of the entity's liability at reporting date.

14. Employee benefit obligations

Defined benefit plan

Carrying value

	2016	2015
Present value of the defined benefit obligation-wholly unfunded	(6,196)	(7,022)
Present value of the defined benefit obligation-partly or wholly funded	(3,825)	(5,796)
Balance at end of year	**(10,021)**	**(12,818)**

The entity has obligations to subsidise medical aid contributions in respect of certain qualifying staff and pensioners and their surviving spouses. Only pensioners and employees who were aged 50 or older and were members of LA Health and Munimed are included.

The above liability is unfunded. However, the City of Johannesburg Metropolitan Municipality has undertaken to cover such portion of the liability for the staff of the entity who are entitled to benefit that relates to their service with the City of Johannesburg Metropolitan Municipality since the entity was established.

Movement for the year

	2016	2015
Opening balance	(7,022)	(2,115)
Contributions by plan participants	(545)	(188)
Gains (losses)	971	(4,658)
Benefits paid	399	-
Current cost	-	(61)
Balance at end of the year	**(6,197)**	**(7,022)**

Net expense recognised in the statement of financial performance

	2016	2015
Current service cost	-	(61)
Interest cost	(545)	(188)
Actuarial (gains) losses	971	(4,658)
Benefits paid	399	-
	825	**(4,907)**

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

14. Employee benefit obligations (continued)

Key assumptions used

Assumptions used on last valuation on 30 June 2016. The discount rates were deduced from JSE Zero Coupon bond yield after market close on 30 June 2016.

	2016	2015
Discount rates used	8.50 %	7.99 %
Healthcare cost inflation rate	7.67 %	7.63 %
Rate of increase in employer post-retirement medical contribution subsidy payment	5.38 %	7.13 %

Figures in Rand thousand | 2016 | 2015

14. Employee benefit obligations (continued)

Post-retirement gratuity plan

The entity provides gratuities on retirement or on death to certain qualifying employees who have service with the City of Johannesburg Metropolitan Municipality or the municipal entity when they were not members of one of the retirement funds and who meet certain service requirements in terms of the City of Johannesburg Metropolitan Municipality's conditions of employment. The gratuity amount is based on one month's salary per year of nonretirement funding service.

The above liability is unfunded. However, the City of Johannesburg Metropolitan Municipality has undertaken to cover such portion of the liability for the staff of the entity who are entitled to benefits that relate to their service with the City of Johannesburg Metropolitan Municipality since the entity was established.

The plan is a post-retirement gratuity benefit plan.

	2016	2015
Movement for the year		
Opening balance	(5,796)	(22,348)
Interest charged	(380)	(1,770)
Benefit paid	1,270	-
Actuarial gains or (losses)	1,081	18,322
Balance at end of year	**(3,825)**	**(5,796)**

Net expenses recognised in the statement of finacial performance

	2016	2015
Interest charged	(380)	(1,770)
Actuarial gains (losses)	1,081	18,322
Benefits paid	1,270	-
Total included in employee benefit expense	**1,971**	**16,552**

Key assumptions used

Assumptions used on last valuation on June 30, 2016. The discount rates were deduced from JSE Zero Coupon bond yield after market close on 30 June 2016.

Sensitivity Analysis

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

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

The effect of these assumptions are as follows:

	-1% in medical/salary infaltion	Valuation assumption	+1% in medical/salary inflation
Post retirement Medical aid subsidies	6,010	6,196	6,332
Retirement gratuities	3,750	3,825	3,901
	9,760	**10,021**	**10,233**

Defined contribution plan

The entity provides post-employment benefits to all their permanent employees through defined contribution funds.

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

15. Deferred income

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Infrastructure skills development grants	6,452	2,595
Public contributions: service connections	29,808	3,831
	36,260	**6,426**

Movement during the year		
Balance at the beginning of the year	6,426	23,236
Additions	143,246	272,382
Transfer to income	(107,213)	(289,192)
Repayments	(6,199)	-
Balance at the end of the year	**36,260**	**6,426**

16. Deferred tax

The deferred tax assets and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the statement of financial position as follows:

Reconciliation of deferred tax asset \ (liability)

At beginning of year	(1,701,476)	(1,472,094)
Taxable temporary differences	(156,635)	66,837
Utilised assessed loss	(62,197)	(296,219)
	(1,920,308)	**(1,701,476)**

Deferred tax analysis		
Fixed assets	(2,337,190)	(2,052,081)
Leased assets	98	107
Provisions	16,763	18,746
Prepayments	3,833	-
Deferred expenditure	(36,979)	(36,979)
Assess loss	433,167	368,731
	(1,920,308)	**(1,701,476)**

17. Consumer deposits

Electricity	470,508	402,038

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

18. Share capital and share premium

	2016	2015
Authorised		
10 000 Ordinary shares of R1 each	10	10
Reconciliation of number of shares issued:		
Reported as at beginning of year	10	10
Issue of shares – ordinary shares	-	-
Reported as at end of year	**10**	**10**
Issued		
Share premium	112,466	112,466

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

19. Financial assets by category

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

2016

	Amortised cost	Total
Loans to shareholder	1,699,824	1,699,824
Consumer receivables	2,404,139	2,404,139
Trade and other receivables	581,896	581,896
Cash and cash equivalents	4,126	4,126
	4,689,985	**4,689,985**

2015

	Amortised cost	Total
Loans to shareholder	1,331,603	1,331,603
Consumer receivables	1,867,309	1,867,309
Trade and other receivables	885,994	885,994
Cash and cash equivalents	525,599	525,599
	4,610,505	**4,610,505**

20. Financial liabilities by category

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

2016

	Financial liabilities at amortised cost	Total
Loans from shareholder	438,502	438,502
Trade and other payables from exchange transactions	3,953,959	3,953,959
Bank overdraft	637	637
	4,393,098	**4,393,098**

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

20. Financial liabilities by category (continued)

2015

	Financial liabilities at amortised cost	Total
Loans from shareholder	419,062	419,062
Trade and other payables from exhange transactions	3,670,192	3,670,192
Bank overdraft	2,301	2,301
	4,091,555	**4,091,555**

21. Revenue

	2016	2015
Sale of electricity	14,158,610	12,892,262
New service connections	90,312	212,980
	14,248,922	**13,105,242**

22. Other revenue

	2016	2015
Fees earned	12,438	26,888
Rental income	247	260
Other income	158,605	78,124
Government grants	108,583	185,821
	279,873	**291,093**

	2016	2015
Source of government grants:		
Municipal infrastructure grant	-	90,000
Department of Energy	30,801	31,000
Engineering fees contributions	54,545	52,820
COJ Housing and Capital projects	20,619	9,700
Skills development grant	2,618	2,301
	108,583	**185,821**

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

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

23. Other income

	2016	2015
Cut off fees	10,190	2,928
Demand side management levy	141,577	66,240
Disposal of obsolete materials	506	3,933
Canteen revenue	3,064	3,935
Cash discount received	179	41
Street pole advertising	1,433	(2,564)
Tender administration fees	1,656	3,611
	158,605	**78,124**

Notes to the Financial Statements

Figures in Rand thousand		2016	2015

24. General expenses

Advertising		12,882	14,222
Assessment rates & municipal charges		26,270	8,010
Auditors fees		5,052	4,504
Bank charges		1,454	858
Cleaning		142	156
Commission paid		45,401	45,167
Consulting and professional fees		148,921	155,871
Donations		285	50
Entertainment		2,568	2,840
Insurance		56,429	28,722
Conferences and seminars		1,720	2,167
Levies		8,089	7,357
Magazines, books and periodicals		70	64
Motor vehicle expenses		58,377	54,399
Postage and courier		(3)	11
Printing and stationery		2,050	2,271
Security expenses		74,848	99,139
Software expenses		2,818	49,998
Staff welfare		1,398	(8,433)
Subscription fees		542	181
Telephone and fax		46,551	24,269
Transport and freight		7,159	6,770
Travel - local		3,894	3,850
Travel - overseas		329	1,384
Tree pruning		27,316	14,708
Meter readings		16,098	11,587
Loss on disposal of assets		5,080	1,516
Cut off fees		46,158	18,302
Material issues		92,750	147,821
Sundry expenses		398	175
Eskom free electricity costs		6,251	5,614
		701,297	**703,550**

25. Employee related costs

Salaries and wages		561,928	525,992
Gratuities		1,708	1,052
Membership fees		150	393
Bursary grants		2,571	2,449
Protective clothing		2,272	4,605
Overtime payments		87,193	79,282
Bonus		63,374	53,920
Unemployment Insurance Fund		3,116	3,080
Workmen's Compensation		4,876	5,543
Leave pay charge		(8,956)	7,715
Pension fund contributions	14	79,216	80,029
Group Life Assurance		18,859	18,320
Long-service awards		10,446	6,521
13th cheques		9,816	9,934
Acting allowances		48,606	44,635
Car allowances		27,934	27,846
Cellphone allowances		6,765	6,841
Termination benefits		3,948	1,013
		923,822	**879,170**

The remuneration of staff is within the upper limits of the SALGA Bargaining Council determinations.

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

26. Administrative expenditure

Administration and management fees - related party	84,738	77,459

27. Bad debts

Increase in allowance for doubtful debt	387,706	604,740

28. Interest revenue

Interest earned - City of Johannesburg banking	85,555	90,439
Interest earned - Outstanding receivables	48,341	40,200
Interest earned - SARS	-	4,623
Interest earned - Post Retirement benefit asset	5,441	5,012
Interest earned - Bank	6,540	3,777
	145,877	**144,051**

29. Depreciation and amortisation

Property, plant and equipment	359,889	315,299
Intangible assets	44,894	16,831
	404,783	**332,130**

30. Finance costs

Group companies	352,242	312,704
Interest on late payment	54	-
Finance lease interest	2,452	2,497
Interest on Post Retirement obligation	925	1,958
	355,673	**317,159**

31. Taxation

Major components of the tax expense

Current		
Local income tax - recognised in current tax for prior periods	-	-
Deferred		
Taxation for the year	220,492	232,994
Under/(over) provision prior year	(1,660)	(3,612)
	218,832	**229,382**

Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

Income tax charge to the statement of financial performance	28.02 %	27.37 %
Non-deductible expenditure	(0.23)%	(0.21)%
Under/over provision in prior year	0.21 %	1.01 %
	28.00 %	**28.17 %**

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

32. Auditors' fees

Fees	5,052	4,504

33. Bulk purchases

Electricity	9,779,048	8,933,188

The bulk purchases for the year includes distribution losses.

Distribution losses		
Technical losses	906,280	828,953
Non-Technical losses	1,353,834	1,777,920
	2,260,114	**2,606,873**

34. Cash generated from operations

Surplus	546,233	424,452
Adjustments for:		
Depreciation and amortisation	404,783	332,130
Finance costs	355,673	317,159
Interest income	(145,877)	(144,051)
Movements in retirement benefit assets and liabilities	(2,797)	(11,645)
Movements in provisions	13,618	4,008
Annual charge for deferred tax	218,832	229,382
Loss on disposal	5,080	1,512
Changes in working capital:		
Inventories	79,439	(63,492)
Trade and other receivables from exchange transactions	304,098	(125,282)
Consumer debtors	(536,830)	(224,243)
Trade and other payables from exchange transactions	283,767	697,002
VAT	(76,989)	(19,912)
Deferred income	29,834	(16,810)
Finance lease liability	23,359	4,436
	1,502,223	**1,404,646**

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

35. Commitments

Commitments in respect of capital expenditure:

	2016	2015
Authorised and not yet contracted for		
• Property, plant and equipment	1,302,065	1,455,414
Authorised and contracted for		
• Property, plant and equipment	91,266	279,066
Total capital commitments		
Already contracted for but not provided for	1,302,065	1,455,414
Not yet contracted for and authorised by directors	91,266	279,066
	1,393,331	**1,734,480**

	2016	2015
This expenditure will be financed from		
External loans	247,505	644,125
Government grants	263,736	37,000
Internal cash	882,090	1,053,355
	1,393,331	**1,734,480**

Operating leases - as lessee

Avis Fleet Services

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

	2016	2015
Minimum lease payments due		
- within one year	25,647	22,733
- in second to fifth year inclusive	7,838	27,321
	33,485	**50,054**

Operating leases – as lessee

Kelvin Power

The lease relates to electricity capacity charge payable monthly. The amount is fixed an included in the monthly electricity consumption charge.

	2016	2015
Minimum lease payments due		
- within one year	432,849	422,649
- in second to fifth year inclusive	1,827,234	1,789,170
- later than five years	-	470,914
	2,260,083	**2,682,733**

36. Contingencies

Contingent liabilities

Judgement was granted against the entity in favour of Range Wave. The entity is currently in arbitration to determine the quantum of the liability.

City Power is currently claiming consumer debtor impairment at 100% as a tax deduction. South African Revenue Services has approved a deduction of 25%. City Power is appealing the decision of the Receiver.

Sunayla Trading and Projects a supplier is claiming R245 398 in terms of non-payment from the entity for canteen goods supplied to the entity. The matter is been defended and settlement negotiations are underway.

I Nicholson a customer is claiming damages amounting to R100 000 from the entity, arising from electrocution from a smart meter installation. The matter is being defended by the entity.

Woods a customer is claiming delictual damages amounting to R1 000 000 from the entity, arising from a loss suffered as a result of an alleged robbery by City Power contractors.

A summons was issued in favour of a customer Dlamini for delictual damages amounting to R300 000. The matter is being defended by the entity.

Mndhavhazi Trading Enterprise cc a supplier is claiming R383 119 in terms of non-payment from the entity for canteen goods supplied to the entity. The matter is being defended and settlement negotiations are underway.

PJ Bezuidenhout a supplier is claiming a sum of R35 000 000 for services rendered from the entity and other defendants. The matter is at a pleading stage.

Notes to the Financial Statements

Figures in Rand thousand	2016	2015

37. Related parties

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

Related party balances

	2016	2015
Trade and other receivables regarding related parties		
City of Johannesburg Metropolitan Municipality	405,275	769,414
City of Johannesburg Property Company (SOC) Ltd	-	3
Johannesburg Water (SOC) Ltd	36	-
Johannesburg City Parks NPC	43	272
The Johannesburg Fresh Produce Market (SOC) Ltd	4,560	-
	409,914	**769,689**
Trade and other payables regarding related parties		
The City of Johannesburg Metropolitan Municipality	571,535	686,272
City of Johannesburg Property Company (Pty) Ltd	110	53
The Johannesburg Theatre NPC	-	11
Johannesburg City Parks NPC	14,155	3,996
Johannesburg Roads Agency (SOC) Ltd	336	14
	586,136	**690,346**
Loans from related parties		
The City of Johannesburg Metropolitan Municipality	3,278,944	3,116,226
Loans to related parties		
The City of Johannesburg Metropolitan Municipality	1,699,824	1,331,603
Finance leases liability		
The City of Johannesburg Metropolitan Municipality	48,253	24,894

Figures in Rand thousand 2016 2015

37. Related parties (continued)

Related party transactions

	2016	2015
Revenue from related parties		
City of Johannesburg Metropolitan Municipality	203,643	186,494
Johannesburg Social Housing Company (SOC) Ltd	2,413	-
Johannesburg Metropolitan Bus Services (SOC) Ltd	2,544	-
City of Johannesburg Property Company (SOC) Ltd	-	24
Johannesburg Water (SOC) Ltd	72,496	61
Johannesburg Civic Theatre (SOC) Ltd	4,399	-
Johannesburg City Parks NPC	5,065	238
Johannesburg Development Agency (SOC) Ltd	707	-
Johannesburg Roads Agency (SOC) Ltd	15,829	-
The Johannesburg Fresh Produce Market (SOC) Ltd	37,277	-
Pikitup Johannesburg (SOC) Ltd	2,709	-
	347,082	**186,817**
Purchases from related parties		
City of Johannesburg Metropolitan Municipality	506,146	422,634
City of Johannesburg Property Company (SOC) Ltd	146	52
Johannesburg Water (SOC) Ltd	6,242	-
Johannesburg Civic Theatre (SOC) Ltd	8,640	62
Johannesburg City Parks NPC	30,838	19,815
Johannesburg Roads Agency (SOC) Ltd	283	144
Pikitup Johannesburg (SOC) Ltd	1,260	-
	553,555	**442,707**

All related party transactions are at normal trade terms.

Notes to the Financial Statements

Figures in Rand thousand

38. Directors' emoluments

Executive

2016

	Emoluments	Other benefits*	Travel allowance	Performance bonus	Total
Mr SG Xulu - Managing Director	2,457	218	128	-	2,803
Mr Q Green - Director:Finance	2,355	187	96	215	2,853
Ms MS Mafora - Director: Corporate services (Resigned: 31.10.2015)	881	33	30	-	944
Ms NF Msiza- Director:Risk,Assurance & Compliance	2,044	166	96	196	2,502
Mr TG Nkgoedi-Director:Retail Services	1,735	138	-	145	2,018
Mr TM Nzimande-Director:Engineering Services	1,809	143	-	159	2,111
Mr MJ Smith-Company Secretary	1,107	100	93	105	1,405
Mr L Setshedi - Acting Director: Metering	1,131	102	111	101	1,445
Mr GS Webb: Acting Director: Engineering operations	1,370	24	-	-	1,394
Mr B Nakeng - Acting Director: Corporate Services (appointed: 01.01.2016)	1,119	118	121	117	1,475
	16,008	**1,229**	**675**	**1,038**	**18,950**

2015

	Emoluments	Other benefits*	Travel allowance	Performance bonus	Total
Mr SG Xulu - Managing Director	2,356	271	128	196	2,951
Mr Q Green - Director: Finance	2,230	185	80	-	2,495
Ms MS Mafora - Director: Corporate services	1,419	140	118	216	1,893
Ms NF Msiza - Director:Risk, Assurance & Compliance	1,928	165	96	88	2,277
Mr TG Nkgoedi - Director: Retail Services	1,641	139	-	184	1,964
Mr TM Nzimande - Director:Engineering Services	1,710	161	-	84	1,955
Mr MJ Smith - Company Secretary	1,021	80	93	166	1,360
Mr GS Webb - Acting Director: Engineering Operations	1,238	132	121	120	1,611
	13,543	**1,273**	**636**	**1,054**	**16,506**

Non-executive

2016

	Directors' fees	Committees fees	Directors' fees for services as directors' of subsidiaries	Total
Rev F Chikane-Chairperson	360	4	-	364
Mr NE Galawe	89	1	-	90
Mr NSA Hlubi	158	2	-	160
Mr VG Lukhele	179	2	-	181
Ms S Makotoko	173	2	-	175
Ms NP Mahlala	240	3	-	243
Mr DR Mokhobo	181	2	-	183

Figures in Rand thousand

38. Directors' emoluments (continued)

Mr D Naidu	259	3	-	262
Mr TI Sithole	245	2	-	247
Ms ML Shongwe	45	-	-	45
Mr W Hattingh	91	1	3	95
Ms L Olagunju	24	-	-	24
	2,044	**22**	**3**	**2,069**

2015

	Directors' fees	Other allowances	Travel allowances	Total
Rev F Chikane - Chairperson	275	3	1	279
Mr NSA Hlubi	208	2	-	210
Ms ZD Hlatshwayo	36	-	-	36
Mr NSA Hlubi	199	2	-	201
Mr V Lukhele	61	1	-	62
Ms S Makotoko	67	1	-	68
Ms S Makotoko	162	2	-	164
Mr DR Mokhobo	228	2	-	230
Mr D Naidu	235	2	-	237
Dr Y Ndema	34	-	-	34
Ms M Shongwe	28	-	-	28
Mr TI Sithole	163	-	2	165
Ms LJ Fosu	14	-	-	14
Mr W Hattingh	84	1	3	88
Mr H Moolla	63	1	-	64
	1,857	**17**	**6**	**1,880**

Figures in Rand thousand

39. Change in estimates

Property, plant and equipment original useful lives have been reassessed as per table below in the beginning of the current financial period to reflect the actual pattern of service potential derived from the assets. The depreciation is to be calculated on a straight line bases for the remaining useful life of the assets.

	Useful life3 extentions
Motor Vehicles	2 - 3 years
IT Equipment	1 - 5 years
Plant and machinery	3- 8 years
Furniture and fixtures	2 - 9 years

The change in asset useful lives had the following effect on depreciation:

Heading	**Current year (decrease)**	**Future years (increase)**
Motor vehicles	(317)	317
Plant and machinery	(619)	619
Furniture and fixtures	(755)	755
IT equipment	(943)	943
	(2,634)	**2,634**

Bonus Provision

The base of the calculation for performance bonus was changed in the current financial year. The change in calculation resulted in an increase in the bonus provision of R13 618 000 in the current financial year. It is improbable for the entity to determine future impact due to the change in estimate.

40. Prior period error

During the year it was discovered that revenue for the 2014 and 2015 financial years were misstated. The accrual estimates from electricity sales in the respective years were overstated which resulted in the misstatement in revenue.

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

Statement of financial performance

FY 2014		
Decrease in revenue	147,789	-
FY 2015		
Decrease in revenue	165,239	-

Statement of financial position:

FY 2014		
Decrease in consumer receivables	147,789	-
FY 2015		
Decrease in consumer receivables	165,239	-

Figures in Rand thousand

41. Risk management

Financial risk management

The entity has an integrated risk management framework. The entity's approach to risk management is based on risk governance structures, risk management policies, risk identification, measurement and reporting. Three types of risks are reported as part of the risk profile, namely operational, strategic and business continuity risks. Operational risks are events, hazards, variances or opportunities which could influence the achievement of the entity's compliance and operational objectives. For the entity a strategic risk is a significant unexpected or unpredictable change or outcome beyond what was factored into the organisation's strategy and business model which could have an impact on the group's performance. Business continuity risks are those events, hazards, variances and opportunities which could influence the continuity of the entity.

One of the risks for entity identified both under the operational and strategic risk categories, is the financial sustainability of the entity. The financial risks and the management thereof, form part of this key risk area. The types of financial risks which are considered to form the major part of the risk profile of the entity are liquidity risk, credit risk and market risk.

The Board of directors have delegated the management of enterprise-wide risk to the audit committee which operates through various sub-committees. One of the committee's objectives is to ensure that City Power is not unduly exposed to financial and market risks. The entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the entity's financial performance. Treasury Risk management is carried out by a central treasury department under policies managed by the City of Johannesburg Metropolitan Municipality. Treasury Risk management identifies, evaluates and hedges financial risks in close co-operation with the municipal entity's operating units.

Interest rate risk

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

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

The entity analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the entity calculates the impact on surplus/deficit of a defined interest rate shift.

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year				
Consumer receivables	9.00 %	2,404,139	-	-	-	-
Trade and other receivables	9.00 %	581,896	-	-	-	-
Loans to shareholder	9.00 %	1,699,824	-	-	-	-
Trade and other payables	9.00 %	(3,953,959)	-	-	-	-
Loan from shareholder	11.00 %	(438,502)	-	-	-	-
Finance leases	10.00 %	(9,850)	-	-	-	-

Credit risk

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

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

Figures in Rand thousand

41. Risk management (continued)

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

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

Trade and other receivables	581,896	885,994
Loans to shareholder	1,699,824	1,331,603
Consumer receivables	2,404,139	1,867,309

Price risk

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

Distribution Losses

The electricity energy losses can be classified into technical losses and non-technical losses, during 2015/16 financial year.

The entity's technical losses for the year are measured at 9%, amounting to R906 279. Technical losses relates to energy that is lost in the transportation of electricity from the point of supply to point of distribution through evaporation.

The entity's non-technical losses decreased from 19.30% to 13.44%. The non-technical losses are attributable mainly to the following:
- Theft and bypass of meters
- Illegal decalibration of meters
- Damaged meters and faulty voltage and current transformers
- Billing errors
- Customers without meters

As part of the entity's strategy to continuously reduce the impact of non-technical losses, the following interventions have been implemented and are being reviewed and improved on an annual basis:
- Installation of automatic meter management systems, for both large and small power users i.e. automated metering technologies
- Continuous replacement of faulty conventional and pre-paid meters
- Automation of process to acquire new customers and change of meters (through the implementation of automated workflow and escalation system)
- Utilisation of anonymous “hot line” to report theft, vandalism and tampering
- Random and targeted audits are performed, followed by removal of illegal connections and normalisation supply

Figures in Rand thousand

41. Risk management (continued)

Liquidity risk

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

The entity 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 entity's funding is managed by the City of Johannesburg Metropolitan ity. 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, entity treasury maintains flexibility in funding by maintaining availability under committed credit lines.

42. Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure		
Opening balance	-	-

A possible incident of wasteful expenditure is being investigated. Payment has not been made as yet.

43. Irregular expenditure

Reconciliation of irregular expenditure		
Opening balance	14,727	-
Procurement of good and services without competitive bids and written price quotations	-	14,727
	14,727	**14,727**

The expenses were incurred in normal cause of business. The actions does not represent improper conduct by the employees however it falls within the definition of irregular expenditure as defined by MFMA.

44. Reportable supply chain deviations in terms of regulation 36 (1) (a)

Emergency upgrade of 88kV switchyard R8 053 276.

Emergency procurement of Hydraulic oil R42 037.

Emergency repairs to Bordeaux and Randburg 6,6kv substations R786 590.

Emergency repairs to transformer at Eikenhof substation R389 768

Emergency repairs to Khanyisa substation due to fire demage R13 000 000.

Emergency procurement of low level stock items R805 845.

Contract for meters awarded R422 885 640.