City Power

annual report 2002 – 2003

Lighting the way

Joburg

City Power Johannesburg

Contents

City Power Johannesburg. Lighting the way.

Vision

To be a world-class electricity utility striving for the social and economic development of our region.

Mission

We meet the expectations of our customers and stakeholders by:

- Providing a sustainable, affordable, safe and reliable electricity supply
- Providing prompt and efficient customer services
- Developing and incentivising our employees
- Being the preferred equal-opportunity employer
- Undertaking our business in an environmentally-acceptable manner

Values

- Respect
- Honesty
- Loyalty
- Ethical business conduct
- Pride and ownership
- Service excellence
- Superior performance
- Team culture

Transformation: Operating principles

We meet the expectations of our customers and stakeholders by:

- Providing a sustainable, affordable, safe and reliable electricity supply
- Providing prompt and efficient customer services
- Developing and incentivising our employees

Implementing the 50 kWh of free electricity we have made it possible for many people in our previously disadvantaged communities to access electricity.

Highlights

- Customer satisfaction improved from 40% to 65%
- Collected R220 million in arrear debts
- Established a call centre which improved customer relationships
- 10 000 key customers migrated to the SAP system
- Introduced 50 kWh basic free electricity per month
- Achieved 59% of BEE procurement
- Achieved 64% of affirmative action

Achievements

- We have adequately resourced all structures
- Performance management system is in place
- City Power brand is extensively marketed in and outside South Africa
- Critical policies are in place
- Our corporate image continues to improve
- Our reporting as a business is world class
- All new employees have been inducted into the business
- We have restored customer confidence with regard to quality of electricity supply and the maintenance of our network
- Our employees are business focused and deliver according to set deadlines
- City Power has appointed quality employees
- We are profitable as a company

Highlights and achievements

The company achieved 59% on affirmative action procurement. The company is still committed to increasing the number of black companies we do business with.

Gender equity

As part of our social responsibility and commitment to gender equity, City Power has taken its first group of 30 women with the aim of training them as electricians and where possible offer them employment upon completion of the programme.

Board of Directors

1
TSHABALALA, ANDRIES
Chairman of the Board of directors
Appointed: 1 January 2001

2
MOHLALA, MK
President and Chief Executive
Appointed: 1 February 2001

3
KÜGEL, LES
Appointed: 1 July 2001

4
KOEN, JPL (KOOS) PROF
Appointed: 1 July 2001

5
SIMELANE, GETTY
Appointed: 1 July 2001

6
NYEMBEZI, NDO
Appointed: 1 July 2001

7
ADAM, NAEEM
Appointed: 1 July 2001

8
REDDY, LEILA
Appointed: 1 July 2001

9
GALENI, NOMFUYO
Appointed: 1 July 2001

10
MAREE, JOHN DR
Appointed: 1 January 2001

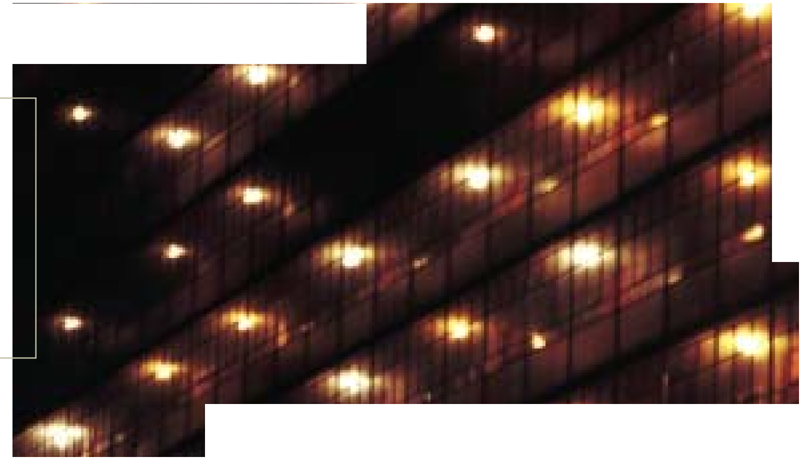
11
PATEL, FAZILA
Company secretary

12
PILLAY, NIVEN
Appointed: 1 July 2001

Chairman's statement

Mr Andries Tshabalala
Chairman

Johannesburg's transition from a low skilled workforce to a high skilled and technical service base enterprise requires access to services such as electricity. City Power has truly succeeded in meeting this challenge.



City Power Johannesburg (Pty) Limited was established on 1 November 2000. It is an autonomous company, governed by the Companies Act and wholly owned by the City of Johannesburg.

City Power was formed as part of the city's three-year strategic plan of transforming metropolitan functions to ensure enhanced and more cost-effective service delivery. As such, although City Power is autonomous, it does not operate in isolation. The city's key strategic objectives guide all City Power's initiatives:

- Economic growth and job creation
- Service delivery excellence
- Good governance/customer care
- Public safety and security
- Inner city rejuvenation
- War against HIV and Aids.

Operating environment

Johannesburg generates a gross domestic product of some R117 billion – 40% of Gauteng's GDP and 16% of the country's GDP. It is the largest single metropolitan contributor to national economic growth. For the past 10 years, Johannesburg has marginally outpaced national average GDP growth of 2,0% and 1,8% respectively. It provides 12% of national employment, some 840 000 jobs in over 290 000 formal business enterprises. Unemployment in the city has risen in the past three years from 27% to 30%.

It is a city in economic transition, having grown from mining town into a financial and services capital. The city now faces the greatest challenge of all – becoming a knowledge capital. Johannesburg's transition – away from low-skilled work towards a high-skilled service-based enterprise – requires access to advanced services such as telecommunications and a high reliability of basic services, such as electricity.

There are great income disparities – almost half the 800 000 households in the city earn less than R3 500 per month. Rapid increases in urbanisation have resulted in extensive informal settlements that require access to basic services, such as electricity. This places pressure on City Power's electrification programme, given estimates that some 2 000 people per month are establishing themselves in the geographical area of the city, not all within City Power's boundaries.

Employment has increasingly moved towards informal economic activities, from 9,6% of jobs in 1996 to 16,1% of jobs in 2000. Trading, services and manufacturing have seen phenomenal growth over this period.

Legislation

To transform the electricity sector, the Department of Minerals and Energy developed a national electricity distribution industry restructuring process. Currently, South Africa's electricity distribution is undertaken by Eskom and some 253 local government electricity departments, many of which are not financially viable. Large discrepancies exist between the quality of service, delivery of electrification targets and tariffs. To address these issues, the state plans to split the operations of Eskom's distribution division and merge these with local government electricity departments to form regional electricity distributors (REDs).

In March 2003, EDI Holdings (Pty) Limited was formed to project manage the electricity distribution process. The first RED is now planned for 2005.

Expectations

Against the background of City Power's operating environment and current and pending legislation, the board has set ambitious short and long-term targets and objectives for the company:

- Remain profitable
- Focus on key customers
- Improve collections
- Improve communication with stakeholders
- Maintain healthy relationships between the shareholder, Contract Management Unit and the Board
- Comply with corporate governance requirements
- Produce quality management reports on time
- Develop and train employees
- Enforce the employment equity act
- Support black economic empowerment

After two full years of operation, City Power has made commendable progress in many of these areas, exceeding targets in some.

Appreciation

A company is as strong as its workers. City Power is proving that by attracting and retaining the best in its industry – talented, skilled and energetic people who daily demonstrate their commitment to the company's vision of becoming a world-class electricity utility, striving for the social and economic development of the region. Their commitment is mirrored in the dynamic management team that has guided City Power so successfully in its first years, putting in place the building blocks that will determine its future.

I thank my fellow board members for their support during my term as chairman. They are talented people with diverse skills who are all committed to ensuring that City Power achieves its business targets and continues to light the way.

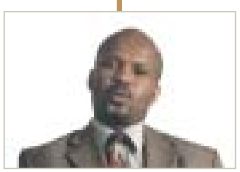
Andries Tshabalala
Chairman
1 January 2004

Organisational structure

City Power has proven beyond doubt that it is possible to attract and retain people who are talented, skilled and energetic. These are individuals who live the company's image of being a world-class electricity utility striving for the social and economic development of the region.

MK Mohlala
President and Chief Executive Officer

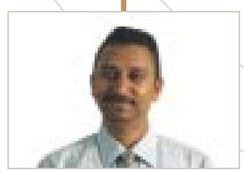
Fortune Nthloro
Vice President: Commercial services



Brian Leshnick
Vice President: Finance

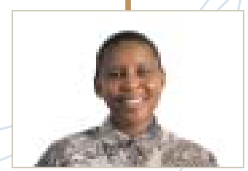
Silas Zimu
Vice President: Customer services

Vally Padayachee
Vice President: Operations group



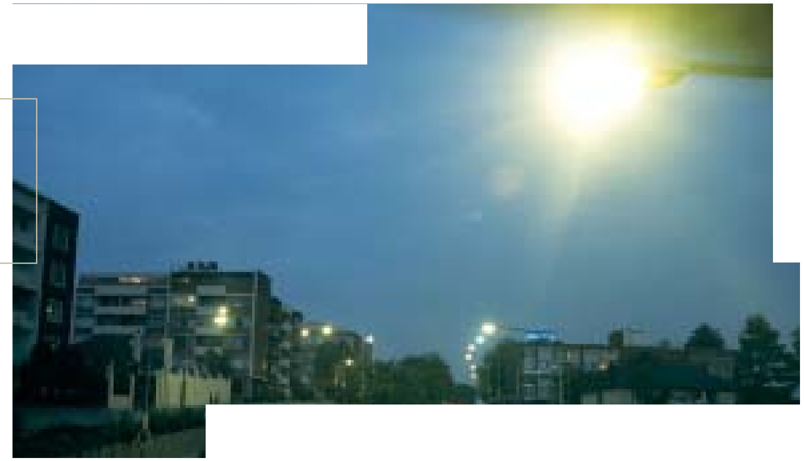
Roy Smith
Executive Consultant: Transformation and strategy

Ntokozo Hlubi
Acting Vice President: Corporate services



President and CEO's statement

The payment levels of our top customers exceeded 105% while the collection of arrear debts exceeded targets by 38%.



MK Mohlala
President and Chief Executive Officer

On an industry level, we welcome the formation of the holding company that will give impetus to transformation in the electricity distribution industry and will compel utilities to change the way they work in meeting customer demands. City Power is very well positioned to play a key role as a regional electricity distributor (RED), given that our transformation process is well under way.

The national transformation process, while involving uncertainty inherent in any new process, presents a great opportunity for South Africa, geared to a common goal. Importantly, it must build on the original objectives of affordability, services, international competitiveness, profitability and an ongoing investment in the electricity networks.

City Power also supports and welcomes the initiatives under way to transform our country through black economic empowerment and our continent through NEPAD. It is imperative that this process loses no momentum through a lack of skilled people. Each industry has a social duty to develop the required skills, as City Power is doing with its first intake of 30 women in training as electricians.

Our progress in our first two financial years was noteworthy and every group in the company recorded significant achievements. It is with great pleasure that I present the results for this period.

Results

Turnover for 2003 rose 15% from R2,3 billion to R2,65 billion, resulting in a profit of R64 million. Payment levels for our top customers were excellent at 105% and the collection of arrears was by 38% above target.

President and CEO's statement *continued*

> City Power's business model and success are attracting international interest with the company hosting visitors from West Africa, Europe, Asia and the Middle East.

Operating expenses were well controlled during the period. Capital expenditure for the period was R369 million, reflecting the capital requirements needed for the short to medium term to ensure continuing and improved service delivery standards. Capex is expected to peak in 2005.

Interest of R248,3 million was paid to our shareholder.

Highlights

Operational highlights appear elsewhere in this report. I comment here on strategic highlights that will underpin City Power's progress in future.

City Power's transformation into a unified and representative business is proceeding very well. We have exceeded the targets of our empowerment procurement plan and our progressive human resource policies ensure that we attract the right calibre of staff to strengthen our team.

Our customer service structure and policy of key customer accounts is showing measurable results. Regular customer service forums ensure that we truly understand the needs of our customers and develop the products and services to meet those needs.

Additional modules of the sophisticated SAP technology platform have been installed and give City Power the capacity to manage up to one million customers. This is a competitive advantage once industry transformation really gets under way.

Our interaction with all stakeholders reflects our commitment to continually improving service delivery mechanisms and enhancing a culture of payment for that service. Good progress has been made in reducing illegal connections and educating consumers about the safe use of electricity. The identification of outdated accounts has contributed to strengthening our cash reserves.

By implementing our new metering strategy and appointing experienced people to manage the process, meter reading has improved from 70% to 92% and the quality of data improved commensurately.

The quality of City Power's network is showing incremental improvement in identified areas of concern. This is the result of working closely with suppliers to develop innovative solutions, given our capital expenditure constraints. New sub-stations, for example Randburg, have been built to meet demand and ensure the quality of supply. Much progress has been made in Alexandra, Lenasia and the inner city of Johannesburg.

The introduction of a work management centre is already showing benefits, enabling City Power to manage outages far better. Further benefits are expected in future.

Importantly, City Power's business model and early successes are attracting international interest, with visitors from Africa, Europe, Asia and the Middle East received during the period.

Our relationship with our shareholder is extremely positive. Because we have so closely aligned City Power's objective with those of our shareholder, we are often cited as the leading example of the relationship that can exist between a corporatised utility and the city.

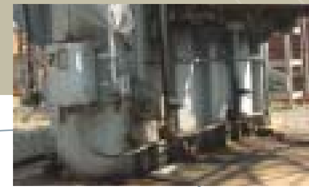
Equally, our relationships with our two unions have enabled City Power to undergo wide-scale and rapid transformation with their full support.

As a young company with ambitious targets, we have concentrated on our core competencies while making progress towards the social imperatives that are an integral part of our business. From sponsoring organisations focused on technical skills development to supporting school sport in underprivileged areas, City Power is fulfilling its social responsibilities, nurturing the relationship with our customers.

Prospects

Building on the successes of the past two years, City Power will focus on building the relationships with key customers and all stakeholders, and on improving the quality of supply and service which will translate into improved collections and lower arrears.

We will continue to concentrate on improving the quality of our network to enable City Power to connect more areas and roll out the free 50 kWh per month project to more households. In tandem with further improving our meter-reading capabilities, we will enhance systems and processes to reduce illegal connections and incidents of cable theft.



Maintaining and improving our profitability must be balanced by keeping our service affordable while complying with the requirements of the regulator and ensuring our employees are prepared for the introduction of regional electricity distributors.

By building on the partnership between City Power, the City of Johannesburg, Eskom and our customers, we are moving towards creating a successful network that will be part of the social system.

Appreciation

Our first years carry memories of hard work, lessons learned and many triumphs. Our progress is a reflection of teamwork, commitment, energy and enthusiasm and I thank every one of our 1 995 people for their contribution. Your spirit and drive has been both inspiring and humbling.

I thank the representatives of our shareholder and the regulator and staff for their valuable contributions and continued support.

Most importantly, I thank our customers for their constructive input, their co-operation and their willingness to work with us as we strive to achieve our vision.

MK Mohlala
President and Chief Executive Officer
1 February 2004

Social responsibility report

City Power through the Communications Department embarked on several community empowerment projects. The projects aimed mainly at empowering communities while at the same time improving our company profile. Some of these projects also assisted in educating the community about issues such as the safe use of electricity, cable and electricity theft and payment of electricity supplied to the customers. A major commitment of the company's social responsibility has been the introduction of the 50 kWh of free basic electricity. The report here below indicates some of the community projects the company has been involved in.

Free basic electricity

City Power introduced this as part of the City of Johannesburg and the National Government's commitment to ensure that all South Africans have access to electricity. These commitments are in line with City Power's mission to ensure that all people in our region of operation have access to electricity.

City Power Johannesburg began the supply of the 50 kWh of free basic electricity in July 2002 in line with the objectives stated above. The following table indicates the amount of money that City Power has already incurred on this project as well as the projections into the next financial year.

Actual 2002 – 2003	Forecast 2003 – 2004 (with new tariff increase)
R36,6 million	R42 million

The table above indicates the projected impact that Eskom's new tariff increase will have on City Power's provision of free basic electricity.

The company has also used a substantial amount of money with regard to community empowerment in the Alexandra township. These moneys have been utilised with regard to outsourcing certain tasks to companies in Alexandra and also supplying schools in the area with soccer uniforms and other equipment that were needed for the schools' soccer tournament in the township.

In embarking on this tournament, City Power achieved the following:

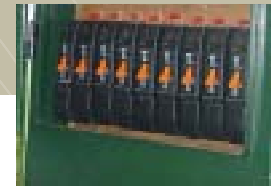
(i) Empowering Alexandra schools with soccer uniforms and soccer balls.
(ii) Educating Alexandra learners about electricity safety, payments for electricity and the prevention of vandalism of electricity equipment in the township.
(iii) Contributing to the improvement of the learners' health through sports.
(iv) It contributed to the reduction of crime in the area through removing schoolchildren from the streets and keeping them occupied with sports.
(v) It contributed to increasing the public image of the company in the community while also facilitating good relations with the people of Alexandra.

The organisation is presently looking at possibilities of using some of the carpets, cabinets and other equipment that are being removed from the offices to empower selected communities in our area of supply. There is already an evaluation under way to determine which materials will be used for community empowerment. Community empowerment by City Power will therefore continue into the new financial year and beyond.

Internal audit

List of achievements

- Established an internal audit division, in line with King II
- Hired professional staff from the private sector, of which all of them have full membership of the Institute of Internal Auditors
- Developed a three-year strategic plan for corporate audit
- Developed a risk based operational plan for corporate audit
- Conducted two risk assessment workshops with senior management at City Power
- Conducted more that 40 audit assignments in 2002/2003
- Established an audit committee, with clearly defined terms of reference



- Developed an audit charter, which clearly defines the responsibility and authority of corporate audit. This is in line with the standards for the professional practice of internal auditing

Employment equity status

After completing the status of employment equity in City Power, the following objectives were achieved. Employment equity is not only a legal requirement for City Power, but it also makes good business sense.

- All employees are aware and informed of the content and application of the Act
- City Power set a target of 40% on affirmative action to change the racial composition at all occupational levels and categories. This target was exceeded because it was noted that black representation were lacking. Blacks now constitute 64% of supervisory and management echelons
- An employment equity policy was developed and approved by the Board. The policy was developed to serve as a standard of performance when monitoring progress with antidiscrimination measures and it also promotes continuity of the antidiscriminatory principles
- An employment equity forum has been established to monitor targets set by the company and recommend best practice on all HR related matters to managers
- Three-year employment equity plan has been developed and communicated to all stakeholders
- Affirmative action measures to be achieved have been clearly stated
- Sensitise managers and supervisors to biases, sexism and harassment
- City Power has complied fully with all requirements of the Act
- After reviewing progress, it was determined that the pace of change would be accelerated by holding management accountable for targets
- Although EE was implemented successfully, the strategy for the new financial year will be to focus on improving the representation of women particularly in operations and technical fields and the recruitment of people with disabilities.

Expansion of network

City Power succeeded in electrifying many informal settlements across Johannesburg. This has made it possible for many people from the previously disadvantaged communities to access electricity as well as being able to engage in some economic activities in their areas.

Operations

City Power and in particular the operations group has made it possible to achieve a high rate of electrification across the City of Johannesburg.

Mr Vally Padayachee
Vice President: Operations group
Age: 48
Appointed: 1 April 2001
*MBA,MSc (Eng), EDP (Wits),GCC, ECSA

Operations

Profile

This group is responsible for supplying electricity that is both safe and environmentally friendly by:

- Procuring the cheapest electricity of acceptable quality;
- Efficiently and effectively distributing electricity;
- Maintaining and operating the network infrastructure;
- Providing and maintaining public lighting infrastructure; and
- Providing appropriate network infrastructure.

Its functions include operating, engineering, maintenance, technology, minor and major planning, public lighting, safety/health and environmental risk, product development and tariffs and related support services.

Progress

The strengthened and experienced operations team recorded excellent results in 2003, building on the material progress made in 2002 despite considerable challenges. Highlights for 2002 included:

- Dedicated public lighting department formed and policy document finalised, resulting in improved service levels and accolades from dignitaries at international events such as the World Summit on Sustainable Development. Dignitaries who praised City Power for a job well done included United Nations Secretary General Kofi Annan.
- New maintenance strategies, systems and policies addressed some of the challenges posed by an aged network;
- The disabling injury frequency rate was reduced from 4,5 in the previous year to 1,34;

Operations *continued*

In our short period of existence City Power has already achieved two million injury free hours as well as the NOSA three star award.

- Purchase power agreements with Eskom and Kelvin were well managed, resulting in significant savings, lower unit prices and higher volumes of energy purchased;
- All required measuring equipment was installed to comply with the NER's NRS 048; and
- A master plan and strategy document were developed for the Alexandra renewal project.

Highlights for 2003 include:

- Fewer power failures and a declining trend of outages, despite the age of the network which ranges between 35 and 80 years. This achievement reflects careful management of both capital expenditure and operating expenditure.
- A capital plan was implemented to ensure optimal use of capital expenditure, with an excellent 100% deployment recorded in the period (up from 40%).
- The operations team was strengthened with the appointment of experienced professionals and good relationships were developed with organised labour.
- The disabling injury frequency rate was again reduced to 1,33 against a target of 1,50, reflecting the benefits of intensive training and development and heightened safety awareness throughout the unit.
- Two million injury-free working hours recorded.
- Electrification targets were exceeded in the Alexandra renewal project, where City Power has invested considerable capital to address pressing socio-economic needs.

Prospects

In 2004, the operations group will focus on the implementation of work management solutions, which offer significant benefits in cost savings and streamlined processes for improved productivity. While the maintenance and refurbishment of the network remains a key challenge, optimal use of available capital expenditure will further improve our ability to provide a sustainable supply of electricity.

Customer services

Mr Silas Zimu
Vice President: Customer services
Age: 36
Appointed: 1 August 2001
* BEng (Hons) (UK), MSc (UK)

Customer relationships are driven by feelings and intangible factors without which everything could be sold by direct mail and most companies would drown if they were to entrust their customer relationships to the postman.

Customer services

Profile

This group is responsible for ensuring improved customer service and satisfaction by focusing on the electricity needs of customers in Johannesburg. It also manages billing, customer collection and credit control for City Power's top 10 000 customers, mainly large companies.

Progress

During 2002, the customer services group concentrated on implementing the systems and procedures required to ensure the smooth transition of the first 10 000 customers from the old Joburg Metro to City Power. Highlights included:

- Service agents at the new call centre were trained to deal with an average of 40 000 calls per month.
- Five walk-in centres were well received by customers and developers as a single-source customer service centre for queries, applications and payments. These are supplemented by 10 people centres in City Power's regions.
- City Power's tariff plan involved a massive exercise to rationalise the discrepancies between municipal tariffs in the company's areas of service. City Power has met over 40% of the regulator's minimum standards for utilities and will concentrate on increasing this to 100% by 2007.
- City Power's initiative to provide 50 kWh of free electricity to domestic customers in its areas of supply was approved by the shareholder. This was one of the first initiatives of its kind in the country and is of particular benefit to customers in poorer communities.
- A bimonthly customer satisfaction index has increased from 61% to 70%.
- Regular customer forums provide a valuable base for feedback and improved customer service, with City Power's key customer

Customer services *continued*

Regular customer forums have made it possible for us to interact with our customers, to understand their problems and also to solve them as soon as they happen. This has really gone a long way in improving relationships between us and our key customers.

executives ensuring they understand the customer's business processes and therefore the customer's electricity needs. Key customer forums were well attended by the regulator, customers, suppliers and politicians alike.

- Significant progress was made in the normalisation of electricity supply and infrastructure in Alexandra. The network was upgraded, illegal connections removed and new infrastructure and remote metering installed.

With appropriate resources in place, the customer services group made progress on several fronts during 2003, including:

- Implementation of key value chains to transform the company into a technology-enabled entity, supported by the launch of Internet and intranet sites.
- Successful implementation of the SAP support project and an extensive data clean-up to reduce the number of returned bills, and identify unbilled customers.
- Streamlined call centre operations, training and customer education have improved all stakeholders' relations, internally and externally. Customer service activities realigned to comply with regulator requirements (NRS 047).
- Meter-reading levels improved to 92%, collection targets substantially improved and the total debtors' book reduced.
- Programmes implemented to remove illegal connections.

Prospects

Whilst City Power's operation area is demarcated, there are significant development nodes where the company expects to attract corporate customers through its service levels and flexible tariff structures. Through the ongoing training and development of our people, enhancing of our infrastructure and further strengthening our relationship with the regulator, City Power will be well positioned to attract and retain customers.

Commercial services

Through the tender advice centre, we have created an excellent opportunity for our small and medium enterprises to do business with us. This has made it easy for these small companies to access numerous empowerment opportunities that City Power offers to BEE companies.

Mr Fortune Moleki Nthloro
Vice President: Commercial services
Age: 37
Appointed: 1 June 2001
* BCom (Hons)

Commercial services

Profile

This group is responsible for supply chain management, stores and distribution, loss control, fleet and transport, reverse logistics and business support services, empowerment procurement, and building and works.

Progress

During 2002, the group successfully implemented its supply chain management model in line with approved policies and procedures and resulting in considerable cost savings. World-class procurement governance structures and cross-functional sourcing teams facilitated a 7% reduction in procurement expenditure for that year.

During 2003, the group launched a strategic sourcing project, acknowledged as one of the best in the industry. This is expected to deliver significant cost savings in future. The establishment of a capital expenditure store has more than halved stockholdings, improved controls and working capital management.

The department recorded a substantial reduction in non-technical losses for the year. The introduction of a world-class incident risk information management system is expected to further reduce losses.

The success of the group's innovative reverse logistics management programme (sale of redundant items) is reflected in income of R3,2 million for City Power – up from R500 000 in 2001 – and the President's Award for the group.

Commercial services *continued*

Over R418 million was spent on black companies and City Power is still committed to increasing on these figures in the future.

A tender advice centre was established for suppliers, particularly SMEs, and the concept will be rolled out to other City Power regions in due course.

Given the nature of City Power's business, fleet availability is an essential element in customer service. During 2003, fleet availability was maintained at 98%, with fully-trained drivers and 500 compliant vehicles.

The target for discretionary spending with empowerment companies was met, with R418 million or 59% spent with black companies – up from 14% in City Power's first year.

Prospects

The focus on total cost of ownership and strategic sourcing is expected to deliver material cost savings going forward. Ambitious targets have been set for the new financial year, spanning empowerment procurement, fleet and operational costs, reverse logistics and inventory management.

Corporate services

A highlight of 2003 was the agreement with unions on new conditions of service, following a massive exercise to rationalise numerous existing agreements. This reflects the good relationship City Power has built with its two unions.

Ntokozo Hlubi
Acting Vice President: Corporate services
Age: 41
Appointed: As general manager Human Resources, May 2001
* MCur

Corporate services

Profile

The group is responsible for ensuring that City Power employees enjoy the best working environment in the industry and operate at consistently high levels of productivity, in line with the company's vision, values and strategic intent.

Progress

During 2002, the group focused on implementing approved human resource policies and procedures. A retirement fund with attractive benefits was introduced for new employees and medical aid benefits extended to all employees, supported by an employee wellness clinic offering primary healthcare and occupational health management in-house, working with leading private healthcare groups. An HIV/Aids policy, with robust interventions, was approved by the board.

During the year, remuneration and employee benefit structures were rationalised further, with nine original medical aid schemes for example now reduced to two. By converting senior personnel to a cost-to-company remuneration basis, the dual objectives of giving employees more flexibility and choice while reducing administration processes, and therefore costs, were achieved. The conversion process was accompanied by an intensive education initiative to ensure employees were able to make informed decisions.

City Power continues to derive significant benefits from its SAP technology platform, with nine modules now operational. During 2003, the payroll module was implemented in record time and is delivering material cost savings from managing the function in-house.

Employee health and well-being are an ongoing focus in the company and seven additional

Corporate services *continued*

> The implementation of the new conditions of service created unity and uniformity among all employees of the organisation.

employee wellness policies were approved during the year. Importantly, this focus saw the disabling injury frequency rate decline to below the minimum standard.

Three satellite wellness clinics were opened in City Power regions, following the success of the clinic at head office. External service providers offer primary healthcare and employee assistance programmes at these clinics, with approximately one third of the workforce using these services.

City Power has complied with all occupational health requirements on medical surveillance.

City Power exceeded its employment equity target of 60% during the year. 18% of employees at supervising and management level are women from the designated groups.

The framework for the employee satisfaction survey was implemented during the period, with an encouraging upward trend in satisfaction levels. In line with its commitment to being a preferred employer, the company has further enhanced its reward and recognition policy, implemented its leadership charter and launched the first resource centre.

At City Power, adult basic education and training is viewed as a lifeskills programme to develop functional competency, rather than a programme targeted at the illiterate. The success of this programme resulted in the number of applicants quadrupling in 2003.

Training and development investment constitutes 4% of City Power's payroll, or three training days per employee, at an average cost of R11 million per annum. During the year, an external skills development facilitator was appointed and City Power is recouping its Energy SETA levies. Skills development and employment equity committees were established to entrench transformation throughout the company.

Subsequent to the year-end, the first participants began a management development programme in conjunction with the Gordon Institute of Business.

The group has a business support and compliance department, responsible for adherence to the spirit and letter of legislation, development of policies and procedures, and ensuring that all staff are aligned accordingly.

Prospects

In the coming year, the focus will be on leadership and management development, enforcing disability policies and introducing productivity and benchmarking measures. In addition, by concentrating on employee well-being, we will achieve optimal utilisation of a talented and committed workforce, on track to our target of being a preferred equal opportunity employer.

Transformation and strategy

Transformation from a municipal entity to a (Pty) Ltd company was fully achieved when the company implemented its business plan as well as its vision, mission and values.

Mr Roy Smith
Executive Consultant: Transformation and strategy
Age: 50
Appointed: 2 April 2001
* BCom, EDP and National Diploma Telecommunications

Transformation and strategy

Profile

This group facilitates strategic and business planning, provides project and programme management expertise in managing transformation initiatives and manages the implementation of key value chains. It also interfaces with the Electricity Distribution Restructuring Project Office and is preparing City Power for the establishment of REDS.

Progress

In the review period, the group has made significant progress in managing a broad range of projects. Highlights include project managing the implementation of the SAP human resources system and work management solution system. These two projects involved capital expenditure of some R40 million and are delivering significant benefits for the company. The group has also developed a functional business planning process for City Power. During 2003, the group spearheaded the launch of the Thinking Institution, an initiative to train employees to use problem-solving methods as a business tool in instilling a culture of continuous improvement. Employee project management skills were further improved in tandem with the introduction of an automated performance reporting system. Importantly, the project for the free basic supply of 50kWh of electricity per month was completed on time and within budget.

Prospects

In 2004, the transformation and strategy group will focus on several macro projects under way at City Power, including improving network performance, sourcing capital to fund network restoration, and ensuring City Power remains a viable business while operating within an industry in transition.

Finance

The implementation of the group business analysts' concept has inculcated a culture of financial accountability allowing the organisation to effect significant savings.

Mr Brian Leshnick
Vice President: Finance
Age: 46
Appointed: 11 April 2001
* BCom (Hons), CA(SA)

Finance

Profile

The group is responsible for ensuring that City Power complies with local and international financial practices and standards by providing accurate and meaningful management information and strong cash flow. Its objective is to provide the most efficient service in the industry.

Progress

In 2002, a new SAP operating system was installed to give City Power the technological capability to be a world-class participant in its industry, with better reporting standards, integrated billing and financial processes and rigorous disciplines.

During 2003, the appropriately-staffed group delivered a valuable service to the company and its customers, with positive feedback received from external stakeholders on the quality of financial reporting. Highlights include:

- Positive contribution to group forums.
- Service standard agreements signed with internal stakeholders.
- Some R182 million of capital funded by loans was refunded by the shareholder.
- Accuracy of SAP reports further improved.

Prospects

During the new financial year, optimal use of SAP will be made with the introduction of business intelligence modules and the conversion of the remaining legacy systems.

By placing dedicated financial analysts in all City Power groups, operational procedures are being continually enhanced and budgeting and control processes entrenched. With service level standards now in place, these become performance measures for which all departments are accountable.

Annual financial statements

Contents

Directors' responsibility

Management is responsible to the directors for the preparation and the integrity of the annual financial statements and related information included in this report.

In order for the board to discharge its responsibilities, management has developed and continues to maintain a system of internal control. The board has ultimate responsibility for the system of internal controls and reviews its operation, primarily through the Audit Committee and various other risk-monitoring committees.

Where weaknesses were identified in internal controls, corrective action is being taken to eliminate or reduce the concomitant risks. Accordingly, in our opinion, the internal controls of the company have operated effectively throughout the year under review and where internal controls did not operate effectively, compensating controls have ensured the company's assets have been safeguarded, proper accounting records maintained and resources utilised effectively.

The Board Audit Committee has reviewed the results of the work performed by Corporate Audit in relation to financial reporting, corporate governance, internal control and any significant investigations and management responses thereof.

The Board Audit Committee has reviewed significant cases of employee conflicts of interest, misconduct or fraud, or any other unethical activity by employees of the company.

The financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practices and incorporate disclosure in line with the accounting philosophy of the company. The financial statements are based on appropriate accounting policies and supported by reasonable and prudent judgements and estimates.

The shareholder has agreed to subordinate as much of its loan account as necessary to cover anticipated future losses to enable the company to trade as a going concern. Based on the undertaking given by the shareholder, the directors have no reason to believe that the company will not be a going concern in the year ahead.

Approval of annual financial statements

The annual financial statements for the year ended 30 June 2003 set out on pages 28 to 54 have been approved by the board of directors on 2 December 2003 and are signed on its behalf by Mr MK Mohlala and Dr John Maree.

MK Mohlala
President and CEO

Dr J Maree
Director

Report of the independent auditors

To the member of City Power Johannesburg (Proprietary) Limited

We have audited the annual financial statements set out on pages 33 to 54 for the year ended 30 June 2003. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

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

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

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

Qualification

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

Disclaimer of audit opinion

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

KPMG Inc.
Registered Accountants and Auditors
Chartered Accountants (SA)

KPMG Inc

Per AH Jaffer
Director
2 December 2003

Statement on corporate governance

City Power Johannesburg (Pty) Limited endorses the Code of Corporate Practices and Conduct as contained in the King Report and complies with the principles incorporated in the King II Report.

The board of directors

The board is constituted with one executive and 10 non-executive directors who collectively determine major policies and strategies. The number and calibre of non-executive directors carry sufficient weight in the board's deliberations and resolutions. Non-executive directors are independent of management and free from any relationship that could materially interfere with the execution of their independent judgement. Their business experience enables them to evaluate them to evaluate strategy and act in the company's best interest.

The board meets regularly, at least every two months, to carry out its functions. Its main functions include to establish a strategy and direct the company accordingly, to take decisions of a material nature reserved for the board's deliberation, to monitor the activities and performance of executive management, to provide for board's deliberation, to monitor the activities and performance of executive management, to provide the board and management succession, and to provide information on the business of the company to the shareholder and stakeholders. The chairman meets routinely with the non-executive directors to discuss their performance and any other issues.

All the directors may seek independent professional advice if necessary and have access to the services of the company secretary who is responsible to ensure both the effective functioning of the board and proper administration of board proceedings.

Corporate secretariat

The role of the company secretary is fulfilled by the General Manager: Legal Services. The company secretary provides support and guidance to the directors and the chairman on an ongoing basis. Part of the company secretary's duties includes the compilation of board papers as well as for board committees ensuring compliance with good corporate governance. As the role is combined, the company secretary also ensures compliance with statutory and regulatory requirements. The office of the company secretary also acts as an important point of contact for the shareholder.

Board committees

Finance and Audit Committee

The Finance and Audit Committee assists the board in discharging its responsibilities to safeguard the company's assets, maintaining adequate accounting records and developing and maintaining effective systems of internal financial control. It also oversees the financial reporting process and is concerned with compliance with accounting policies, company policies, legal requirements and internal controls within the company. It interacts with and evaluates the effectiveness of the external and internal audit process and reviews compliance with the company's code of ethics.

The Finance and Audit Committee has five independent non-executive members, one of whom is not a board member and one executive director. The Finance and Audit Committee is regulated by the terms of reference as approved by the board. The adequacy of the mandate is reviewed and reassessed annually. The Finance and Audit Committee meets with executive management, which includes the President and CEO, the Vice President: Finance at least four times a year. The external and internal auditors attend these meetings and have unrestricted access to the committee and its chairman.

Human Resources and Remuneration Committee

The Human Resources and Remuneration Committee which consists of four non-executive directors and one executive director is constituted as a committee of the board and operates within the terms of reference set by the board. The responsibilities of the committee are to determine human resource policy and strategy as well as the remuneration and incentives of all employees within the company. It has the responsibility to determine any criteria necessary to measure the performance of executive directors in discharging their functions and responsibilities.

Safety, Health and Environmental Risk Committee (SHER)

The Safety, Health and Environmental Risk Committee consists of three non-executive directors and one executive director, it is chaired by a non-executive director. The role of the committee is in the main to develop the framework policies and guidelines for environment, health and safety management, to consider substantive national and international regulatory and technical developments in the fields of environmental, health and safety management and to monitor key indicators on accidents and incidents and, where appropriate, ensure that such information is communicated through the company.

Pricing and Regulatory Committee

The Pricing and Regulatory Committee is chaired by an executive director and has five non-executive directors. The role of this committee is to assist the board in giving strategic direction to electricity pricing strategies and policies, address regulatory changes in the Electricity Supply Industry that affects the company, ensures that the company complies with the regulatory requirements on tariffs, recommends structural tariffs changes to the National Electricity Regulator, and compliance with NRS 047 and NRS 048.

Internal control

The board is responsible for the company's system of internal financial, compliance and operational control. The company's internal controls and systems are designed to provide reasonable, but not absolute, assurance as to the integrity and reliability of the annual financial statements, that assets are adequately safeguarded against material loss and that transactions are properly authorised and recorded. Such controls are based on established written policies and procedures that are monitored throughout the company and are applied by trained, skilled personnel with an appropriate segregation of duties through clearly defined lines of accountability and delegation of authority. The control system includes but is not limited to, comprehensive reporting and analysis of actual results against approved standards and budgets as per the company's business plan. All employees are required to maintain the highest ethical standards in ensuring that the company's business practices are conducted in a manner which aim all reasonable circumstances is above reproach.

A material breakdown is defined as a critical weakness in process or financial systems which would result in a material loss, contingency or uncertainty requiring disclosure in the published annual financial statements.

Corporate audit

The company's internal audit has a current complement of seven senior qualified persons, who are all affiliated to the Institute of Internal Auditors. It has a specific mandate from the Finance and Audit Committee and independently appraises the adequacy and effectiveness of the company's systems, financial internal controls and accounting records, reporting its findings to management, Finance and Audit Committee as well as external auditors. The company's general manager: corporate audit, as head of department, reports administratively to the President and CEO and functionally to the Finance Audit Committee, and has direct access to the chairman of the Finance and Audit Committee. The Corporate Audit Department conducts regular risk based audits at all City Power operations.

Enterprise risk management

Enterprise risk management remains the responsibility of the board, which carries out its responsibility through the Risk Management Committee of the board, which is made up of five non-executive directors and one executive director and is chaired by a non-executive director.

Corporate audit is accountable for providing assurance to the Risk Management Committee that the risk management process is in place and is integrated into day-to-day activities. Risk management is addressed through risk categories that include, amongst others, physical, operational, technology, financial, technical, environmental, legal, human resources, information, regulatory and strategic risks.

The following strategic business risks were identified and allocated to groups.

The inability to meet shareholders' financial expectations, to sustain revenue and profitability, to meet customer service expectations, to sustain efficient operations, non-compliance with applicable SHER legislation, to deliver on current strategic initiatives – human resources issues, to deliver on current transformation initiatives, IT process not adequate to support business operations and increase in energy purchase costs.

Controls relating to these critical risk areas are closely monitored by both management and the internal auditors, and these controls are augmented by approval frameworks, policies and organisational structures that provide for segregation of duties through clearly defined lines of accountability and delegation of authority and the careful selection and training of personnel. The control system includes comprehensive reporting and analysis of actual results against approved standards and budgets. All employees are required to maintain the highest ethical standards in ensuring that the company's business practices are conducted in a manner which in all reasonable circumstances is above reproach.

During this financial year, nothing has come to the attention of corporate audit to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred. A material breakdown is defined as a critical weakness in process of financial systems which would result in a material loss, contingency or uncertainty requiring disclosure to the shareholder.

Corporate audit provides the City Power Risk Management Committee and executive management with assurance that the internal controls are appropriate to manage the risks that could hinder the achievement of the business objectives. Corporate audit is fully supported by the board, Audit Committee and the Risk Committee, with no limitation on accessing information.

Insurance analysis

As part of the risk management process, a gap analysis of our insurance cover was conducted in conjunction with the advisors to the Group Insurance Fund. City Power is the largest claimant on the Group Insurance Fund due to the nature of its assets. External cover is on a disaster cover basis with a significant portion of the premium being attributable to a self-insurance fund.

Forex and price hedging

In terms of legislation City Power as a local entity affiliated to local government is not allowed to enter into Forex based transactions. All purchases are made with local suppliers and where products have a Forex content every attempt is made to fix the price at the time of order. Certain long-term contracts have a clause allowing for price adjustment due to cost changes as a result of changes in raw material pricing. The Power Purchasing Agreement with AES Kelvin has a dollar based element to the monthly cost. This is proving extremely difficult to hedge against as there is no commitment in a foreign currency as payments are made in rands. This risk has been brought to the attention of the shareholder who has been requested to amend the agreement.

Adequacy of the accounting staff

During the past year the Finance Department has been appropriately staffed and areas of shortcomings with respect to skills addressed. The focus in the forthcoming year is on ensuring compliance with established policies and procedures throughout the organisation.

Disaster recovery plan

City Power has developed a disaster recovery plan. The plan has been tested to ensure that the computer systems will resume timely in the event of adverse circumstances.

However:
- The plan has not been formally adopted.
- Data is not all sitting on a common platform.
- The disaster recovery plan is not being aligned to the business continuity plan as the latter plan is not in place yet.

Annual financial statements

Management is responsible for the preparation and for the final approval of the annual financial statements. The external auditors are responsible for independently auditing the annual financial statements and expressing an opinion thereon in the course of executing their statutory duties.

Suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the annual financial statements, which fairly present the state of affairs of the company. In this process, appropriate accounting standards have been applied and adequate accounting records have been maintained.

The "going concern" basis has been adopted in preparing the annual financial statements. The directors see no reason to believe that the group will not continue to be a "going concern" in the foreseeable future.

The results were reviewed by the external auditors and the Finance and Audit Committee prior to their submission to the board.

Stakeholder relations

The company acknowledges that it operates within a community and values a good working relationship with its stakeholders. The company consistently strives to strengthen links through regular communication with all stakeholders which conforms to the criterion of timeous, objective, relevant and transparent communication.

Code of ethics

The company's code of ethics requires all employees within the company to act with utmost good faith and integrity in all transactions and with all stakeholders with whom they interact. It commits the company and employees to sound business practices and compliance with legislation.

An ethics line has been implemented that covers all the regions in which the company operates. This service is operated by an independent company, enabling employees to report environmental, safety, ethics or other concerns. All reported matters are followed up by corporate audit and loss control.

Directors' report

for the year ended 30 June 2003

The directors have pleasure in presenting their report for the year ended 30 June 2003.

Business activities

The principal activity of the company is the supply of electricity to industries, businesses and households in Johannesburg.

City Power is responsible for the billing and cash collection of the top 10 000 customers which account for approximately 55% of the total revenue and resultant collections. The balance of the revenue and resultant cash collections are the responsibility of the Revenue Management Unit of the City of Johannesburg Metropolitan Municipality.

Share capital

Details of the authorised and issued share capital of the company appear in note 6 to the financial statements. There were no changes in the authorised and issued share capital of the company.

Review of operations

The company achieved a net operating income of R135 million (2002: R183 million) for the year under review. The net profit for the year after taxation amounted to R64 million (2002: R12 million).

Going concern

The directors do not believe that there is any impairment of goodwill as the company would continue to generate positive operating income in the future.

However, should the cash collection performance of the City of Johannesburg Revenue Management Unit be impaired and/or should the business not be allowed to recover increases in the cost of supply by way of tariff increases, this will have an extremely negative impact on the operating income, the solvency of the business and the valuation of goodwill.

The shareholder has agreed to subordinate as much of its loan account as necessary to cover anticipated future losses to enable it to trade as a going concern.

Revenue and receivables administered by the City of Johannesburg on behalf of the company

City Power is responsible for the billing and cash collection of the top 10 000 customers which account for approximately 55% of the total revenue and resultant collections. The balance of the revenue and resultant cash collections are the responsibility of the Revenue Management Unit of the City of Johannesburg Metropolitan Municipality.

for the year ended 30 June 2003

As a result of inadequacies in the billing system and control procedures at the City of Johannesburg, the auditors of the City of Johannesburg have disclaimed an opinion on the annual financial statements of the City of Johannesburg for the year ended 30 June 2003. This disclaimer of their audit opinion did not arise from any defects in the financial procedures and controls at City Power.

The amounts of R1 141 626 000 shown in note 5 as a receivable and R1 209 051 000 shown in note 14 as sales have been confirmed with the City of Johannesburg and there will be no additional claim by the City of Johannesburg should such amounts have been found later to be overstated.

Tax directives

The company is in the process of obtaining tax directives from the revenue authorities to obtain favourable tax allowances on the existing distribution network acquired from the City of Johannesburg. Tax is computed on the basis that the allowances would be granted.

Shareholder

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

Property, plant and equipment

For the year under review, property is in the process of being transferred to the company.

Directors

The directors at the date of this report are:

Directors	Committees	Changes during the year
MA Tshabalala (Chairman)	(3)	Resigned 31 August 2003
NM Pillay	(1) (4)	Appointed Chairman 1 September 2003
MK Mohlala (President and Chief Executive Officer)	(1) (2) (3) (4) (5) (6)	
Dr JB Maree	(1)	
N Adam	(1) (2) (3) (5)	
N Galeni	(1) (2) (4) (6)	
KPG Simelane	(3) (6)	
HWL Kügel	(2) (3) (6)	
N Nyembezi	(2) (4) (6)	
JPL Koen	(4) (5)	
L Reddy	(2) (4) (5)	

Committees of the board	**Chairmen of the board committees**	**Changes during the year**
(1) Finance and Audit Committee	Dr JB Maree	
(2) Risk Management Committee	L Reddy	
(3) Remuneration Committee	MA Tshabalala	Resigned 31 August 2003
	NM Pillay	Appointed 1 September 2003
(4) Pricing and Regulatory Committee	MK Mohlala	
(5) Safety, Health and Environment Risk Committee	N Adam	
(6) Procurement Committee	HWL Kügel	

Management

Name	**Designations**	
MK Mohlala	President and Chief Executive Officer	
B Leshnick	Vice President: Finance	
VP Padayachee	Vice President: Operations	
Ntokozo Hlubi	Acting Vice President: Corporate services	
S Zimu	Vice President: Customer services	
R Smith	Executive consultant: Strategy and transformation	
F Ntlhoro	Vice President: Commercial	
K Buthelezi	General manager: Corporate audit	Resigned 30 June 2003
H Masedi	General manager: Corporate audit	Appointed 1 September 2003
B Baloyi	Manager: Employment equity	
S Masolo	General manager: Communications	

Company secretary

F Patel

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

Registered office

Business address:	Postal address:	Telephone:	011 490 7000
40 Heronmere Road	PO Box 38766	Telefax:	011 490 7590
Reuven	Booysens	E-mail:	electricity@citypower.co.za
	2016	Internet:	www.citypower.co.za

Balance sheet

at 30 June 2003	Note	2003 R'000	2002 R'000
Assets			
Non-current assets		**1 549 448**	1 302 373
Property, plant and equipment	2	**1 258 275**	972 377
Intangible assets	3	**291 173**	329 996
Current assets		**954 020**	1 089 495
Inventory	4	**30 564**	26 399
Accounts receivable	5	**489 788**	630 528
Amount due by associated companies		**36 807**	5 409
Bank balances and cash	19.4	**396 861**	427 159
Total assets		**2 503 468**	2 391 868
Equity			
Capital and reserves		**155 672**	91 395
Share capital and premium	6	**112 466**	112 466
Retained income/(accumulated loss)		**43 206**	(21 071)
Non-current liabilities		**1 699 001**	1 817 186
Conduit mirror loan	7	**708 038**	868 619
Loan from shareholder	8	**624 793**	676 359
Deferred income	9	**191 334**	116 130
Deferred tax	10	**174 836**	156 078
Current liabilities		**648 795**	483 287
Accounts payable	11	**463 952**	254 821
Provisions	12	**81 428**	39 285
Provision for taxation		**383**	61 000
Current portion of non-current liabilities	13	**103 032**	128 181
Total equity and liabilities		**2 503 468**	2 391 868

Income statement

for the year ended 30 June 2003	Note	2003 R'000	2002 R'000
Revenue	14	**2 648 268**	2 357 637
Net operating income	15	**134 600**	182 969
Net finance costs	16	**(163 192)**	(148 878)
Exceptional item	16	**112 010**	–
Profit before tax		**83 418**	34 091
Income tax expense	17	**19 141**	21 926
Net profit after taxation for the year		**64 277**	12 165

Statement of changes in equity

for the year ended 30 June 2003	Share capital R'000	Share premium R'000	Retained income/ (accumulated loss) R'000	Total R'000
Balance as at 30 June 2001	*	112 466	(33 236)	79 230
Net profit for the year			12 165	12 165
Balance as at 30 June 2002	*	112 466	(21 071)	91 395
Net profit for the year		**–**	**64 277**	**64 277**
Balance as at 30 June 2003	*	**112 466**	**43 206**	**155 672**

* *nominal amount*

Cash flow statement

for the year ended 30 June 2003	Note	**2003 R'000**	2002 R'000
Cash generated from operations	19.1	**661 106**	351 240
Interest received		**85 152**	76 131
Interest paid		**(248 344)**	(225 009)
Taxation paid	19.3	**(61 000)**	–
Net cash inflow from operating activities		**436 914**	202 362
Cash flows from investing activities		**(417 130)**	(167 316)
Replacement of property, plant and equipment		**(369 070)**	(167 316)
Proceed on disposal of plant, property and equipment		**24 597**	–
Acquisition of business	19.2	**(72 657)**	–
Net cash generated		**19 784**	35 046
Cash flows from financing activities		**(50 082)**	392 287
Net increase in deferred income		**75 204**	110 561
Net (decrease)/increase in conduit mirror loan		**(66 448)**	177 369
Net (decrease)/increase in loan from shareholder		**(58 838)**	104 357
Net (decrease)/increase in cash and cash equivalents		**(30 298)**	427 333
Cash and cash equivalents at beginning of year		**427 159**	(174)
Cash and cash equivalents at end of year	19.4	**396 861**	427 159

Notes to the financial statements

for the year ended 30 June 2003

1. Accounting policies

1.1 Basis of preparation

The annual financial statements are prepared on the historical cost basis, and incorporate the following principal accounting policies, which have been consistently applied in all material respects.

1.2 Statement of compliance

The annual financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice and the requirements of the South African Companies Act.

1.3 Property, plant and equipment

Property, plant and equipment are stated at cost acquired from the City of Johannesburg and subsequent additions at historical cost less accumulated depreciation and accumulated impairment losses. The cost of self-constructed assets includes cost of materials, direct labour and an appropriate proportion of production overheads.

The plant and equipment acquired from the City of Johannesburg are depreciated over a maximum of 10 years. Depreciation is provided for on a straight-line basis over the estimated useful life of the assets.

The estimated useful lives of the assets are as follows:

Buildings	40 years
Plant and machinery	10 – 40 years
Furniture and equipment	6 – 10 years

Subsequent expenditure relating to an item of property, plant and equipment is capitalised when it is probable that future economic benefits from the use of asset will be increased. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Surplus/(deficits) on the disposal of property, plant and equipment are credited/(charged) to income. The surplus or deficit is the difference between the net disposal proceeds and the carrying amount of the asset.

1.4 Impairment

The carrying amounts of the company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the higher of its net selling price and its value in use. Intangible assets that are not yet available for use and goodwill are amortised over a maximum period of 10 years, the recoverable amount is estimated at each balance sheet date.

1. Accounting policies (continued)

1.4 Impairment (continued)

In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

For an asset that does not generate cash inflows that are largely independent of those from other assets the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised in the income statement whenever the carrying amount of the cash generating unit exceeds its recoverable amount.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years. For goodwill a recognised impairment loss is not reversed, unless the impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur and the increase relates clearly to the reversal of the effect of that specific event.

1.5 Goodwill

Goodwill is any excess of the cost of an acquisition over the company's interest in the fair value of the identifiable assets and liabilities acquired.

Goodwill is carried at cost, less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight-line basis over 10 years.

1.6 Leases

Operating leases

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

1.7 Inventories

Inventories are carried at the lower of cost and net realisable value. The cost of inventories comprises all costs of purchase, conversion and other costs incurred in bringing the inventories to their present location and condition, and is determined using the first in, first out method.

Obsolete, redundant and slow moving inventories are identified on a regular basis and are written down to their estimated net realisable values.

1.8 Deferred income and grants

Deferred income and grants are charged to the operating profit over the expected useful lives of the assets.

for the year ended 30 June 2003

1. Accounting policies (continued)

1.9 Revenue

Revenue represents the invoiced value of goods supplied to customers and excluding value added tax.

1.10 Financial instruments

Measurement

Financial instruments carried on the balance sheet include cash and bank balances, accounts receivables, interest-bearing borrowings and provision for financial liabilities. These instruments are generally carried at their estimated value. The particular recognition methods are disclosed in the individual policy statements associated with each item.

Trade and other receivables

Trade and other receivables originated by the company are stated at cost less provision for doubtful debts.

Cash and cash equivalents

Cash and cash equivalents are measured at fair value.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisations.

1.11 Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation. The discount rate used is the pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Site restorations

In accordance with applicable legal requirements, a provision for site restoration in respect of contaminated land is recognised when the land is contaminated.

1.12 Other income

Income grants from the City of Johannesburg are recognised in the income statement over the useful life of the asset. Cash received for service connections is reflected in the income statement in the period when the cash is received.

1.13 Taxation

Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted at the balance sheet date, and any adjustment of tax payable for previous years.

1. Accounting policies (continued)

Deferred tax is provided using the balance sheet liability method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax is charged to the income statement except to the extent that it relates to a transaction that is recognised directly in equity. The effect on deferred tax of any changes in tax rates is recognised in the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.14 Employee benefits

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service. The provisions for employee entitlements to wages, salaries, annual and sick leave represent the amount which the company has a present obligation to pay as a result of employees services provided to the balance sheet date. The provisions have been calculated at undiscounted amounts based on current wage and salary rates.

1.15 Retirement benefits

The company contributes to several defined benefit and defined contribution plans. Contributions to defined contribution funds are charged against income and incurred.

1.16 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and the City of Johannesburg, treasury and investments in money market instruments, net of bank overdrafts, all of which are available for use by the company unless otherwise stated.

1.17 Grants

Government grants are recorded as deferred income when they become receivable and are recognised as income on a systematic basis over the periods necessary to match grants with the related costs which they are intending to compensate. The recognised government grants are credited to the related cost items on the following bases:

– capital contributions on property, plant and equipment. The depreciation charge of property, plant and equipment is credited on a straight-line basis over the estimated useful life of the property, plant and equipment;
– income-related grants subsidising expenses. Recognised as income on a systematic basis that matches related costs, which they are intended to compensate.

for the year ended 30 June 2003

2003	Land R'000	Buildings R'000	Plant and machinery R'000	Furniture and equipment R'000	Total R'000
2. Property, plant and equipment					
Cost					
At beginning of year	3 153	160 267	911 039	45 163	1 119 622
Additions	–	444	352 051	16 575	369 070
Acquisition of business	–	–	54 893	–	54 893
Transfers	–	8 464	(11 006)	2 542	–
Disposals	–	–	(30 835)	(101)	(30 936)
At end of year	3 153	169 175	1 276 142	64 179	1 512 649
Accumulated depreciation					
At beginning of year	–	23 267	110 923	13 055	147 245
Depreciation	–	15 680	75 692	18 961	110 333
Disposals	–	–	(3 160)	(44)	(3 204)
At end of year	–	38 947	183 455	31 972	254 374
Net book value at end of year	3 153	130 228	1 092 687	32 207	1 258 275

for the year ended 30 June 2003

2002	Land R'000	Buildings R'000	Plant and machinery R'000	Furniture and equipment R'000	Total R'000
2. Property, plant and equipment (continued)					
Cost					
At beginning of year	3 153	155 244	767 257	26 652	952 306
Additions	–	5 023	143 782	18 511	167 316
At end of year	3 153	160 267	911 039	45 163	1 119 622
Accumulated depreciation					
At beginning of year	–	7 752	36 800	3 709	48 261
Depreciation	–	15 515	74 123	9 346	98 984
At end of year	–	23 267	110 923	13 055	147 245
Net book value at end of year	3 153	137 000	800 116	32 108	972 377

The properties acquired on formation of the business are registered in the name of the City of Johannesburg. Transfer of ownership will be finalised in the foreseeable future.

Register containing details of the properties of the company are available for inspection at the registered office of the company.

for the year ended 30 June 2003

		2003 R'000	2002 R'000
3.	**Intangible assets**		
	Goodwill arising on acquisition of business	**388 233**	388 233
	Less: Amortisation	**97 060**	58 237
	At beginning of year	**58 237**	19 413
	Provided during year	**38 823**	38 824
	Net book value	**291 173**	329 996
4.	**Inventory**		
	Consumable stores	**30 564**	26 399
5.	**Accounts receivable**		
	Administered by the City of Johannesburg	**343 481**	365 737
	Gross trade debtors	**1 141 626**	901 673
	Less: Impairments	**(798 145)**	(535 936)
	Administered by City Power	**132 071**	255 592
	Gross trade debtors	**184 239**	274 540
	Less: Impairments	**(39 951)**	(15 000)
	Less: Customer deposits	**(12 217)**	(3 948)
	Sundry debtors	**14 236**	9 199
		489 788	630 528

for the year ended 30 June 2003	**2003 R'000**	2002 R'000
6. Share capital and premium		
Authorised		
10 000 ordinary shares of R1 each	**10**	10
Issued		
1 ordinary share of R1	*	*
Share premium		
– arising on ordinary share issued	**112 466**	112 466

* *nominal amount*

The unissued ordinary shares are under the control of the City of Johannesburg

7. Conduit mirror loan

The original loan is unsecured and interest is payable at 17,5% per annum and the loan is repayable in 10 years. All subsequent loans are unsecured and interest is payable at 14,5% per annum and the loan is repayable over 10 years.

	2003 R'000	2002 R'000
At beginning of year	**938 619**	761 250
Loans received during year	**182 434**	54 869
Arising on acquisition of business	**29 678**	–
Repayments made during year	**(282 827)**	–
Interest payable accrued	**4 267**	122 500
Interest payable accrued in prior year reversed due to renegotiation of loan	**(61 101)**	–
	811 070	938 619
Less: Amount repayable within 12 months	**(103 032)**	(70 000)
	708 038	868 619

Details of securities furnished by the City of Johannesburg to its bankers are still in the process of being finalised.

for the year ended 30 June 2003	**2003 R'000**	2002 R'000
8. Loan from shareholder		
The loan is unsecured and interest is payable at 17,5% per annum and the loan is repayable in 10 years:		
At beginning of year	**734 540**	632 723
Loan received during year	**–**	101 817
Arising on acquisition of business	**42 979**	–
Interest payable accrued	**1 492**	–
Repayments made during year	**(103 309)**	–
Interest payable accrued in prior year reversed due to renegotiation of loan	**(50 909)**	–
	624 793	734 540
Less: Amount repayable within 12 months	**–**	(58 181)
	624 793	676 359
The shareholder has agreed to subordinate as much of its loan account as necessary to cover anticipated future losses to enable the company to trade as a going concern.		
9. Deferred income		
At beginning of year	**116 130**	5 569
Additions during year	**84 838**	118 091
Income recognition during year	**(9 634)**	(7 530)
Balance at end of year	**191 334**	116 130
Deferred income comprises:		
– Engineering services contribution	**51 523**	33 095
– Boundary contributions	**648**	633
– Municipal and government grants	**139 163**	82 402
	191 334	116 130

Notes to the financial statements *continued*

for the year ended 30 June 2003	2003 R'000	2002 R'000
10. Deferred tax		
At beginning of year	**156 078**	184 956
Transfer from/(to) income statement	**18 758**	(28 878)
	174 836	156 078
Comprising of:		
Property, plant, equipment and intangibles	**(95 567)**	131 324
Provision for impairments	**188 575**	21 069
Provisions	**24 428**	3 685
Deferred income	**57 400**	–
Balance at end of year	**174 836**	156 078
11. Accounts payable		
Trade creditors	**353 062**	169 817
Sundry creditors	**110 890**	85 004
	463 952	254 821
12. Provisions		
Leave and sick pay	**31 372**	29 285
Service bonus	**20 056**	10 000
Post-employment medical aid benefits*	**30 000**	–
	81 428	39 285
Balance at beginning of year	**39 285**	–
Provided during year	**43 805**	39 285
Expenditure incurred during year	**(1 662)**	–
Balance at end of year	**81 428**	39 285

* In terms of the sale of business agreement, the City of Johannesburg is responsible for any potential actuarial deficits arising on the pension fund for employees that have been transferred from the City of Johannesburg on formation of the company. The amount of the liability that is the responsibility of the City of Johannesburg is in the process of being finalised.

for the year ended 30 June 2003	**2003 R'000**	2002 R'000
13. Current portion of non-current liabilities		
Conduit mirror loan	**103 032**	70 000
Loan from shareholder	**–**	58 181
	103 032	128 181
14. Revenue		
Sale of electricity		
– administered by the City of Johannesburg	**1 209 051**	1 038 608
– administered by City Power	**1 439 217**	1 319 029
	2 648 268	2 357 637
15. Net operating income		
Net operating income is arrived at after taking the following items into account:		
Cost of sales	**1 642 752**	1 527 309
Amortisation of intangible assets	**38 823**	38 824
Auditors' remuneration	**1 549**	850
Depreciation of property, plant and equipment	**110 333**	98 984
– buildings	**15 680**	15 515
– plant and machinery	**75 692**	74 123
– furniture and equipment	**18 961**	9 346
Staff costs	**325 263**	219 522
Loss on disposal of property, plant and equipment	**3 135**	–
Directors' and executive management remuneration	**9 537**	6 944
– Non-executive directors for services as directors	**909**	152
– Executive directors and management	**8 628**	6 792
Operating lease charges	**36 387**	40 394
Technical and consultancy fees	**28 627**	14 656
Increase in provisions	**43 805**	39 285
Deferred income amortised	**(9 634)**	(7 530)
Other operating income	**(64 119)**	(30 292)

Notes to the financial statements *continued*

for the year ended 30 June 2003	**2003 R'000**	2002 R'000
16. Net finance costs		
Interest payable	**248 344**	225 009
Interest receivable	**(85 152)**	(76 131)
	163 192	148 878
Exceptional item: Interest payable accrued in prior years reversed due to renegotiation of loan terms	**(112 010)**	–
	51 182	148 878
17. Income tax expense		
South African normal taxation	**29 320**	21 926
– current	**31 806**	50 804
– deferred	**(2 486)**	(28 878)
Prior year adjustment	**(10 179)**	–
– current	**(31 423)**	–
– deferred	**21 244**	–
	19 141	21 926

The prior year adjustment is attributable to recognising taxation on deferred income grants received and claiming wear and tear allowances on the basis that the company is engaged in a similar process of manufacturing.

Reconciliation of effective tax rate	**%**	%
Taxation as a percentage of profit before tax	**22,95**	64,32
Taxation effect of expenditure not allowed	**(5,15)**	(34,32)
Prior year adjustment	**12,20**	–
Standard rate of tax	**30,00**	30,00

18. Site rehabilitation

The Orlando Power Station has been decommissioned and no provision has been raised for anticipated rehabilitation costs to be incurred which costs would be borne by the City of Johannesburg.

for the year ended 30 June 2003

	2003 R'000	2002 R'000
19. Notes to the cash flow statement		
19.1 Cash generated from operations		
Net operating income	**134 600**	182 969
Non-cash items	**152 291**	137 808
Depreciation of property, plant and equipment	**110 333**	98 984
Loss on disposal of property, plant and equipment	**3 135**	–
Amortisation of intangible assets	**38 823**	38 824
Operating profit before working capital charges	**286 891**	320 777
Changes in working capital	**374 215**	30 463
(Increase)/decrease in inventory	**(4 165)**	6 124
Decrease/(Increase) in accounts receivable	**172 178**	(92 529)
Increase in accounts payable	**195 457**	123 894
Increase/(decrease) in provisions	**42 143**	(1 617)
Decrease in amount due by associate companies	**(31 398)**	(5 409)
	661 106	351 240
19.2 Business acquired from the City of Johannesburg		
Property, plant and equipment	**54 893**	–
Accounts receivable	**31 438**	–
Accounts payable	**(13 674)**	–
	72 657	–
Funded by:		
Conduit mirror loan	**29 678**	–
Loan from shareholder	**42 979**	–
	72 657	–

for the year ended 30 June 2003		**2003 R'000**	2002 R'000
19.	**Notes to the cash flow statement (continued)**		
19.3	**Taxation paid**		
	Amount owing at beginning of year	**61 000**	10 196
	Income statement charge	**383**	50 804
	Amount owing at end of year	**(383)**	(61 000)
		61 000	–
19.4	**Cash and cash equivalents**		
	Cash and cash equivalent consist of:		
	Bank balances and cash	**2**	686
	City of Johannesburg – Treasury	**396 859**	426 473
		396 861	427 159

20. Financial instruments

Exposure to interest rate and credit risk arise in the normal course of the company's business.

Interest rate risk

Exposure to interest rate risk on borrowings and receivables is monitored on a proactive basis.

for the year ended 30 June 2003

	Total		Within 1 year		2 to 3 years		4 to 10 years	
	2003 R'000	2002 R'000	**2003 R'000**	2002 R'000	**2003 R'000**	2002 R'000	**2003 R'000**	2002 R'000
20. Financial instruments (continued)								
Maturity of financial instruments								
Maturity profile of financial instruments at 30 June 2003 is as follows:								
Financial assets								
Accounts receivable	**489 788**	630 528	**489 788**	630 528	**–**	–	**–**	–
Amounts due by associate companies	**36 807**	5 409	**36 807**	5 409	**–**	–	**–**	–
Bank balances and cash	**396 861**	427 159	**396 861**	427 159	**–**	–	**–**	–
	923 456	1 063 096	**923 456**	1 063 096	**–**	–	**–**	–
Percentage profile	**100%**	100%	**100%**	100%	**–**	–	**–**	–
Financial liabilities								
Interest-bearing liabilities	**1 435 863**	1 673 159	**107 882**	128 181	**215 764**	256 362	**1 117 067**	1 288 616
Accounts payable	**463 953**	254 821	**463 953**	254 821	**–**	–	**–**	–
Provisions	**81 428**	39 285	**81 428**	39 285	**–**	–	**–**	–
	1 981 244	1 967 265	**653 263**	422 287	**215 764**	256 362	**1 117 067**	1 288 616
Percentage profile	**100%**	100%	**33%**	21%	**11%**	13%	**56%**	66%

Fair value of financial instruments

The fair values of financial assets and liabilities approximate their carrying values as disclosed in the balance sheet.

Credit risks

Credit risk arises on cash and cash equivalents and trade receivables. The risk on cash and cash equivalents is managed through dealing with well established financial institutions and the City of Johannesburg. The risk arising on trade receivables is managed through normal credit policy using credit limits, continual review and exception reporting. The exposure to credit risk relating to trade receivables is not concentrated due to a diversified customer base. Adequate provision is made for doubtful debts.

for the year ended 30 June 2003

20. Financial instruments (continued)

Liquidity risks

The company manages liquidity risk by aggressive management of working capital and cash flows. Short-term flexibility is achieved by general banking facilities available to the company.

	2003 R'000	2002 R'000
21. Borrowing facilities		
In terms of the sale of business agreement, City Power does not have the authority to borrow funds on its own behalf. All external funding is managed under the auspices of the City of Johannesburg Assets and Liabilities Committee.		
The summary of commitments at year-end is as follows:		
Conduit mirror loan	**811 070**	938 619
Loan from shareholder	**624 793**	734 540
Bank balances and cash		
City of Johannesburg – treasury balance	**(396 859)**	(426 473)
Financial institutions	**(2)**	(686)
	1 039 002	1 246 000
22. Capital commitments		
22.1 Capital commitments		
Authorised and contracted for	**3 126**	55 751
The expenditure will be funded from grants and the conduit mirror loans		
22.2 Guarantees		
Guarantees issued to CDC Kelvin in terms of power purchasing agreement by the City of Johannesburg on behalf of the company	**107 563**	64 000
23. Lease commitments		
Operating leases		
– within one year	**40 965**	36 387
– within two to three years	**44 940**	85 905
	85 905	122 292
24. Number of employees	**1 995**	1 951

Technology

City Power is committed to contributing to the City of Johannesburg's vision of becoming a world-class African city. This, we will achieve by using world-class technology in our business.

Notes

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