a world class African city

City Power Johannesburg

City Power Johannesburg (Proprietary) Limited
(Registration number 2000/030051/07)
Trading as City Power
Annual financial statements
for the year ended June 30, 2008

General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	The principal activity of the company is the distribution of electricity to industries, businesses and households in Johannesburg.
Directors	KPM Simelane - Chairperson J Kumbirai Prof T Marwala Adv KCO Garlipp G Badela JJH Mateya SM Zimu - Executive BN Leshnick - Executive
Registered office	40 Heronmere Road Reuven Johannesburg Gauteng 2016
Business address	40 Heronmere Road Reuven Johannesburg Gauteng 2016
Postal address	PO Box 38766 Booysens Gauteng 2016
Ultimate Parent	The City of Johannesburg Metropolitan Municipality incorporated in South Africa
Bankers	ABSA Bank Limited
Auditors	The Office of the Auditor-General: Gauteng
Secretary	M Smith
Company registration number	2000/030051/07
Attorneys	Whalley van der Lith Attorneys FR Pandelani Attorneys

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

Abbreviations

CJMM	City of Johannesburg Metropolitan Municipality
COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
GRAP	Generally Recognised Accounting Practice
MFMA	Municipal Finance Management Act
IMFO	Institute of Municipal Finance Officers
MIG	Municipal Infrastructure Grant (previously CMIP)
MOE's	Municipal Owned Entities
SA GAAP	South African Generally Accepted Accounting Practices

Directors' Responsibilities and Approval

The annual financial statements of the company are the responsibility of the directors of City Power Johannesburg (Pty) Ltd. In discharging this responsibility, they rely on the management of the company to prepare the annual financial statements presented here in accordance with Section 122 of the Municipal Finance Management Act, Act 56 of 2003, standards of generally recognised accounting practice (GRAP) and the South African Companies Act, Act 61 of 1973. As such, the annual financial statements include amounts based on judgements and estimates made by management. The external auditors have been engaged to express an independent opinion on the financial statements.

The annual financial statements are prepared in accordance with SA GAAP including any interpretations of such Statements issued by the Accounting Practices Board, with the prescribed GRAP issued by the Accounting Standards Board replacing the equivalent SA GAAP statement as follows:

Standard of GRAP		Replaced Statement of SA GAAP	
GRAP 1:	Presentation of financial statements	AC 101:	Presentation of financial statements
GRAP 2:	Cash flow statements	AC 118:	Cash flow statements
GRAP 3:	Accounting policies, changes in accounting estimates and errors	AC 103:	Accounting policies, changes in estimates and errors

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors sets standards for internal control aimed at reducing the risk of error or loss 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 company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

The directors have reviewed the company's cash flow forecast for the year to June 30, 2009 and, in the light of this review and the current financial position, they are satisfied that the company has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the board of directors is primarily responsible for the financial affairs of the company, they are supported by the company's external auditor.

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

The annual financial statements set out on pages 4 to 48, which have been prepared on the going-concern basis, were approved by the board of directors on 7 November, 2008.

Director **Managing Director**

Directors' Report

The directors have pleasure in submitting to the shareholder their report together with the audited annual financial statements for the year ended 30 June, 2008.

1. Incorporation

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

2. Review of activities

Main business and operations

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

During the year there were no major changes in the activities of the business. There was no fruitless and wasteful expenditure during the year under review.

Load shedding had a major impact on the financial performance of the company. Elecricity losses incurred were 0.63% above budget resulting in a loss of R15m. Repairs and maintenance costs exceeded budget by R65.3m and is a result of equipment failure directly related to load shedding.

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

Net deficit of the company was R 48,508 000 (2007: surplus R118,471 000), after taxation of Rnil (2007: Rnil.

3. Going concern

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

The shareholder has agreed to subordinate as much of its loan account with the company as is necessary to cover anticipated future losses to enable the company to trade as a going concern. The subordination shall remain in force and effect so long as the debt equity ratio of City Power Johannesburg (Proprietary) Limited exceeds 60% and shall lapse immediately upon the date that the debt equity ratio is less than 60%. The debt equity ratio at year-end amounted to 83% (2007 - 73%).

4. Subsequent events

The directors are not aware of any matter or circumstance arising since the end of the financial year, not otherwise dealt with in the financial statements that would affect the operations or results of the company significantly. Brian Leshnick, the financial director, resigned with effect from 1 July 2008.

5. Directors' interest in contracts

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

6. Contribution from owners

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

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

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

Directors' Report

7. Borrowing limitations

In terms of the sale of business agreement, City Power Johannesburg (Proprietary) Limited does not have the authority to borrow funds on its own behalf. All external funding is managed under the auspices of the City of Johannesburg Metropolitan Municipality asset and aiability committee and treasury department.

8. Non-current assets

There were no major changes in the physical nature of non-current assets of the company during the year. The asset register has been reconstructed in prior years to comply with relevant accounting standards.

9. Dividends

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

10. Directors

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

Name	Nationality	Change in appointment
KPM Simelane - Chairperson	South African	
J Kumbirai	South African	
Prof T Marwala	South African	
Adv KCO Garlipp	South African	
TP Mahlatsi	South African	Resigned July 31, 2007
G Badela	South African	
JJH Mateya	South African	
SM Zimu - Executive	South African	
BN Leshnick - Executive	South African	

11. Secretary

The secretary of the company is M Smith.

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

12. Corporate Governance

12.1. Chairman and managing director

The chairman is a non-executive and independent director (as defined by the King code).

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

12.2. Remuneration

The remuneration's of the managing director and director: finance, who are the only executive directors of the company, is determined by the board of directors.

Directors' Report

12.3. Executive meetings

The board has met on four separate occasions during the financial year. The board schedules to meet at least four times per annum.

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

Name	Board Meetings	Audit committee meetings	HR & remuneration	Pricing & regulatory	Board oversight	Ad hoc EDI working group
Total number of meetings held	**4**	**8**	**8**	**4**	**4**	**1**
KPM Simelane - Chairperson	4		8		4	1
Prof T Marwala	3			4	4	1
SM Zimu - Executive	2	4	4	3	3	1
BN Leshnick - Executive	4	7		1	2	1
Adv KCO Garlipp	3	8		4		1
TP Mahlatsi						
JJH Mateya	4		7	4		
G Badela	4		8		4	
J Kumbirai	4	8	7			

13. Parent

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

14. Bankers

ABSA Bank Limited

The management of the treasury function within the company is managed under the auspices of the City of Johannesburg Metropolitan Municipality assets and liabilities committee and treasury department.

Certificate by company secretary for the year ended June 30, 2008

In terms of Section 268 G(d) of the Companies Act of South Africa, Act 61 of 1973 as amended and the Municipal Finance Management Act, Act 56 of 2003, I certify that, to the best of my knowledge and belief, the company has lodged with the Registrar of Companies, for the financial year ended June 30, 2008, all such returns as required and that all such returns are true, correct and up to date.

M Smith
Of: City Power Johannesburg (Proprietary) Limited
Company Secretary
August 31, 2008

Statement of Financial Position as at June 30, 2008

Figures in Rand thousand	Note(s)	2008	2007
Assets			
Non-current Assets			
Property, plant and equipment	3	4,311,313	3,402,383
Intangible assets	4	99,857	99,164
		4,411,170	**3,501,547**
Current Assets			
Inventories	9	28,225	41,314
Loans to shareholder	5	754,459	1,305,921
Trade and other receivables	10	707,820	631,294
Cash and cash equivalents	11	16	16
		1,490,520	**1,978,545**
Total Assets		**5,901,690**	**5,480,092**
Net Assets and Liabilities			
Net Assets			
Contribution from owner	12	112,466	112,466
Accumulated surplus		760,459	808,967
		872,925	**921,433**
Liabilities			
Non-current Liabilities			
Loans from shareholder	5	2,736,136	2,482,840
Finance lease obligation	13	615	1,922
Retirement benefit obligation	8	56,928	54,855
Deferred income	14	953,361	755,625
		3,747,040	**3,295,242**
Current Liabilities			
Current portion of loans from shareholder	5	295,214	224,010
Finance lease obligation	13	1,307	1,155
Trade and other payables	16	963,204	1,017,632
Provisions	15	22,000	20,620
		1,281,725	**1,263,417**
Total Liabilities		**5,028,765**	**4,558,659**
Total Net Assets and Liabilities		**5,901,690**	**5,480,092**

City Power Johannesburg (Proprietary) Limited

(Registration number 2000/030051/07)
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Statement of Financial Performance

Figures in Rand thousand	Note(s)	2008	2007
Revenue	18	4,199,985	3,821,923
Cost of sales	20	(2,795,652)	(2,429,349)
Gross surplus		**1,404,333**	**1,392,574**
Other income	19	91,027	103,295
Operating expenses		(1,315,797)	(1,173,770)
Operating surplus	21	**179,563**	**322,099**
Investment revenue	24	136,628	108,980
Finance costs	25	(364,699)	(312,606)
(Deficit) / surplus for the year		**(48,508)**	**118,473**

Statement of Changes in Net Assets

Figures in Rand thousand	Note(s)	Contribution from owner	Accumulated surplus	Net Assets
Opening balance as previously reported		112,466	569,177	681,643
Adjustments				
Prior-year adjustments	32		121,317	121,317
Balance at July 1, 2006 as restated		**112,466**	**690,494**	**802,960**
Surplus for the year			118,473	118,473
Total changes		-	118,473	118,473
Balance at July 1, 2007		**112,466**	**808,967**	**921,433**
Deficit for the year			(48,508)	(48,508)
Total changes		-	(48,508)	(48,508)
Balance at June 30, 2008		**112,466**	**760,459**	**872,925**
Note(s)		12		

Cash Flow Statement

Figures in Rand thousand	Note(s)	2008	2007
Cash flows from operating activities			
Cash receipts from customers		4,031,556	3,676,475
Cash paid to suppliers and employees		(3,641,564)	(2,798,222)
Cash generated from operations	26	389,992	878,253
Interest income		136,628	108,980
Finance costs		(364,699)	(312,606)
Net cash from operating activities		**161,921**	**674,627**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(1,037,720)	(912,345)
Proceeds from sale of property, plant and equipment	3	814	1,393
Purchase of other intangible assets	4	(177)	(21,026)
Proceeds from sale of other intangible assets	4	355	-
Net cash from investing activities		**(1,036,728)**	**(931,978)**
Cash flows from financing activities			
Net cash flows in respect of shareholder loans		875,962	254,273
Finance lease payments		(1,155)	3,077
Net cash from financing activities		**874,807**	**257,350**
Total cash movement for the year		**-**	**(1)**
Cash at the beginning of the year		16	17
Total cash at end of the year	11	**16**	**16**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice (SA GAAP) including any interpretations of such statements issued by the Accounting Standards Board, which also prescribe standards of Generally Recognised Accounting Practices (GRAP) and the Municipal Finance Management Act, Act 56 of 2003, and the Companies Act of South Africa, Act 61 of 1973, with the prescribed Standard of Generally Recognised Accounting Policies issued by the Accounting Standard Board replacing the equivalent SA GAAP statements as follows:

Standard of GRAP	**Replaced Statement of SA GAAP**
GRAP 1: Presentation of financial statements	AC 101: Presentation of financial statements
GRAP 2: Cash flow statements	AC 118: Cash flow statements
GRAP 3: Accounting policies, changes in accounting and errors	AC 103: Accounting policies, changes in accounting estimates .

The recognition and measurement principles in the above GRAP and SA GAAP statements do not differ or result in material differences in items presented and disclosed in the financial statements. The implementation of GRAP 1, 2 and 3 has resulted in the following significant changes in the presentation of the annual financial statements:

Standard of GRAP	**Replacement Statement of SA GAAP**

Statement of financial position	Balance sheet
Statement of financial performance	Income statement
Statement of changes in net assets	Statements of changes in equity
Net assets	Equity
Surplus / deficit for the period	Profit / loss for the period
Accumulated surplus /deficit	Retained earnings
Contributions from owners	Share capital
Distributions to owners	Dividends
Reporting date	Balance sheet date

The cash flow statement can only be prepared in accordance with the direct method.

Specific information has been presented separately on the statement of financial position such as:
a. Receivables from non-exchange transactions, including taxes and transfers;
b. Taxes and transfers payable;
c. Trade and other payables from non-exchange transactions;
Amount and nature of any restrictions on cash balances is required.

The following issued standards and interpretations are now effective:

Standards	**Effective Date of Standard**
IFRS 7(AC 144) Financial Instruments: Disclosures	1 January 2007
IAS 1(AC 101) Presentation of Financial Statements: Capital	1 January 2007

Effect:

IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of the financial statements- Capital disclosures', introduce new disclosures relating to financial instruments and do not have any impact on the classification and valuation of the entity's financial instruments, or the disclosures relating to taxation and trade and other payables.

Interpretation	**Effective Date of Interpretation**
IFRIC 7(AC 440) Applying the Restatement Approach under IAS 29	1 March 2006
IFRIC 8(AC 441) Scope of IFRS 2	1 May 2006
IFRIC 9(AC 442) Reassessment of Embedded Derivatives	1 June 2006
IFRIC 10(AC 443) Interim Financial Reporting and Impairment	1 November 2006
AC 503 Accounting for Black Economic Empowerment (BEE) Transactions	1 October 2007
IFRIC 11(AC 444) IFRS 2 – Group and Treasury Share Transactions	1 October 2007

Effect:

The effect of adopting these standards and interpretations is not expected to have a significant impact on the financial statements of the entity.

The following GRAP standards have been approved but are not yet effective:

Standard of GRAP	**Effective Date of Standard**
GRAP 4 - The Effects of Changes in Foreign Exchange Rates	1 July 2009
GRAP 5 - Borrowing Costs	1 July 2009
GRAP 6 - Consolidated and Separate Financial Statements	1 July 2009
GRAP 7 - Investments in Associate	1 July 2009
GRAP 8 - Interest in Joint Ventures	1 July 2009
GRAP 9 - Revenue from Exchange Transactions	1 July 2009
GRAP 10 - Financial Reporting in Hyperinflationary Economies	1 July 2009
GRAP 11 - Construction Contracts	1 July 2009
GRAP 12 – Inventories	1 July 2009
GRAP 13 – Leases	1 July 2009
GRAP 14 - Events After the Reporting Date	1 July 2009
GRAP 16 - Investment Property	1 July 2009
GRAP 17 - Property Plant and Equipment	1 July 2009

Accounting Policies

GRAP 18 - Segment Reporting	1 July 2009
GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets	1 July 2009
GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers)	1July 2009
GRAP 24 - Presentation of Budget Information in Financial Statements	1 July 2009
GRAP 100 - Non-current Assets Held for Sale and Discontinued Operations	1 July 2009
GRAP 101 – Agriculture	1 July 2009
GRAP 102 - Intangible Assets	1 July 2009

Effect:
The effect of adopting these GRAP standards when they become effective is not expected to have a significant impact on the financial statements as the principles are similar to those already applied under the equivalent statements of SA GAAP. Despite the effective dates indicated above, the effective date of the GRAP standards is 1 July 2008 for the parent municipality. As such early adoption in the year ending 30 June 2008 will be required to ensure consistency in consolidation.

The following amendments to standards have been approved but are not yet effective:

Standard amended	**Effective Date of amendment**
IFRS 2(AC 139) IFRS 2 – Share-based Payment: Vesting Conditions and Cancellations	1 January 2009
IFRS 3(AC 140) Business Combinations	1 July 2009
IFRS 8(AC 145) Operating Segments	1 January 2009
IAS 1(AC 101) Presentation of Financial Statements	1 January 2009
IAS 23(AC 114) Borrowing Costs	1 January 2009
IAS 27(AC 132) Consolidated and Separate Financial Statements	1 July 2009
IAS 32(AC125) Financial instruments: Presentation	1 July 2009
IAS 1(AC 101) Financial Instruments: Presentation and Presentation of financial Statements: Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
IFRIC 12(AC 445) Service Concession Arrangements	1 January 2008
IFRIC 13(AC 446) Customer Loyalty Programmes	1 July 2008
IFRIC 14(AC 447) The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008

Effect:
The effect of adopting these amendments when they become effective is not expected to have a significant impact on the financial statements or is not applicable to the entity.

1.1 Significant judgements

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:

Post-retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 8.

Effective interest rate

Accounting Policies

1.1 Significant judgements (continued)

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

Provision for impairment of trade receivables

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

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

Impairment testing

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

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

Management used the fair value less cost to sell to determine the recoverable amount of intangible assets with an indefinite useful life and identifying assets that may have been impaired. Additional disclosure of these estimates is included in note 1.8 - Impairment of assets

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in note 15 - Provisions.

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

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

Accounting Policies

1.2 Property, plant and equipment

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

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

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

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

Cost model

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

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

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

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

Land is not depreciated.

Depreciation is provided on all property, plant and equipment other than freehold land, to write down the cost, less residual value, on a straight line basis over their useful lives as follows:

Item	Average useful life
Buildings	40 years
Plant and machinery	
• Transformers	55 years
• Transmission cables	61 - 85 years
• Mini-substations	55 years
• Medium voltage equipment	40 years
• Low voltage equipment	40 years
Furniture and fixtures	6-10 years
IT equipment	3 - 9 years

The useful life, depreciation method and residual value of each asset are reviewed annually.

No residual value of assets is calculated as assets are used until they are scrapped.

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 financial year is recognised in surplus/deficit unless it is included in the carrying amount of another asset.

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

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

Accounting Policies

1.3 Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

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;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Cost model

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. Amortisation is not provided for these intangible assets. 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 annually.

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

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

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

Item	Useful life
Additional capacity rights	10 years
Computer software	2-8 years

1.4 Financial instruments

Initial recognition

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

Financial assets and financial liabilities are recognised on the company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

Fair value determination

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

Accounting Policies

1.4 Financial instruments (continued)

Loans to and from group companies

These include loans to parent companies, fellow subsidiaries, subsidiaries, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

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

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

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

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

Trade and other receivables

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

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of financial performance. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against bad debt recoveries in the statement of financial performance.

Trade and other receivables are classified as loans and receivables.

A provision for impairment of receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Impairment losses are recognised in the statement of financial performance.

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

Trade and other payables

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

Cash and cash equivalents

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

Accounting Policies

1.5 Tax

Current tax assets and liabilities

The tax currently payable is based on taxable income for the year. Taxable income differs from surplus as reported in the statement of financial performance, because it includes income and expenses that are taxable or tax deductible in other years and it further excludes items that are never taxable or tax deductible.

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 reporting date.

Deferred tax assets and liabilities

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable surplus and is accounted for using the statement of financial position liability method.

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 goodwill; or
- goodwill for which amortisation is not deductible for tax purposes; or
- the initial recognition of an asset or liability in a transaction which:
  - is not a business combination; and
  - at the time of the transaction, affects neither accounting surplus nor taxable surplus/deficit.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable surplus will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

- is not a business combination; and
- at the time of the transaction, affects neither accounting surplus nor taxable surplus/deficit.

A deferred tax asset is recognised for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint ventures, to the extent that it is probable that:

- the temporary difference will reverse in the foreseeable future; and
- taxable surplus will be available against which the temporary difference can be utilised.

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable surplus 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 reporting date.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable surplus will be available against which the deductible temporary difference can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable surplus will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Tax expenses

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

Accounting Policies

1.5 Tax (continued)

Current and deferred taxes are recognised as income or an expense and included in surplus or deficit for the period, except to the extent that the tax arises from:
- a transaction or event which is recognised, in the same or a different period, directly in equity, or
- a business combination.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

1.6 Leases

Finance leases – lessee

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

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

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

Operating leases - lessor

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

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

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

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. This liability is not discounted as it is already carried at fair value.

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

1.7 Inventories

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

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion.

The cost of inventories comprises 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 is assigned using the weighted average cost formula.

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.

When inventories are sold or consumed, the carrying amounts of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a

Accounting Policies

1.7 Inventories (continued)

reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.8 Impairment of assets

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

Irrespective of whether there is any indication of impairment, the company also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed annually and at the same time every financial year-end.

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 recoverable amount of the cash-generating unit to which the asset belongs is determined.

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.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the units. The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order:

- first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit and
- then, to the other assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.9 Owner's contributions and net assets

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities.

Equity instruments issued by the company are classified according to the substance of the contractual arrangements entered into.

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

1.10 Employee benefits

Short-term employee benefits

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

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

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or

Accounting Policies

1.10 Employee benefits (continued)

constructive obligation to make such payments as a result of past performance.

Defined contribution plans

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

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

Defined benefit plans

For defined benefit plans, the cost of providing the benefits is determined using the projected 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 reporting date where the interim valuation is performed at an earlier date.

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

Surplus or deficits on the curtailment or settlement of a defined benefit plan are recognised when the company is demonstrably committed to curtailment or settlement.

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

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

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

1.11 Provisions and contingencies

Provisions are recognised when:

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

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

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

Provisions are not recognised for future operating losses.

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

Accounting Policies

1.12 Government grants

Government grants are recognised when there is reasonable assurance that:
- the company will comply with the conditions attaching to them; and
- the grants will be received.

Government grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as income of the period in which it becomes receivable.

Grants related to assets are presented as a credit in the statement of financial performance over the life of the assets.

Repayment of a grant related to an asset is recorded by reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised to date as an expense in the absence of the grant is recognised immediately as an expense.

1.13 Revenue

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

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

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Revenue represents the invoiced value of goods supplied to customers and connection fees below R100,000 and excludes value added tax.

Included in revenue are adjustments to customer accounts that are related to prior years. The volume and the continuous nature of the adjustments makes it impractical to determine to which years the adjustments relate to. These adjustments are as a result of a change in estimates or only became probable in the current year.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.14 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.15 Irregular expenditure or fruitless and wasteful expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act, Act 56 of 2003, the Municipal Systems Act, Act 32 of 2000, and the Public Office Bearers Act, Act 20 of 1998, or is in contravention of the City of Johannesburg Metropolitan Municipality supply chain management policy. Irregular expenditure is accounted for as expenditure in the statement of financial performance and where recovered it is subsequently accounted for as other income in the statement of financial performance.

Notes to the Annual Financial Statements

Figures in Rand thousand	2008	2007

2. Changes in accounting policy

There were no changes in accounting policies in the current financial year. AC 144 (IFRS 7) has been adopted during the financial year.

3. Property, plant and equipment

	2008			2007		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land	3,452	-	3,452	3,452	-	3,452
Buildings	239,008	(117,230)	121,778	216,994	(100,706)	116,288
Finance lease assets	3,673	(1,921)	1,752	3,673	(697)	2,976
Plant and machinery	3,189,395	(378,220)	2,811,175	2,877,739	(282,419)	2,595,320
Furniture and fixtures	25,445	(15,930)	9,515	23,363	(13,795)	9,568
Computer equipment	53,058	(27,272)	25,786	42,433	(17,489)	24,944
Capital work - in - progress	1,337,855	-	1,337,855	649,835	-	649,835
Total	**4,851,886**	**(540,573)**	**4,311,313**	**3,817,489**	**(415,106)**	**3,402,383**

Notes to the Annual Financial Statements

Figures in Rand thousand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2008

	Opening Balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Total
Land	3,452	-	-	-	-	-	3,452
Buildings	116,288	-	-	22,014	-	(16,524)	121,778
Finance lease assets	2,976	-	-	-	-	(1,224)	1,752
Plant and machinery	2,595,320	64,239	(118)	247,579	-	(95,845)	2,811,175
Furniture and fixtures	9,568	1,100	(3)	695	-	(1,845)	9,515
Computer equipment	24,944	938	(693)	(141)	-	738	25,786
Capital work-in-progress	649,835	971,443	-	(283,679)	256	-	1,337,855
	3,402,383	**1,037,720**	**(814)**	**(13,532)**	**256**	**(114,700)**	**4,311,313**

Reconciliation of property, plant and equipment - 2007

	Opening Balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Total
Land	7,399	292	-	(4,239)	-	-	3,452
Buildings	121,462	63	(1,393)	15,842	1,393	(21,079)	116,288
Finance lease assets	-	3,345	-	328	-	(697)	2,976
Plant and machinery	2,095,976	138,619	-	412,810	(958)	(51,127)	2,595,320
Furniture and fixtures	11,282	11,167	-	6,429	-	(19,310)	9,568
Computer equipment.	29,058	-	-	(343)	-	(3,771)	24,944
Capital work-in-progress	338,914	758,859	-	(447,938)	-	-	649,835
	2,604,091	**912,345**	**(1,393)**	**(17,111)**	**435**	**(95,984)**	**3,402,383**

Notes to the Annual Financial Statements

3. Property, plant and equipment (continued)

Pledged as security

None of the company's assets are pledged as security except for finance lease assets with a carrying value of (R000's) R1,752 (2007:R2,976) and are secured as described in note 13.

Free hold land and buildings

Free hold land and buildings are carried at historical cost. The title deeds are registered in the name of the City of Johannesburg. A process has commenced to transfer ownership into the name of the company.

4. Intangible assets

	2008			2007		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Additional capacity rights	80,149	(8,580)	71,569	80,149	(6,613)	73,536
Computer software	48,382	(20,094)	28,288	35,071	(9,443)	25,628
Total	**128,531**	**(28,674)**	**99,857**	**115,220**	**(16,056)**	**99,164**

Reconciliation of intangible assets - 2008

	Opening Balance	Additions	Disposals	Transfers from work-in-progress	Amortisation	Total
Additional capacity rights	73,536	-	-	-	(1,967)	71,569
Computer software	25,628	177	(355)	13,532	(10,694)	28,288
	99,164	**177**	**(355)**	**13,532**	**(12,661)**	**99,857**

Reconciliation of intangible assets - 2007

	Opening Balance	Additions	Transfers from work-in-progress	Amortisation	Total
Additional capacity rights	54,364	21,026	-	(1,854)	73,536
Computer software	17,123	-	16,769	(8,264)	25,628
	71,487	**21,026**	**16,769**	**(10,118)**	**99,164**

Figures in Rand thousand	2008	2007

5. Loans to/(from) shareholders

City of Johannesburg Metropolitan Municipality - Conduit mirror loans	(232,673)	(320,132)
City of Johannesburg Metropolitan Municipality - Capex loans	(2,173,884)	(1,761,925)
City of Johannesburg Metropolitan Municipality - Sweeping account	754,459	1,305,921
City of Johannesburg Metropolitan Municipality - Shareholder loans	(624,793)	(624,793)
	(2,276,891)	**(1,400,929)**

Conduit Mirror loan

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

Capex loans

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

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

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

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

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

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

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

Shareholder's loans .

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

Credit quality of loans to shareholders

The company considers loans to the shareholder to be fully recoverable and not requiring impairment. The maximum exposure to credit risk at the reporting date in respect of these loans is as follows (R000's) R748 357 (2007: R1305 921)

Current assets	754,459	1,305,921
Non-current liabilities	(2,736,136)	(2,482,840)
Current liabilities	(295,214)	(224,010)
	(2,276,891)	**(1,400,929)**

Notes to the Annual Financial Statements

Figures in Rand thousand	2008	2007

5. Loans to/(from) shareholders (continued)

5.1. City of Johannesburg Metropolitan Municipality - Conduit mirror loans

Conduit mirror loans movement for the year		
Loans at beginning of the year	(320,132)	(455,532)
Repayments	73,442	61,958
Less amount payable within 12 months	14,017	73,442
Balance at end of year	**(232,673)**	**(320,132)**

5.2. City of Johannesburg Metropolitan Municipality - Sweeping account

Sweeping account movement for the year		
Balance at the beginning of the year	1,305,921	1,052,416
Movements during the year	(551,462)	253,505
Balance at end of year	**754,459**	**1,305,921**

5.3. City of Johannesburg Metropolitan Municipality - Shareholder loans

Subordinated loans movement for the year		
Opening balance 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)**

Credit quality of loans to shareholders

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

Loans to shareholders impaired

As of June 30, 2008, no loans to shareholders were impaired and provided for.

6. Financial assets by category

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

2008

	Loans and receivables	Total
Loans to shareholders	748,357	748,357
Trade receivables	717,010	717,010
Cash and cash equivalents	16	16
	1,465,383	**1,465,383**

Figures in Rand thousand

Notes to the Annual Financial Statements

2007

	Loans and receivables	Total
Loans to shareholders	1,305,921	1,305,921
Trade receivables	631,301	631,301
Cash and cash equivalents	16	16
	1,937,238	**1,937,238**

7. Deferred taxation assets/liability

Reconciliation of deferred taxation asset / (liability)

	2008	2007
Trade Receivables	15,368	668
Provisions	1,112	3,264
Deferred income	5,040	31,686
Finance leases	(306)	863
Prepayments	-	(1,288)
Rental income	67	40
Finance leases	153	(863)
Property, plant & equipment	(21,434)	(34,370)
	-	**-**

8. Retirement benefits

8.1. Defined benefit plan

	2008	2007
Post-retirement liability		
Post-Retirement Medical Aid Plan	(2,939)	(7,207)
Retirement Gratuity Plan	(53,989)	(47,648)
Balance at end of year	**(56,928)**	**(54,855)**

Notes to the Annual Financial Statements

Figures in Rand thousand		2008	2007

8. Retirement benefits (continued)

8.1.1. Post-retirement medical aid plan

City Power Johannesburg (Proprietary) Limited has obligations to subsidise medical aid contributions in respect of certain qualifying staff and pensioners and their surviving spouses. Only pensioners and employees who were aged 50 or older and were members of LA Health and Munimed are included.

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

Carrying value

		2008	2007
Liability at the beginning of the year		(7,207)	(8,859)
Interest cost		(573)	(1,000)
Net actuarial gain		4,782	2,747
Past service cost		(23)	(183)
Benefits paid		82	88
		(2,939)	**(7,207)**

Net expense recognised

		2008	2007
Past service cost		23	183
Interest cost		573	1,000
Actuarial (gains) or losses		(4,782)	(2,747)
Total, included in employee benefits expense	23	**(4,186)**	**(1,564)**

Key assumptions used

The principal actuarial assumptions used were as follows:

	2008	2007
Discount rates used	9.50 %	8.00 %
Expected rate of return on assets	9.50 %	8.00 %
Rate of increase in employer post-retirement medical contribution subsidy payments	7.50 %	5.75 %

Notes to the Annual Financial Statements

Figures in Rand thousand		2008	2007

8. Retirement benefits (continued)

8.1.2. Pension benefits

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

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

The plan is a post-retirement gratuity benefit plan.

The amounts recognised in the statement of financial position were determined as follows:

Carrying value

		2008	2007
Liability at the beginning of the year		(47,648)	(45,168)
Interest cost		(3,812)	(4,065)
Net actuarial loss / (gain)		(2,529)	1,619
Benefits paid		-	(34)
Liability in the statement of financial position		**(53,989)**	**(47,648)**

Net expense recognised

		2008	2007
Interest cost		(3,812)	(4,065)
Actuarial (Loss) gains)		(2,529)	1,619
Total, included in employee benefits expense	23	**(6,341)**	**(2,446)**

Key assumptions used

The principal actuarial assumptions used were as follows:

	2008	2007
Discount rates used	9.50 %	8.00 %
Expected rate of return on assets	9.50 %	8.00 %
Expected increase in salaries	7.00 %	5.50 %

9. Inventories

	2008	2007
Consumable stores	30,788	44,995
Stores, materials and fuels	1	-
Subtotal	30,789	44,995
Impairments	(2,564)	(3,681)
	28,225	**41,314**

Inventory consists of spares and consumables which will be utilised by the company in its daily business operations.

Notes to the Annual Financial Statements

Figures in Rand thousand		2008	2007

10. Trade and other receivables

		2008	2007
Trade receivables		209	-
Prepayments		5,467	5,467
Other deposits		68	68
Sundry receivables		24,327	3,087
Insurance receivables		12,866	7,469
Deferred balance as a result of straight lining		167	397
Trade receivables administered by metropolitan municipality	10.1	423,737	400,905
Trade receivables administered by company	10.2	234,981	198,739
Related party receivables	30	9,015	16,529
Adjustment to fair value on initial recognition		(3,017)	(1,367)
		707,820	**631,294**

Trade and other receivables pledged as security

No trade and other receivables were pledged as security.

10.1. Trade receivables administered by the City of Johannesburg Metropolitan Municipality

	2008	2007
Gross trade receivables	1,364,756	1,296,115
Less: Impairments	(941,019)	(895,210)
	423,737	**400,905**

10.2. Trade receivables administered by company

	2008	2007
Gross trade receivables	446,354	339,365
Less: Impairments	(145,994)	(82,994)
Less: Customer deposits	(154,648)	(130,911)
Reclassifying trade receivables with credit balances to trade and other payables	89,269	73,279
	234,981	**198,739**

Credit quality of trade and other receivables

The company's management considers that all the above trade debtors and other receivables that are not impaired are of good quality. Management continuously monitors payment levels among other factors in arriving at this conclusion.

Trade receivables

Trade and other receivables past due but not impaired administered by the City of Johannesburg Municipality

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At June 30, 2008, R(000's) 267,233 (2007(R000's) 132,869 were past due but not impaired. Receivables older than 3 months are considered for possible impairment but are not automatically impaired without taking other information into account.

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

	2008	2007
1 month past due	65,121	59,408
2 months past due	51,082	38,832
3 months past due	10,583	15,324
Greater than 3 months past due	140,437	19,305

10. Trade and other receivables (continued)

Trade and other receivables impaired

As of June 30, 2008, trade and other receivables of R(000) 1,083,704 (2007 R(000's) 978,204 were impaired and provided for.

The carrying amount of trade and other receivables are denominated in South African rand.

Reconciliation of provision for impairment of trade and other receivables

	2008	2007
Opening balance	978,204	965,729
Provision for impairment	114,884	180,885
Amounts written off as uncollectible	(9,384)	(168,511)
Amounts recovered	-	101
	1,083,704	**978,204**

The creation and release of provision for impaired receivables have been included in operating expenses in the statement of financial performance. Unwinding of discount is included in finance cost in the statement of financial performance. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of each class of loan and receivables mentioned above. The carrying amount of trade and other receivables is measured fair value. The company holds cash deposits and demand guarantees as collateral.

The carrying amount of trade and other receivables is considered to approximate fair value.

Notes to the Annual Financial Statements

Figures in Rand thousand	2008	2007

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Physical cash on hand	16	16

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

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

All bank accounts are reflected at zero balance as at 30 June 2008, due to the sweeping arrangement with the City of Johannesburg Metropolitan Municipality.

Account number	Bank	Account description
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
4054394752	ABSA	Salaries account
4054394744	ABSA	Bank charges
4054394736	ABSA	Main cheque account

12. Contribution from owner

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

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

Notes to the Annual Financial Statements

Figures in Rand thousand	2008	2007

13. Finance lease obligation

Minimum lease payments due		
- within one year	1,474	1,475
- in second to fifth year inclusive	636	2,109
	2,110	3,584
less: future finance charges	(188)	(507)
Present value of minimum lease payments	**1,922**	**3,077**
Present value of minimum lease payments due		
- within one year	1,307	1,155
- in second to fifth year inclusive	615	1,922
	1,922	**3,077**
Non-current liabilities	615	1,922
Current liabilities	1,307	1,155
	1,922	**3,077**

It is company policy to lease certain equipment under finance leases with varying lease terms. The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The company's obligations under finance leases are secured by the lessor's title to the leased assets.

14. Deferred income

Deferred income consists of the following:

- Engineering services contribution - When new buildings are erected in and around Johannesburg, the infrastructure demands in the area where the building is erected increase. As a result the entity erecting the building is required to make a payment to fund the improvement in the infrastructure. The deferred income arising from the engineering services contribution relates to City Power (Proprietary) Limited's portion of the funding for the improvement of the infrastructure. The deferred income relating to the engineering service contribution grants are released into income over the estimated useful lives of the infrastructure assets.

- Deferred income grants, Alexandra renewal grants, municipal infrastructure grants, Adopt-A-Light liability and deferred income grants Department Minerals and Energy pertain to community upliftment projects udertaken by City Power Johannesburg (Proprietary) Limited. These projects include improving the infrastructure in disadvantaged communities and also job creation in disadvantaged communities. The deferred income relating to these grants are released into income over the estimated useful lives of the infrastructure assets erected in the disadvantaged communities.

- Service connections deferred pertain to new connection fees received. The deferred income is released over the estimated useful lives of the new service connections.

Deferred government grant income is not offset against the related assets or expenditure.

Deferred income comprises:

Engineering services contribution	209,675	180,624
Grants City of Johannsburg Metropolitan Municipality	134,836	113,916
Alexandra renewal grant	148,579	121,001
Municipal infrastructure grant	67,444	61,611
Department Minerals & Energy grant	79,474	57,029
Service connections deferred	303,177	211,291
Adopt-A-Light liability	10,176	10,153
	953,361	**755,625**

Notes to the Annual Financial Statements

Figures in Rand thousand		2008	2007

14. Deferred income (continued)

Movement during the year:

Balance at the beginning of the year	755,627	512,353
Additions during the year	206,076	263,492
Income recognition during the year	(8,342)	(20,220)
Balance at the end of the year	**953,361**	**755,625**

15. Provisions

Reconciliation of provisions - 2008

	Opening Balance	Additions	Utilised during the year	Total
Incentive bonus	20,620	24,199	(22,819)	22,000

Reconciliation of provisions - 2007

	Opening Balance	Additions	Utilised during the year	Total
Incentive bonus	15,700	22,893	(17,973)	20,620

The provision is management's best estimate of the future performance bonus payout in respect of the past year based on past experience.

16. Trade and other payables

	Note	2008	2007
Trade payables	16.1	632,820	835,975
VAT		206,070	126,132
Retentions		1,203	1,035
Related party creditor	30	124,693	58,048
Adjustment for fair value on initial recognition		(1,582)	(3,558)
		963,204	**1,017,632**

16.1. Trade payables

Gross trade payables	543,551	680,621
Reclassification of debit and credit balances within trade payables and trade receivables	89,269	110,023
Other	-	45,331
	632,820	**835,975**

Notes to the Annual Financial Statements

Figures in Rand thousand	2008	2007

17. Financial liabilities by category

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

2008

	Financial liabilities at amortised cost (loans and payables)	Total
Loans from shareholders	3,031,350	3,031,350
Finance lease obligation	1,922	1,922
Trade and other payables	957,104	957,104
	3,990,376	**3,990,376**

2007

	Financial liabilities at amortised cost (loans and payables)	Total
Loans from shareholders	2,706,850	2,706,850
Finance lease obligation	3,077	3,077
Trade and other payables	1,017,633	1,017,633
	3,727,560	**3,727,560**

18. Revenue

	2008	2007
Rendering of services	4,199,985	3,821,923

19. Other income

	2008	2007
Fees earned	20,242	18,169
Rental income	1,799	1,892
Discounts received	1,358	6,811
Recoveries	383	219
Sundry income	3,090	2,553
Other income	54,803	52,638
Government grants released to Statement of Financial Performance	9,352	21,013
	91,027	**103,295**

Notes to the Annual Financial Statements

Figures in Rand thousand		2008	2007

20. Cost of sales

Rendering of services			
Cost of services		2,795,652	2,429,349

21. Operating expenses

Operating deficit for the year is stated after accounting for the following:

Operating lease charges			
Motor vehicles			
• Contractual amounts		40,631	37,089
Plant and equipment			
• Contractual amounts		349	476
Lease rentals on operating lease - equipment			
• Contractual amounts		1,039	311
		42,019	**37,876**
Depreciation on property, plant and equipment		127,105	106,012
Employee costs	23	447,050	402,715
Bad debts		111,770	180,885
Consulting and professional fees		35,979	31,383
Insurance		24,081	26,466
Legal expenses		3,847	1,670
Repairs and maintenance		196,853	110,517
Security (Guarding of municipal property)		56,185	47,721
Billing and meter reading charges		11,749	-

22. Auditors remuneration

Audit Fee - current	2,412	1,837
Prior year audit	203	1,465
	2,615	**3,302**

Notes to the Annual Financial Statements

Figures in Rand thousand	2008	2007

23. Employee related costs

Basic salary	237,734	214,720
Incentive bonus	22,853	23,284
Medical aid - company contributions	29,241	24,747
Unemployment insurance fund	2,307	2,158
Workmen compensation act	3	2,094
Leave pay accrual	7,830	8,678
Phone allowances	1,759	1,081
Post-employment benefits - Pension - Defined contribution plan	47,461	42,455
Travel, motor car, accommodation, subsistence and other allowances	18	77
Overtime payments	47,890	34,220
Long-service awards	2,780	3,833
13th cheques	10,081	8,916
Acting allowances	4,642	3,196
Car allowance	25,915	27,113
Housing benefits and allowances	5	8
Membership fees	434	454
Bursary grants	1,955	1,556
Uniforms & protective clothing	1,294	753
Other allowances	1,665	2,391
Less: Employee costs capitalised to property, plant and equipment	(151)	-
Termination benefits	1,334	981
	447,050	**402,715**

24. Investment revenue

Interest revenue		
Interest earned - external investments	56,306	61,988
Interest earned - outstanding debtors	42,503	31,533
Fair value adjustments	37,819	15,459
	136,628	**108,980**

25. Finance costs

Group companies	342,431	314,304
Bank	4	-
Other interest paid	7	-
Fair value adjustments: Notional interest	22,257	(1,941)
Fair value adjustments on payables	-	243
	364,699	**312,606**

Notes to the Annual Financial Statements

Figures in Rand thousand	2008	2007

26. Cash generated from operations

	2008	2007
(Deficit) / surplus before taxation	(48,508)	118,473
Adjustments for:		
Depreciation and amortisation	127,105	106,012
Interest received	(136,628)	(108,980)
Finance costs	364,699	312,606
Movements in retirement benefit assets and liabilities	2,073	828
Movements in provisions	1,380	4,920
Changes in working capital:		
Inventories	13,089	(19,129)
Trade and other receivables	(76,526)	31,539
Trade and other payables	(54,428)	188,714
Deferred income	197,736	243,270
	389,992	**878,253**

27. Tax (paid) / refunded

	2008	2007
Balance at beginning of the year	-	(12,643)
Adjustment in respect of businesses sold and acquired during the year including exchange rate movements	-	12,643
	-	**-**

28. Commitments

Authorised capital expenditure

	2008	2007
Already contracted for but not provided for		
• Property, plant and equipment	156,894	163,315
• Guarantees issued to CDC Globeleq in terms of power purchasing agreement by the City of Johannesburg Metropolitan Municipality on behalf of the company.	141,300	133,000
Not yet contracted for and authorised by directors	886,458	712,885

This capital expenditure is to be financed from internally generated funds and from shareholder loans and grants.

Operating leases – as lessee (expense)

	2008	2007
Minimum lease payments due		
- within one year	39,717	24,450
- in second to fifth year inclusive	94,118	113,378
	133,835	**137,828**

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

Operating leases – as lessor (income)

	2008	2007
Minimum lease payments due		
- within one year	518	1,019
- in second to fifth year	-	627
	518	**1,646**

29. Contingencies

Contingent liabilities
Litigation is in process against another company relating to damages for alleged breach of contract for the sum of R707,367. The matter is currently in the High Court.

The company has a potential liability for service bonus in respect of gratuity benefits for eligible employees amounting to R1,171,000.

Legal action has been instituted by the Municipal Employees Pension Fund and the South African Municipal Workers Union for the company's unilateral withdrawal from their respective pension and provident funds. The claim amounts to R630,745.

Notes to the Annual Financial Statements

Figures in Rand thousand	2008	2007

30. Related parties

Relationships	
Parent entity	The City of Johannesburg Metropolitan Municipality
Other members of the group	City Housing Company (Pty) Ltd
	City of Johannesburg Property Company (Pty) Ltd
	Johannesburg City Parks
	Johannesburg Development Agency (Pty) Ltd
	Johannesburg Metropolitan Bus Services (Pty) Ltd
	Johannesburg Roads Agency (Pty) Ltd
	Johannesburg Social Housing Company (Pty) Ltd
	Johannesburg Tourism Company
	Johannesburg Water (Pty) Ltd
	Metropolitan Trading Company (Pty) Ltd
	Pikitup Johannesburg (Pty) Ltd
	Roodepoort City Theatre
	The Johannesburg Civic Theatre (Pty) Ltd
	The Johannesburg Fresh Produce Market (Pty) Ltd
	The Johannesburg Zoo
Members of key management	Directors remuneration-Annexure A

Related party balances

	2008	2007
Loan accounts - Owing by related parties		
City of Johannesburg Metropolitan Municipality	754,459	1,305,921
Loan accounts - Owing to related parties		
City of Johanneburg Metropolitan Municipality	3,031,350	2,706,850
Amounts included in trade receivable regarding related parties		
City of Johannesburg Property Company (Pty) Ltd	84	65
City of Johanneburg Metropolitan Municipality	-	7,498
Johannesburg City Parks	772	1,035
Johannesburg Development Agency (Pty) Ltd	54	1,500
Johannesburg Metropolitan Bus Services (Pty) Ltd	-	42
Johannesburg Roads Agency (Pty) Ltd	1,988	1,795
Johannesburg Water (Pty) Ltd	5,850	4,517
Pikitup Johannesburg (Pty) Ltd	172	68
The Johannesburg Zoo	95	9
	9,015	**16,529**
Amounts included in trade payable regarding related parties		
City of Johanneburg Metropolitan Municipality	5,130	-
Johannesburg City Parks	3,510	10,174
Johannesburg Roads Agency (Pty) Ltd	5,632	5,051
Johannesburg Water (Pty) Ltd	76	84
Pikitup Johannesburg (Pty) Ltd	33	63
Kelvin Power (Pty) Ltd	110,312	42,676
	124,693	**58,048**

Notes to the Annual Financial Statements

Figures in Rand thousand	2008	2007

30. Related parties (continued)

Related party transactions

Sales to related parties		
City of Johannesburg Property Company (Pty) Ltd	-	1,237
City of Johanneburg Metropolitan Municipality	-	30,318
Johannesburg City Parks	848	1,897
Johannesburg Development Agency (Pty) Ltd	244	4,367
Johannesburg Metropolitan Bus Services (Pty) Ltd	1,159	972
Johannesburg Roads Agency (Pty) Ltd	14,769	3,768
Johannesburg Water (Pty) Ltd	37,422	45,047
Metropolitan Trading Company (Pty) Ltd	2,403	-
Pikitup Johannesburg (Pty) Ltd	1,060	1,015
The Johannesburg Civic Theatre (Pty) Ltd	1,904	1,805
The Johannesburg Fresh Produce Market (Pty) Ltd	991	7,848
The Johannesburg Zoo	846	596
	61,646	**98,870**

Purchases from related parties		
City of Johanneburg Metropolitan Municipality	49,350	50,129
Johannesburg City Parks	12,625	13,206
Johannesburg Roads Agency (Pty) Ltd	7,056	5,888
Johannesburg Water (Pty) Ltd	513	852
Pikitup Johannesburg (Pty) Ltd	485	457
	70,029	**70,532**

Notes to the Annual Financial Statements

Figures in Rand thousand	2008	2007

31. Directors' emoluments

Refer to Annexure A.

32. Prior-year errors

The correction of the prior-year error relates to a deffered tax liabilty that was overstated in previous years. The company had unrecognised deferred tax assets which it is entitled to raise in accordance with IAS 12 par. 35.

Statement of Financial Position		
Accumulated surplus previously reported in 2006	-	569,177
Deferred taxation liability written back	-	121,317
Balance of Accumulated surplus - 2006	-	690,494
Restated 2007		
Net surplus reported in 2007	-	50,631
Deferred taxation expense written back	-	67,840
Restated opening accumulated surplus at 1 July 2007	-	808,965

Statement of financial performance	
2007	
Deferred tax liability previously reported	(189 157)
Deferred tax written back 2001-2006	121 377
Deferred tax written back 2007	67 840
Balance as at end 2007	**nil**
Property, plant and equipment	(10,147)
Inventory	10,147

The write down of inventory relating to capex stock has been reclassified to property, plant and equipment where the capital value of the stock is reflected

33. Risk management

The company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

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

Liquidity risk

The company's risk to liquidity is a result of the funds available to cover future commitments. The company manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.The company's funding is managed by the City of Johannesburg Metropolitan Municipality. The city borrows money in the open market through the issue of bonds as and when required.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, company treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The table below analyses the company's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At June 30, 2008	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	295,214	335,270	891,612	628,026
Trade and other payables	957,105	-	-	-

At June 30, 2007	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	224,010	295,214	335,270	891,612
Trade and other payables	1,017,633	-	-	-

Interest rate risk

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

The company's interest rate risk arises from long-term borrowings. There are no borrowings issued at variable rates of interest. Borrowings issued at fixed rates are subject to fair value interest rate risk.. The company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the company calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

At June 30, 2008, if interest rates on rand-redominated receivables had been 1% higher/lower with all other variables held constant, post-tax profit for the year would have been (R000's) R570 (2007: R 500) lower/higher, mainly as a result of higher/lower interest income.

Credit risk

Credit risk is managed on a group basis.

Notes to the Annual Financial Statements

Figures in Rand thousand	2008	2007

33. Risk management (continued)

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

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

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

Financial instrument	2008	2007
Trade and other receivables	717,010	631,301
Loans to shareholders	748,347	1,305,921

Price risk

The company's financial instruments are affected by the wholesale price of electricity from Eskom and coal, diesel, and oil pas-through costs from Kelvin. The effect of the price increases will only affect future transactions. The current financial instrument balances are not sensitive to future fluctuations to price increases.

34. Going concern

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

The ability of the company to continue as a going concern is dependent on a number of factors. The most significant of these is that the directors continue to procure funding for the ongoing operations for the company and that the subordination agreement referred to in these annual financial statements will remain in force for so long as it takes to restore the solvency of the company.

The shareholder will continue to subordinate a portion of the shareholder loan in terms of the sale of business agreement, until such time as a debt to equity ratio of 60:40 is exceeded by the company.

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Annexure A - Director's remuneration

Detailed Statement of Financial Performance for the year ended June 30, 2008

Figures in Rand thousand	Note(s)	2008	2007
Revenue			
Service charges		4,199,985	3,821,923
Cost of sales	20	**(2,795,652)**	**(2,429,349)**
Gross surplus		**1,404,333**	**1,392,574**
Other income			
Fees earned		20,242	18,169
Rental income		1,799	1,892
Discount received		1,358	6,811
Recoveries		383	219
Canteen revenue & vehicle cleaning		3,090	2,553
Other income		54,803	52,638
Interest received	24	136,628	108,980
Government grants		9,352	21,013
		227,655	**212,275**
Operating expenses			
Administration and management fees		(24,617)	(15,514)
Advertising		(14,092)	(7,490)
Assessment rates & municipal charges		(8,911)	(8,142)
Auditors remuneration	22	(2,615)	(3,302)
Bad debts		(111,770)	(180,885)
Bank charges		(431)	(552)
Cleaning		(1,886)	(359)
Commission paid		(18,552)	(15,138)
Conferences and seminars		(3,987)	(2,653)
Licenses		-	(4)
Consulting and professional fees		(32,132)	(29,709)
Fair value of expenses		4,878	5,571
Depreciation, on property,plant and equipment		(127,105)	(106,012)
Donations		(385)	(508)
Employee costs	23	(447,050)	(402,715)
Entertainment		(3,139)	(2,023)
Meter audits & illegal connections		(11,749)	-
Basic free electricity		(19,601)	(24,694)
Loss on disposal of fixed assets		(1,169)	1,794
Cut off fees & final readings		(40,199)	(40,308)
Materials		(18,690)	(10,784)
Other		(8,268)	(4,649)
Hostel charges		(2,441)	(2,143)
Insurance		(24,081)	(26,466)
Lease rentals on operating lease		(42,019)	(37,876)
Legal expenses		(3,847)	(1,670)
Levies		(3,619)	(3,190)
Magazines, books and periodicals		(166)	(225)
Motor vehicle expenses		(24,909)	(19,312)
Petrol and oil		(525)	(606)
Postage		(402)	(455)
Printing and stationery		(2,974)	(2,840)
Repairs and maintenance		(196,853)	(110,517)
Security		(56,185)	(47,721)

Detailed Statement of Financial Performance for the year ended June 30, 2008

Figures in Rand thousand	Note(s)	2008	2007
Software expenses		(3,920)	(4,278)
Staff welfare		(391)	(1,312)
Subscriptions		(497)	(242)
Telephone and fax		(11,378)	(10,590)
Training		(3,214)	(6,420)
Transport and freight		(676)	(114)
Travel - local		(5,482)	(1,118)
Travel - overseas		(306)	(372)
Services rendered by utilities		(40,442)	(48,227)
		(1,315,797)	**(1,173,770)**
Operating surplus	21	**316,191**	**431,079**
Finance costs	25	(364,699)	(312,606)
(Deficit) surplus for the year		**(48,508)**	**118,473**