

CA-Ratings

PROFESSIONALS IN RISK ANALYSIS

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RATING UPGRADE

City of Johannesburg

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Current credit ratings

Long-term: zaA+

Outlook: **Stable**

Short-term: zaA1

CA-Ratings announces that it has raised the long-term issuer credit rating of City of Johannesburg from zaA to zaA+. The short-term rating is affirmed at zaA1. The rating outlook is **stable**.

Accordingly the long-term bond ratings of Johannesburg have therefore also been raised to:

COJ 01 zaA+ / **Stable**

COJ 03 zaA+ / **Stable**

COJ 04 zaA+ / **Stable**

The COJ 04 bond rating is indicative since the bond has not yet been issued. However the rating will become definite upon issuance. The additional obligations of the bond on the city have been factored into the ratings assigned.

The ratings of the City are supported by the following factors:

- Johannesburg has the deepest and most diversified local economy in the country, derived from the city's position as South Africa's business capital and main financial and economic centre. Reflecting the importance of the local economy at the national level, Joburg is the seat of more than 70% of corporate headquarters in the country and contributes 16% of national GDP while counting only 7% of the national population. Joburg is the largest SA metropolitan municipality with a population of 3,3 million people.
- Strong operating performance that delivered a surplus after taxes of R1,1 billion some three times more than in 2004. Although the revised operating budget for 2006 indicates a surplus of R130 million,

the actual surplus is expected to be greater.

- Improvement in the city's billings systems that allow for more complete revenue and strong improvement in the collections. CA-Ratings has calculated the collection rate in 2005 at 94,5%, which is slightly above the 93,6% average for all the metros in the country. With the planned improvements in the systems it is expected that Johannesburg should maintain its collection rate at minimum 94% in future.
- The city has maintained healthy cash balances over the last year. At year end the call deposits stood at R1,6 billion of which R907 million serves as cash backing for reserves, loan repayment and grants received, leaving roughly R678 million as the city's own discretionary funds. Future cash balances are expected to remain close to historical levels.
- The debt burden remained moderate during 2005 with a debt to income ratio of 40%. However the pressures on capital expenditures that are estimated at close to R9 billion over the next three years, will result in higher debt levels in future. The debt-to-income ratio is expected to peak in 2009 at just over 50%. Johannesburg's strong local economy enables it to sustain a higher debt burden than its peers at the same rating level.

The ratings of Johannesburg are constrained by the following factors:

- Johannesburg's very large infrastructure backlogs both in terms of development of new infrastructure as well maintenance and replacement of existing assets will re-

quire substantial spending over the long-term.

- The city has large unfunded post retirement benefits of about R1,6 billion. The annual payouts are funded from operating income. However, Johannesburg's relatively low staff cost relative to total expenses compared with other metros coupled with the long-term funding plan for this liability, mitigates this concern somewhat.
- The financial flexibility is currently somewhat constrained by the council's strategy to limit tariff increases to approximately CPIX. The large spending pressures might require more aggressive tariff increases in future.

- The city's operating expenditures are largely inflexible and of a fixed nature and can only be managed down through tight budgetary measures and improvement in efficiencies.

The rating outlook is **stable** to reflect the position after the rating upgrade in May 2006. Factors that could influence future rating actions are further improvement in the financial profile of the city, collections, the long-term funding requirements and debt burden as well as the progress with the removal of the audit qualifications. These aspects will be monitored regularly by CA-Ratings.