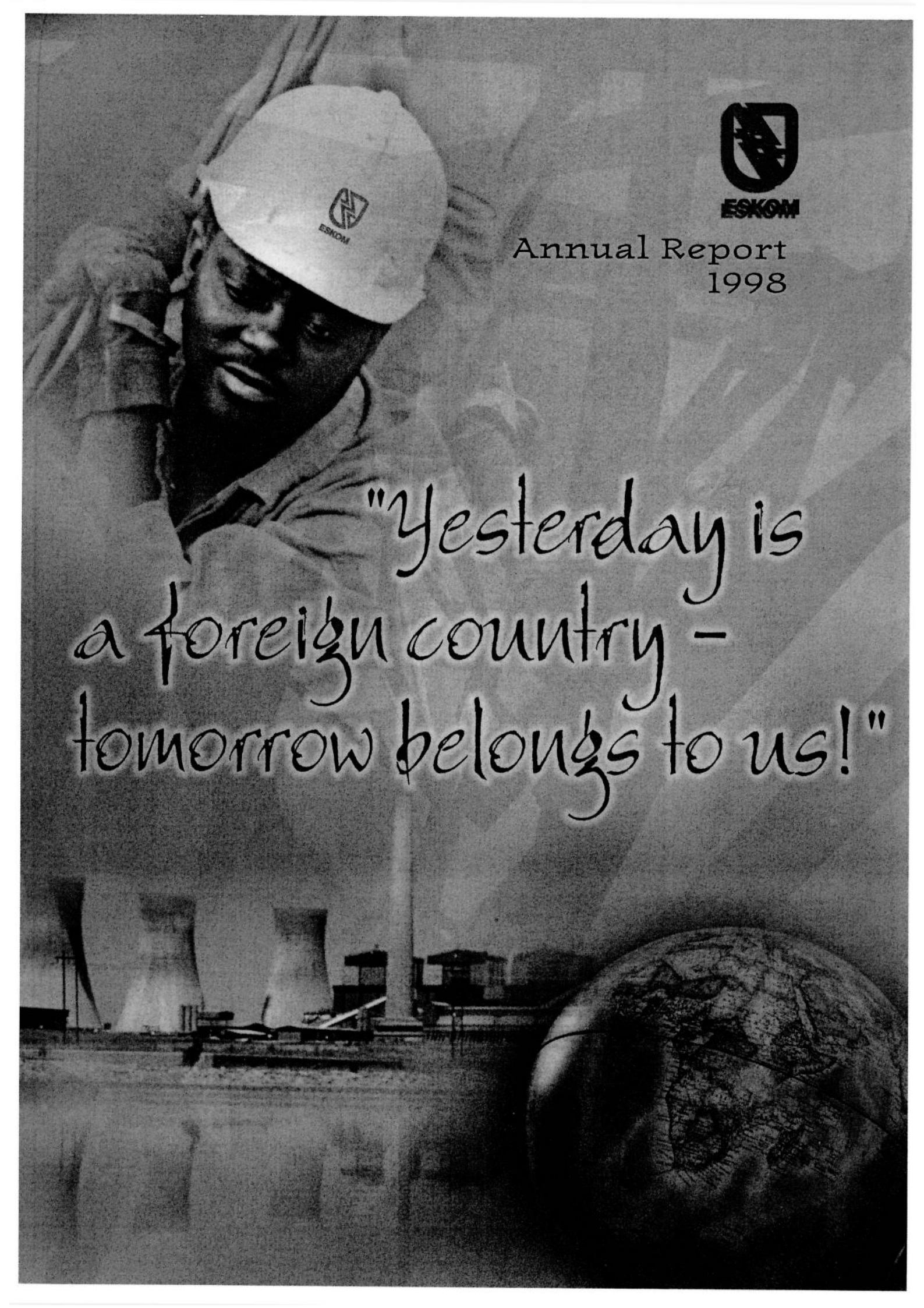

ESKOM
ESKOM
Annual Report
1998
"Yesterday is
a foreign country -
tomorrow belongs to us!"

VISION

To provide the world's lowest-cost electricity for growth and prosperity

MISSION

To satisfy all our customers' electricity needs in the most cost-effective way

STRATEGY

To develop Eskom as a business that maximises the value of its products and services to South Africa

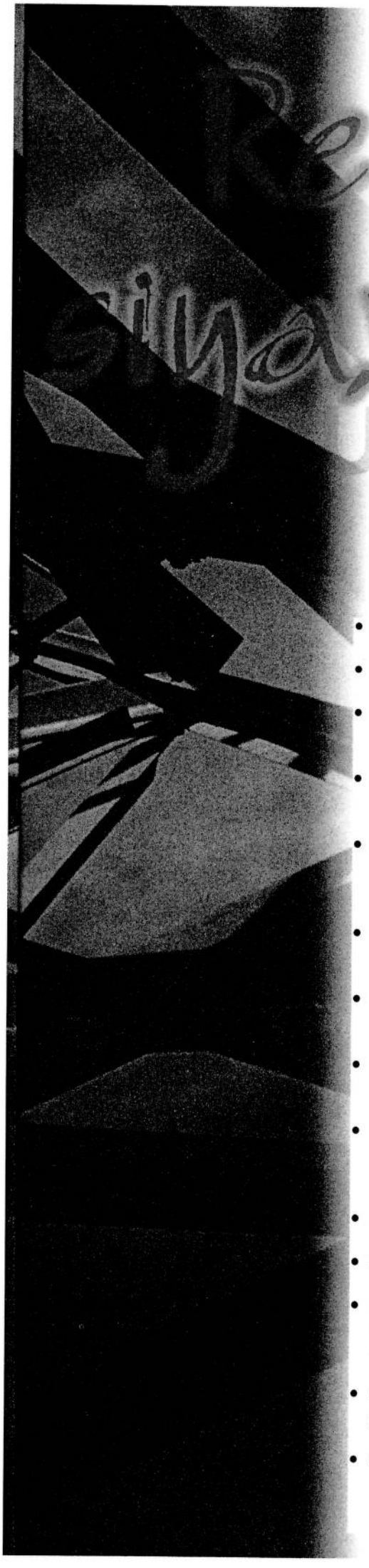
ESKOM

AFRICAN RENAISSANCE

"Notably, the success of the African Renaissance depends on the development of the region and its people, which in turn is dependent upon our performance as an efficient and effective organisation that can provide the basis for South African economic growth."

CONTENTS

Cover quote from Thabo Mbeki's speech, September 1998



Emotlotlo, inazizhenya

Unabashed pride

Eskom, South Africa's electricity utility

- has 24 power stations with a nominal capacity of 39 872 megawatts
- is among the top five utilities in the world in terms of size and sales
- is presently one of the lowest-cost producers of electricity in the world
- supplies 95% of the country's electricity requirements, which equals more than half of the electricity generated on the African continent
- is financed by net financial market liabilities and investments as well as reserves, and is run on business principles for the benefit of its customers
- sells approximately 40% of its electricity to local authorities which resell it to end-users
- has committed itself to connect 1 750 000 homes between 1994 and the year 2000 and has electrified 1 451 503 to date
- has 26 443 kilometres of transmission lines, which span the entire country and also carry power to neighbouring countries
- supports the development of a southern African transmission grid to encourage co-operation and accelerate economic growth in the region
- supports employment equity
- encourages employees to develop their potential through training
- sees itself as a responsible corporate citizen and is working towards environmental sustainability and socio-economic improvement
- operates the largest dry-cooled electricity generation plant in the world
- supports the African Renaissance vision

	1998	1997	Change 1997–98 %	Average yearly change 1994–98 %
FINANCIAL/BUSINESS PERFORMANCE INDICATORS				
Financial				
Revenue, Rm	**21 071**	20 448	3,0	8,8
Net profit for the year, Rm	**2 750**	3 083	(10,8)	10,8
Property, plant and equipment in commission, Rm	**69 038**	63 794	8,2	8,6
Net expenditure on property, plant, equipment and intangible assets, Rm	**4 521**	5 444	(17,0)	4,7
Net financial market liabilities and investments, Rm	**23 932**	26 991	(11,3)	(3,1)
Average price of electricity sold, cents per kWh[1]	**12,29**	11,85	3,7	5,1
Average total cost of electricity sold, cents per kWh[2]	**10,70**	10,08	6,2	4,8
Business[3]				
Return on total assets, percent	**9,85**	11,30	(12,8)	(1,8)
Real (inflation-adjusted) return on total assets, percent	**2,49**	3,62	(31,2)	(9,6)
Debt-equity ratio	**0,85**	1,08	(21,3)	(16,0)
Value created per employee, R'000	**381**	360	5,8	10,6

1. Average price of electricity sold based on total sales.
2. Average total cost of electricity sold, calculated as operating expenditure and net interest and based on external sales.
3. Calculated on the basis described in the five-year financial review.

	1998	1997	Change 1997–98 %	Average yearly change 1994–98 %
TECHNICAL/BUSINESS PERFORMANCE INDICATORS				
Operations				
Total electricity sold, GWh[1]	**171 454**	172 550	(0,6)	3,6
Coal burnt in power stations, Mt	**87,2**	90,2	(3,3)	2,8
Water consumed by power stations, Mℓ	**225 300**	224 754	0,2	0,1
Peak demand on integrated system, MW	**27 803** (9 June)	28 329 (30 June)	(1,9)	3,7
Assets in commission at 31 December				
Nominal capacity, MW[2]	**39 872**	39 154	1,8	0,1
Net maximum capacity, MW[2]	**37 848**	37 175	1,8	0,1
Power lines (all voltages), km	**281 010**	267 600	5,0	3,3
OTHER KEY STATISTICS				
Staff employed				
at 31 December, number[3]	**37 311**	39 241	(4,9)	(1,4)
Customers				
at 31 December, number (thousands)	**2 564**	2 244	14,3	24,0

1. *Includes internal sales of 309 GWh (1997: 334 GWh).*
2. *The difference between nominal and net maximum capacity reflects auxiliary power consumption and reduced capacity caused by age of plant and/or low coal quality.*
3. *Excludes employees of subsidiary companies.*

en avant

Extending a hand of co-operation and technology sharing with utilities across the continent

R J Khoza (49)[dfg]

Chairman

MA (Marketing Management) (Lancaster, UK), BA Hons (Psychology) (UNIN), PMD (Harvard Business School, USA), IPBM (IMD, Lausanne, Switzerland)
Chairman of Co-ordinated Network Investments (Pty) Limited, Creda Communication (Pty) Limited, Glaxo Wellcome SA (Pty) Limited, Sun Air (Pty) Limited, Tolcon (Pty) Limited and Unihold Limited. Director of Creda Communication (Pty) Limited, Comair Limited, Datacentrics Limited, Norwich Holdings SA Limited and Standard Bank Investment Corporation Limited. Member of the JSE main committee and the Black Management Forum. Fellow and Vice president of the Institute of Directors of SA.
Appointed to the Electricity Council in 1997.

F Baleni (38)[abcfg]

Diploma in Politics and Trade Unionism (White Hall College, England), Certificate in Human Resources Management (Unisa)
Regional Co-ordinator of National Union of Mineworkers (NUM).
Representing organised labour.
Appointed to the Electricity Council in 1997.

J P Deetlefs (64)[c]

NTC5 (Pretoria Technical College)
National president of the Independent Municipal and Allied Trade Union (IMATU). Chairman of Pretoria branch of IMATU. Member of the Stakeholders Advisory Committee – Department of Mineral and Energy.
Representing IMATU
Appointed to the Electricity Council in 1997.

A B Dickman (68)[abcf]

BCom (Hons) (Wits), FIBSA
Economic consultant.
Representing organised business.
Appointed to the Electricity Council in 1985.

S E Funde (55)[e]

MSc (Elec Eng) (Leningrad Polytechnical Institute, St Petersburg)
Deputy chairperson of South African Telecommunications Regulatory Authority (SATRA) and the National Institute of Economic Policy (NIEP). Chairperson of the Independent Development Trust (IDT).
Representing the economic development fraternity.
Appointed to the Electricity Council in 1997.

K J Hlongwane (59)[abd]

BA (ICI University, Texas, USA), BEd (CTS, Cape Town), EDP (Wits)
Executive chairman of Nafhold. Chairman of Greater Africa Properties and Savuna Properties (Pty) Limited. Deputy chairman of Uni-Africa Investments. Director of Medhold Limited, Prosperity Bank Limited, Saambou Bank Limited and Financial Services Board. Member of the Financial Services and Regulation Policy Board, the Unisa Board of Trustees and RAU Council.
Representing organised business.
Appointed to the Electricity Council in 1995.

P R Janisch (59)[abef]

BSc (Natal), BSc (Survey) (Natal), GDE (Wits)
Senior executive director of Gold Fields of SA Limited
Representing South African Chamber of Mines.
Appointed to the Electricity Council in 1997.

B A Khumalo (46)[ceh]

MA (Fairfield), AEP (Unisa), Dip in Management (Henley, UK)
Executive director: Human Resources (Eskom).
Representing Management Board.
Appointed to the Electricity Council in 1997.

Dr W J Kok (46)[ab]

DCom (RAU)
Executive director: Finance (Eskom).
Representing Management Board.
Appointed to the Electricity Council in 1997.

Prof I J Lambrechts (56)[abcef]

DCom (Stell), MBA (Stell)
Professor of Business Management at the University of Stellenbosch. Chairman of Subcommittee for Energy of the AHI.
Representing organised business.
Appointed to the Electricity Council in 1985.

Mrs N Majija (64)[abh]

Teaching diploma (St Matthew's College), Diploma in Strategic Management, Finance and Corporate Governance
Treasurer of the South African National Civics Organisation (SANCO) (Transkei Region). Chairperson of the Transkei Rural Development Forum (TRDF).
Representing the rural communities.
Appointed to the Electricity Council in 1993.

M Mkwanazi (44)[ef]

BSc (Maths), (UNIZUL), BSc (Elec Eng) (Natal), MDP (Wits), Strategies of Successful Business Management (Wharton Business School)
Deputy managing director of Transnet Limited. Chairman of Sesifikile Investments (Pty) Limited. Director of Freight Logistics International Inc., Industrial Development Corporation and Kgorong Investments.
Representing Transnet Limited.
Appointed to the Electricity Council in 1997.

L J Mngomezulu (32)[cf]

Acting chief executive officer of Vereeniging Kopanong City Council.
Representing South African National Civics Organisation (SANCO).
Appointed to the Electricity Council in 1995.

A J Morgan (51)[abdefg]

Pr Eng, BSc, BEng (Elec) (Stell)
Chief executive of Eskom and chairman of the Management Board. Director of Atomic Energy Corporation and chairman of the South African National Energy Association.
Appointed to the Electricity Council in 1994.

D B Mostert (61)[abcd]

BSc, BEng (Stell), MBA (PUCHE), AMP (Harvard)
Representing the Steel and Engineering Industries Federation of South Africa (SEIFSA).
Appointed to the Electricity Council in 1990.

Mrs J N Seroke (64)[dgh]

BA (Rhodes)
Trustee of the Women's Development Foundation.
Representing the community.
Appointed to the Electricity Council in 1995.

C G van Veijeren (63)[ch]

BSc (Agric) (Pret)
Director of Outspan International. Member of the Agricultural Research Council and National Water Advisory Council.
Representing the agricultural sector.
Appointed to the Electricity Council 1993.

MEMBERS RETIRED/ RESIGNED DURING 1998

P L Campher (50)

Represented the Fund Managers Association of South Africa.
Appointed to the Electricity Council in 1997. Resigned.

M Ngwenda (36)

Represented organised labour.
Appointed to the Electricity Council in 1997. Resigned.

ESKOM'S SECRETARIAT

Megawatt Park
PO Box 1091
Johannesburg 2000
South Africa

[a] on Finance Committee
[b] on Audit Committee
[c] on Tariffs and Marketing Committee
[d] on Remuneration and Personnel Committee
[e] on Tender Committee
[f] on Regulation and Structure Committee
[g] on Nuclear Safety Oversight Committee
[h] on Community Development Committee

Chief Executive
A J Morgan (51)

Pr Eng, BSc, BEng (Elec) (Stell)
Chief executive of Eskom and chairman of the Management Board.
Joined Eskom in 1971.
Appointed to the Management Board in 1992.

Corporate business processes and controls

Generation
B T Crookes (49)

Pr Eng, BCom (Hons) (Unisa),
N Dip T (Eng) (Mech), AMP (Harvard)
Executive director: Generation.
Joined Eskom in 1969.
Appointed to the Management Board in 1991.

Fuel and water management
Generation technology
Power station operations
Project management

Distribution
R S Dabengwa (40)

BSc (Hons) (Eng) (Zimbabwe), MBA (Wits)
Executive director: Distribution.
Joined Eskom in 1992.
Appointed to the Management Board in 1994.

Customer service
Distribution engineering and technology
Electrification
Sales

Technology
J A de Beer (48)

Pr Eng, BSc (Eng) (Pret), MBL (Unisa), AMP (Harvard)
Executive director: Technology.
Joined Eskom in 1978.
Appointed to the Management Board in 1993.

Environmental management
Research and development
Technical audit and quality assurance
Technical resources
Technology applications

Transmission
P A Faling (50)

Pr Eng, BSc (Eng) (Mech) (Pret)
Executive director: Transmission.
Joined Eskom in 1981.
Appointed to the Management Board in 1993.

Maintenance, refurbishment and expansion of electricity and telecommunications network
Trading and network administration of bulk electricity
Transmission network capability
Transmission network operations

Human Resources
B A Khumalo (46)

MA (Fairfield), AEP (Unisa), Dip in Management (Henley, UK)
Executive director: Human Resources.
Joined Eskom in 1991.
Appointed to the Management Board in 1994.

Human resources centralised services
Human resources development
Human resources leadership, Industrial relations
Organisational development and transformation
Remuneration and benefits, Eskom and Allied Industries Training Board (EAITB), Integrated Awareness Education, Training and Evaluation System (IAETES)

Finance
Dr W J Kok (47)

DCom (RAU)
Executive director: Finance.
Seconded to Eskom in 1988; joined permanent staff in 1989.
Appointed to the Management Board in 1993.

Corporate finance
Corporate financial management
Corporate risk services
Eskom Finance Company
Financial planning
Treasury

New Business Development
L J Messerschmidt (54)

Pr Eng, BSc (Eng) (Mech) (Pret), MBL (Unisa)
Executive director: New Business Development.
Joined Eskom in 1967.
Appointed to the Management Board in 1990.

New business development

Corporate Affairs
Mrs D D Mokgatle (42)

BProc (UNIN), LLB (Wits), H Dip Tax Law (Wits)
Executive director: Corporate Affairs.
Joined Eskom in 1991.
Appointed to the Management Board in 1996.

Black economic empowerment
Corporate audit, Corporate investigations
Corporate legal and secretariat
Corporate strategy and transformation
Government relations
Electricity regulation and interface, Policy unit
Restructuring of the ESI
Strategic communication and media relations

Marketing and Communication
M S Mosikili (53)

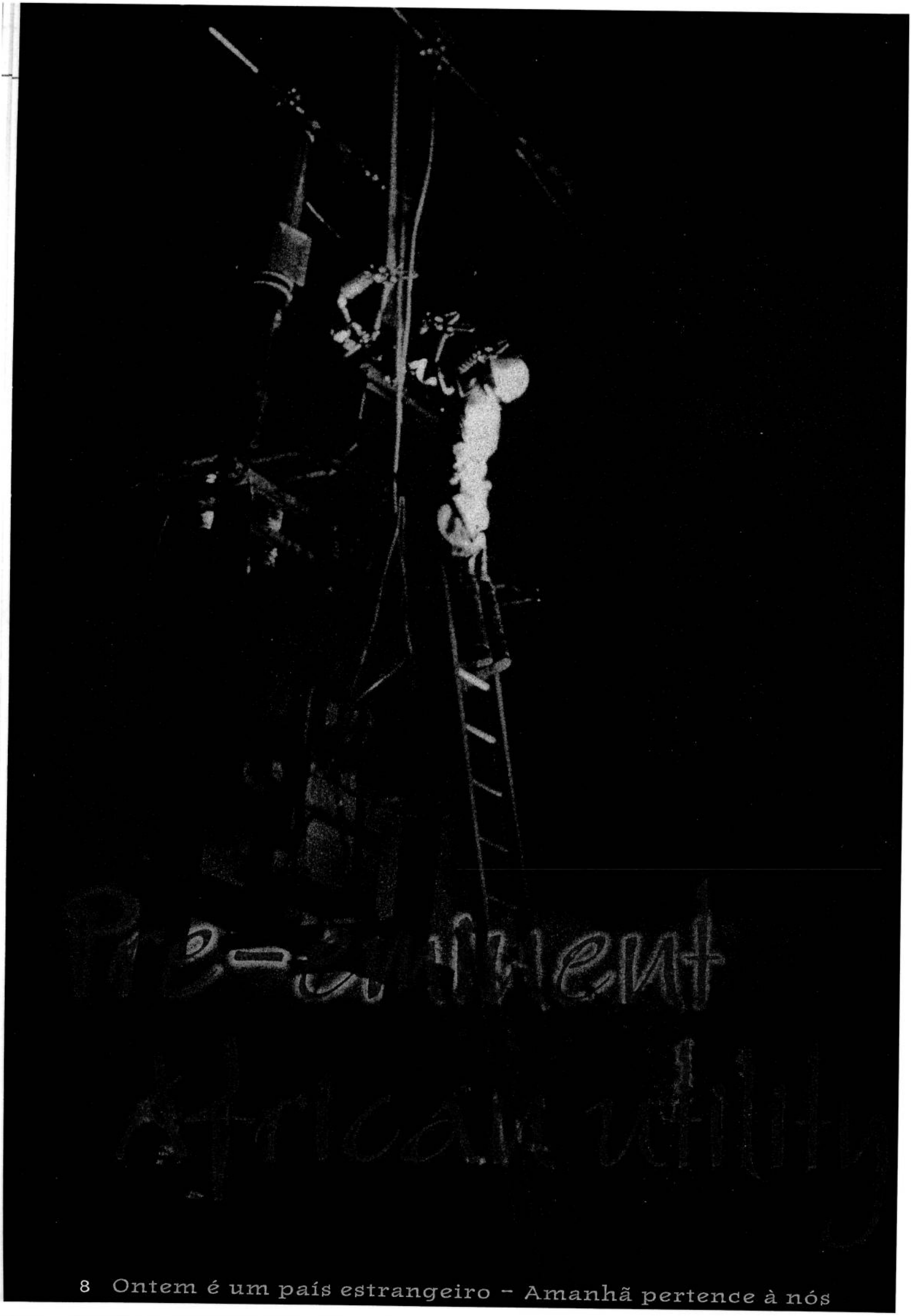
BA (UNIN), Dip Mktg (IMM), PMD (Harvard), Dip Mktg Strategy (Stanford)
Executive director: Marketing and Communication.
Joined Eskom in 1991.
Appointed to the Management Board in 1994.

Business and market development
Corporate communication, Eskom International
Marketing strategy and implementation and Visual media

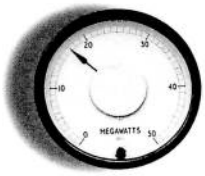
Services
V T L Ngubeni (43)

BA Admin (Botswana and Swaziland), Executive Programme (Stanford)
Executive director: Services.
Joined Eskom in 1993.
Appointed to the Management Board in 1995.

Business services: conference centre, ground and air transportation, horticulture, protective services, human resource administration; catering; commercial resource management; consulting services; information management; properties and accounts payable



Chairman's statement



INTRODUCTION

Eskom's long-standing pursuit of excellence is paying dividends in that the organisation has continued to perform well despite the extraordinary upheaval in financial markets worldwide.

The year under review has been a tough and challenging one. Economies worldwide were negatively affected by the turmoil in global financial markets, but developing markets felt the effects more directly than the more mature economies. South Africa was no exception. As foreign currency exchange rates in emerging markets plunged and interest rates rose, consumer confidence fell, resulting in significantly reduced economic activity.

These events, combined with a drop in commodity prices, affected some of our large industrial export customers quite badly and this was reflected by the quantity of electricity sold. In fact, this is the first time since 1992, and only the fourth time in our 75-year history, that our year-on-year electricity sales growth has been negative, reflecting a downturn in economic activities and a milder winter than the previous year.

Eskom's net profit for 1998 was R2 750 million – 10,8% below last year's net profit of R3 083 million. This indicates a satisfactory performance, given the above-mentioned circumstances. The debt-equity ratio improved further during the year, and at the end of 1998 it stood at 0,85:1. The organisation's financial plans indicate that the balance sheet will continue to improve over the next few years, providing greater flexibility for the future management of the organisation, and enabling it to finance expansion in times of growth when capital requirements increase considerably.

Eskom's generating plant again turned in a world-class performance, with an overall of 92,7% unit capability factor (UCF), a UNIPEDE[1] indicator for plant performance, in 1998.

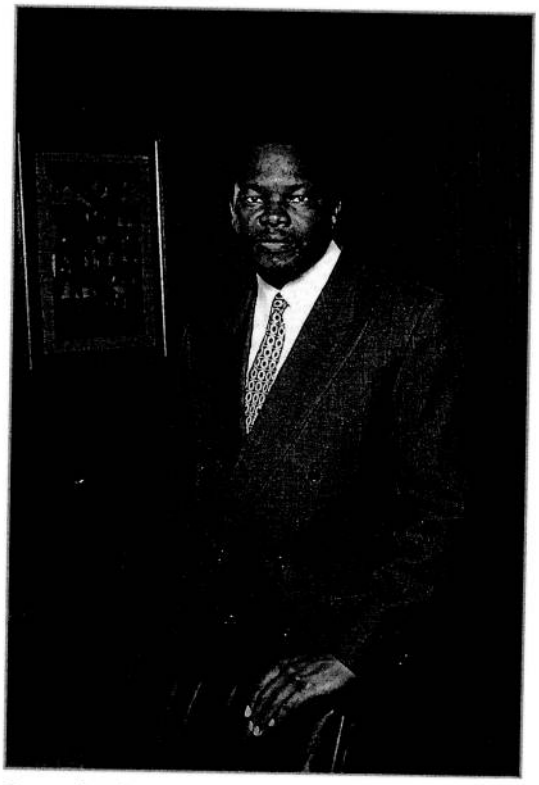
The transmission and distribution systems also provided reliable power to customers, and we are well on track to meet the RDP compact of 1 750 000 new electrification connections by the end of 1999.

GLOBALISATION AND THE AFRICAN RENAISSANCE VISION

One of the key challenges to Eskom's leadership has been to ensure that the organisation's performance remains sustainable and continues to add value in the long term. This requires Eskom to continue to operate at world-class levels, to be well positioned to respond rapidly in a constantly changing environment, and to act as a catalyst for economic growth in South Africa.

Two drivers, in particular, continue to shape Eskom's response to change: firstly, globalisation and, secondly, the combination of forces and needs that have been articulated and given direction in Deputy President Thabo Mbeki's vision of the African Renaissance.

Although at first glance there is no apparent connection between the two, and they may even appear contradictory, both define distinctive roles for Eskom.



Reuel Khoza

1. *International Union of Producers and Distributors of Electrical Energy.*

Transmission technicians performing general maintenance on a 400 kV line.

Globalisation and competition have defined what we need to do – we must become a global business with an emphasis on superlative performance, and be the supplier of choice in the markets in which we operate. The African Renaissance has defined where the emphasis will be placed in our quest to become a global leader without losing our African identity.

Eskom is able to play a continuing role in the development of southern and South Africa by providing the electricity needs of its expanding customer base in the most cost-effective manner. Notably, the success of the African Renaissance depends on the development of the region and its people, which in turn is dependent upon our performance as an efficient and effective organisation that can provide the basis for South African economic growth.

Our responses to these challenges have resulted in different strategies being adopted.

FOCUS ON EXPANSION AND NEW BUSINESS DEVELOPMENT

Many new and exciting opportunities exist to expand into electricity markets elsewhere in Africa. Previously these markets were largely closed to South Africa. During the year under review I visited a number of African countries with a view to promoting sustainable, long-term commercial initiatives in line with the vision of an African Renaissance. By meeting with top utility and government officials, Eskom's management team has established strong links, and is building the foundations for future commercial ventures.

I am greatly encouraged by the way African governments are welcoming Eskom to assist them in meeting their countries' electricity needs. Eskom's technical expertise and financial strength, combined with its unique African knowledge and experience, makes it a logical choice for joint business ventures and partnerships in many countries on the continent.

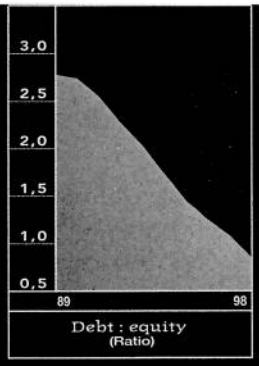
To this end, memoranda of understanding have been signed with most fellow African utilities to foster co-operation. These long-term associations will enable all African electricity utilities to share their technical capabilities on a utility-to-utility basis.

Eskom continued to participate actively in the maintenance and development of the Southern African Power Pool (SAPP) – the first step in creating a totally integrated electricity grid across the continent, paving the way for enhanced co-operation and economic growth across Africa.

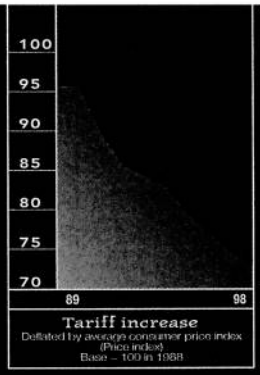
Having sufficient reserve capacity to support an increase in electricity sales, Eskom has been able to contribute to regional economic development through joint venture agreements such as:

- The formation of MOTRACO – a joint venture company comprising Electricidade de Moçambique (EDM), Swaziland Electricity Board (SEB) and Eskom for the construction, ownership and operation of a 400 kV line that will supply electricity to MOZAL, a new aluminum smelter in Maputo, Mozambique. It is anticipated that supply will commence in the year 2001 and will require extensive co-operation between Eskom, EDM and SEB.
- A buy and bank agreement entered into with the Zambian Electricity Supply Corporation (ZESCO) and SNEL, an electricity utility in the Democratic Republic of Congo (DRC) to trade electricity at different times of the day. Funds flowing from this venture will be used for the refurbishment of the badly damaged electrical infrastructure in the DRC.

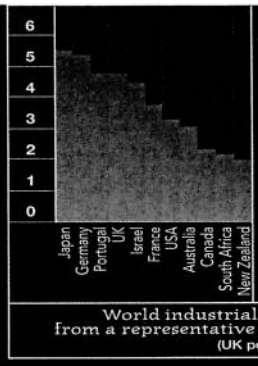
Eskom is actively exploring a number of possible joint ventures and partnerships in its core business areas of electricity generation, transmission and distribution. Eskom has also been involved in



Debt : equity
(Ratio)



Tariff increase
Deflated by average consumer price index
(Price index)
Base – 100 in 1988



Price per kWh*, including local taxes but excluding recoverable VAT, from a representative utility in each country for a typical 2,5 MW, 40% load factor supply, as at **1 January 1998**. Relative purchasing power of the respective currencies is not reflected in these values. *Converted, using **31 December 1997** exchange rates, to UK pence per kilowatt-hour. Source: Extract from *© Electricity Association Services Limited, International Electricity Prices – Issue 25.*

World industrial electricity prices
from a representative utility in each country
(UK pence per kWh)

providing consulting and engineering services in Africa either directly or through its subsidiary companies. Contract work has been secured in the electricity sectors in Congo, Zanzibar, Namibia, Kenya, Botswana, DRC, Mozambique, Uganda and Zambia, as well as in Indonesia and Thailand.

It is through these and similar initiatives that Eskom is acting as a catalyst for the regeneration of Africa. This strategy provides economic opportunities for Eskom and South Africa, and is a vital link in the developmental chain for those African countries with which we do business. These initiatives will also form the foundation for greater involvement globally.

TRANSFORMATION OF THE ELECTRICITY SUPPLY INDUSTRY (ESI)

In December 1998 the government released the White Paper on Energy Policy, which sets out its policy objectives for the whole energy sector. Broadly speaking, these objectives are to increase access to affordable energy services, improve energy governance, stimulate economic development, manage energy-related environmental impacts and secure energy supplies through diversity.

Key recommendations in the White Paper regarding restructuring of the electricity sector include the implementation of a transitional structure, which will be a separate company consisting of Eskom's distribution business as well as municipal distributors, until the end-state model of independent regional electricity distributors is implemented.

During the interim phase, a number of critical issues, such as the number of regional electricity distributors, will have to be addressed. The policy provides for an investigation of appropriate market structures within the ESI and ultimately contemplates the unbundling of generation and transmission as separate entities, with the possibility of introducing competition in the longer term.

ESKOM'S GOVERNANCE

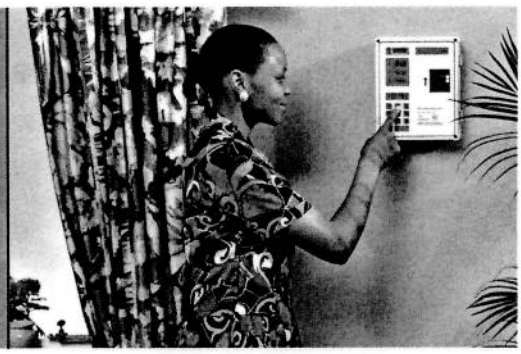
The need to ensure that Eskom continues to be a sustainable business in the present challenging environment has made it necessary to position Eskom appropriately. Government has indicated its intention to convert Eskom into a company, which would be subject to taxation and the payment of dividends.

The first step in this process has been the enactment of the Eskom Amendment Act, which came into effect on 18 December 1998. This Act clarifies the issue of ownership of Eskom by specifying that Eskom's equity now vests in the State and abolishing Eskom's exemption from taxation.

At present Eskom has a specific exemption from the Income Tax Act regarding the payment of income tax. Accordingly, this aspect of the Eskom Amendment Act will not have an immediate impact on Eskom.

Certain issues relating to the applicable income tax framework and how the income tax laws will be applied to Eskom, together with the question of how Eskom's assets will be valued for tax purposes, are under discussion with the South African Revenue Services and the Ministries for Public Enterprises,

Prepaid meters – Distribution Group satisfying the needs of small customers.



Finance, and Minerals and Energy. These issues will be investigated thoroughly prior to implementation.

A decision has been made to restructure Eskom in order to improve efficiency and ensure Eskom's sustainability as a top-performing organisation. This is an interim arrangement that is sufficiently flexible to accommodate subsequent changes. Eskom's structure will contain the existing regulated businesses of Generation, Transmission and Distribution as separate businesses, as well as the three supporting functions of Finance, Human Resources and Technology. The Office of the Chief Executive will contain Head Office Support Services and the Secretariat.

A wholly owned subsidiary, Eskom Enterprises, will be formed, which will focus on non-regulated business activities, both local and international. Existing subsidiaries and joint ventures, as well as commercial non-regulated activities, will fall under this structure. The implementation details of these decisions would be finalised during the first quarter of 1999.

HUMAN CAPACITY DEVELOPMENT

Eskom's success in responding to the many challenges it faced in 1998 was largely determined by the emphasis it placed on skills development and other initiatives to mobilise its human resources in support of its objectives.

JOB CREATION

Eskom has played a significant role in the areas of job creation and community development, and is considered by many to be a leading corporate role model. In order to consolidate these efforts and maximise results, Eskom established the Eskom Development Foundation in 1998, with an initial contribution of R150 million.

In addition, Eskom has made provision of R50 million towards the Business Initiative for Job Creation and Human Capacity Development, which focuses on building a more resilient economy through employment opportunities.

Human capacity development requires more than money to be successful. It requires commitment and energy at all levels of business. I believe that through its affirmative action, gender equity, employee wellbeing and HIV/AIDS policies Eskom sets an example as a leading organisation.

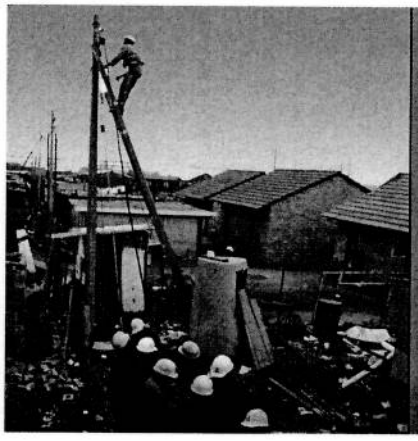
HIV AND AIDS

During 1998 Eskom took a comprehensive business approach to evaluate and respond to the impact of HIV and AIDS on all its employees and their families. This included education on HIV/AIDS prevention, treatment and management. In addition, Eskom undertook to contribute to research programmes endeavouring to find an HIV/AIDS vaccine.

It was for this reason that Eskom was one of five organisations worldwide to receive a special international HIV/AIDS award from the Global Business Council in London, for its comprehensive business approach in the HIV/AIDS field.

OUTLOOK FOR 1999

There is general consensus that 1999 will be a tough year for the economies of the world. It will take some



Eskom contractors stringing a power line which will supply electricity to the residential area in Orange Farm.

We have the vision of what can be achieved in Africa ... a vision linked to electricity that will be the catalyst to unite the countries of Africa

Pono ya bokamoso

time for investor and consumer confidence to stabilise, and this will have a direct effect on the South African economy and consumers. In the light of this, Eskom is not anticipating growth in electricity sales for 1999.

Management has the task of responding to these challenges in an innovative and creative manner. A sharper focus will be required and the decision to separate Eskom's regulated and non-regulated business activities will provide the appropriate emphasis in each business area.

Eskom Enterprises, however, will be registered as a separate company, and its board of directors will be appointed early in 1999. We will therefore be better geared to focus on the vital area of sales, with Eskom Enterprises looking after new business opportunities relating to our non-regulated business activities.

APPRECIATION

We stand on the threshold of a new era in the history of Eskom, of South Africa and of Africa. We are all privileged to witness the dawning of a new chapter in the development of this great continent, which is our home. After centuries of suffering and travail, Africa and its many peoples are awakening to a time of growth and achievement. We are challenged to be partners in Africa's future, each playing a part, with all of us keeping a vision of excellence before us.

This past financial year has been one of great challenges to which Eskom and its staff have risen magnificently. As Africa's pre-eminent utility, Eskom will play a role in the economic growth of our continent and make a significant contribution to the African Renaissance. At the same time we are striving to become a truly global business.

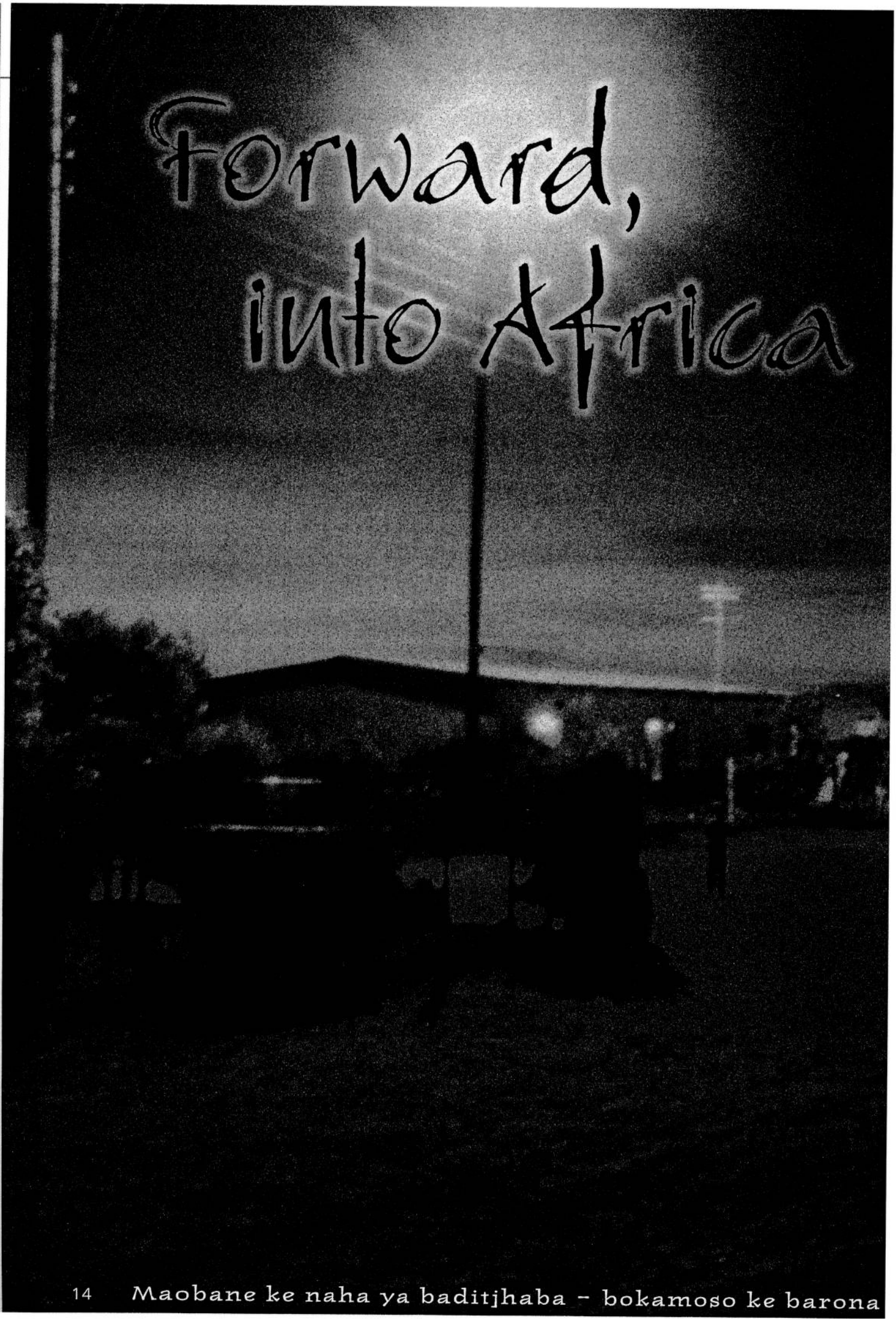
I am always excited when I interact with staff at different levels throughout the organisation, more especially when I see their dedication, commitment and enthusiasm for this business. I would like to pay tribute to them for the part they have played in supporting Eskom's vision of providing the world's lowest-cost electricity for growth and prosperity. Their contribution is making a significant difference, not only to the success of Eskom, but also to the development and prosperity of the sub-Saharan African community.

Eskom is a large, technically complex business, and great skill is required to manage it. Therefore Allen Morgan and his team of executives deserve special mention for the energetic and competent way in which they have managed this business during the past financial year.

I thank the Electricity Council members for their wisdom and guidance throughout 1998. Their contribution is unique, based on a rich blend of diversified experience from across the South African spectrum.

Finally, I would like to thank the Minister for Public Enterprises, Stella Sigcau, and the Minister for Minerals and Energy, Penuell Maduna, for their constant guidance, support and encouragement during the past year.

REUEL J KHOZA
3 March 1999


Forward,
into Africa

Chief Executive's report

INTRODUCTION

The mark of a winning organisation is its ability to adapt to rapidly shifting market conditions. In Eskom's case, 1998 was a year of enormous challenge largely due to the downturn in economic activity in global and South African markets. However, I am pleased to report that Eskom was able to take positive steps to meet these challenges and overall, the business performed well during the year.

PERFORMANCE

FINANCIAL MANAGEMENT

Despite the difficult economic circumstances that prevailed, Eskom was able to achieve a creditable financial performance in 1998. Net profit for 1998 was R2 750 million, which is considerably down from R3 083 million in 1997.

Our 1998 revenue was R920 million below budget, reflecting the significance of the downturn in the economy during the year. The true impact of this downturn was mitigated by stringent cost control measures, resulting in net profit for 1998 being kept to R222 million below budget.

Eskom's net revenue increased by 3,0%, from R20 448 million in 1997 to R21 071 million in 1998. This increase comprised changes in the sales mix and lower commodity prices for commodity-linked tariff agreements, offset by a general electricity price increase of 5% on 1 January 1998. This price increase was below the average consumer price inflation rate of 6,9% and therefore Eskom continued to drive real electricity prices down for its consumers.

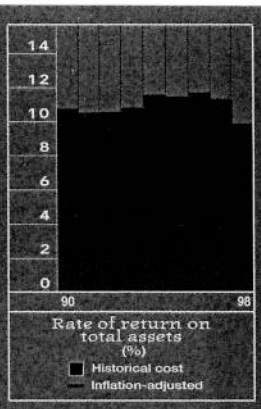
The total cost of supplying electricity increased by 5,5% from R17 365 million in 1997 to R18 321 million in 1998. On a comparable basis, excluding one-off costs relating to social and job creation initiatives, total costs increased by 4,4%. This compares favourably with the inflation rate in 1998.

The downturn in economic growth also adversely affected our productivity for 1998, which for the first time since 1992 was negative. In financial terms this cost the organisation R268 million. Nevertheless, Eskom was able to pass on a price underrecovery to electricity consumers in 1998, amounting to R419 million. This reflects the difference between the inflation absorbed by Eskom on its input costs versus price increases passed on to consumers.

THE FINANCIAL POLICY

Eskom, being a utility, continues to apply a financial policy of recovering the real (inflation-adjusted) cost of supplying electricity to customers each year and earning an appropriate real return on assets. This ensures that financial viability is maintained over the long term. The annual price increase is determined by the cost of supply, future requirements for expansion and the need, if any, to adjust the organisation's financial position. The strategy also ensures that price changes are gradual, predictable and stable. The preparation of current value financial statements demonstrates Eskom's use of current value accounting techniques to measure the effects of this policy, which is important considering the long-term nature and asset intensity of the business.

Allen Morgan



This policy has served Eskom well over the past eight years and, combined with the utilisation of Eskom's surplus generating capacity, has enabled Eskom to reduce the real price of electricity to consumers. At the same time, the financial health of the organisation has significantly improved, which is clearly shown by the debt-equity ratio. At the end of 1998, Eskom's debt:equity stood at 0,85:1, compared with over 3:1 in 1985.

However, in a taxation and dividend-paying environment, a new financial policy will need to be introduced to meet the needs of Government, as Eskom's new owner.

TECHNICAL PERFORMANCE

Generation

The Generation business had another outstanding year. The unit capability factor (UCF), which is an indicator of plant availability, reached 92,7% against a target of 90,7%, a world-class performance. Reliability of the Eskom generating units measured by unplanned automatic grid separations (UAGS), another UNIPEDE indicator, was also better than the international best quartile. The unrelenting focus of Generation on tough business targets is adding considerable value to the business.

Another outstanding achievement was Majuba Unit 3 being taken into commercial operation on 1 April 1998, as planned.

Coal

Coal suppliers performed relatively well during 1998 after having resolved the problems experienced in the preceding two years.

The depressed growth in demand for electricity during 1998 has highlighted the need for more flexible coal supply agreements to match supply and demand more cost effectively. Negotiations continue to secure more flexibility in terms of deliveries and equitable risk sharing.

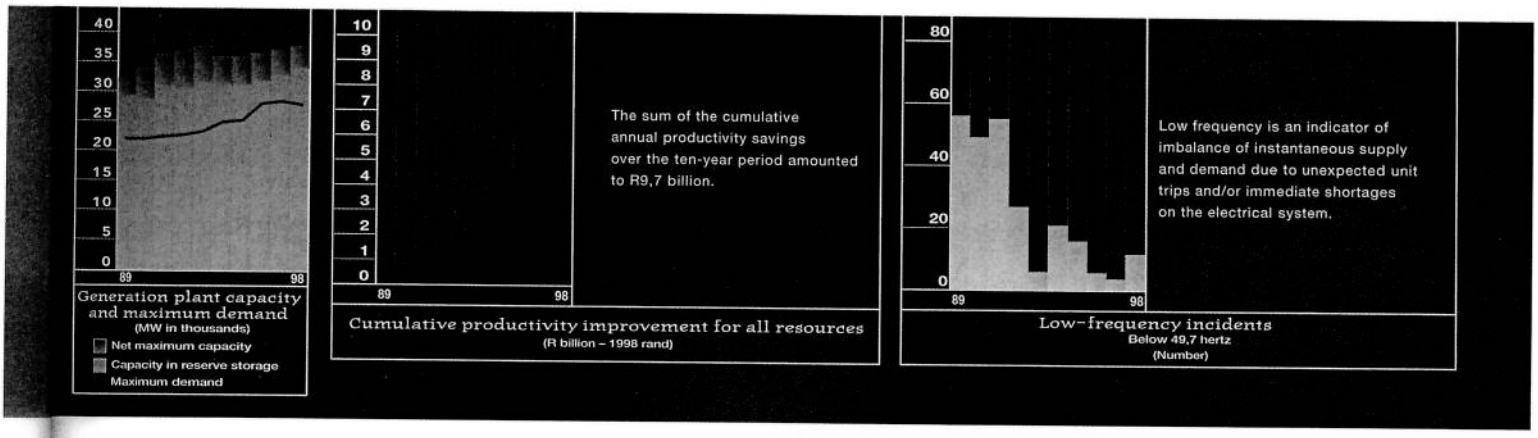
A direct impact of the depressed electricity demand is an inevitable cutback in production at the tied collieries during 1999. This will have a negative impact on the cost of coal burnt. The situation will have to be managed with caution to ensure that the long-term supply of coal is not jeopardised by short-term measures.

Water supply

The above-normal rainfall during the 1997–98 rainy season once again ensured that Eskom had more than adequate water supplies for electricity generation.

The year saw the promulgation of the National Water Act (Act 36 of 1998) which replaces Act 54 of 1956. Eskom's inputs were taken into account resulting in the recognition of Eskom as a strategic user of water. During 1998, Eskom's power stations consumed 225 300 Mℓ (megalitres) of water to

Majuba is the collective achievement of men and women contributing much needed skills and talent, working hard, with discipline and dedication, to achieve growth.



produce 183 093 GWh of electricity, a creditable performance.

Nuclear fuel procurement

Intra-governmental approval processes are not yet sufficiently streamlined. These will have to be improved in order to maximise advantage from speedy conclusion of international nuclear fuel cycle component purchases.

Gas

During the year, feasibility studies were conducted regarding the probability of developing a 750 MW power station using gas from the Kudu Gas Field off the Namibian coast. While the project was shown to be technically feasible, the commercial and market conditions were such that Eskom decided against proceeding to the next stage and committing to a long-term power purchase agreement.

Capacity management

The increase in installed capacity, coupled with a drop in electricity demand, has increased the amount of excess capacity. In the event that the current low growth continues, Eskom will have to consider additional measures to deal with the overcapacity situation.

Furthermore, it is anticipated that the future demand profile will have relatively higher morning and evening peaks of short duration as more domestic consumers are connected to the electricity grid. This will increase the requirement for demand-side management, flexible generator sets and associated flexible fuel supply arrangements.

Transmission

One of the transmission system's significant indicators of performance is the continuity of supply, which is measured by the number of system minutes lost over a twelve-month period. Transmission's focus has been on the needs of customers and its performance has been excellent overall.

During 1998, the Transmission business registered 5,2 system minutes lost and reported 43 interruptions for the year with only one major incident with a severity greater than one system minute. The number of low-frequency incidents (below 49,7 hertz) has improved. However, in some parts of the country, voltage dips are still being experienced. These problems are being addressed.

Distribution

The Distribution business continued to perform well with good improvements in operational efficiency. Significant progress has been made in payment levels despite the difficult economic conditions in the country.

Electrification

Eskom remains on track to meet its RDP commitment to electrify 1 750 000 homes by the end of 1999. The total number of connections made during 1998 was 291 352 against a target of 289 849 connections. Of this total, 280 977 were direct domestic connections and 10 375 were farmworker houses connected through the incentive scheme. At the end of 1998, a cumulative total of 1 451 503 homes had been electrified since January 1994.

The focus for electrification continued to be increasing sales to new customers, reducing technical and non-technical losses and reducing capital and operating costs.

In addition, Eskom made R315 million available to facilitate electrification by the municipalities. This compares well with the R300 million provided in 1997 and, once again, the fund was administered and distributed by the National Electricity Regulator (NER), in conjunction with the Development Bank of Southern Africa.

Attending to the needs of small customers

In line with our mission of satisfying all customers' electricity needs in the most cost-effective way, a 2,5 amp "starter pack" supply option was successfully

launched during the year. This option enables the customer to access electricity sooner than would otherwise have been the case. It will continue to be piloted in 1999.

Business transformation

The Distribution business undertook extensive restructuring of the group in order to improve operational efficiency and customer service. The operations of the business have been organised into seven regions, each with a strong customer service and engineering focus. One call centre per region and three customer care centres have been established to support all accounts and bills processing activities. A single work management centre has been established in each region to co-ordinate all fault repairs and maintenance scheduling within the region.

All these entities will be fully operational by the first quarter in 1999 when the supporting information systems are commissioned. It is anticipated that our customers will experience an even better service and that operational efficiency will be enhanced. More important, this structure is sufficiently flexible to accommodate the restructuring of the EDI.

Sustainability index

Eskom's sustainability index is a measure to reflect overall technical performance and is relied upon to balance low-cost production against long-term sustainability. A summary of Eskom's performance in terms of technical sustainability is given in the Directors' report.

It was disappointing to see our technical sustainability dropping below our internal target of 80%. The main negative factors were safety, continuity of supply and quality of supply. Problems occurred mainly during December and were aggravated by an unusually high incidence of storms during that period. The sustainability aspects mentioned will receive greater focus and attention to ensure improved customer service.

HUMAN RESOURCES

Eskom recognises that its people are core to establishing a competitive advantage in a highly complex working environment. Special care is therefore exercised in sourcing, placing and developing strategies, with particular emphasis on the advancement of employees in the lower levels. It was for this reason that Eskom designated 1998 as the Year of People Development.

An analysis of the current human resource development situation in Eskom, focusing on structure, roles, responsibilities and the overall status of people development, was conducted and a comprehensive report was produced. Relevant recommendations will be implemented during 1999.

SIGNIFICANT HUMAN RESOURCE INTERVENTIONS

- In support of Government's call for greater emphasis on science and technology training, the Chairman of the Electricity Council, Mr Reuel Khoza, initiated the Technology Enhancement Project to commemorate the International Year of Science and Technology.

- The Integrated Learning Programme was launched in August 1997. The vital elements of the first phase of the programme to create the interactive information systems, and the consolidation of information on learning interventions within Eskom were completed during 1998.

- A leadership development initiative designed to empower middle managers was undertaken during the year. Three hundred managers participated in the programme.

- The Worklife Approach programme was started in June 1997. It offers employees the opportunity to become more career self-reliant and change resilient. To date, 1 056 delegates have completed the first phase of a two-phase programme.

Affirmative action

Changing the staff profile so that 50% of management, professional and supervisory staff shall

Providing the economic foundation stone for business to give content, form and practical expression to the vision of an African Renaissance

vuswikoti

be black[1] South Africans by the end of the year 2000 continues to be a key strategic focus and will be closely monitored. The 38% target for 1998 was exceeded by one percentage point, and I am satisfied that we are on track to meet the target of 50% by the year 2000. This target has also been reviewed to reflect a staff profile that includes 20% women and 2% disabled persons. This reflects a proactive approach on the part of Eskom and put us ahead of the requirements of the Employment Equity Act.

FOCUS AREAS FOR IMPROVEMENT

Despite a creditable overall performance, there were certain specific areas where performance was not entirely satisfactory.

Labour relations

Eskom's labour relations during 1998 were turbulent. A low point was reached when industrial action took a violent turn resulting in damage to Eskom and private property. We have responded to this incident in a manner that will ensure that such incidents never recur. In the process we sought ways of strengthening our normally and mutually beneficial relations with our labour partners.

Fortunately, both Eskom and the trade unions are committed to maintaining an effective relationship and this has challenged Eskom and its labour partners to review Eskom's labour relations model, the Unfolding Vision Agreement. To this end, structures are being put in place to introduce a new era for labour relations which will be appropriate to our changing needs.

Safety

Despite management's focus on safety, disabling injuries and fatalities were unacceptably high. Vehicle accidents accounted for the majority of fatalities, followed by electrical contact incidents and robberies.

Appropriate strategies and campaigns have been integrated into the safety programmes of business units to address their respective safety needs. Various Eskom business units were, as a result of these initiatives, recognised for their efforts in ensuring a healthy and safe work environment.

SAFETY AWARDS RECEIVED FROM THE NATIONAL OCCUPATIONAL SAFETY ASSOCIATION (NOSA)

- The NOSCAR award – awarded to Koeberg, Lethabo and Matla power stations for their excellent safety performance
- The NOSA Terry Trophy – awarded to Vanderkloof power station for consistent excellent performance with regard to health and safety with a 21-year record of no disabling injuries
- The NOSA 5-Star award – awarded to Arnot, Duvha and Tutuka power stations for meeting safety standards as stipulated by NOSA, and to Matimba power station for achieving two million man-hours without a disabling injury

OTHER AWARDS

- The Edison Electric Institute award for being an outstanding utility in customer and community relations programmes
- The prestigious Gold Award of the National Productivity Institute (NPI) to Matla power station for productivity management

Health policy

Esmed, Eskom's in-house medical aid scheme, experienced a number of problems relating to financial and service delivery to members and suppliers during 1998. Certain initiatives to address these problems have been implemented and the total administration of claims processing has been outsourced. Further steps have also been taken towards the latter part of the year to ensure that the

1. *Refers to Blacks, Asians and Coloureds.*

problem is addressed in the context of an overall approach to health care in Eskom.

SOCIAL RESPONSIBILITY

Eskom recognises that the goal of remaining the lowest-cost producer of electricity in the world must be pursued in a responsible manner. All effort should ensure that sustainable development, taking into account environmental concerns and the role of business in general, and Eskom in particular, is contributing towards economic growth in South Africa.

Various initiatives bear testimony to our achievements in this respect.

NON-GRID ELECTRIFICATION

A new dimension has been added to the non-grid electrification project. Eskom has entered into a joint venture with Shell that will provide cost-effective solar energy to residential areas not connected to the national electricity grid.

The project has been developed in such a manner that it will encourage the creation of local business enterprises within the rural communities and will function through these franchised operators.

BLACK ECONOMIC EMPOWERMENT

Eskom continues to support the growth of new black businesses from micro to large-scale enterprises. During 1998, approximately R700 million was spent on procurement of goods and services.

To ensure total commitment for the support of black economic empowerment throughout the organisation, an Eskom policy on procurement from black suppliers was approved and implemented in June 1998.

While the main objective of supporting the big black businesses and small, medium and micro enterprises programme is to maximise purchases from black suppliers, it also has the following ancillary objectives:

- Job creation
- Uplifting the standard of living of previously disadvantaged groups
- Giving emerging black entrepreneurs the opportunity to participate in the mainstream of the economy of our country
- Creating positive relations within these communities through Eskom's support

COMMUNITY DEVELOPMENT

During 1998, Eskom ring-fenced its community development spending of R20 million and allocated 60% to skills development, 30% to educational development and 10% to special projects. This excludes the R1,5 million budget for donations, which made grants to 99 organisations and worthy causes.

TERTIARY EDUCATION SUPPORT

The Tertiary Education Support Programme continued to build human resource capacity at tertiary education institutions through investment in research programmes related to Eskom's business.

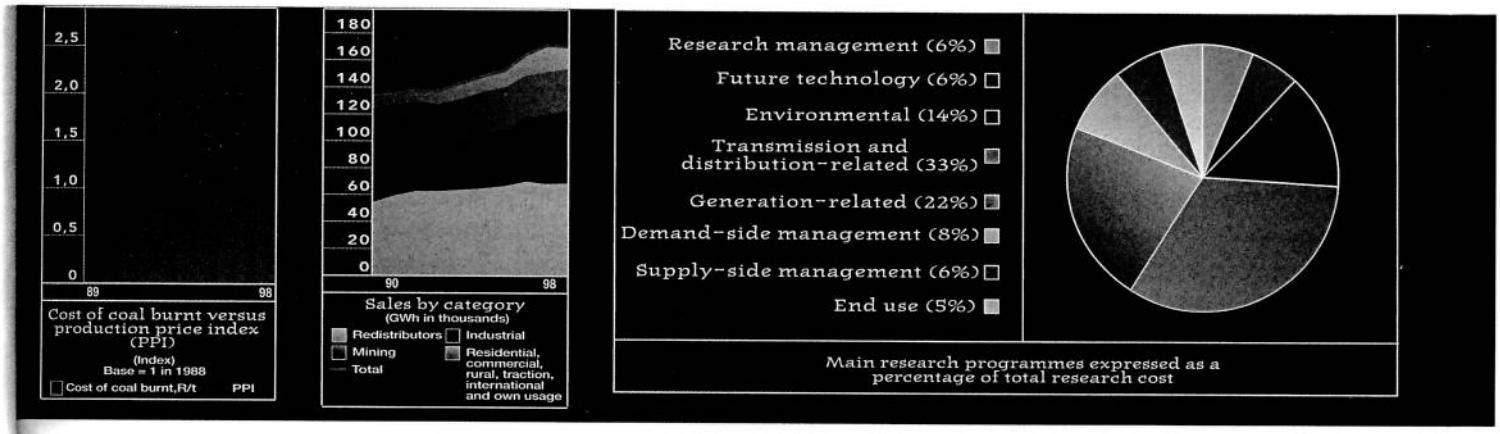
Grants to the value of R5,8 million (1997: R5 million) were awarded to 80 (1997: 79) academic projects at 24 (1997: 20) tertiary education institutions. These included 13 (1997: 8) projects at previously disadvantaged institutions.

RESPONSIBLE ENVIRONMENTAL MANAGEMENT

One of Eskom's RDP commitments is to limit the impact of its business on the environment and good progress has been made in this area. A formal environmental management system is now in place, which ensures the interrelationship and connectivity of sustainable development, namely social and economic environmental management.

We adhere as closely to international requirements as is practicable for a developing economy and hope to ultimately align ourselves with ISO14000.

It is pleasing to note that Eskom's efforts in the field of environmental management are recognised not only by awards, but also in the increasing number of requests that are received from other organisations,



both inside and outside our borders, for assistance or advice in the undertaking of environmental impact assessments.

After a somewhat long and difficult process, I am also pleased that we now have the fundamental requirements in place for an environmental cost accounting system. This is still very much in its infancy but we will seek to improve as we gain experience. Eskom is on the cutting edge in terms of this kind of system, especially in the southern African region.

A separate environmental annual report is published to provide greater detail in these matters and I will therefore refer only briefly to certain highlights.

Air quality

Eskom continued to collect scientifically valid data, which indicated an improvement in air quality and visibility in the Mpumalanga Highveld area. Particulate emissions in the area have been reduced by 91% since 1982 and by 18% when compared to 1997 levels. This is due to improved operating standards and the retrofitting of power stations with improved ash collection systems.

Global climate change

The issue of global climate change received much attention at strategic and operational levels during 1998. In view of the need to optimise our development processes and thus maintain the business on a sustainable path, Eskom continues to track international climate change developments and remain actively involved in international forums where applicable.

Environmental biosphere

An environmental biosphere, the first in the southern African region, has been declared in the south-western Cape, to be known as the Koegelberg biosphere.

This has involved stakeholder participation from a wide range of stakeholders, including mining, forestry, agriculture and various non-governmental organisations.

Eskom is proud to have been associated with this endeavour as it is seen as a positive step towards sustainable development.

INFORMATION TECHNOLOGY

The outsourcing of information technology (IT), as reported last year, was not completed as envisaged. A study has since been initiated by the Government to investigate synergies between various parastatals in the area of IT to harness the available skills and resources. It is possible that an independent IT company will be formed which will include, among other parastatals, Eskom.

Year 2000 (Y2K) programme

Eskom continued its evaluation of the Year 2000 computer issue to comply with its obligations under existing agreements. An appropriate governance structure was created to deal with the problems related to the Y2K issue, and funds were made available to assess the extent of the risk and the cost of compliance.

Three areas of risk were identified and are being addressed independently of one another. These are business and management information systems, embedded technical systems and systems of Eskom's business partners.

Eskom is confident that the first two risk areas will have been addressed by the middle of 1999 to successfully handle the Y2K switch at the end of 1999. This will mitigate any disruption of services to Eskom customers due to the Y2K phenomenon. Eskom continues to assess its business partners' level of compliance, and will provide proactive support to assist them in achieving compliance.

The Y2K issue has been a key priority for Eskom's management and will continue to be a major focus area in 1999.

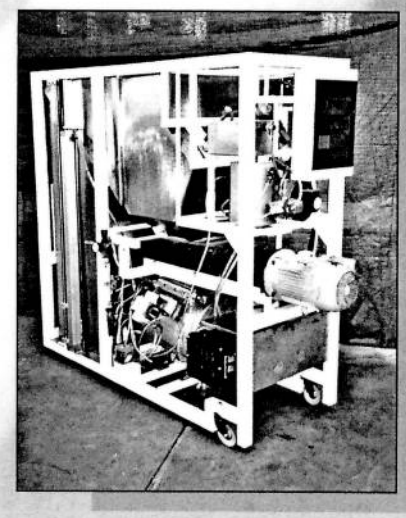
RESEARCH AND DEVELOPMENT

Eskom's research and development programme is strongly driven by both the medium-term operational needs of the line groups and the longer-term strategic and environmental priorities of the southern and South African power sector. Research direction is well advised by a stakeholder body, the South African Power Utility Research Advisory Board. This board assists in tailoring Eskom's research and development to the future needs of the power sector.

Our technology research and development investment continued to grow in both real and absolute terms, from R85 million (0,41% of revenue) in 1997 to R105 million (0,50% of revenue) in 1998. Notable technological advances were made in areas aimed at improving plant performance as well as the quality of the services given to Eskom customers.

SIGNIFICANT RESEARCH PROJECTS DURING 1998

- The development of a commercial unit for the microwave sterilisation of infectious medical waste. This will be particularly beneficial for small-scale application, e.g. in rural clinics.



- A coal management project to optimise the use of different grades of coal on a power station. This enables Eskom to use the lowest grade of coal in generating electricity, thus making better grades available for other uses as well as reducing costs. Significant developments have been made in the management and handling of coal which has led to the registration of a number of patents.

- The renewable energy component of the research portfolio is being developed into the South African Bulk Renewable Energy Generation project. SABRE-Gen – a project to study large wind turbine applications and the feasibility of a solar thermal plant in South Africa.

- More accurate flicker prediction and assessment techniques for arc furnaces and medium-voltage loads such as crushers, hammer mills and sawmills were developed to improve power quality.

Rekindling the spirit of innovation and resourcefulness that characterised Africa

a visão

PROJECTS

In Africa

The year 1998 was characterised by an increased involvement by Eskom in new business ventures. On a commercial basis and based on the utility's inherent technical skills, Eskom, through its subsidiaries, entered into joint ventures with other South African companies, so as to involve the South African engineering fraternity actively in our quest for growth.

For the 1998 financial year, Technology Group anticipated and budgeted for a total revenue of R2,6 million from international markets in the engineering consulting business. Year-end figures for 1998 show a remarkable actual revenue of R4,2 million, 60% above budget. This growth was largely attributable to the entry of Electricity Africa into the consulting services market in Africa.

Examples of such ventures include the following:

The pebble-bed modular reactor

The pebble-bed modular reactor (PBMR) is a small (110 MW) nuclear power station. The safety of the PBMR is ensured by making it inherent in the physical built-in processes of the reactor, rather than having it "added on" in the form of engineered safety systems.

The current phase of the project is to complete a more detailed technical design, to involve the regulatory authorities (Council for Nuclear Safety and National Electricity Regulator) and to perform a complete environmental impact assessment which includes involving interested and affected parties in a public participation process. The techno-economic and market studies will also continue. Although no revenue has been realised yet from this project, the outcome of these activities will enable Eskom to determine whether to move to the next phase of constructing a prototype.

Cahora Bassa

Additional negotiations on terms and tariffs for the purchase of electricity from Cahora Bassa have not been concluded.

Beyond Africa – Thailand and Indonesia

In collaboration with Electrowatt Engineering, the Technology Group was contracted to provide engineering consulting services to electricity utilities in Thailand and Indonesia.

FUTURE OUTLOOK

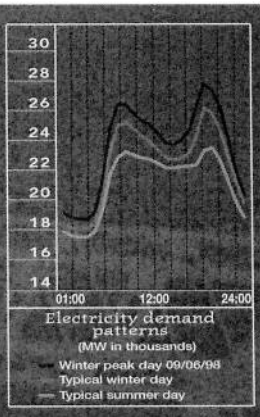
As a South African utility with regional responsibilities and global aspirations, Eskom has already notched up two million customers, and our commitment is to remain one of the world's lowest-cost suppliers of electricity for growth and prosperity.

Transformation has therefore become critical in Eskom's thinking. The organisation has to be positioned differently to enable it to meet the challenges of future changes to the Electricity Supply Industry (ESI). Eskom has identified the following four areas of significant change that may drive this transformation:

- Reconfiguring the business
- Human resource mobilisation
- Growth through competition
- Black economic empowerment

The process of transformation will also be affected by the following:

The Eskom Amendment Act – The Eskom Amendment Act came into effect on 18 December 1998. Significant work will need to be done to make the necessary administrative and system changes that



Electricity provided for security and crime prevention – high mast lights in Kwanobuhle, Port Elizabeth.

will enable Eskom to render an income tax return. More important, all levels of management and staff will need to be trained on how to factor taxation into decision-making processes. However, the taxation framework on how and when income tax will be implemented still needs to be finalised with Government.

THE WHITE PAPER ON ENERGY POLICY – The implications of the White Paper are being analysed and will be included in future decision-making processes. It is clear that the White Paper has far-reaching consequences relating to, amongst others, the restructuring and governance of the ESI, the introduction of competition in the long term and the funding strategy of the electrification programme.

There are also implications for our tariff structures. The possibility of reviewing the poverty tariff for domestic customers, as well as a wholesale electricity tariff for bulk supply, will have to be investigated in terms of the framework of the White Paper.

AFRICAN RENAISSANCE – Eskom's role in the African Renaissance, both locally and beyond our borders, ultimately rests on our ability to manage change creatively. In particular, it requires that all Eskom's stakeholders build partnerships that will endure through turbulent times of change. Our labour partners, our customers, our suppliers, and Eskom's management, are all part of the development chain. The strength of this chain lies in the collective commitment of all the stakeholders.

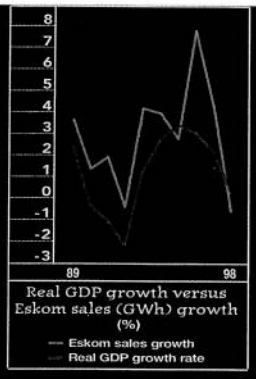
Our ongoing relationships with utilities elsewhere in sub-Saharan Africa suggest promising partnerships for the future. Already we are seeing benefits to our business flowing across national borders. This augurs well for the success of the African Renaissance, where a willingness to share our mutual technologies and expertise will ensure a brighter future for the entire continent.

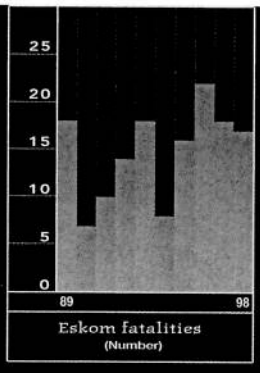
PREVAILING ECONOMIC CONDITIONS – As far as 1998 is concerned, it was a tough year for Eskom's business. The global economy is still undergoing a period of severe strain and, in many areas, negative growth. Eskom's results are closely linked to industries such as aluminium smelting and ferrochrome production and these markets were and are under severe pressure; hence our sales were down, and so was our revenue. This may continue in 1999 and economic indicators show that the year ahead will be even more challenging.

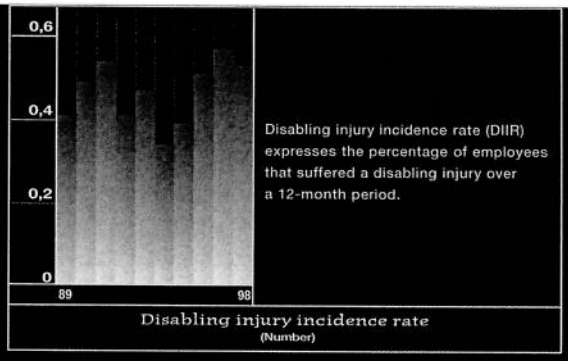
Eskom has implemented strategies to mitigate the impact of reduced electricity sales on its business by reducing costs and deferring capital expenditure. Even taking these strategies into account, Eskom's net profit is projected to reduce by approximately 25% between 1997 and 1999. This reduction in net profit is even more severe when compared with Eskom's original plans.

There are some areas to which we must therefore pay exceptionally close attention in 1999. We must gear ourselves up to attract new direct investments to South Africa which will result in more sales for Eskom. We have an unbeatable advantage in our electricity prices and we must exploit this advantage.

We have much work to do in the area of sustainability to ensure that we meet out target. In all areas of our business, we must manage our efficiencies aggressively in 1999.







Despite a bleak economic forecast with strong recessionary trends, the general outlook for Eskom remains positive. Eskom represents a stable ship in turbulent seas, and it is poised to play a major developmental role both within South Africa and in the southern African Region.

ACKNOWLEDGEMENTS

Special thanks to the Minister for Public Enterprises, Stella Sigcau, and the Minister of Minerals and Energy, Penuell Maduna, for their continuing support.

The chairman and Electricity Council members have offered invaluable guidance and I thank them for their efforts on behalf of Eskom. My colleagues on the Management Board were remarkable for their dedication and determination to make Eskom a winning organisation.

I trust that the experience of this past year will reinforce the need for a positive partnership between management and labour.

Eskom's creditable performance through a difficult year could not have been achieved without the determination and commitment of all Eskom employees. The organisation is always appreciative of their efforts.

ALLEN J MORGAN
3 March 1999

'here is a latent entrepreneurial spirit in Africa that needs just the smallest amount of opportunity and encouragement to blossom

ukuzibona

Five-year financial review

31 December

	1998 Rm	1997 Rm	1996 Rm	1995 Rm	1994 Rm
FINANCIAL POSITION					
Total reserves	**27 971**	25 029	21 893	18 821	16 105
Long-term provisions	**2 929**	1 979	1 539	1 177	789
Financial market liabilities	**32 796**	34 345	32 610	33 911	33 154
Trade, other payables and provisions	**6 279**	3 930	4 173	3 589	2 713
Total assets	**69 975**	65 283	60 215	57 498	52 761
OPERATIONS					
Revenue	**21 071**	20 448	18 687	17 114	15 417
Operating expenditure	**(15 162)**	(14 016)	(12 421)	(11 315)	(9 963)
Net operating income	**5 909**	6 432	6 266	5 799	5 454
Interest income	**1 156**	1 008	1 366	1 131	778
Interest expenditure	**(4 315)**	(4 357)	(4 560)	(4 214)	(3 964)
Net profit for the year	**2 750**	3 083	3 072	2 716	2 268
CASH FLOW					
Cash generated by trading operations	**12 573**	9 555	8 809	9 631	7 998
Net interest received and interest paid	**(2 248)**	(2 766)	(2 631)	(2 848)	(2 863)
Cash flows from operations	**10 325**	6 789	6 178	6 783	5 135
Cash utilised in investment activities	**(6 154)**	(5 836)	(5 610)	(5 835)	(4 735)
Cash effects of financing activities	**(3 228)**	(468)	(1 907)	505	(739)
Debt raised	**596**	2 703	1 934	4 338	1 714
Debt repaid	**(3 481)**	(3 100)	(4 321)	(2 520)	(2 665)
(Increase)/decrease in long-term financial market investments	**(343)**	(71)	480	(1 313)	212
Net increase/(decrease) in cash and cash equivalents for the year	**943**	485	(1 339)	1 453	(339)
RATIOS					
Profitability and asset management					
Return on total assets, %[1]	**9,85**	11,30	11,65	11,45	11,52
Real (inflation-adjusted) return on total assets, %[1]	**2,49**	3,62	3,89	3,82	4,33
Gearing					
Debt:equity	**0,85**	1,08	1,25	1,45	1,73
Interest cover	**1,87**	1,92	1,96	1,88	1,71
Value created per employee, R'000	**381**	360	330	293	262

DEFINITIONS OF RATIOS

Return on total assets – Net operating income expressed as a percentage of total assets[1]
Real (inflation-adjusted) return on total assets – Net inflation-adjusted operating income, after taking account of financial gearing adjustment, but before taking into account interest income and interest expenditure, as a percentage of total assets[1]
Debt:equity – Net financial market liabilities and investments divided by total reserves
Interest cover – Net operating income divided by net interest income and expenditure
Value created per employee – Value created divided by number of employees at 31 December as per value added statement

1. *Total assets are reduced by financial market investments and interest receivable, since Eskom's funding is managed in a single pool of financial market assets and liabilities.*

Value added statement

for the year ended 31 December

Value added is the wealth created by Eskom through the generation, transmission, distribution and selling of electrical energy.

Value created from the sale of electricity is the excess of turnover over the costs of generation, transmission and distribution, comprising primary energy, materials, services and abnormal items.

The value added statement shows the total wealth created, how it was distributed to meet certain obligations and reward those responsible for its creation, and the portion retained for the continued operation and expansion of Eskom.

	1998 Rm	%	1997 Rm	%
VALUE CREATED				
Revenue and manpower cost capitalised	**21 476**		20 814	
Less: Cost of primary energy, materials, services and abnormal items	**(7 260)**		(6 615)	
	14 216	**100**	14 199	100
VALUE DISTRIBUTED				
To remunerate employees for their services[1]	**5 039**	**36**	4 726	33
To providers of finance for monies borrowed	**3 159**	**22**	3 349	24
	8 198	**58**	8 075	57
VALUE RETAINED				
To maintain and develop operations	**6 018**	**42**	6 124	43
	14 216	**100**	14 199	100

Value created increased by 0,1% compared with 1997. Similarly, value distributed to employees increased by 6,6% during the same period.

Value distributed to financiers and investors decreased from 24% to 22%.

The value retained in the business for the maintenance and replacement of assets has decreased by one percent. The value retained is in line with the policy of strengthening Eskom's financial position for the benefit of existing and future electricity customers.

1. Including capitalised manpower costs amounting to R405 million (1997: R366 million).

An electrified Africa will increase production output, increase economic health, diminish debt and lead to a growing sense of self-worth

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Productivity statement

for the year ended 31 December

Productivity statements provide key insights into business performance by analysing the change in net profit between two accounting periods in terms of the impact of productivity, inflation (price recovery) and growth.

Productivity improvement occurs through the more efficient and effective use of all operating and capital resources, which include coal, employees and assets. Price recovery is the difference between electricity price increases and inflationary changes in the prices of resources used by Eskom. Growth represents the change in net profit when resource quantities and prices change at the same rate as electricity sales volumes and prices.

Broadly speaking, productivity improvement creates additional wealth and thereby drives long-term business performance. Price recovery, on the other hand, indicates how wealth is distributed to the organisation's stakeholders, which include customers, employees and investors.

	1998 Rm	1997 Rm
Net profit for the year	**2 750**	3 083
(Deduct)/add back provisions not impacting on overall productivity performance	**(128)**	128
Adjusted net profit for the year	**2 622**	3 211
Adjusted net profit for the previous year	**3 211**	3 072
Change in net profit	**(589)**	139
Attributable to:		
Productivity (deterioration)/improvement	**(268)**	91
Price underrecovery	**(419)**	(241)
Growth	**98**	289
Total change in net profit	**(589)**	139

The sustainable improvement in productivity continues to be a key focus area for the business. For five consecutive years, 1992 – 1997, the organisation has improved its bottom-line productivity performance. However, during 1998 there was a deterioration in productivity performance due primarily to the decline in sales. The focus on improving productivity for the benefit of the customer is reflected in the way the organisation managed its controllable costs for the year. Despite the poor economic conditions there was an improvement in operating productivity. It is worth noting that 1998 was the first year that the investment in electrification made a positive contribution to the overall performance of the business compared with the previous year. The results also show that Eskom passed on to the customer the benefit of R419 million during the year in respect of a price underrecovery. This was achieved through Eskom's electricity price increase being lower than the impact of inflation on Eskom's business.

A further analysis of the productivity results is contained in the Directors' report.

Over the past ten years, Eskom's cumulative productivity savings, when expressed in 1998 rand, amount to R9,7 billion. A major portion of this saving has been passed on to Eskom customers through a cumulative price underrecovery of R6 billion over the same period.

The above performance figures have been reviewed by the National Productivity Institute (NPI). This included an examination of the structure of the analysis, the appropriateness of quantity and price drivers used, the accuracy of the model and the derivation and presentation of the results. In the opinion of the NPI, the productivity statement fairly represents the overall performance of Eskom for 1998 when compared with 1997.

Eskom has long subscribed to the principles of openness, integrity and accountability and seeks to comply with the generally accepted corporate practices by which corporate entities in the developed world seek to govern themselves.

Eskom continues to comply with all major recommendations of the King Report on Corporate Governance as well as the Eskom Act of 1987, the Reporting by the Public Entities Act, 1992, and the Protocol on Corporate Governance in the Public Sector.

GOVERNING BODIES

The Eskom Amendment Act, which came into effect on 18 December 1998, envisages the incorporation of Eskom into a company in the near future. This has not happened yet and Eskom's governance structures still exist in terms of the Eskom Act of 1987.

Under the circumstances, Eskom continues to be governed by the Electricity Council (Council) and a Management Board (Board). The Council is responsible for determining policy and objectives and for exercising control. The Board is responsible for managing the affairs of Eskom in accordance with the policy and objectives determined by the Council. Although Eskom therefore has a separate supervisory and management board structure, the Council and Board are considered to be fulfilling the role of directors and have a collective responsibility to provide effective corporate governance.

The members of the Council are appointed by the Minister for Public Enterprises. Appointments are for a maximum of five years or such shorter period as determined by the Minister at the time of appointment. With the exception of the chief executive, the executive directors of Finance, and Human Resources, all the members of the Council are non-executive and are representative of a wide range of stakeholders. In order to ensure that directors are able to fulfil their roles as directors, they are fully informed on their roles and responsibilities. In particular, with regard to Council members, introduction to the business of Eskom includes a programme of visits to various sites, which facilitates an understanding of the nature of Eskom's business. All Council members are actively involved in, and bring independent judgement to bear on, Council deliberations and decisions.

In order to provide appropriate guidance and input to the Council and management, the chairman of the Council has significantly more involvement in Eskom than the other non-executive Council members.

The Council meets regularly and monitors executive management through a structured approach to delegation, reporting and accountability. This structured approach includes reliance on various Council subcommittees that are in a position to investigate and analyse thoroughly the direction taken by executive management in respect of key issues.

The Board consists of a chairman and ten executive directors who are appointed by the Council. The chief executive and the executive directors of Finance and Human Resources are also members of the Council. The members of the Board, who are all executive, have normal employment contracts with Eskom. The continuation of their service is dependent on satisfactory performance on an ongoing basis.

In order to implement and manage the policies established by the Council, the Board and its subcommittees meet regularly.

Council and Board have access to the advice and services of Eskom's secretariat and are entitled to obtain independent professional advice, at Eskom's expense, should they deem this necessary. The Council and Board also rely on the secretariat to ensure that the matters that require the attention of the Council and Board are placed on relevant agendas for discussion. The Council and Board are also assisted by secretariat to identify key issues that should form the focus of their attention.

Once Eskom has been incorporated as a company the governance structures will be replaced by the appointment of a board of directors in terms of the Companies Act, 1973.

OWNERSHIP OF ESKOM

Eskom's ownership has been clarified in the Eskom Amendment Act and the ownership of Eskom's equity now vests in the State.

FINANCIAL STATEMENTS

The Council and the Board of Eskom are responsible for the preparation and integrity of the annual financial statements and related financial information included in this annual report. The external auditors

are responsible for independently auditing and reporting on the financial statements in conformity with generally accepted auditing standards.

The financial statements are prepared in accordance with generally accepted accounting practice and incorporate full and meaningful disclosure in line with Eskom's reporting philosophy. The financial statements are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

AUDITING

The Audit Committee, which comprises Council members, members of the Finance Committee, co-opted members and the chief executive, is chaired by a Council member. Committee meetings are also attended by the executive director of Finance, the head of Corporate Audit, the external auditors and relevant corporate officials.

The Committee addresses appropriate policies, internal control, internal and external audit matters and such other issues as may be referred to it by the Council. The Committee meets regularly with management and the internal and external auditors. The head of Corporate Audit and the external auditors have unrestricted access to the chairman of the Committee.

The Audit Committee also ensures that the annual financial statements and annual report are reviewed with management and the external auditors before the approval by the Electricity Council.

Eskom's Corporate Audit function is an independent appraisal function, which performs, inter alia, the functions as set out in the Reporting by Public Entities Act, 1992.

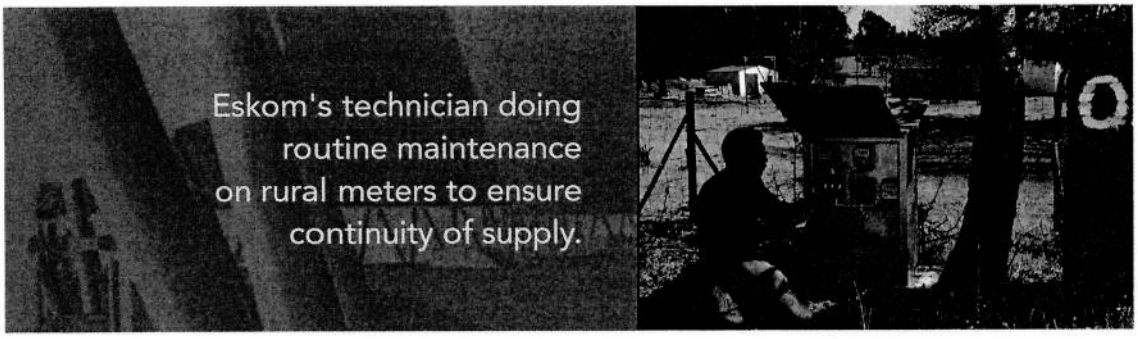
INTERNAL CONTROL

The Council has ultimate responsibility for the system of internal controls. The controls throughout Eskom focus on those critical risk areas identified by operational risk management, confirmed by executive management and endorsed by the auditors. Controls relating to these critical risk areas are closely monitored by both management and the auditors and these controls are augmented by approval frameworks, policies and organisational structures that provide for division of responsibilities and the careful selection and training of personnel.

The system contains self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified. The system is designed to provide reasonable but not absolute assurance, at appropriate cost, that assets are safeguarded and that transactions are executed and recorded in accordance with Eskom's policies and procedures.

Corporate Audit provides the Audit Committee and executive management with assurance that the internal controls are sufficient to manage the risks that could hinder the achievement of the business objectives.

The executive directors performed a self-assessment on the control environment in November


Eskom's technician doing routine maintenance on rural meters to ensure continuity of supply.

We are committed to illuminating this proverbial dark continent and to integrating it into the global economy as a participant worthy of unconditional respect

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1995, which was updated during 1998. Corporate Audit applies the updated risk self-assessment framework as the basis for its risk-based audit approach and plan.

REMUNERATION

The remuneration of Council members is determined by the Minister for Public Enterprises with the concurrence of the Minister of Finance.

The remuneration of the Board is determined by the Council Remuneration and Personnel Committee. This Committee is chaired by the chairman of the Council and comprises the chief executive and four other Council members.

The Remuneration and Personnel Committee takes account of external market surveys and other relevant information sources in determining levels of remuneration that appropriately reward senior executives for their contributions to Eskom's performance.

EMPLOYEE PARTICIPATION

Employees participate in the determination of Eskom's policies and objectives through their representation on the Council and through a variety of participative structures established to involve employee representatives in the business of Eskom. Employees also participate in normal management and leadership communication.

CODE OF ETHICS

Eskom has a written code of ethics, endorsed by the Council and the Board, and all employees are made aware of its contents. The Audit Committee fulfils the functions of an ethics council, which oversees the ongoing efforts to maintain ethical behaviour in all Eskom business activities. Corporate Audit carries out an annual review to monitor adherence to the Ethics policy.

ENVIRONMENTAL IMPACT CONTROL

The chief executive, as chairman of the Management Board Environmental Steering Committee, bears responsibility for Eskom's overall environmental performance. This committee has delegated authority to the corporate environmental affairs manager for ensuring due environmental performance through policies, directives, standards and strategic direction.

The groups within Eskom are charged with implementing these environmental policies, directives, standards and strategic direction.

Regular cyclical environmental audits are carried out on all the line groups and are verified independently. Such audits are also undertaken in the event of an environmentally related incident.

GENERAL

Eskom recognises that corporate governance is a dynamic area and, as such, its systems of corporate governance are reassessed on an ongoing basis to ensure that they are developed to world-class standards and continue to be relevant to Eskom's business as it evolves.

Annual financial statements

For the year ended 31 December 1998

Contents

Currency of financial statements

The financial statements are expressed in South African rand (R).

The following are approximate values of R1,00 at 31 December for selected currencies.

	1998	1997
French franc	1,04	1,23
German mark	0,29	0,37
Pound sterling	0,10	0,12
Swiss franc	0,23	0,30
Japanese yen	19,39	26,72
US dollar	0,17	0,21

Approval of annual financial statements

The annual financial statements for the year ended 31 December 1998, set out on pages 34 to 79, have been approved by the Management Board and Electricity Council and signed on their behalf on 3 March 1999 by

REUEL J KHOZA
Chairman of the Electricity Council

ALLEN J MORGAN
Member of the Electricity Council,
Chief Executive of Eskom and
Chairman of the Management Board

Report of the independent auditors

TO THE MINISTER FOR PUBLIC ENTERPRISES

We have audited the annual financial statements of Eskom set out on pages 34 to 77 for the year ended 31 December 1998. The annual financial statements are the responsibility of Eskom's directors. Our responsibility is to express an opinion on the annual financial statements.

SCOPE

We conducted our audit in accordance with statements of South African Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit was also planned and performed to obtain reasonable assurance that, in all material respects, the relevant requirements of the Reporting by Public Entities Act, 1992, as amended, have been complied with. An audit includes:

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

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

We concur with the decision of the Electricity Council and the Management Board not to prepare consolidated annual financial statements.

AUDIT OPINION

In our opinion:

- the financial statements fairly present, in all material respects, the financial position of Eskom at 31 December 1998, and the results of its operations and cash flows for the year then ended, in accordance with generally accepted accounting practice and in the manner required by Schedule 4 of the Companies Act, 1973, the Eskom Act of 1987, and other reporting requirements as set out in the Reporting by Public Entities Act, 1992, as amended, and the regulations thereto;
- the information furnished in terms of Section 6 and 7 of the Reporting by Public Entities Act, 1992 (Act No 93 of 1992), is fair in all material respects and, where applicable, consistent with that of the preceding year; and
- the transactions of Eskom that were examined during the course of our audit were made in accordance with applicable laws and instructions and, in all material respects, are in accordance with mandatory functions of Eskom, as determined by law or otherwise.

We have examined the inflation-adjusted financial information set out on pages 78 to 79. In our opinion the statements have been properly prepared on the basis described on page 78.

KPMG
Registered Accountants
and Auditors
Chartered Accountants (SA)

Nkonki Sizwe Ntsaluba
Registered Accountants
and Auditors
Chartered Accountants (SA)

Deloitte & Touche
Registered Accountants
and Auditors
Chartered Accountants (SA)

Johannesburg, 3 March 1999

Directors' report

INTRODUCTION

This report, in terms of the Reporting by Public Entities Act, Act 93 of 1992, as amended, and the Companies Act, Act 61 of 1973, addresses the performance of Eskom and relevant statutory information requirements.

The Electricity Council and the Management Board fulfil the role of directors and have pleasure in presenting their report and the audited financial statements for the year ended 31 December 1998. In the opinion of the directors, the financial statements fairly present the financial position of Eskom at 31 December 1998 and the results of its operations and cash flow information for the year then ended. The directors have no reason to believe that the business will not be a going concern in the year ahead.

FUNCTION AND OBJECTIVES OF THE BUSINESS

NATURE OF THE BUSINESS

Eskom generates, transmits and distributes electricity to industrial, mining, commercial, agricultural and residential customers and to redistributors. Eskom is operationally regulated in terms of licences granted by the National Electricity Regulator (NER), the Eskom Act of 1987 and the Electricity Act of 1987.

The objective of Eskom is to provide the means and systems by which the electricity needs of the consumer may be satisfied in the most cost-effective manner, subject to resource constraints and the national interest, and to perform such other functions as may be assigned to it by or under the Eskom Act or the Electricity Act. Eskom supports the Government's Reconstruction and Development Programme (RDP) commitments. Relevant details are discussed in this report.

OBJECTIVES

A medium-term business plan, which sets out Eskom's strategic direction as well as critical key indicators to manage the business effectively, is developed each year in consultation with key stakeholders, utilising input from all business units. The Electricity Council and the Management Board normally approve the medium-term business plan each year. In practice this includes Eskom's predetermined objectives.

Annual budgets are prepared, based on the strategic direction set out in the medium-term business plan. The 1998 budget, which included key performance indicators (KPIs), was approved at the end of 1997. KPIs are used to measure performance against budget and are reported to the Electricity Council and the Management Board on a monthly basis in the Eskom and Group business reports. Eskom's objectives that are included in the Group objectives with relevant KPIs, are communicated and measured at all relevant staff levels. These objectives and indicators are discussed in detail in this Directors' report.

HIGH-LEVEL PERFORMANCE FOR THE YEAR

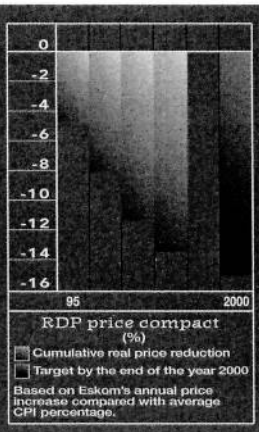
An overview of Eskom's performance against the objectives is contained in the table below. The detailed performance is described in the remainder of this Directors' report.

	Objectives	Key performance indicators	Performance results
1.	**Reducing the real price of electricity** Reduce the real price of electricity by 15% by the end of the year 2000	Cumulative difference between the Eskom annual price increases and the average consumer price indices since 1 January 1995, %	Targets met to date
2.	**Electrification** Electrify 1 750 000 homes by the year 2000	Homes electrified since 1 January 1994, number	Targets met to date
3.	**Implementing employment equity** Change the staff profile so that 50% of management, professional and supervisory staff shall be black South Africans by the end of the year 2000	Black management, professional and supervisory staff at 31 December 1998, %	Targets met to date

	Objectives	Key performance indicators	Performance results
4.	**Human resources management** Educate, train and upgrade sufficient people to meet future managerial, technical and other professional staff needs, inter alia by: • Having on average 370 black trainees and bursars complete their training annually • Enabling all Eskom employees to become literate	• Managing and retaining intellectual capital • Black bursars and trainees completed training, number • ABET learner days, number • Overall pass rate, %	Good progress made Target exceeded Good progress made Good progress made
5.	**Transparency and worker consultation** Maintain transparency and worker consultation in decision-making	Forums and processes to facilitate worker consultation in decision-making	Progress made, notwithstanding setbacks experienced during 1998
6.	**Community development** Contribute R50 million per annum to the electrification of schools and clinics and other community development activities	Annual amount contributed, Rm	Achieved
7.	**Employee access to accommodation** Enabling all employees to own a home	Eskom policy on home loans and rental subsidies in place	Facility provided
8.	**Black economic empowerment** Encourage small and medium enterprise development	Procurement expenditure on black economic empowerment, Rm	Target exceeded
9.	**Limiting environmental impact** Protecting the environment	Indicators including, inter alia, the following: • Environmental contraventions, number • Relative water consumption, ℓ/kWh • Particulate emissions, kg/MWh sent out • Radiation exposure, mSv	 Contraventions reduced Achieved Achieved Achieved
10.	**Maintain financial independence** Financing the above from South African and own resources, and from overseas development funding	Maintain financial independence by accessing resources without recourse to Government	Achieved
11.	**Technical performance** Excellent technical performance	• Sustainability index consisting of 24 measures, % • Safety – Disabling injury incidence rate, number – Fatalities, number • Generation plant performance – Unit capability factor, % – Unplanned automatic grid separations, number • Transmission plant performance – System minutes lost with severity greater than one minute, number – System interruptions, minutes • Distribution system performance System average interruption duration and average interruption frequency indices • Customer satisfaction levels, PreCare and MaxiCare indicator	Achieved 75,4% against a target of 80%. Highlighted as a focus area for improvement in 1999 Remains a major area of concern Target exceeded Achieved Achieved Achieved Adversely impacted by weather. Highlighted as focus area for improvement in 1999 Achieved
12.	**Financial performance** a. Operating and capital resources are used economically, efficiently and effectively b. Maintain financial viability over the long term	• Productivity improvement for the year, Rm • Total electricity cost, c/kWh • Employee numbers • Net profit for the year, Rm • Debt-equity ratio	Adversely impacted by negative sales growth Achieved Achieved by reducing employee numbers Negatively impacted by low sales growth and weak commodity prices Targets met to date by reducing debt-equity ratio

Directors' report

continued



1. Reducing the real price of electricity

Eskom continued to reduce the real price of electricity during 1998 and is determined to achieve its vision of being the world's lowest-cost producer of electricity in order to facilitate growth and prosperity in South Africa. In 1994, Eskom made a commitment in terms of the RDP to reduce the real price of electricity by 15% by the end of the year 2000.

The 1998 general price increase, which was approved by the NER, was 1,9 percentage points (1997: 3,6 percentage points) below the rate of inflation as measured by the average consumer price index (CPI). The cumulative real price reduction since 1995 amounted to 13,6% (1997: 11,7%) at the end of 1998. Eskom is on track to meet the 15% real price reduction target.

2. Electrification

In 1994, Eskom undertook to electrify 1 750 000 homes by the year 2000 in terms of its RDP commitment. Since Eskom had exceeded its cumulative target at the end of 1996, the 1997 and 1998 targets for the number of connections and capital expenditure were revised. By December 1998, 1 451 503 (1997: 1 160 151) homes had been electrified since 1 January 1994. Eskom remains on track to meet this RDP commitment.

Since the inception of Eskom's electrification programme in 1991, a total of 1 836 414 homes have been electrified. Although the farmworker incentive scheme has been in operation since 1992, only connections where connection incentives have been paid since 1997, are regarded as part of the electrification target of 1 750 000 homes.

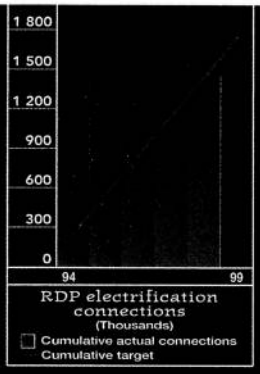
Eskom made R315 million available in 1998 (1997: R300 million) to facilitate electrification by local authorities. This was administered and distributed by the NER, in conjunction with the Development Bank of Southern Africa.

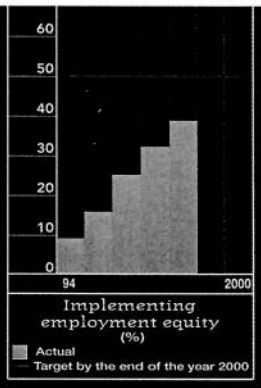
Electrification	Target 1998	Actual 1998	Actual 1997
Number of direct connections, excluding farmworkers	**280 039**	**280 977**	274 345
Capital expenditure, Rm	**859**	**845**	867
Capital cost per connection, R	**3 182**	**3 008**	3 159
Average monthly operating cost per customer, excluding depreciation and interest[1], R	**19**	**19**	24
Average monthly sales per prepayment customer, kWh	**104**	**107**	99
Average monthly sales per prepayment customer, R	**27**	**27**	24
Number of farmworker connections	**9 810**	**10 375**	11 197
Farmworker incentives paid, Rm	**10**	**10**	11

Efforts continue to reduce the installation and monthly operating costs further. The decrease in actual monthly operating cost per customer compared with 1997 is due to improved operational efficiencies.

Although the monthly sales to prepayment customers have increased during 1998 compared to 1997, this remains significantly lower than the amount required to break even, in terms of total operating and capital expenditure, and generate positive returns.

1. Excludes primary energy.





School electrification

Funds applied for the electrification of schools	Budget 1998 Number	Budget 1998 Rm	Actual 1998 Number	Actual 1998 Rm	Actual 1997 Number	Actual 1997 Rm
Grid schools						
Eskom community development funds	424	16	443	15	497	14
SA government grant (1997 balance)	55	4	61	3,5	13	0,5
Netherlands government grant	396	18	334	17	–	–
Non-grid schools						
Netherlands government grant (1997 balance)	81	6	90	6	159	9

The balance of the Government funding of R4 million allocated during 1997 for the electrification of grid schools was used during 1998. The outstanding portion on the Netherlands grant, received for the electrification of grid schools, will be used during 1999.

The balance of the grant of R15 million that was provided by the Netherlands Government during 1997, to electrify 240 non-grid schools over a period of eighteen months, was utilised during 1998.

During 1998, four (1997: five) community centres and one clinic were electrified out of Eskom's community development funds. In addition, the Department of Education and certain transitional local councils electrified 118 schools that were planned to be electrified by Eskom. All of these schools were in Eskom's supply area and therefore the points of supply were provided by Eskom.

3. Implementing employment equity

Substantial progress has been made towards meeting the commitment of transforming the demographic profile of Eskom's staff so as to reflect the community in which it conducts its business more appropriately, by ensuring that 50% of all management, professional and supervisory staff will be black[1] South Africans by the end of the year 2000. Eskom is on track to meet this commitment, and at the end of 1998, 39% (1997: 32%) of Eskom's management, professional and supervisory staff was black.

1. *Blacks, Asians and Coloureds.*

4. Human resources management

Developing human resources

During 1998 the focus was on capacity building with the priority being A and B-band employees. An estimated R435 million (1997: R389 million) was spent on the training and education of employees during the year.

The Adult Basic Development initiative has been realigned to become the Adult Basic Education, Development and Training (ABET) programme. During 1998, 143 000 (1997: 146 759) learner days were provided to 2 853 ABET learners against a target of 2 800 at a cost of R39 million (1997: R37 million) and with an overall pass rate of 66% (1997: 56%) across all levels.

The process to provide recognition for competencies to all the B-Band employees is the follow-up to the competency-based remuneration process completed in 1997 for all A-Band employees. Generic competency profiles for 80% of B-Band job titles have been drawn up and assessment tools are being designed. The assessment of employees will commence once profiles have been verified and assessment tools have been validated.

Bursars and trainees

During 1998 Eskom supported 2 779 (1997: 2 377) bursars and trainees of which 88% (1997: 79%) were black and 18% were women. A concerted effort has been made to increase the number of female bursars and trainees with the aim of increasing the number of women in managerial and professional positions. Of the bursary intake for 1998, 21% (1997: 17%) were female. During the year 493 (1997: 422) black bursars

and trainees completed their training against the RDP target of 370 at an estimated cost of R85 million (1997: R70 million).

Managing and retaining intellectual capital

Eskom continues to recognise the importance of retaining key skills. Individuals from M-Upper[1] to F-Band[1] levels are evaluated on a regular basis with a view to succession planning and to ensure that capacity is being developed in critical areas.

Eskom's critical skills are mainly in the engineering and information technology fields. However, long-term planning in terms of bursary support and the development and mentorship of new graduates is providing for the required skills.

5. Transparency and worker consultation

The Restructuring and Transformation Committee (RTC) consists of representatives from labour, management and government. Discussions between Eskom and the trade unions continued in 1998. A number of significant issues have been dealt with in the RTC and, due to the nature and significance of some of these issues, the process was slow at times and experienced certain problems.

A meeting between labour, management and the Minister for Public Enterprises late in the year, resulted in certain agreements on internal restructuring that are expected to bring new life into the RTC and to focus its efforts on the principles for internal restructuring. Eskom's structure will contain the regulated businesses as well as the supporting groups. A wholly owned subsidiary will be formed which will focus on non-regulated business activities, both international and local. Existing subsidiaries and joint ventures holding commercial non-regulated activities will fall under this structure. The implementation details are being finalised.

Employee participation

The broad socio-political factors and some transformation issues had a severe impact on participative structures and resulted in strained relations with certain unions in 1998. Accordingly, Eskom's industrial relations model is in the process of being reviewed. In this regard, a broad framework has been formulated by a workgroup comprising senior Eskom management and trade union officials. The workgroup is presently reviewing the current participative structures and agreements and this is due for completion early in 1999.

An estimated total of 10 694 (1997: 11 880) workdays were lost as a result of industrial actions during 1998, mainly due to salary negotiations and national actions. The number of workdays lost declined in spite of the difficulties mentioned above.

6. Community development

Eskom has made available R50 million per year until 1999 to be spent on the electrification of schools and other community development activities. During 1998 the following amounts were spent:

	Budget 1998 Rm	Actual 1998 Rm	Actual 1997 Rm
Electrification of grid schools	16	15	14
Community development	20	20	23
Small business development	8	10	11
Donation of surplus property	–	8	–

An amount of R10 million (1997: R11 million) was allocated to small business development, but the expenditure could not be attested to as the necessary recording systems are in the process of being developed.

During 1998 Eskom donated surplus land at its Kaalfontein property to the Gauteng Provincial Government for the development of low-cost housing as part of Eskom's contribution in support of the RDP. In addition, a surplus property in central Johannnesburg was also donated to the Gauteng Provincial Government. The legal aspects relating to this donation will be finalised during 1999.

During the year the directors approved a R50 million contribution to the Business Initiative for Job Creation and Human Capacity Development. The directors also approved the creation of the Eskom Development Foundation, with an initial contribution of R150 million from Eskom in 1998. The Eskom Development Foundation has been formed to manage all of Eskom's community development and educational programmes.

1. *Denotes level on Paterson job grading system.*

7. Employee access to accommodation

Eskom is committed to enabling all employees to have access to accommodation. Eskom has a housing policy in place, providing all employees with access to funding for accommodation. The number of employees making use of Eskom Finance Company (Pty) Limited home loans at 31 December 1998, numbered 23 285 (1997: 23 199) out of 37 311 (1997: 39 241) employees.

In addition, 1 927 (1997: 2 345) employees are making use of rental subsidies. Other forms of housing assistance consist of Eskom hostel and housing accommodation, as well as subsidies for home loans with other financial institutions.

8. Black economic empowerment

As part of its buying policies and managerial support programme, Eskom supports small, medium and micro enterprises (SMMEs). During 1998, the programme was extended to include large black businesses. An estimated amount of R700 million (1997: R286 million) was spent against a target of R606 million to support the procurement and supply of goods and services from black business, thereby accelerating black economic empowerment. The process by which black economic companies are identified, will be refined.

Eskom's SMME suppliers were invited to participate in a business and management development programme developed by Eskom's Management and Business Development Fund that focuses on entrepreneurship. This fund is designed to contribute to black economic empowerment by offering more than just the opportunity to do business with Eskom. The objective of this initiative is to develop competent and sustainable suppliers of quality products and services. During 1998, 33 SMME suppliers were trained, of which 20 completed the programme successfully, at a cost of R178 000.

9. Limiting environmental impact

Eskom continues to strive towards integrating environmental considerations into its business planning and decision-making processes.

During 1998 a system was implemented to record environmental-related expenditure. During the year approximately R131 million was spent on capital and approximately R185 million on operating environmental activities, primarily in the Generation Group, but these figures could not be confirmed. The information set out above represents the first attempt to report on environmental expenditure in the annual report. In 1999, the process will be further refined to ensure a more comprehensive view.

Included in the total research and development costs, was an amount of R9 million spent on environmental-related research during 1998 (1997: R12 million). This included research on air quality, alternative energy supply, water management, development of environmental tools and energy efficiency. Eskom remains committed to researching and minimising negative environmental impacts.

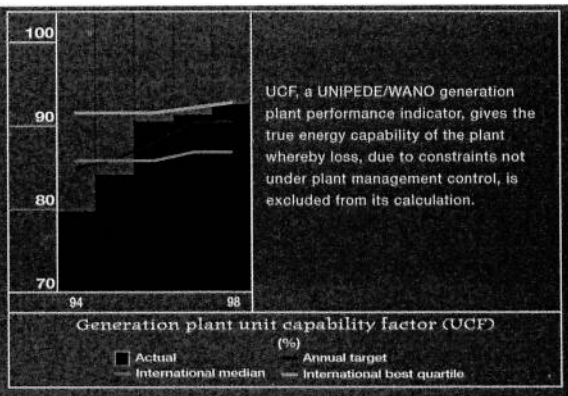
The environmental audit function continues to measure compliance with legislation and Eskom's environmental policy. All power stations have established and implemented an environmental management system (EMS) for their business. During 1998, audits were performed at power stations with particular emphasis on the implementation of the environmental management system in the Generation group. Areas for improvement were identified, for example, improved formalisation and documenting of the system and enhanced alignment with international standards. Corrective actions were recommended to make these improvements.

The quantity of water consumed for electricity generation is highly dependent on the generating plant type and cooling technology employed. Water consumption therefore fluctuates depending on the relative utilisation of the various power stations in any one year. Taking the electricity generated by Eskom at all its power stations into account, the specific water consumption, measured in ℓ/kWh sent out, was 1,23 in 1998 (1997: 1,20).

Relative particulate emissions have again decreased for the current year. This is due to improved operating standards and the enhancements of certain power stations with improved systems for the removal of ash prior to emission in the atmosphere.

Ambient air quality monitoring is continuing in the eastern highveld regions of the country. Ozone levels, SO_x[1] and NO_x[2] and particulates from all sources, which include industrialised, domestic and natural activities, are monitored on a continuous basis.

1. *Oxides of sulphur.*
2. *Oxides of nitrogen.*



UCF, a UNIPEDE/WANO generation plant performance indicator, gives the true energy capability of the plant whereby loss, due to constraints not under plant management control, is excluded from its calculation.

Results indicate that the annual concentrations at all sites are within the guideline limits set by the Department of Environmental Affairs and Tourism.

Eskom's policy is to comply with legislation and, where appropriate in the interest of the sustainability of the business, set standards where no legislation exists. During 1998, nine contraventions were reported compared with 15 during 1997. Areas of non-conformance to legislation included water-related contraventions, the spillage of oil and the removal of protected vegetation without a permit. Reported incidents have been investigated, and appropriate preventative actions to reduce the potential for recurrence implemented.

Environmental performance indicators	Target 1998	Actual 1998	Actual 1997
Total particulate emissions, kt	n.a[6]	65,21	83,43
Relative particulate emissions, kg/MWh sent out[1]	0,55[4]	0,36	0,44
Radiation exposure, mSv	0,25[5]	0,0006	0,0006
Net water consumption, Mℓ[2]	n.a[6]	225 300	224 754
Relative water consumption, ℓ/kWh sent out[1]	1,43[4]	1,23	1,20
Reported legal contraventions[3]	0	9	15

10. Maintain financial independence

Except for the funding received from external sources for the electrification of schools noted above, all other commitments were funded from South African and Eskom's own resources.

1. *Figures now based on electricity generated at all Eskom power stations, including nuclear and hydro/pumped storage, which is considered to be a more appropriate measure than reported previously.*
2. *Water consumption at generating power stations using steam turbines, including Koeberg. Koeberg was not included in 1997.*
3. *Only water-related contraventions were reported previously. From 1998 other environmental-related contraventions are also included.*
4. *Targets based on alarm levels contained in the sustainability index.*
5. *Regulatory limit set.*
6. *No targets set for these indicators.*

11. Technical performance

Sustainability index

The sustainability index combines 24 weighted indicators into a composite index. These measures include the key indicators discussed below as well as specific refined measures. The purpose of the measure is to reflect overall technical performance and is used to balance low-cost production against long-term reliability. The sustainability index, through its monitoring and alarm system, ensures the long-term technical smooth running of Eskom in a sustainable way. Senior management performance is evaluated against this index.

The index value for 1998 was 75,4% (1997: 91%) against the target of 80%. The primary reasons for the weaker performance are attributable to safety as well as continuity and quality of supply matters. These continuity and quality of supply indicators were affected by an expanding customer base and the exceptionally high number of violent storms in December 1998, which interfered with Eskom's low and medium-voltage supply.

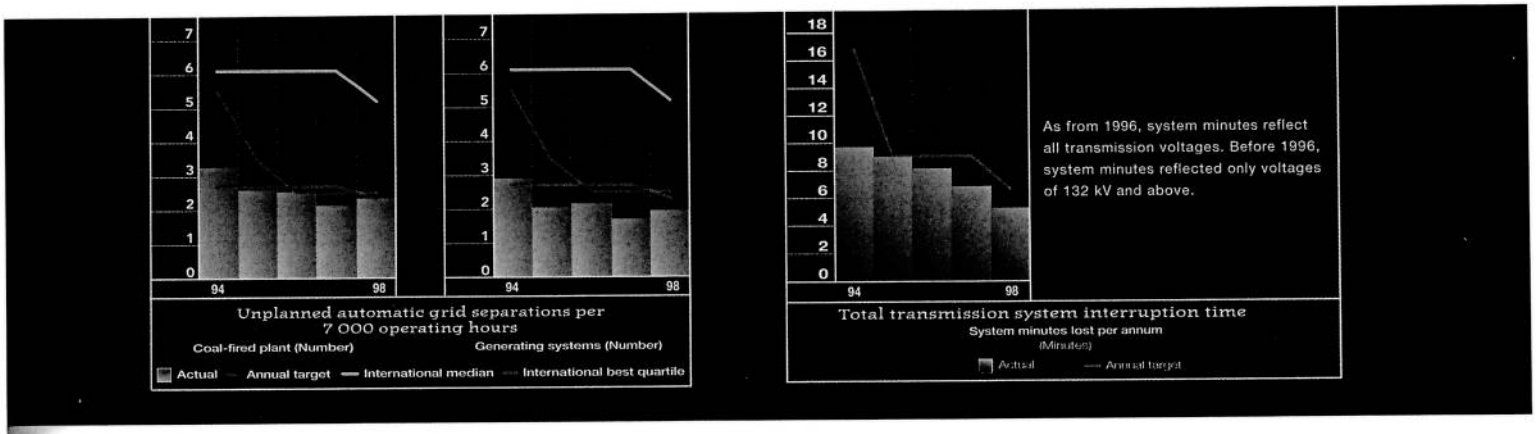
Safety

The disabling injury incidence rate (DIIR) for 1998 was 0,52 (1997: 0,57) and 17 (1997: 18) work-related fatalities occurred. Vehicle accidents still account for the majority of fatalities, followed by electrical contact incidents and robberies resulting in deaths.

A review of the incident reporting and measurement process has led to the introduction of actions that resulted in more accurate safety indicators.

Appropriate strategies and campaigns have been integrated into the safety programmes of business units to address the diverse and unique safety needs of respective business units. Interventions include advanced driver training for senior executives, managers and full-time drivers, surprise safety audits, job observations and a total re-appraisal of the system that ensures training, testing and authorisations for staff working on electrical plant and equipment.

Risk audits have been conducted throughout Eskom and prioritised risk profiles have been provided to business units for consideration and



action. The risk audits considered risks to people, equipment, machinery and the immediate work environment. Identified risks are thus managed, which results in a more favourable claims experience and lower insurance premiums in the longer term.

The external environment in which many Eskom staff operate, in particular Distribution staff, remained hostile. Injuries and fatalities sustained as a consequence of exposure to an environment of robberies and hijackings have had a detrimental effect on overall safety experience as reflected by the safety indicators set out above. A team has been tasked to reduce fleet incidents by addressing hijackings and making recommendations on risks, including installation of anti-hijacking measures.

In accordance with international practice, a comprehensive reassessment of Koeberg's nuclear plant safety was completed at the end of 1998 by a team that included Eskom personnel, contractors and assistance from Electricité de France. The reassessment was performed by benchmarking Koeberg against top international nuclear safety standards. A report is being prepared and will be submitted to the Council for Nuclear Safety early in 1999. During 1998, Koeberg maintained its high level of safety as measured against the World Association of Nuclear Operators (WANO) safety indicators median values.

Generation plant performance

Generation plant unit capability factor (UCF)

The Generation Group continued to maintain exceptional plant performance in 1998 by achieving a UCF of 92,7% (1997: 91,5%) against a target of 90,7%.

Unplanned automatic grid separations (UAGS)

UAGS, a UNIPEDE fossil-fired plant indicator, is a measure of the reliability of service provided to the electrical grid, and measures the number of supply interruptions per operating period (7 000 hours). During 1998, the reliability of the Eskom generating units has been maintained at a better level than the international best quartile, although at 2,3 interruptions this is slightly down on the equivalent performance of 2,1 in 1997.

Maintaining transmission system performance

The transmission system's performance in terms of continuity of supply is measured by the number of system minutes that were lost over a 12-month period. There was only one incident in 1998 (1997: two) with a severity greater than one system minute. The overall transmission system performance is reflected in the graph. This is an important measure since it directly impacts the continuity of supply to consumers.

Distribution system performance

The Distribution Group measures reliability of the systems as reflected in the table below.

	Target 1998	Actual 1998	Actual 1997
Composite supply loss index	**Below 9,00**	**9,07**	8,70
System average interruption duration index	**Below 19,50**	**25,09**	19,50
System average interruption frequency index	**Below 7,50**	**11,61**	8,30

The composite supply loss index measures the hours that the total system was not available during a specific period. The number of outages, the duration of outages and the load affected influence the index.

The system average interruption duration index provides a measure of the hours lost per connected customer during a year. The number and duration of outages, as well as the number of connected customers, have an effect on the index. Similarly, the system average interruption frequency index measures the average number of times each connected customer was interrupted during a year. The number of outages and connected customers influence this indicator.

The unexpected bad weather during 1998 was a major contributor towards the deterioration in these measures. This highlighted the need to revise the

emergency preparedness plans. The refurbishment programme also needs to be revised to ensure that ageing distribution plant is well maintained.

Satisfying customers' electricity needs

Eskom developed and implemented a statistical measurement tool that identifies customer needs and measures customer satisfaction with the service delivered. MaxiCare[1] and PreCare[2] surveys are conducted on a monthly basis by an independent organisation, and results are analysed and reported to Eskom.

Specific service aspects that customers find unsatisfactory, as well as those service aspects that are most important to customers, are identified through this instrument. By addressing and improving these individual service aspects, Eskom ensures that overall customer satisfaction improves over time.

During 1998, a slight deterioration occurred with customers rating Eskom's overall service quality at 8,37 (1997: 8,65) for MaxiCare and 8,78 (1997: 8,95) for PreCare against a target of eight. This downward trend was most noticeable in the non-residential segments. The specific service aspects that customers rated lower, relate to supply reliability, the handling of interruptions and the price of electricity. Whilst the overall ratings are above target, the analysed 1998 results are being addressed through action plans developed to remedy negative perceptions.

A project is under way to review all aspects of the MaxiCare and PreCare customer satisfaction measurement tool to ensure that the instrument remains valid and delivers actionable results to Eskom. The enhancements will ensure that the progress made over the past four years is not lost. Changes will be implemented during March 1999.

Capacity planning and management

During 1998 the seventh revision of the Integrated Electricity Plan (IEP 7) was prepared. IEP 7 sets out an optimal combination of various options available for the sourcing or generation of electricity (supply side) and methods of management of its use (demand side), based on the forecast load growth in the longer term. The objectives of the IEP are to:

- satisfy the expected growth in electricity demand;
- provide optimal value to the customer;
- retain Eskom's sound financial position; and
- be compatible with the strategic direction of Eskom.

IEP 7 revealed that, in view of the sustained high levels of power station performance, there is still no need to commit to new generating capacity in 1999. Depressed growth in electricity demand during 1999 may defer the need for new capacity even further.

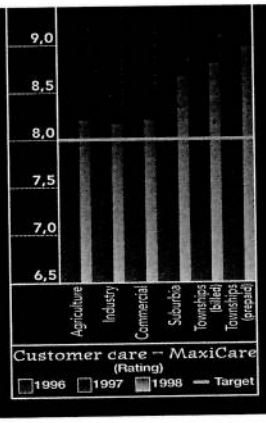
The lower than anticipated growth in electricity sales is likely to defer the time of return to service of the mothballed stations. At this stage it is still anticipated that the mothballed stations represent cost-effective alternatives to other new capacity options. The cost of mothballing is continuously assessed, and activities adjusted to minimise costs within the framework of plant preservation.

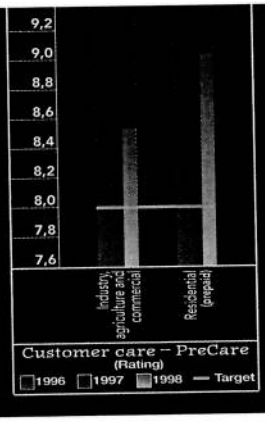
	Target 1998 Rm	**Actual 1998 Rm**	Actual 1997 Rm
Nominal capacity, MW	**39 872**	**39 872**	39 154
Peak demand on integrated Eskom system, MW	**28 801**	**27 803**	28 329
Maximum active capacity, MW	**33 916**	**33 916**	32 974

The low energy demand experienced during 1998 has led to an increase in the system operating reserve margin from 16% in 1997 to 22% in 1998.

During 1998, Eskom's Generation Group developed power station life-cycle plans to ensure production capability of existing plant well into the future. This will enhance the ability to maximise production from existing assets.

1. *Customers that have been receiving electricity for longer than six months.*
2. *New customers or customers with revised contracts.*





Research and development

Investment in technical research and development amounted to R105 million (1997: R85 million) and a further R10 million (1997: R11 million) was spent on marketing research and development. During 1998, research and development activities resulted in 14 major outputs, including the pebble-bed feasibility study, coal combustion modelling system and the pilot scale plasma end-use electrotechnology.

Energy purchases

Eskom is dependent on a limited number of suppliers for its coal and nuclear fuel requirements for its power stations. Eskom continued to review its supplies of coal and nuclear fuel during 1998 with a view to reducing costs and improving flexibility in the short, medium and long term.

Coal

All collieries performed at acceptable levels with regard to coal production and deliveries during 1998. Cost performance of the majority of the mines that are being paid on a cost-plus basis was, however, disappointing. Strategies to address this are being negotiated with the relevant mining houses to ensure improvements in cost performance.

During 1998, Eskom purchased 94 million tons of coal (1997: 94 million tons) against a target of 92 million tons. Of this, 92 million tons was produced at the Eskom-tied collieries, while two million tons was acquired from various short-term sources, mostly black economic empowerment companies.

The average cost of coal burnt during 1998 was R40,69 per ton (1997: R36,52 per ton) against a target of R39,90 per ton.

Hydro

An agreement has been reached with the Department of Water Affairs and Forestry (DWAF) to revise the operating rules at the Gariep and Vanderkloof hydroelectric power stations without violating the assurance of supply for downstream users. These revised rules will enable higher energy production levels at these stations in the interest of more efficient resource utilisation.

The feasibility studies for three pumped storage schemes are under way and should be completed early in 2000. Eskom continues to explore opportunities for the joint development of new hydro schemes with DWAF as well as co-operation with neighbouring countries in the field of hydro generation.

Nuclear

The transition from local to international sourcing of nuclear fuel has been smoothly managed and has not impacted upon the production capability.

12. Financial performance

Business efficiency

For the first time since 1992 the business recorded a deterioration in bottom-line productivity performance for the year. During 1998 a decrease in productivity cost the business R268 million (1997: positive R91 million). The main reason for the negative performance was a decrease in electricity sales volumes during the year compared with 1997. The results indicate that the business managed its controllable costs well during a period of negative sales growth. This is reflected in the normal operating costs of the total business where it recorded a small productivity improvement of R13 million (the sum of operating expenses, primary energy and manpower in the following table) with positive contributions coming from labour and maintenance-related activities.

It should also be noted that this is the first year that there has been a positive productivity contribution from the electrification initiative. The main reason for this was the improved management of operating-related resources during the year compared with 1997.

The major contributors to the overall negative productivity performance were capital and the cost of transformation. Negative capital efficiency arose primarily due to increasing generating capacity during a period of negative growth and the investment in electrification, both of which should reap benefits in the long term. The cost of transformation during the year should also result in improved performance in the future.

The results also indicate that the business was deflationary during the year through absorbing an amount of R419 million which has been passed on to the customer through below-inflation electricity price increases.

The productivity results for the year are as follows:

	Budget 1998 Rm	Actual 1998 Rm	Actual 1997 Rm
Productivity – resource view	172	(268)	91
Operating expenses	70	(26)	(27)
Primary energy	(7)	(19)	(74)
Manpower	45	58	74
Other	73	(120)	50
Capital	(9)	(161)	68
Productivity – business view	172	(268)	91
Core business	118	(328)	275
Electrification and takeovers	54	60	(184)
Productivity – capacity and efficiency view	172	(268)	91
Capacity utilisation	309	22	477
Efficiency	(137)	(290)	(386)

Please refer to the productivity statement on page 28.

Financial performance

The financial performance for the year can be summarised as follows:

	Budget 1998	Actual 1998	Actual 1997
Sales, GWh			
Total external sales	175 347	171 145	172 216
Transmission international	3 153	3 197	5 513
Commodity-linked deals	19 653	19 228	19 317
Other distribution	152 541	148 720	147 386
Sales growth, %	1,8	(0,6)	4,3
Revenue, Rm			
Transmission international	252	257	424
Commodity-linked deals	2 049	1 773	1 791
Other distribution	19 645	18 999	18 191
External revenue	21 946	21 029	20 406
Internal revenue	45	42	42
Total revenue	21 991	21 071	20 448
Other results			
Operating expenditure, Rm	15 729	15 162	14 016
Interest income, Rm	n.a[1]	1 156	1 008
Interest expenditure, Rm	n.a[1]	4 315	4 357
Average total cost of electricity, cents per kWh[2]	10,85	10,70	10,08
Net profit on historical cost basis for the year, Rm	2 972	2 750	3 083
Net (loss)/profit on inflation-adjusted basis, Rm	n.a[3]	(632)	322
Real (inflation-adjusted) rate of return, %	n.a[3]	2,49	3,62
Debt-equity ratio	n.a[3]	0,85	1,08
Employees, number	39 684	37 311	39 241

The variances between 1998 actual and budgeted sales and revenue are mainly due to the following:

- Reduction in ferrochrome and aluminium commodity prices
- Milder winter than anticipated
- Low growth in the South African economy

The net profit on an inflation-adjusted basis decreased from R322 million in 1997 to a net loss of R632 million in 1998. The negative revenue variance of R917 million when comparing actual against budget is the main contributor to the large change in the inflation-adjusted profit.

Estimated electrification revenue losses also showed a significant improvement, reducing from 26% in 1997 to 19% in 1998, against a target of 22%.

1. *Net interest income and expenditure budget: R3 290 million.*
2. *Based on external sales.*
3. *No targets set.*

Revenue management

The trade debtors at year end can be summarised as follows:

	Actual 1998 Rm	Actual 1997 Rm
Trade debtors	**1 909**	1 903
Customers identified as problem accounts	**1 781**	1 729
Other	**1 854**	1 788
Provision for arrear and bad debts, including interest	**(1 726)**	(1 614)
Arrear and bad debts for the year	**157**	144
Problem accounts	**134**	142
Other	**23**	2

To assist local authorities with bulk debt accumulated prior to 30 June 1995, Eskom offered local authorities an agreement whereby these arrears would be written off provided current accounts were paid in full. This has had a very positive impact on payment levels. Steps are being taken against those local authorities that have not met their commitments.

Corporate governance and ethics

Eskom continues to comply with the major recommendations of the King Report. The behaviour of employees and management is monitored in terms of the Code of Ethics. Additional information on corporate governance and ethics appears on pages 29 to 31 of this report.

During the year the Eskom Amendment Act was passed which vests the ownership of Eskom's equity in the State. The Act also states that upon the incorporation of Eskom as a company, the State shall be the only member and shareholder of the company.

Risk management

Risk policies are in place to manage treasury and other business-related risks. Treasury-related risks are discussed in note 18 to the financial statements. Eskom's corporate risk services department manages other business-related risks with its mission to provide the most cost-effective risk management solutions in order to reduce incidents and the cost of claims.

Performance of subsidiary companies

The statutory arrangements with regard to the listing of the subsidiaries as public entities in terms of the Public Entities Act are under discussion with relevant parties and will receive attention during 1999.

Rotek Industries (Pty) Limited

The operating results for the year are summarised as follows:

	Budget 1998 Rm	Actual 1998 Rm	Actual 1997 Rm
Revenue	**760**	**775**	681
Eskom	**431**	**506**	414
Non-Eskom	**329**	**269**	267
Profit before interest	**28**	**18**	5
Interest	**(24)**	**(30)**	(14)
(Loss)/profit after interest	**4**	**(12)**	(9)

Rotek Industries (Pty) Limited has four operating divisions involved in the engineering, transport, construction and property sectors. While there has been a significant improvement in the profit before interest between 1997 and 1998, reflecting management's commitment to improve operating results, the performance was still below target levels. The improved operating performance was achieved despite the exceptionally difficult trading environment during 1998, particularly in the transport and construction sectors. During 1998, the building and automotive spares businesses were rationalised in an attempt to improve operating performance levels.

Eskom Finance Company (Pty) Limited

Eskom is committed to enabling all Eskom employees to have access to accommodation. Eskom Finance Company (Pty) Limited grants home loans to Eskom employees at favourable interest rates.

The operating results for the year are summarised as follows:

	Budget 1998 Rm	Actual 1998 Rm	Actual 1997 Rm
Financing income	334	350	321
Financing costs	(326)	(349)	(325)
Net financing income/ (costs)	8	1	(4)
Sundry income less administration costs	(4)	1	7
Profit for the year	4	2	3

The margin between the average weighted financing income and the average weighted financing costs increased from 0,55% in 1997 to 0,57% against a target of 0,70% in 1998. The total value added to Eskom and its employees during 1998 was R102 million against a budget of R84 million. The value added represents the total savings to Eskom and its employees by making use of Eskom Finance Company (Pty) Limited to finance home loans.

Escap Limited

Escap Limited was created in 1993 to reduce Eskom's overall cost of risk and insurance. It formed part of Eskom's risk financing strategy to formalise the insurance function as well as act as a vehicle within which formal reserves and additional insurance capacity could be created.

	Budget 1998 Rm	Actual 1998 Rm	Actual 1997 Rm
Premium income	240	224	199
Reinsurance premium expenditure	(88)	(98)	(84)
Net premium income	152	126	115
Insurance expenditure	(169)	(124)	(134)
Underwriting surplus/(loss)	(17)	2	(19)
Investment income	29	36	35
Taxation	–	(47)	(1)
(Loss)/profit for the year	12	(9)	15
Operating cost as percentage of net premium income	11%	13%	11%

Over the past three years Escap has negotiated stop-loss agreements with the external reinsurance market as well as the wholly owned reinsurance subsidiary Gallium Insurance Company Limited, to limit the amount of claims that the Eskom General Insurance Fund (EGIF) and Escap will retain. These stop-loss limits have ensured that EGIF and Escap are able to limit the claims expense to an acceptable level.

Information management

Eskom has identified the management of information as a strategic issue. Considerable expenditure has been invested in a number of information technology initiatives to date. The most significant information technology initiative is:

Year 2000

The testing and correction of non-compliant applications, systems and embedded technical systems has been the major focus area of the Year 2000 programme during 1998. Risk areas were identified and are being addressed independently of one another.

The correction of business and management information systems is on track. The average actual completion reported, compared with the 1998 plan, is 99%. The targeted completion date for these systems is March 1999.

The progress on group own, non-strategic systems is reported at an average 83% completion against the 1998 target. Although some projects have been delayed, the projects are progressing well according to revised plans.

The embedded technical systems are devices used to control, monitor or assist the operation of plant and equipment. The average actual reported project completion is 94% compared with the 1998 plan. The target date set for year 2000 compliance for mission critical systems, which affect the continuity of supply, is June 1999.

The business partners area addresses the risks to Eskom arising from the failure of external organisations to deal with the year 2000 problem within their own businesses. Risks posed by suppliers have been identified and plans to deal with them are set to be completed by the end of March 1999. Risks pertaining to customers will be reviewed during the first six months of 1999. Eskom has adopted a policy of sharing its knowledge and experience with business partners, but is not in a position to provide direct assistance.

Ongoing independent assessments during the year reported that Eskom on the whole appears to have been diligent in its management of the project. Concerns identified in the assessments will be addressed and risks will be reassessed on an ongoing basis.

Monthly progress reports are tabled at the subcommittee meetings responsible for continuity of electricity supply and information management. Progress is also reported to the Management Board and the Electricity Council on a regular basis.

At the end of 1998, R35 million (1997: R11 million) of the total estimated direct project cost of R107 million had been spent.

Other

Regulation

Eskom continues to provide information requested by the NER in terms of the electricity supply licences issued to Eskom's Generation, Transmission and Distribution businesses.

Special emphasis has been placed by the Electricity Council's Regulatory and Structure Committee on liaising and interacting with the NER. The scope of the committee includes all aspects of the electricity supply industry restructuring. The committee commented on behalf of Eskom on the White Paper on Energy Policy and the restructuring issues dealt with therein.

For the first time, a meeting was held during 1998 between the Eskom Electricity Council and the NER Board at which issues of mutual concern were addressed. It was agreed that interaction between members of the Electricity Council and the NER Board should continue.

The intent of a competitive market environment as expressed in the Energy White Paper will directly impact Eskom. Appropriate response strategies are being developed.

Tariff restructuring

Tariff restructuring is primarily driven by Eskom's objective of making tariffs more cost reflective. In recognition of significant cross-subsidies embedded in Eskom's tariffs, the restructuring of tariffs continued during 1998. A cost of supply study was conducted during the year and is in the process of being finalised which provides direction towards the setting of targets, within socio-economic constraints, for the continuation of tariff restructuring. The main

results of tariff restructuring will be the reduction of prices for high-voltage supplies and the increase of prices for subsidised rural and residential customers.

INFORMATION REQUIRED UNDER SCHEDULE 4 OF THE COMPANIES ACT

Share capital and dividends

Eskom does not have share capital and, as a result, no dividends have been paid or proposed. Equity consists of reserves.

Capital expenditure

Net capital expenditure on property, plant, equipment and intangible assets of R4 521 million (1997: R5 444 million) was partly made up of expenditure of R832 million (1997: R1 469 million) on Majuba power station and R845 million (1997: R867 million) on electrification.

Subsidiaries, associates, joint ventures and investments

Details of Eskom's principal subsidiaries, significant associates and joint ventures, as well as unlisted investments, are set out in schedule 1 on page 76.

Directorate and secretariat

The names of the directors appear on pages 4 to 7 and the address of Eskom's secretariat on page 5.

Changes in the composition of the Electricity Council and the Management Board appear on pages 4 to 7.

Post balance sheet events

No significant events occurred between the year end and the date of this report.

Audit committee information

The names of audit committee members are reflected on pages 4 and 5. During 1998, six meetings took place.

Balance sheet

at 31 December

	Notes	1998 Rm	1997 Rm
ASSETS			
Non-current assets		**59 619**	56 014
Property, plant and equipment	2	**49 917**	48 678
Intangible assets	3	**245**	154
Future fuel supplies	4	**2 921**	2 716
Long-term financial market investments	5	**3 936**	2 932
Other investments	6	**2 600**	1 534
Current assets		**10 356**	9 269
Inventories	7	**1 873**	1 609
Trade and other receivables	8	**3 555**	3 238
Short-term financial market investments	5	**4 928**	4 422
Total assets		**69 975**	65 283
EQUITY AND LIABILITIES			
Capital and reserves		**27 971**	25 029
Non-distributable reserve		**245**	53
Insurance reserve		**150**	150
Accumulated profit		**27 576**	24 826
Non-current liabilities		**29 323**	28 033
Long-term financial market liabilities	5	**26 394**	26 054
Long-term provisions	9	**2 929**	1 979
Current liabilities		**12 681**	12 221
Trade and other payables	10	**5 073**	3 012
Short-term financial market liabilities	5	**6 402**	8 291
Provisions		**1 206**	918
Total equity and liabilities		**69 975**	65 283

Income statement

for the year ended 31 December

	Notes	1998 Rm	1997 Rm
Revenue	14	**21 071**	20 448
Operating expenditure	15	**(15 162)**	(14 016)
Net operating income		**5 909**	6 432
Interest income	16	**1 156**	1 008
Interest expenditure	17	**(4 315)**	(4 357)
Net profit for the year		**2 750**	3 083

Cash flow statement

for the year ended 31 December

	Notes	1998 Rm	1997 Rm
Cash flows from operations		**10 325**	6 789
Cash generated by trading operations	20	**12 573**	9 555
Interest received	21	**1 714**	1 446
Interest paid	22	**(3 962)**	(4 212)
Cash utilised in investment activities	23	**(6 154)**	(5 836)
Cash effects of financing activities		**(3 228)**	(468)
Debt raised		**596**	2 703
Debt repaid		**(3 481)**	(3 100)
Decrease/(increase) in long-term financial market investments		**(343)**	(71)
Net increase in cash and cash equivalents for the year	24	**943**	485

Statement of changes in equity

for the year ended 31 December

	Non-distributable reserve Rm	Insurance reserve Rm	Accumulated profit Rm	Total Rm
Balance at 31 December 1996	–	150	21 743	21 893
Net surplus on the take-over of electricity operations in the former TBVC[1] states and SGTs[2] not recognised in the income statement	57	–	–	57
Non-distributable reserve amortised during the year	(4)	–	–	(4)
Net profit for the year	–	–	3 083	3 083
Balance at 31 December 1997	53	150	24 826	25 029
Net surplus on the take-over of electricity operations in the former TBVC[1] states and SGTs[2] not recognised in the income statement	**234**	–	–	**234**
Non-distributable reserve amortised during the year	**(42)**	–	–	**(42)**
Net profit for the year	–	–	**2 750**	**2 750**
Balance at 31 December 1998	**245**	**150**	**27 576**	**27 971**

The non-distributable reserve arises from the take-over of the electricity operations in the former TBVC[1] states and SGTs[2].

On 1 January 1997 the assets and liabilities of Bophuthatswana Electricity Corporation were taken over by Eskom for no consideration, and on 1 January 1998 the assets and liabilities of Transkei Electricity Corporation were taken over by Eskom for no consideration.

1. *Transkei, Bophuthatswana, Venda and Ciskei.*
2. *Self-governing territories.*

1. ACCOUNTING POLICIES

Basis of preparation

In terms of the Eskom Act of 1987, and as determined by the Electricity Council, the financial statements are prepared in accordance with the applicable requirements of the Companies Act of 1973 and conform, in all material respects, with South African generally accepted accounting practice and, except for the restatement of foreign currency financial instruments which will be considered for implementation with effect from 1 January 1999, with International Accounting Standards. The accounting policy governing foreign currency financial instruments is stated below (refer note 5 for disclosure on financial instruments).

The financial statements are prepared on the historical cost basis, except for financial instruments held for trading purposes, which are stated at fair value (market value or, where not listed, at valuation).

Investments in subsidiary, associate and joint venture companies are not consolidated or equity accounted as their assets and operating results are insignificant in relation to Eskom's assets and information relating to unconsolidated subsidiary companies is disclosed separately in schedule 1.

The following principal accounting policies are consistent, in all material respects, with those applied during the previous year.

Where necessary for disclosure purposes, comparative figures have been reclassified and restated.

Property, plant and equipment

Property, plant and equipment are stated at cost of acquisition or construction, less depreciation thereon.

Land is not depreciated. Plant at mothballed power stations is also not being depreciated.

Other property, plant and equipment in commission are depreciated on the straight-line basis over their estimated useful lives, which are as follows:

Class	*Years*
Buildings and facilities	10 to 40
Plant – Generation	25 or 35
– Transmission	25
– Distribution	
Electrification	15
Other	25
Test and telecommunication equipment	3 to 5
Equipment and vehicles	1 to 10

Works under construction are stated at cost, which includes all costs necessarily incurred to bring plant to the condition and location essential for its intended use. Costs include overheads and borrowing costs, where applicable.

The cost of renewal and maintenance of assets is expensed as incurred. Where the life of an asset is extended, such costs are capitalised and depreciated over the adjusted useful life of the asset.

Construction materials are stated at weighted average cost.

Intangible assets

Rights are fully depreciated on acquisition.

Computer software is depreciated on the straight-line basis over its estimated useful life of three to five years.

Capitalisation of net borrowing costs

Net borrowing costs attributable to the construction of qualifying assets are capitalised over the period of construction to the extent that the assets are financed by financial instruments.

Leased assets
Assets subject to finance lease agreements are capitalised at their cash cost equivalents, and the corresponding liabilities are recognised. The assets are depreciated on the straight-line basis over their estimated useful lives, as indicated in the property, plant and equipment accounting policy. Lease finance charges are included in interest expenditure as they become due.

Future fuel supplies
Certain long-term fuel supply contracts require advance payments or loans to suppliers.

Nuclear fuel
Nuclear fuel consists of fuel assemblies in the process of fabrication.

Nuclear fuel is valued at cost on the first-in-first-out basis and includes net borrowing costs, which are capitalised during the fabrication period.

Coal
Advances to suppliers, together with related borrowing costs thereon, are deferred and amortised against the cost of coal supplies on the basis of quantities of coal burnt.

Financial instruments
Derivative financial instruments
The premiums received or paid on derivative financial instruments designated as hedges are amortised over the lives of the instruments. Profits and losses on these instruments are deferred and recognised on the same basis as the hedged transactions.

Derivative financial instruments held for trading purposes are marked to market, and the resultant profits and losses are included in interest expenditure.

Financial market investments
Financial market investments are stated at cost, which is adjusted for amortised discount on the yield to redemption method, where applicable. Profits and losses are recognised on realisation.

Trading assets and liabilities are stated at fair value. The fair value is determined by marking to market these positions using independently sourced market rates.

Financial market liabilities
Locally issued bonds and other local and foreign debt issued for non-trading purposes are recorded at the consideration received and adjusted for the amortised discounts or premiums. The discounts or premiums are amortised over the period of the relevant debt using the yield to redemption method.

Locally issued bonds and other local debt issued or held for trading purposes are stated at fair value. Trading profits and losses, with the exception of market-making debt, are included in interest. Profits and losses on market-making debt are recognised over the period to redemption of the most actively traded bond.

Foreign currency financial instruments
Transactions in foreign currencies are recorded at the spot rate on the transaction date or at the spot rate specified in the related forward exchange contract.

Monetary assets, liabilities and commitments in foreign currencies are translated at the forward rates of the underlying forward exchange contracts or at the rates of exchange ruling at year end. The unamortised forward exchange contract costs are included in foreign debt.

Forward exchange contract costs are recognised over the periods of the related contracts. These costs, as well as profits and losses on foreign currency transactions, are included in interest expenditure.

Unlisted investments
Unlisted investments are stated at cost less amounts provided for diminution in value.

Inventories

Coal, maintenance and consumables

Inventories are valued at the lower of cost and net realisable value after taking into account provision for obsolescence, where appropriate. Cost is determined on the weighted average basis.

Nuclear fuel

Nuclear fuel consists of raw materials, fabricated fuel assemblies and fuel in reactors.

Nuclear fuel is valued at cost on the first-in-first-out basis and includes net borrowing costs.

Trade receivables

Bad debts are written off and provision is made for doubtful debts.

Take-overs of electricity operations in the former TBVC[1] states and SGTs[2]

Electricity operations in the former TBVC[1] states and SGTs[2] taken over by Eskom are accounted for on the purchase method. The results of the operations of the acquired entity are incorporated from the date of take-over. The assets, other than network assets, and liabilities are valued at fair value. Network assets are valued at the estimated or actual historical cost of the assets, reduced by the accumulated depreciation for the expired portion of the useful life of the assets at take-over date in terms of the Eskom asset useful life policy.

Any excess of the value of the net assets acquired over the cost of the take-over is described as a non-distributable reserve. Any excess of the cost of the take-over, compared with the value of the net assets acquired, is described as goodwill.

Goodwill and non-distributable reserves arising on acquisition are written off to the income statement over the life of the assets, on a straight-line basis, over a period not exceeding 20 years.

Insurance reserve

The insurance reserve is held to cover potential, abnormal self-insured losses not covered externally. The value of the reserve is based on management's assessment of the possible exposure.

Decommissioning and nuclear waste management

Nuclear plant

A provision is made, over the life of the plant, for the decommissioning of nuclear plant and the management of spent nuclear fuel assemblies and radioactive waste. The annual charge to the income statement is based on the latest available cost information and is included in operating expenditure.

Other plant

Provision is made, over the estimated remaining life of the plant, for the costs of decommissioning other plant if it is expected that such costs will exceed the net proceeds from the disposal of associated land and the salvage value of the plant.

Cross-border leases

Gains realised on cross-border lease transactions are deferred. These gains are amortised over the period that Eskom is exposed to risk, and are allocated to the income statement on the same basis as the risk exposure profile.

Retirement benefits

Retirement benefits are provided for all employees through the Eskom Pension and Provident Fund. Contributions to the Fund are based on a percentage of salaries, and are expensed in the period in which they are incurred. Gratuities paid to retiring employees are expensed in the period in which they are paid.

1. Transkei, Bophuthatswana, Venda and Ciskei.
2. Self-governing territories.

Post-retirement medical benefits are provided for employees through the various medical aid schemes. Provision is made for such benefits by charging to the income statement annually the estimated costs over the expected service of the members of such schemes based on the assessment of independent actuaries.

The estimated present value of the unprovided anticipated expenditure at the beginning of 1994, for both in-service and continuation members inclusive of interest, is being provided for over a period not exceeding 10 years.

Revenue

Revenue comprises electricity revenue and excludes value added tax. Revenue is recognised at the time customers are invoiced.

Interest income

Interest income comprises interest receivable on loans to subsidiary and associate companies and income from financial market investments.

Research and development

All research costs are charged to operating expenditure when incurred. Development costs are also expensed when incurred, except to the extent that future benefits deriving from those costs are expected beyond reasonable doubt to exceed those costs, in which case they are capitalised and amortised over the period of the expected benefits.

2. PROPERTY, PLANT AND EQUIPMENT

	Cost Rm	Accumulated depreciation Rm	Book value Rm
1998			
Land	**246**	–	**246**
Buildings and facilities	**2 464**	**1 096**	**1 368**
Plant – Generation	**38 119**	**14 322**	**23 797**
– Transmission	**7 730**	**2 657**	**5 073**
– Distribution	**16 883**	**4 752**	**12 131**
Electrification	**5 544**	**1 198**	**4 346**
Other	**11 339**	**3 554**	**7 785**
Test and telecommunication equipment	**1 234**	**807**	**427**
Equipment and vehicles	**2 362**	**1 643**	**719**
Other leased equipment	–	–	–
Total in commission	**69 038**	**25 277**	**43 761**
Plant at mothballed power stations	**2 015**	**532**	**1 483**
Works under construction	**4 611**	–	**4 611**
Construction materials	**62**	–	**62**
	75 726	**25 809**	**49 917**
1997			
Land	250	–	250
Buildings and facilities	2 391	1 027	1 364
Plant – Generation	35 751	12 716	23 035
– Transmission	7 206	2 342	4 864
– Distribution	14 816	3 858	10 958
Electrification	4 757	852	3 905
Other	10 059	3 006	7 053
Test and telecommunication equipment	1 179	684	495
Equipment and vehicles	2 127	1 387	740
Other leased equipment	74	66	8
Total in commission	63 794	22 080	41 714
Plant at mothballed power stations	1 881	545	1 336
Works under construction	5 483	–	5 483
Construction materials	145	–	145
	71 303	22 625	48 678

	1998 Rm	1997 Rm
2. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)		
Reconciliation of movements		
Book value at beginning of the year	**48 678**	46 272
Additions	**4 533**	5 484
Disposals	**(69)**	(73)
Depreciation	**(3 225)**	(3 005)
Book value at end of the year	**49 917**	48 678

Net borrowing costs are capitalised at the rate of 13,73% (1997: 13,19%) to the extent that assets under construction are financed by financial instruments.

Details of land and buildings are available at the head office.

Included in generation plant are assets leased to an international lessor and leased back under cross-border lease agreements with a book value of **5 968** –

The present value of lease and leaseback commitments was settled in full at commencement of the transactions.

The cross-border lease transactions comprise primary lease terms of 18,8 and 22 years as well as renewal lease terms of 15,8 and 13 years respectively. The renewal leases will be at specified rentals on terms similar to the primary leases. Options at the end of the primary lease terms are either to purchase the rights of the lessor over the assets at a predetermined fixed price or to return the assets to the lessor at no cost but on condition that the lessor may require that the renewal lease be exercised. At the end of the renewal leases, the leases will expire and the assets will return to Eskom.

Valuation of assets

Eskom's annual revenue requirement is determined in accordance with its financial policy described in the Chief Executive's report and on the basis of the total revenue streams from all customer categories as a whole. Cross-subsidisation, therefore, exists between certain customer categories, depending on customers' electricity consumption levels, geographical location and voltage supply levels. On this basis, the directors believe that no adjustment is required to the value of assets relating to any particular customer category, since Eskom fully recovers all costs of supplying electricity to its customer base as a whole and earns an appropriate return on assets.

3. INTANGIBLE ASSETS

	Cost Rm	Accumulated depreciation Rm	Book value Rm
1998			
Rights	**156**	**155**	**1**
Computer software	**279**	**35**	**244**
	435	**190**	**245**
1997			
Rights	142	142	–
Computer software	176	22	154
	318	164	154

	1998 Rm	1997 Rm
Reconciliation of movements		
Book value at beginning of the year	**154**	62
Additions	**137**	128
Disposals	**(3)**	–
Depreciation	**(43)**	(36)
Book value at end of the year	**245**	154

4. FUTURE FUEL SUPPLIES

Coal	**2 734**	2 592
Nuclear	**187**	124
	2 921	2 716

5. FINANCIAL INSTRUMENTS

5.1 Financial market investments

Eskom's funding is managed in a single pool of financial market assets and liabilities. Financial market investments are primarily held for liquidity and prefunding activities.

	1998 Total Rm	1997 Short-term Total Rm
Liquidity investments	73	546
Other securities	85	308
Trading account assets at fair value	4 103	2 915
Jobbing	409	1 765
Repurchase agreements	2 261	231
Market-making	1 433	919
Cash and bank	138	95
Other deposits	529	558
	4 928	4 422

Fair value of financial market investments

5.2 Financial market liabilities

Local debt	5 599	7 550
Issued bonds	184	2 755
Other issued securities	279	(31)
Issued money market securities	3 605	1 988
Trading account liabilities at fair value		
Jobbing	18	1 834
Repurchase agreements	1	149
Market-making	1 512	855
Foreign debt	803	741
US dollar	444	498
German mark	325	200
Japanese yen	–	–
Other	34	43
	6 402	8 291
Net financial market liabilities and investments	1 474	3 869

5.3 Key interest rate risk indicators for non-trading instruments

The ratio for domestic to foreign interest rate mix	69:31	–[1]
The ratio for fixed to floating interest rate mix	90:10	–[1]

1. *Comparatives not available.*

After 1 year within 5 years Rm	Long-term 5 to 10 years Rm	After 10 years Rm	1998 Total Rm	1997 Total Rm	1998 Range of yields %
631	**748**	**1 999**	**3 378**	2 902	**12,87 – 20,10**
558	**–**	**–**	**558**	30	
–	**–**	**–**	**–**	–	
–	**–**	**–**	**–**	–	
–	**–**	**–**	**–**	–	
–	**–**	**–**	**–**	–	
–	**–**	**–**	**–**	–	**17,75 – 18,25**
–	**–**	**–**	**–**	–	**16,48 – 22,67**
1 189	**748**	**1 999**	**3 936**	2 932	
			8 890	*7 434*	
3 760	**1 867**	**13 951**	**19 578**	19 720	
2 968	**861**	**11 595**	**15 424**	15 956	**2,56 – 17,05**
792	**1 006**	**2 356**	**4 154**	3 703	**11,90 – 16,52**
–	**–**	**–**	**–**	61	**16,95 – 22,75**
–	**–**	**–**	**–**	–	
–	**–**	**–**	**–**	–	
–	**–**	**–**	**–**	–	
5 539	**1 277**	**–**	**6 816**	6 334	
1 587	**2**	**–**	**1 589**	1 679	**5,48 – 13,00**
583	**55**	**–**	**638**	801	**4,06 – 11,00**
3 311	**1 189**	**–**	**4 500**	3 750	**3,10 – 4,65**
58	**31**	**–**	**89**	104	**4,00 – 8,52**
9 299	**3 144**	**13 951**	**26 394**	26 054	
			22 458	23 122	

		1998 Rm	1997 Rm
5.	**FINANCIAL INSTRUMENTS (CONTINUED)**		
5.4	The average annual rate of interest on net financial market liabilities and investments amounted to, %	**14,53**	15,30
5.5	The weighted average maturity period of financial market instruments is, years	**8,89**	9,03
	Short-term financial market liabilities include credits and short-term loans of a revolving nature amounting to, Rm	**3 859**	4 159
5.6	Fair value information Fair value information for portfolios where the intention is to hold the financial market liabilities and investments to maturity is only prepared on a pool basis for risk assessment and risk management purposes. It is impractical to determine the fair value of these instruments in their respective categories for financial accounting purposes.		
5.7	The nominal value of all locally issued Eskom bonds is, Rm:		
	Authorised	**56 402**	62 685
	Issued	**18 483**	23 306
5.8	Financial market liabilities and interest thereon are secured by a first claim against revenue and assets.		
5.9	A portion of foreign debt is guaranteed by the Government of the Republic of South Africa.		
5.10	Derivatives and forward exchange contracts Derivatives and forward exchange contracts are primarily used for risk management purposes. In particular, they are used to hedge Eskom's exposure to domestic and foreign interest rate risk, foreign exchange risk and commodity price risk. In addition, derivatives are transacted to a limited extent for trading purposes. These trading positions are controlled within very tight limits and within the parameters of Eskom's risk management policies. Their use is monitored on a real time basis by an independent compliance function. The range of derivative instruments utilised includes domestic and foreign interest rate swap agreements, forward rate agreements, forward exchange contracts, commodity option contracts, bond option contracts and commodity futures contracts.		

		1998 Rm	1997 Rm
5.10	Derivatives and forward exchange contracts (continued) The table below details derivative values, which are included in financial market assets and liabilities above:		
	Derivatives used for risk management purposes at amortised historic cost (assets/(liabilities))		
	Interest rate products	(2)	–
	Foreign exchange products	1 959	2 306
	Commodity products	(4)	(2)
		1 953	2 304
	Derivatives used for trading purposes at fair value (assets/(liabilities))		
	Interest rate products	(17)	4
6.	OTHER INVESTMENTS		
	Unlisted investments (Refer schedule 1)	2 563	1 490
	Other	37	44
		2 600	1 534
7.	INVENTORIES		
	Coal	812	465
	Nuclear	491	555
	Maintenance and consumables	570	589
		1 873	1 609
	Maintenance and consumables are carried at net realisable value		
8.	TRADE AND OTHER RECEIVABLES		
	Trade	1 909	1 903
	Interest receivable	1 146	1 017
	Other	500	318
		3 555	3 238

	1998 Rm	1997 Rm
9. LONG-TERM PROVISIONS		
Decommissioning and nuclear waste management		
Nuclear plant		
Balance at beginning of the year	940	788
Provision for the year	111	185
	1 051	973
Expenditure incurred	13	33
Balance at end of the year	1 038	940
Other plant		
Balance at beginning of the year	464	385
Provision for the year	84	83
	548	468
Expenditure incurred	5	4
Balance at end of the year	543	464
Post-retirement medical benefits		
Balance at beginning of the year	575	366
Provision for the year	317	236
	892	602
Expenditure incurred	49	27
Balance at end of the year	843	575
Gains on cross-border leases		
Arising during the year	392	–
Amortised during the year	18	–
Balance at end of the year	374	–
The gains arise from benefits realised through cross-border lease transactions over certain generating plant. The present value of the lease and leaseback commitments were settled in full on commencement of the transactions and gains resulted. The gains will be recognised as income in accordance with the disclosed accounting policy.		
Letter of credit facility		
Arising during the year	131	–
Revaluation	5	–
Foreign exchange profit	10	–
	146	–
Payments during the year	15	–
Balance at end of the year	131	–
Total long-term provisions	2 929	1 979

	1998 Rm	1997 Rm
9. LONG-TERM PROVISIONS (CONTINUED)		
The letter of credit facility arises from fees payable to banks that are providing letter of credit facilities to cover any possible cancellation costs in terms of the cross-border lease transactions over the period of the leases. The letter of credit fees are influenced by the rates charged by banking institutions over time. The calculation of the value of the letters of credit is influenced by pledged securities that are marked to market. These US dollar denominated future cash flows have been discounted to arrive at a present value of the total provision required over the lease term.		
10. TRADE AND OTHER PAYABLES		
Trade and other payables	**3 777**	1 645
Interest payable	**1 296**	1 367
	5 073	3 012
Included in trade and other payables is an amount of R2 124 million (1997: R75 million) relating to unsettled financial market deals that were settled within the first two weeks after year end.		
11. COMMITMENTS		
11.1 Capital expenditure		
Estimated capital expenditure	**3 285**	4 790
Contracted	**1 557**	2 602
Approved, not yet contracted	**1 728**	2 188
This expenditure will be financed from debt and internally generated funds and is expected to be incurred as follows:	**3 285**	4 790
Within one year	**2 283**	3 099
Thereafter	**1 002**	1 691
11.2 Derivative financial instruments		
The range of derivative instruments utilised includes domestic and foreign interest rate swap agreements, forward rate agreements, forward exchange contracts, commodity option contracts, bond option contracts and commodity futures contracts.		
No material losses are anticipated as a result of these transactions.		

		1998 Rm	1997 Rm
11. COMMITMENTS (CONTINUED)			
11.3	Supply of water Eskom has entered into long-term agreements with the Department of Water Affairs and Forestry to reimburse the department for the cost incurred in supplying water to Eskom. This cost is regarded as part of the cost of primary energy and is included in operating expenditure.		
11.4	Coal Eskom has entered into long-term agreements with suppliers for coal purchases. The annual cost of coal is regarded as part of primary energy and is included in operating expenditure.		
12. CONTINGENT LIABILITIES			
12.1	Eskom has underwritten the solvency margin of its subsidiary company, Escap Limited, in accordance with the requirements of the Insurance Act. There was no solvency shortfall at year end.		
12.2	Eskom has guaranteed any amounts that may become due and payable by Gallium Insurance Company Limited in terms of its reinsurance agreement.	**120**	120
12.3	Eskom has indemnified the Eskom Pension and Provident Fund against any loss resulting from the negligence, dishonesty or fraud of the Fund's officers or trustees.		
12.4	Guarantees and suretyship, issued on behalf of group companies and third parties, amount to	**122**	154
12.5	Cross-border lease transactions Eskom has provided collateral security in the form of letters of credit from banks in respect of the cross-border lease transactions. The collateral security has been provided to hedge the beneficiary against its exposure to the loss of its remaining investment in the cross-border leases and the cost of replacing the transactions in the market if the lease and leaseback transactions are cancelled. Eskom is ultimately responsible for meeting any potential losses that may arise to the banks should a cancellation event occur. A cancellation event will occur if there is an event of default, an event of loss of the asset or economic obsolescence of the asset.		

		1998	1997
12.	**CONTINGENT LIABILITIES (CONTINUED)**		
12.5	Cross-border lease transactions (continued) The calculation of the beneficiary's exposure is influenced by pledged securities in the form of US treasury notes that are marked to market semi-annually. The exposure amount is adjusted accordingly. Eskom has guaranteed the payment and facility-related obligations of a special purpose company, established as part of the cross-border lease structures, in favour of all parties to whom the company has such obligations in terms of the lease and leaseback operative documents. At 31 December, the amount guaranteed is, US dollar millions	**199**	–
13.	**RETIREMENT BENEFITS**		
13.1	The Eskom Pension and Provident Fund, a defined benefit fund, is registered in terms of the Pension Funds Act, 1956. Contributions comprise 20,8% of pensionable emoluments of which members pay 7,3%. The Fund is actuarially valued at intervals of not more than three years. Any deficit will be funded by increases in future contributions or reductions in benefits, as determined by the Fund's Trustees, in accordance with the Fund's rules. The last valuation was performed at 30 June 1998 when the consulting actuaries reported that the Fund was in a sound financial position. The actuarial present value of promised retirement benefits at 30 June 1998 was R12 085 million (1997: R10 512 million), while the fair value of the Fund's assets at this date was R12 337 million (1997: R11 208 million), indicating an estimated surplus of R252 million (1997: R696 million). The next valuation will be performed on or before 30 June 1999. The principal actuarial assumptions used for actuarial valuation purposes were an excess of interest rates over salary and pension increases of: Employees, % Pensioners, %	**4,00** **4,50**	3,00 4,50

	1998 Rm	1987 Rm
13. RETIREMENT BENEFITS (CONTINUED)		
13.2 Eskom has anticipated expenditure in terms of continued contributions to medical aid subscriptions in respect of employees that retire. The estimated present value of the anticipated expenditure amounting to R1 479 million (1997: R1 186 million), for both in-service and continuation members, was recalculated by independent actuaries during 1998. The estimated present value of the unprovided anticipated expenditure at the beginning of 1994, inclusive of interest, is being provided for over a period not exceeding 10 years from 1994. An independent actuarial valuation will be performed at intervals of not more than three years.		
The unprovided portion amounts to	**636**	611

14. COMMODITY-LINKED PRICING AGREEMENTS

Eskom has entered into a number of long-term commodity-linked pricing agreements to supply electricity to the aluminium and ferrochrome industries in order to increase Eskom's sales base. These agreements, which constitute approximately 11,3% (1997: 11,2%) of Eskom's sales, link sales revenue to the international commodity (e.g. ferrochrome and aluminium) prices and the rand/dollar exchange rate, in addition to the normal pricing determinants.

The basic principle contained in these agreements is that, over the duration of the contracts, the revenue generated by Eskom should approximate the revenue generated under a standard industrial tariff agreement. Electricity tariffs charged to ferrochrome producers fluctuate between predetermined contractual minimum and maximum levels. The agreements for ferrochrome and aluminium are for a maximum period of 7 and 25 years respectively.

The average revenue expressed in cents per kilowatt-hour for 1998 under these contracts amounted to approximately 91% (1997: 95%) of the revenue that would have been generated under standard industrial tariff agreements.

15. OPERATING EXPENDITURE

	1998 Rm	1997 Rm
Primary energy	**4 368**	4 007
Materials	**368**	323
Contracts	**1 411**	1 306
Staff costs	**4 634**	4 360
Salaries and other staff costs	**3 858**	3 667
Pension contributions	**313**	318
Post-retirement medical benefits	**317**	236
Training and development (only manpower-related costs)	**146**	139
Depreciation	**3 268**	3 041
Rights	**23**	23
Computer software	**20**	13
Buildings and facilities	**83**	91
Plant	**2 693**	2 460
Test and telecommunication equipment	**132**	157
Equipment and vehicles	**317**	284
Leased equipment	**–**	13
Amortisation of non-distributable reserve arising from the take-over of operations in former TBVC[1] states and SGTs[2]	**(42)**	(4)
Managerial, technical and other fees	**62**	49
Net profit on disposal of property, plant, equipment and intangible assets	**(77)**	(95)
Arrear and bad debts	**157**	144
Research and development	**105**	85
Contribution to Eskom Development Foundation	**150**	–
Contribution to Business Initiative for Job Creation and Human Capacity Development	**50**	–
Decommissioning and nuclear waste management provision	**195**	268
Nuclear plant	**111**	185
Other plant	**84**	83
Auditors' remuneration	**8**	6
Audit	**6**	5
Other	**2**	1
Directors' emoluments	**16**	12
Other operating expenditures	**489**	514
Total operating expenditure	**15 162**	14 016

1. *Transkei, Bophuthatswana, Venda and Ciskei.*
2. *Self-governing territories.*

	1998 Rm	1997 Rm
15. OPERATING EXPENDITURE (CONTINUED)		
Directors' emoluments	**16**	12
Executive directors		
Basic remuneration	**6**	5
Other benefits	**2**	2
Performance-related remuneration	**6**	4
	14	11
Non-executive directors		
Services as directors	**2**	1

Included in executive directors' other benefits are Eskom's contributions to the Eskom Pension and Provident Fund, the Executive Group Life Insurance Scheme and medical aid contributions.

16. INTEREST INCOME		
Interest and discount amortised on financial market investments	**803**	812
Interest receivable from subsidiary and associate companies	**330**	191
Net income from financial market trading activities	**23**	5
	1 156	1 008
17. INTEREST EXPENDITURE		
Interest and discount amortised	**4 617**	4 822
Locally issued bonds	**3 033**	3 130
Other local debt	**349**	405
Foreign debt	**1 235**	1 287
Other net financial profits and losses		
Exchange differences	**21**	(10)
Amounts capitalised	**(323)**	(455)
	4 315	4 357

18. MARKET RISK MANAGEMENT

The objective of Eskom's market risk management is to ensure that Eskom and its customers are not exposed to undue financial risk. The management of market risk takes place within Eskom's centralised treasury function and adheres substantially to the G30[1] recommendations and in particular to the requirement that the functions of risk assessment and risk management be completely segregated.

1. *Group of 30 leading international bankers.*

18. MARKET RISK MANAGEMENT (CONTINUED)

Risk assessment

The risk assessment function takes responsibility for the identification, measurement and monitoring of market risk. By ensuring that the necessary processes and tools are in place, the risk assessment function seeks to identify potential risks at an early stage so that the information can be supplied timeously to the risk management committee. Advanced risk evaluation procedures are used and, amongst other indicators, internationally recognised methodologies of Value at Risk are used extensively. The revaluation rates and prices utilised for risk and accounting evaluations are obtained from independent external sources.

To ensure impartiality, the risk assessment and compliance functions within the centralised treasury have direct access and reporting responsibility to the executive director of Finance.

Risk management

Based on the information supplied by the risk assessment function, the risk management committee meets regularly to review and, if appropriate, approve the implementation of optimal strategies for the effective management of Eskom's commodity, liquidity, credit, currency and interest rate risks.

Market risks and broad management strategies

Commodity risk

Commodity risk originates from Eskom's use of commodities as inputs to the business as well as commodity-linked tariff agreements exposing it to commodity risk on the income side of the business. Where necessary, Eskom utilises derivative instruments, including options, futures and forward agreements, to manage the exposure to these commodities.

Liquidity risk

Liquidity risk arises primarily from an uncertainty in revenue flows as well as Eskom's commitment to act as a market-maker in its own debt instruments. Eskom's strategy is to maintain a satisfactory call account balance as well as an adequate liquidity reserve portfolio consisting of liquid Government and Government-guaranteed assets.

Credit risk

The risk of counterparty failure is managed by setting exposure limits for each counterparty. This process is evaluated and managed by placing reliance on independent rating agencies. A credit committee, which is chaired by the executive director of Finance, reviews and approves these limits on a quarterly basis.

	1998	1997
18. MARKET RISK MANAGEMENT (CONTINUED)		
International Swap Dealers Association (ISDA) netting agreements are in place with all Eskom's major counterparties.		
The credit exposures by rating at 31 December were:		
RSA government, %	**28**	45
A1+, %	**67**	48
Other, %	**5**	7
	100	100

Currency risk

Currency risk arises primarily from foreign borrowings, imported components and electricity sales in foreign currencies. Management follows a conservative approach to currency risk and therefore forward exchange contracts, and, to a limited extent, currency options are used to hedge substantially all known foreign exchange exposures.

Interest rate risk

Interest rate risk arises from the repricing of Eskom's forward cover and floating rate debt as well as incremental funding and roll-over of maturing debt. Eskom's fixed/floating interest rate ratio approximates 90:10, indicating limited exposure to interest rate fluctuations. Derivative instruments which are utilised to maintain this position include interest rate swaps and forward rate agreements.

Funding requirement

Eskom's requirements for external funding have been decreasing steadily over recent years, and it is anticipated that this trend will continue in the near future. However, Eskom's future funding requirement may change, depending on the future financial framework (with respect to taxation and dividend payments) still to be finalised with Government and the impact, if any, of the restructuring of the electricity supply industry. Eskom borrowed R1 870 million (1997: R944 million) from the domestic and foreign markets during 1998.

19. TAXATION

In terms of Section 10(1)(cA)(i) of the Income Tax Act, Eskom is exempt from income tax.

	1998 Rm	1997 Rm
20. CASH GENERATED BY TRADING OPERATIONS		
Net operating income	**5 909**	6 432
Non-cash items	**4 695**	3 773
Depreciation	**3 268**	3 041
Fuel		
Nuclear fuel	**226**	224
Coal	**136**	110
Net profit on disposal of property, plant, equipment and intangible assets	**(77)**	(95)
Net decommissioning and nuclear waste management provision		
Nuclear plant	**98**	152
Other plant	**79**	79
Movement on non-distributable reserve arising from the take-over of electricity operations in former TBVC[1] states and SGTs[2]	**192**	53
Net movement on cross-border lease transactions	**505**	–
Post-retirement medical benefits	**268**	209
	10 604	10 205
Changes in working capital	**1 969**	(650)
Inventories	**(264)**	(270)
Trade and other receivables	**(188)**	(316)
Trade, other payables and provisions	**2 421**	(64)
	12 573	9 555
21. INTEREST RECEIVED		
Interest income	**1 156**	1 008
Non-cash items	**558**	438
Interest receivable	**(129)**	116
Discount amortised	**141**	106
Other	**546**	216
	1 714	1 446
22. INTEREST PAID		
Interest expenditure	**(4 315)**	(4 357)
Non-cash items	**353**	145
Interest accrued	**(71)**	(179)
Discount amortised	**277**	328
Other	**147**	(4)
	(3 962)	(4 212)

1. Transkei, Bophuthatswana, Venda and Ciskei.
2. Self-governing territories.

	1998 Rm	1997 Rm
23. CASH UTILISED IN INVESTMENT ACTIVITIES		
Expenditure on property, plant and equipment	**(4 533)**	(5 484)
Expenditure on intangible assets	**(137)**	(128)
	(4 670)	(5 612)
Proceeds from disposals	**149**	168
Net expenditure on property, plant, equipment and intangible assets	**(4 521)**	(5 444)
Future fuel supplies – Coal	**(278)**	(259)
– Nuclear	**(289)**	(43)
Unlisted investments	**(1 073)**	(105)
Other	**7**	15
	(6 154)	(5 836)
24. CASH AND CASH EQUIVALENTS		
Cash and cash equivalents are defined as money market assets and liabilities that mature within one year, and cash and bank balances.		
Cash and bank, and money market assets	**3 799**	3 230
Commercial paper bills	**(3 610)**	(3 984)
Total cash and cash equivalents at end of the year	**189**	(754)
Total cash and cash equivalents at beginning of the year	**(754)**	(1 239)
Net increase in cash and cash equivalents for the year	**943**	485

25. RELATED PARTY INFORMATION

	1998 Rm	1997 Rm
The aggregate amounts brought to account in respect of the following significant transactions and each class of related party involved were:		
Controlled entities		
Transactions with related parties		
Insurance premiums paid	**224**	199
Loans advanced to	**1 062**	147
Loan repayments from	**2**	17
Purchase of maintenance, transport, construction and other services	**506**	414
Aggregate amounts receivable on loans from related parties at balance sheet date		
Current	**1 620**	1 112
Non-current	**1 035**	483
Aggregate amounts payable to related parties at balance sheet date		
Current	**17**	13
Non-current	**69**	62
Net profit for the year includes aggregate amounts attributable to transactions in respect of:		
Interest income	**330**	191
Associate entities and joint venture companies		
Transactions with related parties		
Electricity revenue	**42**	33
The above transactions were made on commercial terms and conditions at market rates.		
The investments in controlled entities, associate and joint venture companies are set out in schedule 1.		

Schedule 1: Unlisted investments

at 31 December

Name	Nature of operation	Issued/ stated capital	Effective holding		Investment		Indebtedness	
			1998	1997	**1998**	1997	**1998**	1997
		R	**%**	%	**Rm**	Rm	**Rm**	Rm
The following unlisted investments are included in other investments (refer note 6).								
SUBSIDIARY COMPANIES								
Eskom Finance Company (Pty) Limited	Finance (employee housing loans)	4 000	**100**	100	–	–	**2 138**	1 062
Escap Limited	Insurance	29 500 000	**100**	100	**30**	30	–	–
Gallium Insurance Company Limited	Insurance	4 000 000	**100**	100	**4**	4	–	–
Rotek Industries (Pty) Limited	Maintenance and service	4 000	**100**	100	–	–	**257**	284
					34	34	**2 395**	1 346
ASSOCIATE AND JOINT VENTURE COMPANIES								
Gezicor (Pty) Limited	Electricity reticulation	1 000	**50**	50	–	–	–	–
Phambili Nombane (Pty) Limited	Electricity reticulation	3 000 000	**33**	33	**1**	1	–	–
TED (Pty) Limited (Transitional Electricity Distributor)	Electricity reticulation	1 000	**50**	50	–	–	–	–
Uitenhage Electricity Supply Company (Pty) Limited	Electricity reticulation	60 000	**33**	33	–	–	–	–
Motraco-Mozambique Transmission Company SARL	Management of electricity transmission system and supply of electricity	39 500 000[1]	**33**	–	–	–	**41**	–
Eskom-Shell Solar Home Systems (Pty) Limited	Electrification	100	**50**	–	–	–	**2**	–
Trans Africa Projects (Pty) Limited	Construction	4 000	**50**	50	–	–	–	–
Trans Africa Projects Limited	Construction	100 000[1]	**50**	50	–	–	–	–
					1	1	**43**	–
OTHER								
The Ash Classification Venture					–	–	**1**	1
(Unsecured, fixed interest and fixed repayment terms)								
Hidroelectrica de Cahora Bassa SARL					–	–	**82**	107
(Unsecured, fixed interest and fixed repayments terms)								
Business Partners (Pty) Limited – 500 000 ordinary "A" shares, formerly Small Business Development Corporation Limited					**1**	1	–	–
Integrated Awareness, Education, Training and Evaluation System Trust					–	–	**6**	–
					1	1	**89**	108
					36	36	**2 527**	1 454
Indebtedness					**2 527**	1 454		
					2 563	1 490		
Directors' valuation of unlisted investments					**2 563**	1 490		

Certain immaterial subsidiaries, associate and joint venture companies, as well as other investments, are not disclosed above.

1. *Authorised capital in US dollar.*

UNCONSOLIDATED SUBSIDIARY COMPANIES

Aggregate abridged financial statements

	1998 Rm	1997 Rm
Assets		
Non-current assets	**2 411**	2 254
Property, plant and equipment	**233**	230
Advances	**2 178**	2 024
Current assets	**1 186**	1 026
Total assets	**3 597**	3 280
Equity and liabilities		
Capital and reserves	**(48)**	(104)
Cost of unlisted shares in subsidiary companies	**34**	34
Pre-acquisition reserve	**(37)**	(40)
Post-acquisition deficit at beginning of the year	**(99)**	(142)
Net profit for the year	**54**	44
Non-current liabilities	**2 709**	2 543
Loans by holding company	**2 655**	1 595
Long-term liabilities	**26**	948
Deferred taxation	**28**	–
Current liabilities	**936**	841
Total equity and liabilities	**3 597**	3 280

Inflation-adjusted financial information

for the year ended 31 December

Historical cost accounting practices reflect financial results of prices and costs in effect at the time the underlying transactions occurred. This approach does not account for the fact that the purchasing power of money diminishes during periods of inflation. In an attempt to eliminate the effects of changing prices on assets and income, and to ensure that funds needed to maintain the operating capacity are preserved, historical costs have been restated by the preparation of current value financial statements based on guideline AC201, issued by The South African Institute of Chartered Accountants, which also complies with the International Accounting Standard IAS15.

In reflecting the impacts of inflation, Eskom has adjusted the most significant of these effects by revaluing the property, plant and equipment and charging the related additional depreciation to the income statement. To the extent that further adjustment is necessary, especially as regards the effect of inflation on future fuel supplies and maintenance and consumables inventory and the relief provided by funding assets with monetary liabilities, additional adjustments have been made.

In order to reflect changes to the values of financial market liabilities and financial market investments, the movements between book values and market values for the above items are reflected in interest income and interest expenditure.

The following summary shows the fully adjusted performance and financial position of Eskom prepared in terms of the principles contained in AC 201 and in accordance with South African generally accepted accounting practice.

	1998 Rm	1997 Rm
SUMMARISED INCOME STATEMENT		
Historic cost net profit for the year	**2 750**	3 083
Inflation adjustments	**(3 328)**	(2 819)
Additional depreciation	**(4 207)**	(3 717)
Cost of sales	**(196)**	(162)
Gearing adjustment	**1 075**	1 060
Movements in value of financial market liabilities and investments	**(54)**	58
Inflation-adjusted net (loss)/profit for the year	**(632)**	322

	Historic	Adjustments	Current value	
	1998 Rm	1998 Rm	1998 Rm	1997 Rm
SUMMARISED BALANCE SHEET				
Assets				
Property, plant, equipment and intangible assets	50 162	41 021	91 183	89 137
Long and short-term financial market investments	8 864	(47)	8 817	7 661
Other non-current assets	5 521	2 586	8 107	6 819
Other current assets	5 428	10	5 438	4 867
	69 975	43 570	113 545	108 484
Equity and liabilities				
Capital and reserves	27 971	43 643	71 614	68 004
Long and short-term financial market liabilities	32 796	(73)	32 723	34 572
Long-term provisions	2 929	–	2 929	1 979
Other current liabilities	6 279	–	6 279	3 929
	69 975	43 570	113 545	108 484
RATIOS[1]				
Average production price index, %			3,53	7,17
Real return on total assets (after taking account of financial gearing adjustment), %			2,49	3,62
Debt:equity			0,33	0,40
Interest cover			0,80	1,10
Financial gearing adjustment, %			24,41	27,33

1. *Calculated on the basis described in the five-year financial review.*

Tables

1. STATISTICAL OVERVIEW

	1998	1997	1996
Sales			
Total sold, GWh[1]	171 454[2]	172 550[2]	165 370[2]
Growth in GWh sales, %	(0,6)[3]	4,3	7,7
Electricity output			
Total electricity production in South Africa, GWh (net)[4]	188 938	197 172[5]	184 500[5]
Eskom electricity available as percentage of South African total	95,0	93,5	95,3
Total electricity for Eskom system (Eskom stations and purchased), GWh[6]	185 722	187 850	178 884
Total produced by Eskom stations, GWh (net)	183 093	187 811	178 855
Coal-fired stations, GWh (net)	165 473	170 464	163 541
Hydroelectric stations, GWh (net)	1 595	2 092	1 319
Pumped storage stations, GWh (net)	2 420	2 608	2 220
Gas turbine stations, GWh (net)	3	0	0
Nuclear power station, GWh (net)	13 601	12 647	11 775
Total purchased for Eskom system, GWh	2 629	39	29
Total consumed by Eskom, GWh[7]	3 545	3 511	3 130
Total available for distribution, GWh[1]	179 548	184 339	175 754
Plant performance			
Total power station nominal capacity, MW	39 872	39 154	38 497
Total power station net maximum capacity, MW	37 848	37 175	36 563
Peak demand on integrated Eskom system, MW	27 803	28 329	27 967
Average energy availability (UCF), percent[8]	91,6 (92,7)	90,4 (91,5)	89,6 (90,6)
Generation load factor (after excess capacity management), percent[9]	55,3 (61,6)	57,7 (65,0)	55,7 (63,9)
Integrated Eskom system load factor, percent	67,27	74,3	71,5
Coal burnt, thousands of tons	87 225	90 169	85 401
Overall thermal efficiency, percent	34,2	34,5	34,5
Employees			
Total number at 31 December[10]	37 311	39 241	39 857
GWh sold per employee	4,595	4,397	4,149
Sales to countries in southern Africa, GWh	3 197	5 513	4 648
Transmission international			
Botswana	689	748	685
Mozambique	385	680	596
Namibia	602	1 295	1 100
Zimbabwe	1 521	2 790	2 267
Distribution international	896	926	906
Lesotho	209	318	335
Swaziland	687	608	571
	4 093	6 439	5 554

1. *Difference between electricity available for distribution and electricity sold (includes internal sales) is due to transmission and other losses.*
2. *Includes sales in respect of Department of Water Affairs and Forestry (DWAF) not stated in previous years.*
3. *Growth from 1997 to 1998 is negative 0,6%. Own usage is not included in the calculation.*
4. *Electricity production by Eskom and by some industries and municipalities which generate all or part of their electricity requirements.*
5. *Restated. Source: National Electricity Regulator.*
6. *Includes Eskom electricity produced and delivered to neighbouring countries.*
7. *In respect of pumped storage facilities and synchronous condenser mode of operation. See Table 2, note 8. Since 1993, energy consumption for water pumped for DWAF has been excluded from this total.*

1995	1994	1993	1992	1991	1990	1989
153 547[2]	149 443	143 800	138 126	138 687	136 168	134 347
2,7	3,9	4,1	(0,4)	1,8	1,4	3,7
172 655[5]	167 609	155 812	149 427	148 919	147 069	146 162
94,5	94,4	97,9	97,9	98,0	97,5	96,7
165 006	160 351	154 361	148 556	148 934	146 320	143 548
164 834	160 293	154 260	148 207	148 671	146 047	143 204
151 730	148 003	145 514	136 830	135 743	134 744	128 304
529	1 074	146	752	1 980	1 010	2 759
1 274	1 517	1 345	1 333	1 804	1 841	1 039
0	2	0	4	0	3	3
11 301	9 697	7 255	9 288	9 144	8 449	11 099
172	58	101	349	263	273	344
1 866	2 113	1 898	2 295	2 933	2 953	2 265
163 140	158 238	152 463	146 261	146 001	143 367	141 283
37 840	37 840	39 746	39 060	38 396	35 673	34 141
35 951	35 926	37 636	36 846	36 228	33 843	32 403
25 133	24 798	23 169	22 640	22 342	21 863	21 871
81,6 (84,3)	77,1 (79,9)	80,5 (81,7)	76,7	76,1	75,0	78,1
52,3 (59,0)	50,9 (58,3)	46,8 (56,4)	46,9 (54,6)	49,8 (58,5)	50,5 (57,3)	51,1
74,1	72,8	75,1	73,5	74,6	74,9	73,7
79 377	76 883	75 926	71 038	70 523	70 861	67 529
34,4	34,4	34,4	34,2	34,3	33,7	33,6
39 952	39 760	40 128	42 223	46 637	50 000	51 554
3,843	3,759	3,584	3,271	2,974	2,723	2,606
2 044	1 741	1 779	1 007	1 318	1 005	936
340	205	121	100	106	84	58
600	559	510	436	383	322	307
950	813	999	457	823	586	557
154	164	149	14	6	13	14
942	887	811	808	562	602	456
324	310	281	241	206	192	182
618	577	530	567	356	410	274
2 986	2 628	2 590	1 815	1 880	1 607	1 392

Capacity hours available x 100/total capacity hours in year.
kWh produced x 100/(average net maximum capacity x hours in year).
Excludes employees of subsidiary companies.

2. POWER STATIONS IN COMMISSION AT 31 DECEMBER 1998

Name of station	Location	Number and capacity of generator sets MW	Total nominal capacity MW[1]	Total net maximum capacity MW[1]	Generators in reserve storage Number	Generators in reserve storage Total rating MW
Coal-fired stations						
Arnot[2]	Middelburg, Mpumalanga	6 x 350	2 100	1 980	1	330
Camden[3]	Ermelo	8 x 200	1 600	1 520	8	1 520
Duvha[2]	Witbank	6 x 600	3 600	3 450	–	–
Grootvlei[3]	Balfour	6 x 200	1 200	1 130	6	1 130
Hendrina[2]	Hendrina	10 x 200	2 000	1 900	–	–
Kendal[2, 4]	Witbank	6 x 686	4 116	3 840	–	–
Komati[3]	Middelburg, Mpumalanga	5 x 100; 4 x 125	1 000	891	9	891
Kriel[2]	Bethal	6 x 500	3 000	2 850	–	–
Lethabo[2]	Sasolburg	6 x 618	3 708	3 558	–	–
Majuba[5]	Volksrust	3 x 657	1 971	1 836	–	–
Matimba[2, 4]	Ellisras	6 x 665	3 990	3 690	–	–
Matla[2]	Bethal	6 x 600	3 600	3 450	–	–
Tutuka[2]	Standerton	6 x 609	3 654	3 510	–	–
Subtotal coal-fired stations (13)			35 539	33 605	24	3 871
Gas turbine stations[6]						
Acacia	Cape Town	3 x 57	171	171	–	–
Port Rex	East London	3 x 57	171	171	–	–
Subtotal gas turbine stations (2)			342	342	–	–
Hydroelectric stations[7]						
Colley Wobbles	Mbashe River	3 x 14	42	42	–	–
First Falls	Umtata River	2 x 3	6	6	–	–
Gariep	Norvalspont	4 x 90	360	360	–	–
Ncora	Ncora River	2 x 0,4; 1 x 1,3	2	2	–	–
Second Falls	Umtata River	2 x 5,5	11	11	–	–
Vanderkloof	Petrusville	2 x 120	240	240	–	–
Subtotal hydroelectric stations (6)			661	661	–	–
Pumped storage schemes[8]						
Drakensberg	Bergville	4 x 250	1 000	1 000	–	–
Palmiet	Grabouw	2 x 200	400	400	–	–
Subtotal pumped storage schemes (2)			1 400	1 400	–	–
Nuclear power station						
Koeberg[2]	Cape Town	2 x 965	1 930	1 840	–	–
Total Eskom stations in commission (24)			39 872	37 848	24	3 871

1. *Difference between nominal and net maximum capacity reflects auxiliary power consumption and reduced capacity caused by age of plant and/or low coal quality.*
2. *Base-load station.*
3. *In long-term reserve storage (mothballed).*
4. *Dry-cooled unit specifications are based on design back-pressure and ambient air temperature.*
5. *Unit 3 commissioned in April 1998 and Unit 4 to be commissioned in April 1999.*
6. *Stations used for peaking or emergency supplies.*
7. *Use restricted to peaking, emergencies and availability of water in Gariep and Vanderkloof dams.*
8. *Pumped storage facilities are net users of electricity. Water is pumped during off-peak periods to generate electricity during peak periods.*

3. GENERATING SETS ON ORDER AT 31 DECEMBER 1998

Name, type and location of power station	Number and nominal capacity of sets MW	Net max. capacity of sets MW	Total nominal capacity of station MW	Total net max. capacity of station MW	Number of sets in service (on order)	Total nominal capacity of sets on order MW	Total net max. capacity of sets on order MW	Year of completion first (last) set[1]
Majuba, coal-fired	3 x 657	3 x 612						
Volksrust	3 x 713	3 x 669	4 110	3 843	3(3)	2 139	2 007	1996(2001)
Total generating sets on order						**2 139**	**2 007**	

1. Dates on which sets on order will be put into commercial service may change, depending on growth in electricity demand.

4. TRANSMISSION AND DISTRIBUTION EQUIPMENT IN SERVICE AT 31 DECEMBER 1998

		1998	1997	Change
Main transmission system, km	765 kV	**870**	1 153	(283)
	533 kV DC (monopolar)	**1 035**	1 035	0
	400 kV	**15 187**	14 614	573
	275 kV	**7 409**	7 267	142
	220 kV	**1 239**	1 239	0
	132 kV	**703**	757	(54)
Total transmission lines, km[1]		**26 443**	26 065	378
Distribution lines, km				
	165 – 132 kV	**19 583**	19 123	460
	88 – 33 kV	**20 816**	20 695	121
Total distribution lines, km		**40 399**	39 818	581
Reticulation lines, km	22 kV and lower	**214 168**	201 717	12 451
Total all lines, km		**281 010**	267 600	13 410
Cables, km				
	165 – 132 kV	**47**	47	0
	88 – 33 kV	**243**	243	0
	22 kV and lower	**6 172**	5 952	220
Total all cables, km		**6 462**	6 242	220
Transformers	Transmission, MVA[2]	**126 090**	126 090	0
	Distribution and reticulation, MVA	**75 063**	73 260	1 803
Total transformer capacity, MVA		**201 153**	199 350	1 803
Transformers	Transmission, number	**424**	465	(41)
	Distribution and reticulation, number	**244 162**	234 627	9 535
Total transformers, number		**244 586**	235 092	9 494

1. Transmission line lengths as per GIS (Geographic Information System) distances.
2. Base of definition: transformers rated ≥ 30 MVA and primary voltage ≥ 132 kV.

5. SALES OF ELECTRICITY TO CATEGORIES OF CUSTOMERS

	Number of customers		Change 97 – 98	GWh sold		Change 97 – 98
Category	**1998**	1997	%	**1998**	1997	%
Redistributors	**736**	736	0,0	**68 666**	68 109	0,8
Residential	**2 376 069**	2 065 368	15,0	**5 989**	5 494	9,0
Commercial	**27 273**	22 531	21,0	**801**	979	(18,2)
Industrial	**10 354**	7 930	30,6	**53 683**	52 236	2,8
Mining	**750**	750	0,0	**31 645**	33 077	(4,3)
Rural	**148 369**	146 987	0,9	**3 725**	3 402	9,5
Traction	**40**	40	0,0	**3 439**	3 406	1,0
Transmission international[1]	**4**	4	0,0	**3 197**	5 513	(42,0)
Own usage	**61**	61	0,0	**309**	334	(7,4)
	2 563 656	2 244 407	14,2	**171 454**	172 550	(0,6)[2]

1. *Transmission international category comprises the national power utilities in Botswana, Mozambique, Namibia and Zimbabwe.*
2. *The GWh sold growth from 1997 to 1998 is also negative 0,6% if own usage is excluded.*

6. REVENUE PER CATEGORY OF CUSTOMER

	Revenue Rm		Change 97 – 98	Average net price c/kWh sold		Change 97 – 98
Category	**1998**	1997	%	**1998**	1997	%
Redistributors	**7 983**	7 774	2,7	**11,63**	11,41	1,9
Residential[1]	**1 362**	1 172	16,2	**22,74**	21,33	6,6
Commercial	**151**	198	(23,8)	**18,85**	20,23	(6,8)
Industrial	**5 914**	5 630	5,0	**11,02**	10,78	2,2
Mining	**3 866**	3 857	0,2	**12,22**	11,66	4,8
Rural	**984**	839	17,3	**26,42**	24,66	7,1
Traction	**512**	512	0,0	**14,90**	15,04	(1,0)
Transmission international[2]	**257**	424	(39,4)	**8,04**	7,69	4,5
Own usage	**42**	42	0,0	**13,56**	12,56	8,0
	21 071	20 448	3,0	**12,29**	11,85	3,7[3]

1. *Prepayments included under Residential.*
2. *Transmission international category comprises the national power utilities in Botswana, Mozambique, Namibia and Zimbabwe.*
3. *General price increase with effect from 1 January 1998 equal to 5%.*

7. ANALYSIS OF REGISTERED HOLDERS OF ESKOM LOCALLY ISSUED BONDS AT 31 DECEMBER

	% of issued nominal value	
	1998	1997
Insurance companies, pension and provident funds	**1**	1
Corporate bodies	**1**	1
Nominee companies	**86**	86
Private individuals	**12**	12
	100	100

MAJOR ELECTRICITY UTILITIES IN THE WORLD

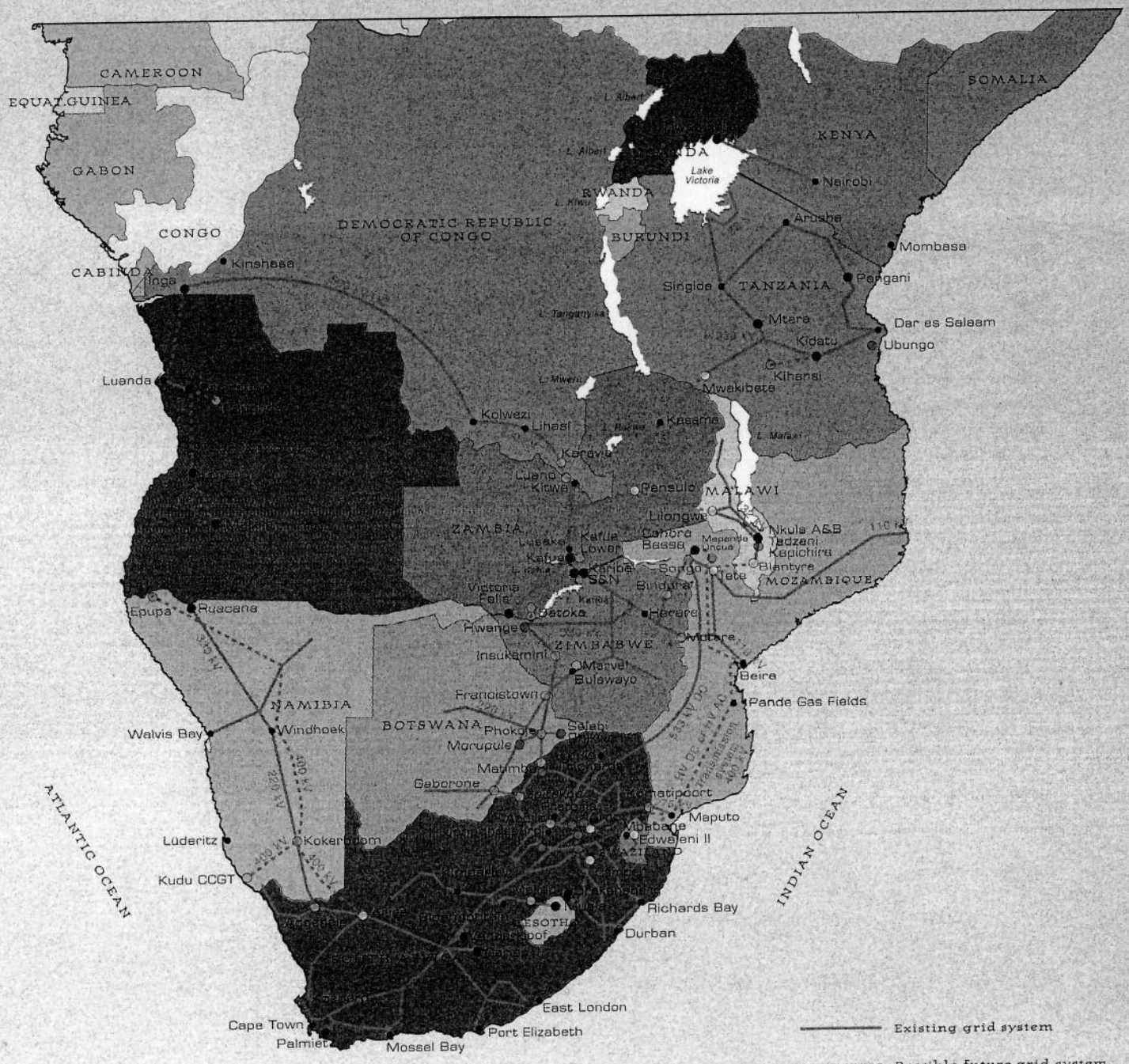
Utility	Country	Sales GWh	Rating by sales	Nominal capacity MW	Rating by capacity
EDF	France	355 200	1	99 500	1
TEPCO[1]	Japan	271 074	2	56 756	2
ENEL[2]	Italy	211 455	3	53 986	3
Korea Electric Power Co[3]	S Korea	200 784	4	41 042	4
Eskom[4]	S Africa	171 454	5	39 872	5
Hydro-Québec	Canada	162 533	6	31 397	7
Ontario Hydro	Canada	139 727	9	30 284	9
TVA[5]	USA	139 697	7	28 147	10
Kansai Electric Power Co[1]	Japan	138 924	8	37 049	6
RWE[6]	Germany	124 308	10	20 460	14
Taiwan Power Co[7]	Taiwan	118 299	11	25 735	11
Chubu Electric Power Co[1]	Japan	117 488	11	30 310	8
Texas Utilities Electric	USA	100 344	13	22 305	13
Commonwealth Edison	USA	91 275	14	24 996	12
Florida Power & Light Co	USA	80 889	15	16 369	15

All data for the year ended 31 December 1996, except for the year ending as follows:

1. *31 March 1998*
2. *31 December 1995*
3. *31 December 1997*
4. *31 December 1998*
5. *30 September 1997*
6. *30 June 1996*
7. *30 June 1997*

Sources: Tokyo Electric Power Company (TEPCO) and electricity utilities' annual reports

Southern African grid



Eskom brands

AGRELEK
AN ADVISORY SERVICE FOR AGRICULTURE

Agrelek assisted Eskom in achieving additional energy sales through product development and the provision of strategic direction and advice to the agricultural and farming sector.

ELEKTROSERVE
PROFESSIONAL ADVICE FOR COMMERCIAL SERVICES

ElektroServe focuses on the commercial market including hospitals, retail trade operations, electric transport and the tourism industry.

ELEKTROWISE
ELECTRICITY ADVICE FOR THE HOME

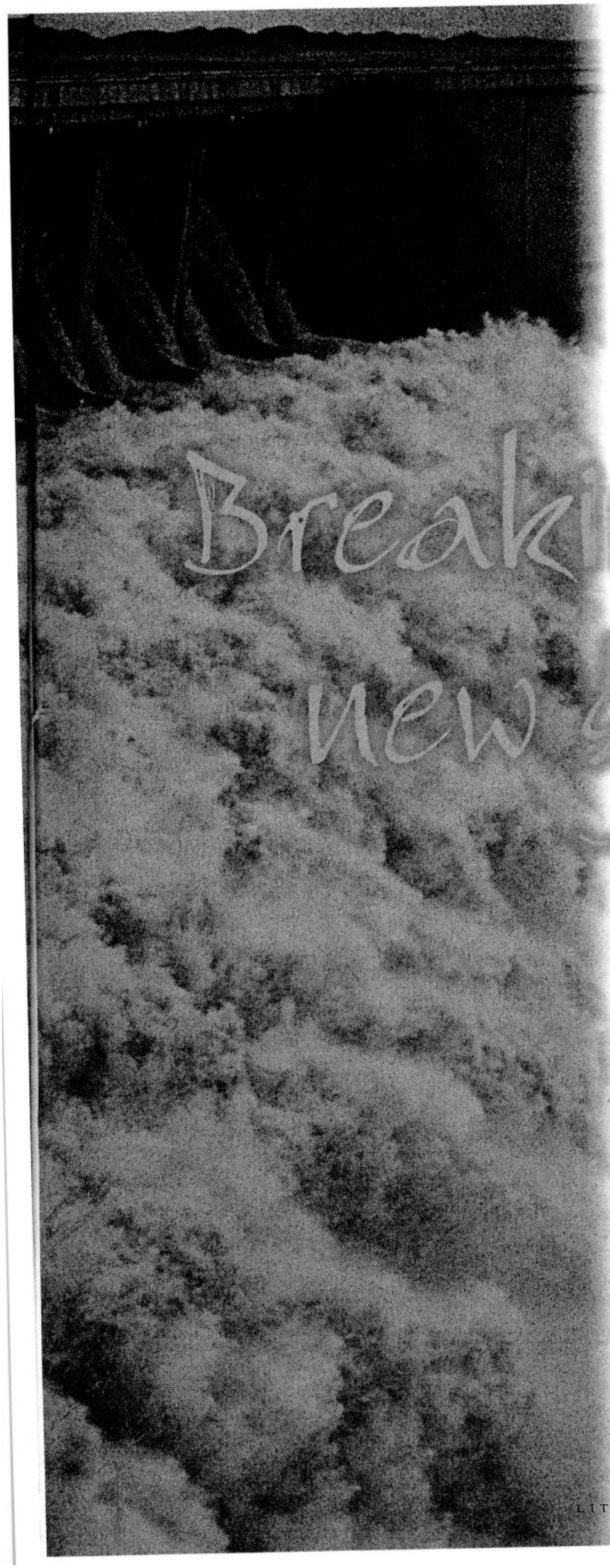
ElektroWise provides services to the residential customer base and is geared to educate residential customers on the wise and safe use of electricity as well as the affordability and viability of electrical power in emerging markets.

INDUSTRELEK
AN ADVISORY SERVICE FOR INDUSTRY

Industrelek which serves the industrial market segment, has expanded its vision to include the development of value added energy products such as concrete curing, wood waste resource management, dielectric processing of timber, galvanising and powder coating, energy management and load shifting.

UTILIMARK
PROGRESS THROUGH POWER MARKETING

UtiliMark is dedicated to enhancing Eskom's relationships with customers and improving productivity and profitability.



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